Bulbank

UniCredit Group

Annual Report 2002

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FINANCIAL HIGHLIGHTS[1]

(Thousands of BGN, unless otherwise stated)

	2002	2001	Growth
Key figures			
Net profit	79,130	68,912	14.8%
Shareholders' equity (end of period)	513,249	490,479	4.6%
Total assets (end of period)	2,721,980	2,731,686	(0.4%)
Total assets at fixed exchange rate (end of period)[2]	*2,899,174*	*2,731,686*	*6.1%*
Customer deposits (end of period)	2,029,307	2,021,634	0.4%
Customer deposits at fixed exchange rate (end of period)	*2,205,738*	*2,021,634*	*9.1%*
Customer loans (end of period)	563,935	362,353	55.6%
Customer loans at fixed exchange rate (end of period)	*579,235*	*362,353*	*59.9%*
Earnings per share (in BGN)	0.48	0.41	14.8%
Income			
Net interest income	92,265	99,613	(7.4%)
Net fee and commission income	40,959	30,359	34.9%
Securities trading income	11,489	8,226	39.7%
FX trading income	7,095	5,046	40.6%
Total revenues	158,191	145,086	9.0%
Total revenues at fixed exchange rate	*162,253*	*145,086*	*11.8%*
Operating income	95,203	78,636	21.1%
Operating income at fixed exchange rate	*99,265*	*78,636*	*26.2%*
Expenses			
Operating expenses	62,988	66,450	(5.2%)
Personnel expenses	26,658	27,722	(3.8%)
Other operating charges	26,160	28,053	(6.7%)
Depreciation	10,170	10,675	(4.7%)
Provisions increase/(decrease)	(9,004)	(8,844)	1.8%
Taxes	25,077	18,568	35.1%
Ratios (%)			
Return on average assets (ROA)	2.9	2.5	0.4 pp[3]
Return on average equity (ROE)	16.2	13.5	2.7 pp
Capital/Asset ratio (end of period)	18.9	18.0	0.9 pp
BIS total capital ratio (end of period)	40.5	36.9	3.6 pp
BIS tier 1 capital ratio (end of period)	36.4	33.2	3.2 pp
Risk weighted assets/Total assets ratio (end of period)[4]	38.0	42.1	(4.1) pp
Cost/Income ratio[5]	39.8	46.0	(6.0) pp
Resources (number) - end of period			
Points of sale	91	98	(7)
Employees	2,060	2,050	10
Foreign exchange rate at period-end (BGN/USD)	*1.8850*	*2.2193*	(15.1%)
Average annual exchange rate over the period (BGN/USD)	*2.0770*	*2.1850*	(4.9%)

1 All figures disclosed in this annual report are from the financial statements prepared in accordance with International Financial Reporting Standards (IFRS), unless otherwise stated.

2 Adjusted with the effect of BGN/USD exchange rate movement during 2002.

3 Percentage points.

4 Risk weighted assets in the nominator include risk weighted balance-sheet items, off-balance-sheet items and market risks.

5 Cost/Income ratio includes depreciation in the nominator.

STATEMENT OF THE CHAIRMAN OF THE SUPERVISORY BOARD

Ladies and Gentlemen,

It is my pleasure to present another year of Bulbank high performance and fast development.

The Bulgarian economy marked another strong performance with high estimated GDP growth of 4.8% and improved creditworthiness. The domestic market remained on a fast growth path, yet at lower margins. The international environment in which we worked was challenging, characterised by continued world economy slowdown, falls in interest rates and US Dollar depreciation.

In the midst of deep changes and intensive development, Bulbank performed remarkably in line with our strategic direction and financial targets. Operating income grew 21% to BGN 95 million, despite the negative impact of interest rate and dollar movements, supported by positive improvement on the commercial side. Net profit reached BGN 79.1 million, up 15% compared to 2001. The financial position of the bank is strong. Profitability and efficiency improved and capital adequacy remained high with Tier 1 ratio at 36%. EPS reached 48% of face value.

We are firmly committed to the economic development of Bulgaria and, being the market leader, we hope this brings real value. We are fast increasing our loan portfolio and our portfolio of Bulgarian Government securities. We report with satisfaction our growing contribution to the state budget, generated by the increasing operating profits. We are happy to see Italy becoming the main trade partner of Bulgaria and number one foreign investor in the country. Bulbank and UniCredito are supporting the development of a couple of large-scale infrastructure projects in the country.

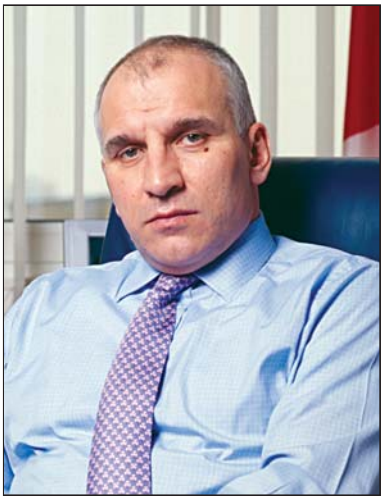
Our plans for 2003 are no less ambitious. The emphasis will be founded on a broad product base expansion, strengthening of the commercial model with a new sub-segment centric business organization, strong sales efficiency improvement and final completion of the new core IT system.

We want to stress that all we do is grounded on strict ethical principles and high standards of social responsibility and our firm intention is to expand our activities in this area.

I would like to thank to all our customers, who trusted us. Thanks also to our Bulbank people who turned ideas into reality, and UniCredito colleagues who supported these changes. Finally, thanks to the members of the Supervisory Board and the Management Board, who run the bank keeping it safe and sound while making it even stronger and more efficient.

25 March 2003
Sofia

Roberto Nicastro
Chairman of the Supervisory Board



STATEMENT OF THE CHAIRMAN OF THE MANAGEMENT BOARD

Ladies and Gentlemen,

It is my honour to present the Bulbank annual report for 2002.

Substantial efforts were made to continue changes in the bank and revamp it into a high value generating institution. Our operating income grew 21% driven by 9% raised revenues and 5% cut in costs. Non-interest bearing income was our main offset to the strong negative impact of low interest rates and the depreciated dollar. Fee income increased 35%, fully compensating the drop in net interest income, despite the growth in volumes. Earning assets were restructured to bring higher value: loans increased 56% and securities portfolio 13% at the expense of placements. Profitability is very satisfactory: ROA 2.9% and ROE 16.2%. Efficiency further improved with cost/income reaching 39.8%.

During the year, we focused our attention on implementing improvements in commercial operations. People dedicated to customers increased by more than 60%. Customer relationships strengthened and expanded. Value propositions became more sophisticated. We completely overhauled the credit underwriting system to accelerate lending, reach higher efficiency and tightly control inherent risks. We started the roll-out of the new IT system, crucial for the further development of the business model.

In 2003, we will carry on the commercial model development emphasizing efficiency and quality. Our major priority will be 'divisionalisation', our term for the organizational structuring by sub-segment, sales productivity enhancement and product range expansion aimed at attaining ambitious financial targets.

Our dynamic, change driven and adaptive behaviour creates value for customers, shareholders, community and staff. I would like to thank them all and specifically our UniCredito partner and major shareholder for contributing to us invaluable know-how, experience, energy and resources.

25 March 2003 — Levon Hampartzoumian

Sofia — Chairman of the Management Board and CEO

SUPERVISORY BOARD AND MANAGEMENT BOARD[1]

Supervisory Board		Date of Appointment
Roberto Nicastro	Chairman	3 October 2000
Fausto Alberto Galmarini	Deputy Chairman	3 October 2000
Alessandro Decio	Member	3 October 2000
Alois Steinbichler	Member	19 October 2001
Dimitar Zhelev	Member	3 October 2000
Franco Benincasa	Member	19 October 2001
Ivan Stancioff	Member	19 October 2001

Management Board		
Levon Hampartzoumian	Chairman and Executive Director	19 October 2001
Luigi Lovaglio	Deputy Chairman and Executive Director	3 October 2000
Kiril Stefanov	Member	3 October 2000
Kiril Kalinov	Member	3 October 2000
Stanislav Georgiev	Member	3 October 2000

At the beginning of 2003, the following changes were made:

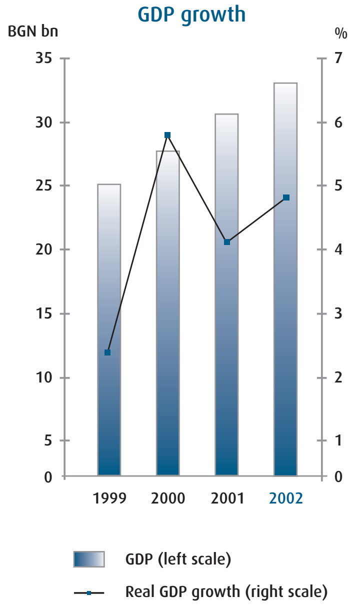
- On the Supervisory Board, Mr. Massimiliano Moi replaced Mr. Alessandro Decio.
- On the Management Board, Mrs. Kalinka Kirova replaced Mr. Kiril Kalinov.

[1] As at the end of 2002.

BULGARIAN ECONOMY

Despite the global economic slowdown, Bulgarian economic performance remained strong in 2002. The year was marked by the NATO membership invitation and possible EU accession date definition of 2007. International agencies upgraded the country's credit rating.

GDP grew by 4.8%, driven by rise in private sector, exports, domestic demand and investments. Despite stalemate in large privatization deals, investments were up by some 7.5% underpinned by strong growth in bank lending. Industrial output increased by 2.6% in 2002 and surpassed the previous year's result of 0.7%, signalling structural reform progress translating into improved competitiveness.



Selected economic indicators[1]	2002	2001	Growth
Official exchange rate at the end of the period (BGN/USD)	1.88	2.22	(0.34) pp
Average official exchange rate (BGN/USD)	2.08	2.19	(0.11) pp
BNB base interest rate at the end of the period (%)	3.35	4.73	(1.38) pp
Average BNB base interest rate (%)	4.05	4.57	(0.52) pp
Inflation at the end of the period (%)	3.8	4.8	(1.0) pp
Average inflation (%)	5.8	7.4	(1.6) pp
Nominal GDP (USD million)	15,544	13,566	14.6%
Real GDP growth (%)	4.8	4.1	0.7 pp
GDP per capita (USD)	1,981	1,719	15.2%
Balance of payments (USD millions)	715.2	373.1	91.7%
Current account balance (USD millions)	(677.4)	(842.2)	19.6%
Foreign trade turnover - FOB/FOB (USD millions)	12,969	11,806	9.9%
Trade balance (USD millions)	(1,593)	(1,581)	(0.8)%
Foreign direct investments (USD millions)	478.7	812.9	(41.1)%
Gross foreign debt at the end of the period (USD millions)	10,946	10,619	3.1%
Gross foreign debt/GDP at the end of the period (%)	70.4	78.3	(7.9) pp
Gross internal debt at the end of the period (BGN millions)	2,112	1,861	13.5%
Gross foreign currency reserves at the end of the period (USD millions)	4,747	3,580	32.6%
Budget deficit/GDP (%)	(0.7)	(0.9)	(0.2) pp
Unemployment rate at the end of the period (%)	16.8	19.5	(2.7) pp
Acting commercial banks at the end of the period	35	35	-

Source: National Statistical Institute, Bulgarian National Bank (BNB), Bulbank

Consumer price inflation slowed to 3.8% year-on-year, despite a hike in administrative prices. The unemployment rate fell to 16.8% of the workforce at 2002 end, marking the lowest level since November 1999. The number of unemployed declined to 544,200 (636,500 in 2001). On the fiscal side, the central government deficit was 0.7% of GDP, below the 0.8% budgeted level, with fiscal policy targets broadly unchanged for 2003.

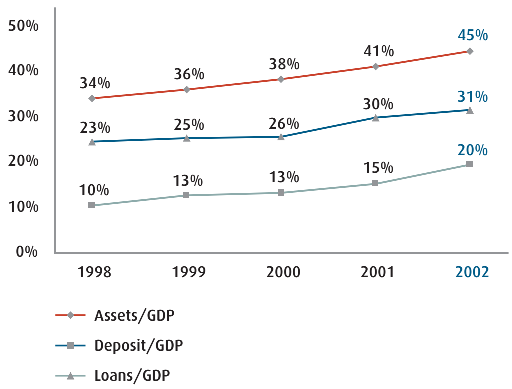
Foreign trade commodity turnover increased by 9.9% to USD 13 billion[2] in spite of the stagnation in world trade. Exports were up 11.3% supported by good performance in some labour intensive sectors such as textiles and light manufacturing, price consolidation of

[1] All data, unless otherwise stated, are for the years ended 31st December.

[2] Source: National Statistic Institute

some key export goods and strong agricultural exports. Imports growth slowed to 8.8% mainly due to the drop in crude oil price. This development contributed to a rise in international reserves to almost 5 months of imports at USD 4.7 billion and a current account deficit reduction to 4.4% of GDP. While lower than in 2001, FDI reached USD 479 million, comfortably covering some 71% of the current account deficit. The key debt ratios improved further with gross foreign debt to GDP ratio down to 70.4% from 78.3% a year ago. BGN base interest rate dropped by 29% year-on-year the end of the year to 3.4% (4.7% in 2001). The US Dollar sharply depreciated by 15% to BGN 1.88 at the end of the year.

Bank Penetration



In 2002 financial intermediation further accelerated, driven by strong lending expansion. Total assets of the banking sector rose 19% to BGN 14.6 billion[1], 45% of GDP. Lending growth was a record for the last 5 years of 42.3% (33% growth in 2001) reaching BGN 6.4 billion, 20% of GDP. Customer deposits increased 16.1% to BGN 10.3 billion (36% growth in 2001), 31% of GDP. Biochim bank was privatised during the year and DSK Bank was scheduled for privatisation in the first half of 2003. This will complete the restructuring of the banking system, with foreign ownership dominant. Stronger competition led to a new, significant drop in interest spreads. Legal and regulatory environments afforded improved protection of creditor's rights. International Accounting Standards were introduced for financial institutions from the start of 2003.

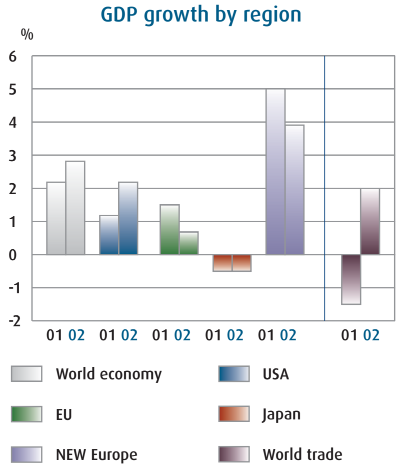
In 2003, real GDP growth of 4.3% is projected with moderate inflation of 4.5%. Fiscal policy remains restrictive with an admissible budged deficit of 0.7% of GDP. Positive data at the beginning of 2003 signals an improvement in the foreign trade balance, a fall in unemployment and an additional cut in sovereign debt. The banking system is expected to continue growing and restructuring commercial activity. No major risks are likely to materialise. There is a strong will on the part of the government to complete the privatisation of Bulgarian Telecom, Bulgartabac, DSK Bank and several entities in the energy and transport sectors. Significant investments are planned for the energy sector. Despite some possible external and internal risks, the overall prospects for the economy are positive.

[1] Preliminary data from BNB

WORLD ECONOMY

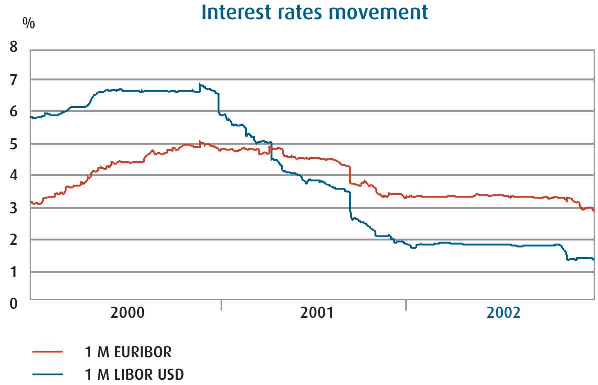
The expectations for a start in overcoming the global economic recession in 2002 did not materialise. World economic growth was weaker than estimated at 2.8%[1] versus 2.2% in 2001. The US economy was hit by the reductions in wealth caused by the stock market plunge as well as low growth in private consumption, the main contributor to economic recovery. Preliminary data show 2.2% GDP growth in 2002 compared to 1.2% a year earlier. The economic slump in Germany shaped development in the euro area. EU GDP growth dropped to 0.7% in 2002 from 1.5% in 2001. Japan did not succeeded in bottoming out its recession, marking negative growth of 0.5%. New Europe[2] performed strongly again, where the combination of higher private consumption and investment activity spurred a 4% GDP growth (5% in 2001).

GDP growth by region



Aiming to support economic growth, the Federal Reserve further reduced the fed funds rate by 0.5 percentage point to 1.25% in 2002 and the ECB cut its benchmark rate from 3.25% to 2.75%. Money market interest rates dropped accordingly. One-month EURIBOR fell by 12% year-on-year to 2.9% at 2002 end (3.3% at the end of 2001) and the average interest decreased 24% to 3.28% (4.23% in 2001). One-month USD LIBOR receded 26% to 1.42% at the end of 2002 (1.9% at the end of 2001) and its average fell 55% to 1.75% (3.86% in 2001). The turbulence on the forex markets increased. The key exchange rates fluctuated largely in line with related countries economic growth prospects. The euro appreciated against the dollar by 15% to USD 1.044 at the end of the year, in a concern over the strength and sustainability of the US economic recovery and the widening interest rate differential.

Interest rates movement



On the stock markets the year was marked by accounting scandals, a fall in corporate profits and a steep decline in stock prices. Dow Jones was off 17%, its worst decline since 1977, while the S&P 500 closed the year with a loss of 23%. The NASDAQ slid 32%. The markets lost USD 2.9 trillion of their value last year, measured by the Wilshire 5000 Total Market Index.

World trade expanded by an estimated 2% in 2002 versus 2001[3]. The increase in dollar prices year-to-year in the second half of 2002 affected all the major product groups. The value of M&A transactions in the world continued to drop in 2002, down 28% compared to 2001 and 65% versus the record 2000. Takeovers in Europe decreased by 18% to USD 564 billion from USD 692 billion a year earlier.

Flagging consumer confidence, weak stock markets, uncertainty over a probable US war with Iraq, all contributed to a gloomy economic outlook. However, the growth rate of the world economy is expected to gradually accelerate in 2003 beyond 2002 levels.

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[1] IMF estimate

[2] Eastern and Central Europe countries, EU accession candidates.

[3] Source: WTO.

REVIEW OF BULBANK'S ACTIVITY

Overview

After implementing a new organizational model, in 2002 Bulbank entered the second phase of structural reinforcement. Main goals for this phase were business expansion, credit underwriting excellence and strong development of infrastructure in support of commercial activity.

Active commercial actions were taken, aimed at increasing customer numbers and service value. The number of people dedicated to customers increased by over 60% and the share of all front-line officers grew to near 60% of banking staff. Several marketing campaigns were made to boost sales and launch new products. Long-term strategies for the development of corporate and retail banking were devised.

A large-scale project in lending started, within the framework of a UniCredito New Europe project for credit underwriting excellence targeting strong improvement of lending practices and credit risk management. Both corporate and retail lending was covered, introducing efficient underwriting processes, rules and tools, aiming at cutting time in granting loans and simplifying procedures.

The implementation of the new IT system commenced. A brand new customer-focused branch organization model was designed in order to improve quality of service. In the HR area, the focus was placed on training, management skills development, incentive system upgrade and increasing efficiency. A new appraisal system for assessment of performance and qualities of employees was introduced.

In spite of the significant resources involved in the process of development of IT, high growth in business and income was achieved. The bank acquired more than 40,000 new customers, holding a leading market share in the upper-end segments.

Financial results

Bulbank reports 21% growth in operating income to BGN 95.2 million (BGN 78.6 million in 2001) despite the sharp cut in interest rates and US Dollar depreciation. This is a result of 9% growth in the total revenues to BGN 158.2 million (BGN 145.1 million in 2001) and a 5.3% cut in operating expenses. Calculated at fixed exchanged rate operating income grew 26% to BGN 99.3 million and total revenues 12% to BGN 162.3 million. Net profit for the year is up 15% to BGN 79.1 million from BGN 68.9 million in 2001.

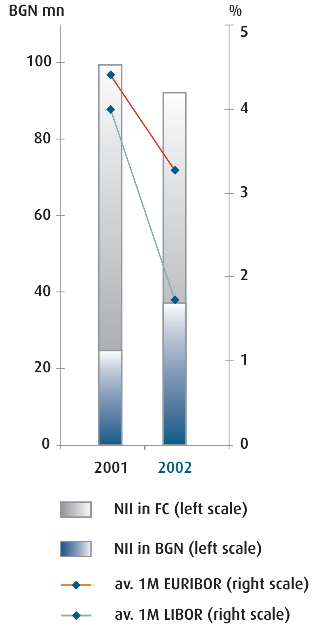
All profitability ratios increase: ROA is up to 2.9% from 2.5% in 2001, ROE up to 16.2% from 13.5%, EPS up to 48% from 41% of face value. Cost/Income ratio continues to improve, reaching 39.8% from 46%, better than both the international norm and also the domestic banking sector.

Thousands of BGN

Summary operating income statement	2002	2002 at fixed FX rate	2001	Growth (%)	Growth(%) at fixed FX rate
Net interest income	92,265	93,699	99,613	(7.4)	(5.9)
Fee and commission income	40,959	42,522	30,359	34.9	41.6
Securities income	11,489	11,979	8,226	39.7	45.6
Gains from dealing in foreign currencies	7,095	7,398	5,046	40.6	46.6
Other operating income	6,383	6,655	1,842	246.4	261.3
TOTAL REVENUES	**158,191**	**162,253**	**145,086**	**9.0**	**11.8**
Operating expenses	(62,988)	(62,988)	(66,450)	(5.2)	(5.2)
OPERATING INCOME	**95,203**	**99,265**	**78,636**	**21.1**	**26.2**

Net interest income remains the major contributor with a 58% share of total revenues. Despite 56% growth in loans and increase of securities portfolio at the expense of interbank placements, net interest income fell 7% compared to previous year to BGN 92.3 million. The main reason was the cut of the base interest rates by the Federal Reserve, the European Central Bank and the Bulgarian National Bank. The average market interest rates in USD, EUR and BGN decreased by 55%, 24% and 12%, respectively. Another significant factor was the shrinkage of the interest margin in the country. Growth of transactions and operations in the country delivered a 40% increase in BGN interest income while those in foreign currency plummeted 33%, mainly on interbank placements.

Net interest income



The 45% growth of non-interest income to BGN 65.9 million (BGN 45.5 million for 2001) compensated for the fall in interest income. Fee income grew 35% to BGN 41 million exceeding the drop in interest income and stabilizing the level of revenues thanks to greater numbers of transactions, diversification of services and growing numbers of customers. Main contributor is income from clean payments, lending, cards, cash operations and documentary operations. The income from innovative products (such as bank packages and e-banking) increased its share. Securities operations income more than doubled due to securities portfolio growth and its successful management in times of high market volatility. Income from FX operations rose 41%. Other operating income registered high growth, too.

Despite the new projects, administrative costs were cut 5.3% to BGN 52.8 million due to the tight control, synergy from the partnership with UniCredito and discontinuation of some ineffective resource intensive activities. Depreciation decreased, too.

The bank wrote-back BGN 9 million provisions (BGN 8.8 million in 2001) mainly due to successful work-out and US Dollar depreciation.

Profit before taxes is BGN 104.2 million, up 19.1% year-on-year. Taxes are BGN 25.1 million.

Balance sheet

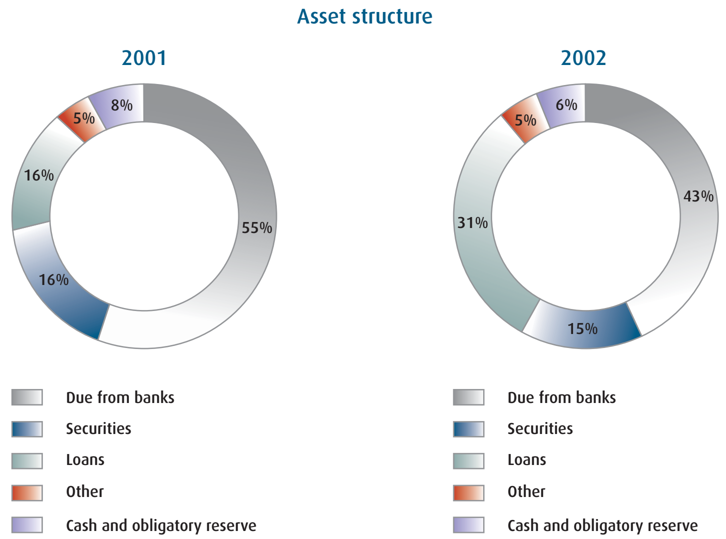
Balance sheet total reached BGN 2,722 million, flat compared to 2001. It grows 6.1% to BGN 2,899 million at unchanged BGN/USD rate. Assets and liabilities are well balanced, preserving a low risk level of assets[1] (38% compared to 42.1% at the end of 2001) and growing profitability. Open currency positions in foreign currency other than euro-zone currencies are insignificant and in full compliance with statutory regulations. Liquidity is balanced through assets and liabilities matching as well as optimal cash maintenance (cash, nostro accounts, BNB reserve and interbank placements with maturity up to 3 months).

1 Measured by Risk weighted assets, including also risk weighted off-balance-sheet items and market risk, to total assets.

Thousands of BGN

Summary Balance Sheet	2002	2002 at fixed FX rate	2001	Growth (%)	Growth(%) at fixed FX rate
Assets					
Cash and obligatory reserves with BNB	153,793	166,845	230,354	(33.2)	(27.6)
Due from banks	1,170,164	1,287,167	1,490,240	(21.5)	(13.6)
Securities	417,767	432,550	438,890	(4.8)	(1.4)
Loans and advances to customers[1]	832,007	854,204	445,078	86.9	91.9
Fixed and other assets	148,249	148,408	127,124	16.6	18.7
Total assets	**2,721,980**	**2,899,174**	**2,731,686**	**(0.4)**	**6.1**
Liabilities and shareholders' equity					
Deposits from customers	2,033,697	2,205,522	2,053,835	(1.0)	7.4
Other liabilities	175,034	180,403	187,372	(6.6)	(3.7)
Total liabilities	2,208,731	2,385,925	2,241,207	(1.4)	6.5
Shareholders' equity	513,249	513,249	490,479	4.6	4.6
Total liabilities and shareholders' equity	**2,721,980**	**2,899,174**	**2,731,686**	**(0.4)**	**6.1**

Assets were restructured to increase profitability. Balances due from banks, mainly interbank placements, dropped 22% (14% in real terms[2]) to BGN 1,170 million yet still dominated assets with 43% share (55% in 2001). Loans and securities acquired on primary market almost doubled to BGN 832 million, 31% of assets (16% in 2001). Debt securities acquired



on secondary market remained almost flat at BGN 418 million, 15% of assets. Cash was reduced some 30% due to the large cash in vault at the beginning of last year to coincide with euro banknote introduction. Fixed assets grew 18% for the capital investments in the new IT system.

The bank financed its operations through customer deposits, equity and reinvested profit. There was no debt issuance and no financing on the open market for purposes other than covering overnight liquidity shortage. Deposits from customers grew 7.4% in real terms to 92% of total liabilities.

The 9% growth in retained profit contributed to a 5% growth in shareholders' equity to BGN 513.2 million (BGN 490.5 million in 2001). The Capital/Assets ratio rose to 18.9% from 18% in 2001. All capital ratios are comfortable, also in compliance with statutory regulations.

1 Including securities acquired at the primary market.

2 Ignoring effect of BGN/USD exchange rate movement.

Total capital adequacy ratio under Basle Accord is 40.5% (36.9% in 2001), and Tier1 ratio 36.4% (33.2% in 2001).

Risk Management

Bulbank retains adequate liquidity, good asset quality and high capitalization. Liquidity positions are kept at comfortably high levels. FX positions are strictly monitored and balanced. Interest rate positions are closely watched and adjusted in line with the prevailing environment of low and decreasing US and European interest rates.

Money market and capital market operations

Interbank placements

During the year Bulbank gradually decreased the amount of its placements with first class international banks, channelling funds to more profitable instruments. For liquidity purposes, average USD 100 million overnight deposits were maintained. Total average placements were USD 601 million (USD 739 million in 2001) reaching USD 580 million at the end of the year (USD 659 million at the end of 2001). The Bank participated on the local interbank market on a limited scale, mainly for short-term liquidity purposes.

Securities

In general, the Bank activated its securities trading in search of higher income and good liquidity, matched to the maturity structure of liabilities. The average volumes of BGN denominated Bulgarian treasury bonds increased in 2002 reaching BGN 266 million (BGN 166 million in 2001) and BGN 297 million at the end of the year (BGN 199 million in 2001).

The foreign currency portfolio grow 35% reaching EUR 241 million at the end of 2002 (EUR 179 million in 2001). The average duration is 3.2 years. Bulgarian securities in the portfolio were 23% of total. The foreign currency portfolio is structured in the following way:

- By currency:
  - EUR - 59%
  - USD - 41%
- By type of issuers:
  - Governments - 52%
  - Financial institutions - 6%
  - Structured instruments - 17%
  - Government agencies - 25%

In order to increase profitability, the bank increased the volumes of structured, synthetic instruments in its portfolio striking credit default swaps, within the limits approved by the management.

The restructuring of portfolio and active securities operations in a falling interest rates environment brought about a 40% growth (46% at fixed exchange rate) in income from securities operations to BGN 11.5 million.

The equity investments are BGN 7.1 million in 11 companies at the end of the year. The bank sold its stakes in the Banking Educational Centre and Bulgarian Pension Fund.

Thousands of BGN

	2002		2001	
	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	12.8
Bankservice	357	7.1	357	7.1
BZOK Zakrila	200	10.0	200	10.0
POK Saglasie	159	6.0	159	6.0
SWIFT	20	0.0	20	0.0
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	0.5	24.8
Bulgarian Pension Fund	-	-	10	0.2
Banking Educational Centre	-	-	0.5	10.0
	7,070		7,080	

Commercial banking

Commercial banking is the main revenue contributor and the major priority in the bank's business development. Despite the sharp drop in interest rates during the year, revenues from commercial banking grew 12.6% to BGN 113 million (BGN 100 million in 2001)[1].

Corporate banking revenues, less institutions, increased 17% to BGN 73 million (BGN 62 million in 2001). The main sources of growth were lending (22% increase in interest income from lending) and fee income (36% growth). They fully offset the fall in customer deposit income due to a 60 basis point drop in spread. The interest income of this segment is up 6%.

Income from retail operations grew 14% to BGN 28.2 million (BGN 24.8 million in 2001). Main contributors are again fee income (49% up) and interest income from loans, fully compensating the shrunk spread in deposits.

Institutional revenues were down 10% to BGN 12.2 million (BGN 13.6 million in 2001) due solely to the sharp drop in spreads. Non-interest income grew 28.2%.

The Bulgarian-Italian Desk, established one year ago, continued to expand its activity. Its major role was to stimulate, support and maintain relations between companies from Bulgaria and Italy. In 2002 it covered New Europe countries too and its customer portfolio doubled.

Deposits

Customer deposits[2] marked a slight growth in nominal terms of 0.4% to BGN 2,029 million. However, this does not correctly represent the dynamics over the period, given the 15% US Dollar depreciation against BGN, the currency structure of deposits in the Bank (50% share of US Dollar denominated deposits) and some external extraordinary effects. Ignoring the FX effect only, the growth of deposits is 9.2%. Adding the effect of efforts to compensate for the negative impact of some external non-commercial factors, the underlying growth is up 16%.

Retail deposits grew 6.4% in real terms. The growth of corporate deposits at fixed exchange rate is 12.4% and 23% adding in all extraordinary effects.

1 Measurement of the revenues by segment is made by applying internal interest rates.

2 Including other financial institutions less banks.

Thousands of BGN

Segmentation structure	2002	2002 at fixed FX rate[1]	2001
Retail	1,062,058	1,193,429	1,121,674
Corporate	967,249	1,012,309	900,960
	2,029,307	2,205,738	2,021,634
Share of Retail	52.3%	58.8%	55.4%
Share of Corporate	47.7%	41.2%	44.6%

BGN deposits increased by over 20% of total. As a result of active domestic transactions, BGN retail deposits were up 30%. Deposits in foreign currency recorded growth of 8.1% in real terms.

Thousands of BGN

Segmentation structure	2002	2002 at fixed FX rate	2001
BGN	455,728	455,728	403,117
Foreign currency	1,573,579	1,750,010	1,618,517
	2,029,307	2,205,738	2,021,634
Share of BGN	22.5%	20.7%	19.9%
Share of foreign currency	77.5%	79.3%	80.1%

Time deposits went up 19% in real terms.

Thousands of BGN

Segmentation structure	2002	2002 at fixed FX rate	2001
Current accounts	787,672	831,928	867,827
Time deposits and savings accounts	1,241,635	1,373,810	1,153,807
	2,029,307	2,205,738	2,021,634
Share of current accounts	38.8%	37.7%	42.9%
Share of time deposits and savings accounts	61.2%	62.3%	57.1%

Loan Portfolio

Loans were up 56% during the reported period reaching BGN 564 million at the end of 2002, 51% up in the corporate segment (BGN 530.3 million) and 2.5 times up in the retail segment (BGN 33.6 million). Its share of total assets increased to 20% of assets on a gross basis. The number of loans increased 61% to 19,900.

The share of working capital loans increased to 65% (BGN 365 million) of gross loans at the end of the year versus 59% in 2001. The weight of consumer and mortgage loans grew by 3 pp to 5% (BGN 28 million). The currency structure is dominated by BGN denominated loans with 52% of total. The remaining 48% extended in foreign currency are mainly in euro.

The portfolio was further diversified during the year, increasingly financing mid-size companies and SMEs. Overdrafts were introduced widely and turned into a key lending product to both corporate and retail customers. Thus, the portfolio mix improved with the share of the biggest 25 exposures down by 13 pp to stand at 47%.

The industry structure of the portfolio remained broadly unchanged. Manufacturing, commerce and tourism held 81% of the total portfolio. Within manufacturing itself, food and chemical industries hold the lead with 36% and 29% respectively.

[1] Calculated at fixed USD/BGN exchange rate as at the start of the year.

BGN in thousands

Industry structure	2002		2001	
	Amount	Share	Amount	Share
Manufacturing	254,356	45.1%	167,983	46.4%
Commerce	126,351	22.4%	89,673	24.7%
Tourism	76,683	13.6%	51,732	14.3%
Services	32,717	5.8%	21,049	5.8%
Households and individuals	27,776	4.9%	7,749	2.1%
Agriculture	17,305	3.1%	11,914	3.3%
Construction	14,847	2.6%	4,147	1.1%
Transport	13,751	2.4%	7,846	2.2%
Other	150	0.1%	260	0.1%
	563,935	100%	362,353	100%

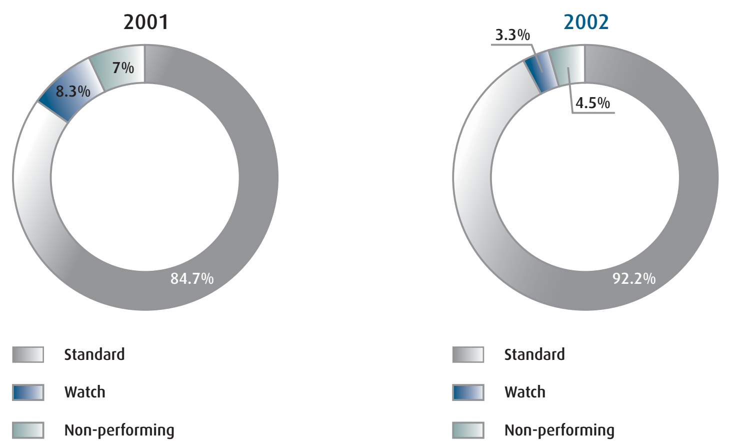
The rapid growth of loans was coupled with further improvement in quality. Non-performing loans[1] decreased to 4.5% of all loans (7% in 2001), a total of BGN 25.4 million. Loans with indicators of impairment dropped to less than BGN 30 million, 5.2% of total compared to 9.1% at the end of 2001. The share of standard loans increased by 7.4 percentage points to 92.2%. The work-out during the year paid off BGN 11 million of bad loans. As a result the amount of provisions for impairment declined by 2% to BGN 35.4 million, despite the growing portfolio. All risks are properly covered, in compliance the statutory requirements and the bank's policy.

Thousands of BGN

Risk classification	2002				2001			
	Debt	Share	Provision	Coverage	Debt	Share	Provision	Coverage
Standard	519,636	92.2%	7,774	1.5%	306,824	84.7%	3,841	1.3%
Watch	18,825	3.3%	3,282	17.4%	30,142	8.3%	8,426	28.0%
Non-performing	25,474	4.5%	24,390	95.7%	25,387	7.0%	23,833	93.9%
Total	563,935	100.0%	35,446	6.3%	**362,353**	**100.0%**	**36,100**	**10.0%**

The ratio of total provisions for impairment to gross loans decreased from 10% to 6.3% and the provision coverage of the non-performing loans stays comfortably at 139%.

Risk structure



[1] Non-performing are loans with more than 50% impairment. Most of them are however regularly serviced by the borrowers.

The bank applies IAS 39 in assessing impairment of loans. The structure of the portfolio by its classification is as follows:

Thousands of BGN

Materiality classification	2002	Share	2001	Share
Individually significant	191,242	33.9%	120,296	33.2%
Non-individually significant, incl.:	372,693	66.1%	242,057	66.8%
With indicators of impairment	29,481	5.2%	33,123	9.1%
Without indicators of impairment[1]	343,212	60.9%	208,934	57.7%
	563.935	100.0%	362,353	100.0%

Fee income services

The policy pursued for increasing share of fee based income through growth in volume, diversification of services and increased numbers of clients, allowed the bank to counter the negative impact of the unfavourable market environment on interest income. The commission revenue from commercial operations reached a record growth of 35% to BGN 43.3 million (BGN 32.1 million in 2001). The share of net fee income in revenues reached 25.9% (20.9% in 2001).

Clean payments, mainly international ones, retain a higher weight in fee income structure (28%). In 2002, the volume of overseas customer transfers increased 13.7% to 176,000 and their value went up 8% to BGN 5.4 billion. Lending fee income more than doubled to 23% of total, as a result of accelerated lending and increased average loan maturity. The number of consumer loans increased more than 9 times, mortgages more than 11 times and overdrafts by 28%.

Growth in card operations continued, delivering 37% more revenue. The number of domestic cards increased 56% to 123,400 and the number of international cards was up almost twice to 12,100, confirming the fast pace of penetration into the market. Packages for individuals and SMEs, launched in 2001, contributed 4 times more revenue. The number of UNICO packages for personal customers increased two-fold to 14,400. The customer base of electronic services expanded. Revenues from documentary operations registered growth of 9%, notwithstanding their decreased number, a world-wide trend for this kind of payment.

Preparations were made for the launch of sales of mutual funds. In January 2003, after receipt of permits from the Securities and Stock Exchange Commission[2], the bank began to offer mutual funds, first for the country. They are typical products for assets under management, delivered through the Pioneer Investment Fund, part of the UniCredito Group. The product offers investment in various instruments on the international money and capital market. Leasing and bank-insurance products were developed and are planned for launch in 2003.

Human resource policy

The HR policy was focused on training, management skills development, the incentive system upgrade and increasing efficiency.

At the end of the year the total number of employees was 2,060 (2,050 at the end of 2001), including 100 people involved in the new IT project. The people dedicated to customers jumped 63% to 240. The number of maintenance staff decreased. The number of front officers grew to 920, nearly 60% of banking staff. Head office staff accounted for 27% of the total. Within the framework of the joint UniCredito-Bulbank partnership programme, 10 projects were opened during the year. A new branch organization model was designed and is to be introduced alongside the roll-out of the new IT system by the middle of 2003.

A new appraisal system was introduced for performance, qualification and skills measurement. The management by objectives system was developed further, increasing the number of people involved. Innovative and more flexible methods were used for hiring staff.

[1] Loans without indicators of impairment are split in pools where the major criterion is the industry of the borrower.

[2] Renamed into Financial Supervision Commission from 1 January 2003.

During the period, training activity was focused on management skills development and professional growth, and development of employees working in various business areas. In particular, the Young Talent programme targeting young people with great potential to accelerate their professional skills for a future management role graduated the first group of Bulbank experts. The project is a partnership between UniCredito and Bocconi University in Milan. A second group was designated for the programme, starting training in March 2003. The total number of people attending different forms of training was 1,960 and the average training man/days reached 2.7.

Charity and sponsorship

The bank pursued a firm policy of not financing projects of weapons producing companies and those not observing set ecological standards.

The sponsorship and charity activity in the year was split into three main directions:

- Support of foundations for medical treatment of diseased children, organizations for disabled persons and significant social events
- The project Inter Campus Bulbank together with the famous Italian football club Inter for support of disadvantaged children by means of the game of football
- Support for cultural exchange between Italy and Bulgaria.

The total amount spent for charity during the year is BGN 126 thousand.

At the beginning of 2003, Bulbank was invited by UNDP to become part of the Global Compact initiative of the UN general secretary, Mr. Kofi Annan. Global Compact aims at building a more tolerant and fair global market, based on the nine overall valid principles in the field of human rights, labour standards and environment. It is a voluntary initiative for creation of a global framework for stable growth and active citizen participation through socially responsible corporate management. Within its commitments to the initiative, and under the social policy of UniCredito Group, Bulbank plans to participate in several projects related to the medical treatment and health protection of children in Bulgaria.

BULBANK AD

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002
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 2002 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 21 to 47 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 2002, the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

25 March 2003
Sofia, Bulgaria

BULBANK AD

Income Statement

Thousands of BGN

	Notes	Year ended 31 December	
		2002	2001
Interest Income		113,902	137,298
Interest Expense		(21,637)	(37,685)
Net Interest Income	3	**92,265**	**99,613**
Fee and Commission Income		43,346	32,116
Fee and Commission Expense		(2,387)	(1,757)
Net Fee and Commission Income	4	**40,959**	**30,359**
Gains less Losses from Trading Securities	5	3,485	5,869
Gains less Losses from Investment Securities	6	8,004	2,357
Gains less Losses Arising from Dealing in Foreign Currencies	7	7,095	5,046
Other Operating Income	11	6,383	1,842
TOTAL REVENUES		**158,191**	**145,086**
Operating Expenses	8	(62,988)	(66,450)
OPERATING INCOME		**95,203**	**78,636**
Write-backs on Loans and Advances	10	9,004	8,844
PROFIT BEFORE TAX		**104,207**	**87,480**
Income Tax Expense	12	(25,077)	(18,568)
NET PROFIT		**79,130**	**68,912**

The accompanying Notes 1 to 32 are an integral part of these financial statements.

BULBANK AD

Balance Sheet

Thousands of BGN

	Notes	Year ended 31 December	
		2002	2001
ASSETS			
Cash and Balances with Central Bank	13	153,793	230,354
Due from Other Banks	14	1,170,164	1,490,240
Trading Securities	15	124,357	217,813
Derivative Financial Instruments	16	5,948	5,926
Loans and Advances to Customers	17	832,007	445,078
Investment Securities, Held to maturity	18	233,673	-
Investment Securities, Available-for-sale	19	59,737	221,077
Other Assets and Prepayments	21	4,729	4,392
Property and Equipment	22	137,572	116,806
TOTAL ASSETS		2,721,980	2,731,686
LIABILITIES			
Due to Other Banks	23	76,578	65,515
Derivative Financial Instruments	16	-	52
Due to Customers	24	2,033,697	2,053,835
Other Liabilities	25	16,734	27,673
Deferred Income Tax	26	21,784	26,024
Other Provisions	27	59,938	68,108
TOTAL LIABILITIES		2,208,731	2,241,207
SHAREHOLDERS' EQUITY			
Share Capital	29	166,370	166,370
Retained Earnings		298,317	274,076
Revaluation Reserves		48,562	50,033
TOTAL SHAREHOLDERS' EQUITY		513,249	490,479
TOTAL EQUITY AND LIABILITIES		2,721,980	2,731,686

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

Luigi Lovaglio,
Deputy Chairman
of the Management Board
and Chief Operating Officer

25 March 2003

The accompanying Notes 1 to 32 are an integral part of these financial statements.

BULBANK AD

Statement of Changes in Shareholders' Equity

	Share Capital	Retained Earnings	Fixed Assets Revaluation Reserve	Investment Securities Revaluation Reserve	Shareholders' Equity
Balance as of 1 January 2001	166,370	384,235	52,426	-	603,031
Net Fair Value Gains Arising on Investment Securities, Available-for-Sale (Note 19)	-	-	-	1,360	1,360
Transfer of Revaluation Reserves on Realised Surplus	-	3,753	(3,753)	-	-
Net Profit for the Year	-	68,912	-	-	68,912
Dividend Distribution	-	(182,824)	-	-	(182,824)
Balance as of 31 December 2001	**166,370**	**274,076**	**48,673**	**1,360**	**490,479**
Balance as of 1 January 2002	166,370	274,076	48,673	1,360	490,479
Available-for-Sale Investments - Net Fair Value Gains (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**

The accompanying Notes 1 to 32 are an integral part of these financial statements.

BULBANK AD

Cash Flow Statement

Thousands of BGN

	Notes	Year ended 31 December	
		2002	2001
Cash Flows from Operating Activities			
Interest, Fee and Commission Receipts		152,078	168,812
Interest, Fee and Commission Payments		(25,791)	(39,800)
Net Trading and Other Income		24,967	13,509
Personnel Expenses and Other Operating Expenses		(53,584)	(54,457)
Income Tax Paid		(29,078)	(103,927)
Operating Cash Flow before Changes in Operating Assets and Liabilities		**68,592**	**(15,863)**
Net (Increase)/Decrease in Operating Assets			
Statutory Reserves with the Central Bank		17,775	(56,972)
Due from Other Banks		(44,376)	29,427
Loans and Advances to Customers		(406,946)	(61,529)
Trading Securities		93,985	(177,541)
Other Assets and Prepayments		(11,279)	(553)
Net Increase/(Decrease) in Operating Liabilities			
Due to Other Banks		15,482	37,821
Due to Customers		146,317	270,767
Other Liabilities		(11,482)	6,227
NET CASH (USED IN) / FROM OPERATING ACTIVITIES		**(131,932)**	**31,784**
Cash Flows from Investing Activities			
Investment Securities (Debt Securities)		(91,369)	(48,213)
Proceeds on Sale of Equity Securities		10	-
Purchase of Property, Equipment and Software	22	(31,103)	(6,577)
Proceeds on Sale of Property and Equipment	22	1,002	-
NET CASH USED IN INVESTING ACTIVITIES		**(121,460)**	**(54,790)**
Cash Flows from Financing Activities			
Dividends Paid		(62,683)	(174,957)
NET CASH USED IN FINANCING ACTIVITIES		**(62,683)**	**(174,957)**
Effect of exchange rate changes on cash and cash equivalents		(105,978)	45,533
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(422,053)**	**(152,430)**
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY	31	**1,536,265**	**1,688,695**
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	31	**1,114,212**	**1,536,265**

The accompanying Notes 1 to 32 are an integral part of these financial statements.

BULBANK AD
Notes to the financial statements
for the year ended 31 December 2002

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:

Basis of Presentation

The accompanying financial statements of Bulbank as of 31 December 2002 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, 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.

A. 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 Arising from Dealing in Foreign Currencies" caption in the income statement.

The exchange rates at 31 December 2002 of the main foreign currencies traded by the Bank against the BGN set by the BNB are as follows:

BGN per currency unit

	2002	2001
US Dollar (USD)	1.885	2.219
Euro (EUR)	1.956	1.956
Swiss Franc (CHF)	1.343	1.319
Pound Sterling (GBP)	3.018	3.214

B. 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. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, 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.

Changes in the fair value of derivatives are included in other operating income or expense.

C. Offsetting financial instruments

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

D. 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 fixed income investment and trading securities.

E. Fees and commissions

Fees and commissions consist mainly of fees for clean payments and loans and 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.

F. 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.

G. 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 deposits due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

H. 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 and 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.

I. 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.

J. Property and equipment

All property and equipment is stated at historical cost less depreciation as modified by the revaluation of land, buildings and assets in construction, which approximates fair value. The last revaluation of these assets has been made at the end of 1998 and the appraisal has been performed by a qualified independent valuer.

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	
	2002	**2001**
Tangible fixed assets		
Buildings for own use	33	**33**
Furniture and installations	5 - 7	**5 - 7**
Office and data processing equipment	5 - 7	**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 account 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.

K. Operating leases

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

L. 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

M. 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 sublimits 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 Germany, Italy and other OECD countries is in corporate banking services and treasury. The loan customers of the Bank are mainly Bulgarian, and all placements and current accounts with foreign bank over the 10% threshold are domiciled in OECD countries.

Thousands of BGN

As at 31 December 2002	Total assets	Total liabilities
Bulgaria	1,110,452	2,092,096
Germany	438,380	2,202
Italy	324,234	2,532
Other OECD countries	768,895	21,223
Other countries	57,008	22,282
	2,698,969	2,140,335
Unallocated assets/liabilities	23,011	68,396
	2,721,980	**2,208,731**
As at 31 December 2001		
Bulgaria	912,362	2,151,730
Germany	1,091,432	12,869
Italy	339,514	2,204
Other OECD countries	378,447	26,771
Other countries	31	36,457
	2,721,786	2,230,031
Unallocated assets/liabilities	9,900	11,176
	2,731,686	**2,241,207**

The Bank is exposed to many 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 exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Bank estimates the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The 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 2002. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by currency.

Thousands of BGN

As at 31 December 2002	BGN	USD	EUR	Other currencies	Total (net)
Assets					
Cash and balances with Central bank	61,618	66,421	18,515	7,239	**153,793**
Due from other banks	-	627,028	509,834	33,302	**1,170,164**
Trading securities	93,373	-	30,984	-	**124,357**
Derivative financial instruments	-	-	5,948	-	**5,948**
Loans and advances to customers	435,398	125,272	271,337	-	**832,007**
Investment securities, held to maturity	33,197	109,189	91,287	-	**233,673**
Investment securities, available-for-sale	29,689	10,381	19,667	-	**59,737**
Other assets and prepayments	2,038	888	1,791	12	**4,729**
Property and equipment	137,572	-	-	-	**137,572**
Total Assets	**792,885**	**939,179**	**949,363**	**40,553**	**2,721,980**
Liabilities					
Due to other banks	246	24,908	50,977	447	**76,578**
Due to customers	478,595	928,629	585,371	41,102	**2,033,697**
Other liabilities	11,555	3,945	1,150	84	**16,734**
Deferred tax	21,784	-	-	-	**21,784**
Other provisions	59,938	-	-	-	**59,938**
Total Liabilities	**572,118**	**957,482**	**637,498**	**41,633**	**2,208,731**
Net Position	**220,767**	**(18,303)**	**311,865**	**(1,080)**	**513,249**
Commitments	141,805	71,587	45,271	6,174	**264,837**
As at 31 December 2001					
Total Assets	**534,314**	**1,123,923**	**1,035,748**	**37,701**	**2,731,686**
Total Liabilities	**536,562**	**1,142,906**	**520,853**	**40,886**	**2,241,207**
Net Position	**(2,248)**	**(18,983)**	**514,895**	**(3,185)**	**490,479**
Commitments	60,868	104,466	35,880	37,127	**238,341**

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 2002	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 and prepayments	-	-	-	-	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	75,891	-	575	112	-	**76,578**
Due to customers	1,718,218	144,142	169,653	1,684	-	**2,033,697**
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 as at the end of 2002.

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

Thousands of BGN

As at 31 December 2001	Up to 1 month	1-3 months	3-12 months	Over 1 year	Non-interest bearing	Total
Assets						
Cash and balances with Central bank	-	-	-	-	230,354	**230,354**
Due from other banks	1,289,576	175,991	24,673	-	-	**1,490,240**
Trading securities	38,783	6,223	36,783	136,024	-	**217,813**
Loans and advances to customers	150,255	49,668	182,228	62,927	-	**445,078**
Investment securities, available-for-sale	42,791	6,197	36,630	128,379	7,080	**221,077**
Other assets and prepayments	-	-	-	-	10,318	**10,318**
Property and equipment	-	-	-	-	116,806	**116,806**
Total Assets	**1,521,405**	**238,079**	**280,314**	**327,330**	**364,558**	**2,731,686**
Liabilities						
Due to other banks	55,923	3,804	5,788	-	-	**65,515**
Due to customers	1,659,224	223,065	168,731	2,815	-	**2,053,835**
Other liabilities	-	-	-	-	27,725	**27,725**
Deferred tax	-	-	-	-	26,024	**26,024**
Other provisions	-	-	-	-	68,108	**68,108**
Total Liabilities	**1,715,147**	**226,869**	**174,519**	**2,815**	**121,857**	**2,241,207**
Total interest sensitivity gap	**(193,742)**	**11,210**	**105,795**	**324,515**	**242,701**	**490,479**

The table below summarises the interest rate by major currencies for monetary financial instruments as at the end of 2001.

2001	BGN	USD	EUR
Assets			
Nostro accounts	-	2.10%	3.00%
Due from other banks	-	4.16%	4.37%
Trading securities	7.20%	5.26%	4.19%
Loans and advances to customers	12.15%	10.67%	12.23%
Investment securities	7.27%	5.38%	5.07%
Liabilities			
Time deposits from other banks	3.20%	3.29%	4.15%
Current accounts of other banks	0.20%	0.86%	0.62%
Time deposits from customers	3.25%	2.76%	3.23%
Current accounts of customers	0.20%	0.95%	0.65%

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 2002	Up to 1 month	1-3 months	3-12 months	Over 1 year	Non-stated maturity	Total
Assets						
Cash and balances with Central bank	153,793	-	-	-	-	**153,793**
Due from other banks	981,675	104,551	29,821	54,117	-	**1,170,164**
Trading securities	5,031	8,657	65,801	44,868	-	**124,357**
Derivative financial instruments	-	-	-	5,948	-	**5,948**
Loans and advances to customers	23,459	44,622	233,612	530,314	-	**832,007**
Investment securities, held to maturity	39,170	2,158	4,190	188,155	-	**233,673**
Investment securities, available-for-sale	9,785	-	-	49,952	-	**59,737**
Other assets and prepayments	2,374	1,211	1,032	112	-	**4,729**
Property and equipment	-	-	-	-	137,572	**137,572**
Total Assets	**1,215,287**	**161,199**	**334,456**	**873,466**	**137,572**	**2,721,980**
Liabilities						
Due to other banks	75,891	-	575	112	-	**76,578**
Due to customers	976,812	144,142	169,653	743,090	-	**2,033,697**
Other liabilities	875	8,578	4,423	2,858	-	**16,734**
Deferred tax	6,673	-	-	-	15,111	**21,784**
Other provisions	-	-	-	59,938	-	**59,938**
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**
As at 31 December 2001						
Total Assets	**1,536,588**	**253,992**	**262,692**	**560,244**	**118,170**	**2,731,686**
Total Liabilities	**901,092**	**1,070,962**	**175,758**	**77,916**	**15,479**	**2,241,207**
Net Liquidity Gap	**635,496**	**(816,970)**	**86,934**	**482,328**	**102,691**	**490,479**

G. Fair values of financial assets and liabilities

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

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

	2002	2001
Interest Income		
Banks	29,016	70,301
Loans and advances to customers	47,169	42,839
Investment securities	31,641	18,699
Trading securities	6,076	5,459
	113,902	137,298
Interest Expense		
Due to other banks	(600)	(891)
Due to customers	(21,018)	(36,674)
Other	(19)	(120)
	(21,637)	(37,685)
	92,265	**99,613**

4. Net Fee and Commission Income

Thousands of BGN

	2002	2001
Fee and commission income		
Clean payments	12,109	10,914
Lending	10,084	3,833
Cash operations	4,807	4,636
Card transactions	4,391	3,332
Opening and maintenance of accounts	3,941	2,551
Documentary operations	3,210	3,252
Agency commissions	1,665	1,166
Packages	1,153	275
Foreign currency arbitrage fees	700	683
Other	1,286	1,474
	43,346	32,116
Fee and commission expense		
Card transactions	(1,423)	(939)
Maintenance of correspondent accounts	(549)	(496)
Other	(415)	(322)
	(2,387)	(1,757)
	40,959	**30,359**

5. Gains less Losses from Trading Securities

Thousands of BGN

	2002	2001
Gains less losses from operations	1,075	4,613
Market revaluation of securities	2,410	1,256
	3,485	**5,869**

6. Gains less Losses from Investment Securities

Thousands of BGN

	2002	2001
Gains less losses from operations	7,914	2,009
Market revaluation of securities	90	348
	8,004	**2,357**

7. Gains less Losses Arising from Dealing in Foreign Currencies

Thousands of BGN

	2002	2001
Foreign exchange transaction gains less losses	7,091	4,830
Net gains less losses on currency options trading	(7)	(327)
Foreign exchange translation gains less losses	11	543
	7,095	**5,046**

8. Operating Expenses

Thousands of BGN

	2002	2001
Staff costs (Note 9)	(26,658)	(27,722)
Depreciation (Note 22)	(10,170)	(10,675)
Deposit insurance	(8,323)	(8,225)
IT maintenance	(4,781)	(4,062)
External services	(3,189)	(6,056)
Post and telephone	(1,843)	(1,553)
Repairs and maintenance	(1,515)	(1,815)
Stationery	(1,288)	(1,261)
Heating and lighting	(1,056)	(1,053)
Levies and taxes	(860)	(873)
Rents	(773)	(815)
Advertising	(608)	(610)
Representative offices	(443)	(769)
Other	(1,481)	(961)
	(62,988)	**(66,450)**

9. Staff Costs

Thousands of BGN

	2002	2001
Wages and salaries	(20,874)	(21,749)
Social security cost	(5,784)	(5,973)
	(26,658)	**(27,722)**

The average number of persons employed by the bank during the year was 2,110 (2,066 in 2001).

10. Write-backs / (Impairments) on Loans and Advances

Thousands of BGN

	2002	2001
On-balance sheet (Note 30)		
Due from other banks	40	(14)
Loans and advances to customers	653	542
Other assets	141	(538)
	834	(10)
Off-balance sheet - contingent liabilities and commitments (Note 30)	8,170	8,854
	9,004	**8,844**

11. Other Operating Income

Thousands of BGN

	2002	2001
Other operating income		
Write-off of long-term dormant positions	4,797	815
Vault, post boxes and other non-financial services	934	749
Disposal of property and equipment	294	368
Court proceeds	140	2
Inventory surplus	29	3
Other	513	416
	6,707	2,353
Other operating expense		
Charities and contributions	(126)	(17)
Write-off of inventory, software etc.	(21)	(52)
Membership fees	(9)	(9)
Other	(168)	(433)
	(324)	(511)
	6,383	**1,842**

12. Income Tax Expense

Taxation is payable at an effective statutory rate of 23.5% on adjusted profits under Bulgarian tax law. Under the Corporate Income Tax Act, for 2002, the Bank is subject to Municipality Contribution in the amount of 10% of taxable profit, as well as Corporate Income Tax in the amount of 15% of taxable profit decreased by the Municipality Contribution.

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

Thousands of BGN

	2002	2001
Current tax	29,317	72,163
Deferred tax (Note 26)	(4,240)	(53,595)
	25,077	**18,568**

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

	2002	2001
Profit before tax	104,207	87,480
Theoretical tax calculated at tax rate of 23.5% (2001 - 28.0%)	24,489	24,494
Expenses not deductible for tax purposes	588	8,917
Income tax expense before effect of change in tax rate	25,077	33,411
Effect of change in tax rate	-	(14,843)
	25,077	18,568

13. Cash and Balances with Central Bank

Thousands of BGN

	2002	2001
Cash in hand	29,538	76,544
Precious metals	2	2
Statutory minimum required reserve with Central bank	124,253	153,808
	153,793	230,354

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 2002 and 2001.

Commercial banks in Bulgaria are required to maintain a minimum reserve with the Central Bank. The minimum reserve, determined periodically by Central Bank, 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

	2002	2001
Time deposits (OECD countries)	1,095,805	1,465,547
Current accounts	21,777	20,668
Loans and advances	52,541	4,011
Overdrafts	264	276
Gross Total	1,170,387	1,490,502
Less provisions for impairment (Note 30)	(223)	(262)
	1,170,164	1,490,240

Due from other banks include interest receivable amounting to BGN 3,273 thousand for 2002 and BGN 2,348 thousand for 2001.

15. Trading Securities

	Thousands of BGN	
	2002	2001
Government bonds (Bulgaria)	94,806	110,121
Government bonds (Germany)	29,551	107,692
	124,357	**217,813**

Trading securities include interest receivable amounting to BGN 1,869 thousand for 2002 and BGN 1,341 thousand for 2001.

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, a proportion of 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 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 or during a set period, 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 derivative instruments held are set out in the following table.

	Contract /notional amount	**Fair values**	
		Assets	**Liabilities**
Year ended 31 December 2002			
Credit default swap	58,675	320	-
Interest rate swap	19,519	5,628	-
	78,194	**5,948**	**-**
Year ended 31 December 2001			
Currency options	4,438	52	52
Interest rate swap	19,560	5,874	-
	23,998	**5,926**	**52**

17. Loans and Advances to Customers

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

Thousands of BGN

	2002	2001
Loans and advances		
Private enterprises	487,646	323,238
State owned enterprises	23,600	26,779
Private individuals	33,627	12,076
Public bodies	-	260
	544,873	362,353
Government and other debt securities		
Bulgarian Government debt securities	167,094	111,096
Other Government debt securities (OECD countries)	155,486	7,729
	322,580	118,825
Gross Total	**867,453**	**481,178**
Less provisions for impairment (Note 30)	(35,446)	(36,100)
	832,007	**445,078**

Loans and advances to customers include interest receivable amounting to BGN 5,468 thousand for 2002 and BGN 3,922 thousand for 2001.

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

Thousands of BGN

	2002	2001
Processing and manufacturing	254,356	167,983
Commerce	126,351	89,673
Tourism	76,683	51,732
Households	27,776	7,749
Agriculture	17,305	11,914
Construction	14,847	4,147
Transport	13,751	7,846
Services	13,654	21,049
Other	150	260
	544,873	**362,353**

The ten largest loan exposures amount to BGN 153,028 thousand or 28% of the commercial loan portfolio, (2001: BGN 138,242 thousand or 38% of the commercial loan portfolio).

18. Investment Securities, Held to Maturity

Thousands of BGN

	2002	2001
Government Bonds (OECD countries)	89,120	-
Agency Bonds	73,798	-
Government Bonds (Bulgaria)	64,891	-
Corporate Bonds	5,864	-
	233,673	**-**

Investment securities, held to maturty include interest receivable amounting to BGN 6,473 thousand for 2002.

19. Investment Securities, Available-for-Sale

Thousands of BGN

	2002	2001
Debt Securities, at fair value	52,667	213,997
Equity Securities, at cost (Note 20)	7,070	7,080
	59,737	221,077

Investment securities, available-for-sale include interest receivable amounting to BGN 1,199 thousand for 2002 and BGN 5,503 thousand for 2001.

The movement of investment securities is as follows:

Thousands of BGN

	2002	2001
Balances at the beginning of the year	221,077	164,050
Disposals (sale and redemption)	(193,463)	(148,981)
Purchases	281,217	204,278
Exchange rate adjustment	(15,337)	370
Carrying value adjustment	(84)	1,360
Balances at the end of the year	**293,410**	**221,077**

20. Equity Securities

The list of the equity securities at 31 December 2002 is as follows:

Thousands of BGN

	2002		2001	
	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	12.8
Bankservice	357	7.1	357	7.1
BZOK Zakrila	200	10.0	200	10.0
POK Saglasie	159	6.0	159	6.0
SWIFT	20	0.0	20	0.0
Free Trade Zone	12	5.7	12	5.7
Bulgarian Pension Fund	-	-	10	0.2
Central Depository	3	3.0	3	3.0
Bulgarian Stock Exchange	1	0.4	1	0.4
Bulgarhydroponik	1	24.8	1	24.8
	7,070		7,080	

21. Other Assets and Prepayments

Thousands of BGN

	2002	2001
Settlements	3,376	3,387
Prepayments	1,121	1,244
Materials	918	948
Receivables on overpaid taxes	434	234
Other	1,141	1,002
Gross Total	6,990	6,815
Less provisions for impairment (Note 30)	(2,261)	(2,423)
	4,729	4,392

22. Property and Equipment

Thousands of BGN

	Land and Buildings	Equipment	Software	Construction in progress	Total
Cost or revaluation					
Balance at 1 January 2001	114,196	27,212	3,130	855	**145,393**
Additions	20	1,302	1,828	3,427	**6,577**
Disposals	-	(42)	(113)	(5)	**(160)**
Transfers	3	3,187	527	(3,717)	**-**
Balance at 31 December 2001	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**
Accumulated depreciation					
Balance at 1 January 2001	8,870	14,437	1,081	-	**24,388**
Charge for the year	5,715	4,283	677	-	**10,675**
Disposals	-	(32)	(27)	-	**(59)**
Balance at 31 December 2001	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**
Net Book Value					
Balance at 31 December 2001	**99,634**	**12,971**	**3,641**	**560**	**116,806**
Balance at 31 December 2002	**95,041**	**14,018**	**4,309**	**24,204**	**137,572**

23. Due to Other Banks

Thousands of BGN

	2002	2001
Current accounts		
Foreign banks	1,516	1,517
Local banks	27,280	27,334
	28,796	28,851
Time deposits - local banks	9,050	7,328
Transfers in transit	575	2,468
Loans and advances	112	124
Settlements	38,045	26,744
	47,782	36,664
	76,578	**65,515**

24. Due to Customers

Thousands of BGN

	2002	2001
By type of customer		
Private individuals	1,083,564	1,110,684
Companies and other entities	950,133	943,151
	2,033,697	2,053,835
By type of instrument		
Current accounts	752,770	777,438
Time deposits	1,155,053	1,154,820
Cover accounts on letters of credit	89,026	93,327
Transfers in transit	36,848	27,670
Repurchase agreements	-	580
	2,033,697	2,053,835

Due to customers include interest payable amounting to BGN 2,776 thousand for 2002 and BGN 4,545 thousand for 2001.

25. Other Liabilities

Thousands of BGN

	2002	2001
Deposit insurance premium	8,323	8,026
Accrued staff cost	4,175	4,330
Transfers, subject to further execution	3,174	6,960
Dividends payable	168	7,946
Tax payable	894	379
Other	-	32
	16,734	27,673

26. Deferred Income Tax

Deferred income taxes are calculated on all temporary differences under the liability method using an effective statutory tax rate of 23.5%.

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

Thousands of BGN

	2002	2001
Deferred income tax liabilities		
Property and equipment	15,111	15,479
Provision for due from banks	7,989	10,320
Provision for loans and advances to customers	640	1,408
Other provisions	-	794
Other assets	-	107
	23,740	28,108
Deferred income tax assets		
Accrual on deposit insurance premium	(1,956)	(2,084)
	(1,956)	(2,084)
	21,784	26,024

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

Thousands of BGN

	2002	2001
Provision for placements and securities	-	(38,329)
Property and equipment	(368)	(3,869)
Provision for due from banks	(2,331)	(4,003)
Provision for loans and advances to customers	(768)	(38)
Other provisions	(794)	(5,444)
Accruals	128	(1,708)
Other temporary differences	(107)	(204)
	(4,240)	**(53,595)**

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

Thousands of BGN

	2002	2001
Balances at 1 January	26,024	79,619
Tax credit for the year	(4,240)	(53,595)
Balance at 31 December	**21,784**	**26,024**

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 with the relevant cases.

Thousands of BGN

	2002	2001
Provisions on letters of guarantee and letters of credit	39,321	45,211
Provisions on outstanding and probable court proceedings	20,617	22,897
	59,938	**68,108**

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 described in Note 27.

Thousands of BGN

	2002	2001
Guarantees	152,778	172,300
Credit commitments	112,059	66,041
	264,837	**238,341**

Assets pledged. Assets are pledged as collateral under repurchase agreements with customers. Mandatory reserve deposits are also held with the Central Bank in accordance with statutory requirements.

Thousands of BGN

	Asset		Related Liability	
	2002	2001	2002	2001
Balances with Central bank	124,253	153,808	-	-
Securities related to repo deals	-	580	-	580
Securities related to deposits of budgetary organisations	201,564	261,115	11,133	16,404
	325,817	415,503	11,133	16,984

29. Shareholders' Equity

Share Capital

As at 31 December 2002, 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 2002, is as follows:

	2002		2001	
Shareholder	Number or Shares	Shareholding %	Number or 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	1,466,520	0.9
Private individuals	358,914	0.2	333,644	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

	2002	2001
On-balance sheet		
Due from banks (Note 14)	223	262
Loans and advances to customers (Note 17)	35,446	36,100
Other assets and prepayments (Note 21)	2,261	2,423
	37,930	38,785
Off-balance sheet (Note 27)	59,938	68,108
Total Provisions	97,868	106,893

The movement of provisions is as follows:

Thousands of BGN

	2002	2001
On-balance sheet		
Balance at 1 January	38,785	38,775
Provision increase/(decrease) - (Note 10)		
Provision increase	12,798	12,039
Provision decrease	(13,632)	(12,029)
	(834)	10
Write-offs	(21)	-
Balances at 31 December	**37,930**	**38,785**
Off-balance sheet		
Balance at 1 January	68,108	76,962
Provision increase/(decrease) - (Note 10)		
Provision increase	2,475	1,817
Provision decrease	(10,645)	(10,671)
	(8,170)	(8,854)
Balances at 31 December	**59,938**	**68,108**

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

	2002	2001
Cash in hand (Note 13)	29,538	76,544
Demand deposits with banks	21,717	20,624
Time deposits with banks up to 90 days	1,062,957	1,439,097
	1,114,212	**1,536,265**

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 and foreign currency 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 outstanding at the year end are as follows:

Thousands of BGN

	UniCredito Italiano	
	2002	2001
Loans and short term placements	298,517	291,752
Interest income earned	8,661	8,123
Deposits	-	14
Operating expenses	893	-
Letters of Guarantee	1,120	62

In 2002, the total remuneration of the members of the Management Board was BGN 1,563 thousand (2001: BGN 1,274 thousand). The remuneration of the members of the Supervisory Board was BGN 13 thousand.

GENERAL INFORMATION

Basic information for Bulbank

Establishment - 1 April 1964
Major shareholders

	31 December 2002	
Shareholder	**Number of shares**	**Share in %**
UniCredito Italiano SpA	141,743,445	85.2
International Finance Corporation	8,817,618	5.3
Allianz 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 a universal bank providing a wide range of services to businesses, private individuals and institutions:

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

Market position

Bulbank is the largest bank in Bulgaria by:

- asset
- equity
- customer deposits
- cross-border payments

Standard & Poor's Credit Rating

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

Financial Highlights - 5-year retrospective

(Thousands of BGN, unless otherwise stated)

	2002	2001	2000	1999	1998
Key figures					
Net profit	79,130	68,912	160,065	71,582	55,523
Shareholders' equity (end of period)	513,249	490,479	602,776	544,220	540,475
Total assets (end of period)	2,721,980	2,731,686	2,559,476	2,326,968	2,196,595
Earnings per share (in BGN)	0.48	0.41	0.96	0.43	0.51
Income					
Net interest income	92,265	99,613	97,301	66,024	77,199
Net fee and commission income	40,959	30,359	28,957	28,939	21,703
Net securities income	11,489	8,226	19,037	23,291	(36,374)
Net foreign exchange operations income	7,095	5,046	3,262	44,888	4,553
Total revenues	158,191	145,086	149,688	177,825	60,307
Profit before tax	104,207	87,480	204,725	108,955	61,275
Expenses					
Operating expenses	52,818	55,775	59,662	41,134	31,326
Personnel expenses	26,658	27,722	30,452	21,177	20,095
Other operating charges	26,160	28,053	29,210	19,957	11,231
Depreciation	10,170	10,675	10,274	10,429	2,813
Provisions increase/(decrease)	(9,004)	(8,844)	29,944	23,399	(6,485)
Tax	25,077	18,568	44,660	37,372	5,752
Ratios (%)					
Return on average assets (ROA)	2.9	2.5	6.5	3.2	2.3
Return on average equity (ROE)	16.2	13.5	29.5	14.1	11.6
Capital/Asset ratio (end of period)	18.9	18.0	23.6	23.4	24.6
BIS total capital ratio (end of period)[1]	40.5	36.9	37.7	54.4	56.3
BIS tier 1 capital ratio (end of period)[1]	36.4	33.2	33.5	51.5	52.8
Risk weighted assets/Total assets ratio (end of period)	38.0	42.1	42.5	40.4	35.2
Cost/Income ratio[2]	39.8	46.0	46.7	29.0	56.6
Resources (number) - (end of period)					
Points of sale	91	98	105	80	63
Employees	2,060	2,050	2,084	1,928	1,891
Foreign exchange rate at period-end (BGN/USD)	*1.8850*	*2.2193*	*2.10191*	*1.9469*	*1.6751*
Average annual exchange rate over the period (BGN/USD)	*2.0770*	*2.1850*	*2.12314*	*1.8214*	*1.7932*

[1] Methodology for calculating capital adequacy was changed in 2002, adding market risks to risk weighted assets in the denominator. 2000 and 2001 figures are adjusted respectively.

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

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3700 Vidin, 3 Tzar Simeon Veliki str.
Switchboard: 094/ 601 534
Telephones: 094/ 600 071, 600 072
Fax: 094/ 600 074
Telex: 36 463
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Telephones: 092/ 6 02 48, 6 02 57
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Fax: 046/ 6 16 34
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Zlatni Piasatsi
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Telephones: 052/ 356 114; 356 209
Fax: 052/ 355 857
Telex: 778 05
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Sub-branches

1. Airport Sofia
2. Airport-Burgas
3. Assenovgrad
4. Bottevgrad
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. Nadejda, Sofia
18. Nova Zagora
19. Panagyurishte
20. Peshtera
21. Petrich
22. Port Burgas
23. Radnevo
24. Rodopi, Plovdiv
25. Rodopski izvor, Sofia
26. Sevlievo
27. Shipka, Varna
28. Silistra
29. Sozopol
30. Sungurlare
31. Svilengrad
32. Svishtov
33. Trakia, Plovdiv
34. Troyan
35. Tsarevo
36. 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.

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

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