Bulbank
UniCredit Group

2004 ANNUAL REPORT

CONTENTS

Financial highlights

(Thousands of BGN, unless otherwise stated)

	2004	2003	growth
Key figures			
Net profit	86,279	89,752	-3.9%
Shareholders' equity*	574,112	550,026	4.4%
Total assets*	3,614,696	2,825,439	27.9%
Bank customer deposits*	2,917,169	2,177,781	34.0%
Bank customer loans*	1,393,968	916,634	52.1%
Earnings per share (in BGN)	0.52	0.54	-3.9%
Income			
Net interest income	134,502	106,081	26.8%
Net fee and commission income	39,758	32,978	20.6%
Net trading income	4,318	9,129	-52.7%
Net gains from investment securities	7,042	10,387	-32.2%
Gross operating income	198,470	169,977	16.8%
Net operating Income	114,384	103,690	10.3%
Expenses			
Operating expenses	84,086	66,287	26.9%
HR expenses	30,319	27,145	11.7%
Non-HR expenses	40,543	29,568	37.1%
Depreciation	13,224	9,574	38.1%
Impairment losses and provisions (write-back)	7,719	-14,706	-152.5%
Tax	20,386	28,644	-28.8%
Ratios (%)			
Return on average assets (ROA)	2.8	3.4	-0.6pp
Return on average equity (ROE)	15.7	17.4	-1.7pp
Capital/Asset ratio*	15.9	19.5	-3.6pp
Total capital ratio*	23.3	38.0	-14.7pp
Tier 1 capital ratio*	20.4	20.5	-0.1pp
Risk weighted assets/Total assets ratio*	53.0	43.9	9.1pp
Non-performing loans/Gross loans*	2.4	3.1	-0.7pp
Loan/Deposit ratio*	47.8	42.1	5.7pp
Cost/Income ratio	42.4	39.0	3.4pp
Resources (number)*			
Operating outlets	94	91	3
Employees	1,760	2,026	-266
Sales-force	423	372	51
Foreign exchange rate at period-end (BGN/USD)	*1.4359*	*1.5486*	*-7,4%*
Average annual exchange rate over the period (BGN/USD)	*1.5751*	*1.8067*	*-12.8%*

*End of period.

Statement to the shareholders

Ladies and Gentlemen,

It is our honour to present the 2004 annual accounts of Bulbank.

In 2004, the bank reports good results in a positive although very competitive market environment. GDP grew by 5.6% in real terms, inflation remained moderate and unemployment dropped further. The current account deficit is 7.4% of GDP, lower than earlier forecast. The financial services industry posted another year of significant growth. The loan portfolio of the banking sector increased by 47%, reaching 37% of GDP, with a boom in growth of mortgage and consumer lending. The enhanced competition further depressed margins.

In this environment, Bulbank registered a year of remarkable growth. The value of the consolidated balance sheet increased by 28% and our loan portfolio by 52%. Gross operating income increased by 17%, driven by lending growth and a significant increase in the volume of transactions. Retail revenues went up 33% year on year, corporate revenues 23%. Net profit was BGN 86.3mn, up 19% on a normalised basis. The headline figure is 4% lower than the previous year because of the higher depreciation and final costs related to the new IT system, successfully completed in June 2004, and the large amount of non-recurring provision write-back in the previous year. The overall financial condition of the bank is very sound. Non-performing loans as a proportion of gross loans are down to 2.4%. Tier 1 capital adequacy is 20.4%, providing capacity for further growth and good liquidity. Profitability is quite satisfactory within the context of the high capitalisation, with ROA and ROE 2.8% and 15.7% respectively. Efficiency remains excellent, with our cost to income ratio at 42.4%.

The bank continued its customer-focused development in line with our strategic plan. The "divisionalisation" and "regionalisation" processes were completed, thus closing the redesign of the business model and of the bank organisation to better address market challenges and to better position the bank to pursue growth opportunities effectively. The bank's network was split into 8 retail and 8 corporate regions with clear segregation of sales and operations responsibilities between corporate and retail. This allows us to service different client needs better within a framework of great synergies between the two divisions. Particular importance was laid on the segment-driven service model, including account managers specialised by segment and specific services rendered through dedicated channels. Early in 2004, the bank completed the acquisition of a leasing company, which grew very successfully during the year, thus enhancing the lending offer to best meet customer needs.

The retail business achieved fast growth. Product development and expansion in mortgages and small business loans more than doubled the retail loan portfolio. A special retail lending centre was established in Sofia, with great success. A new credit underwriting system in personal lending was put into operation to support sales and risk management. Branch opening restarted, with a few new offices established in the second part of the year. The personal investment product range was enriched. The results in retail were largely due to the success of structured campaigns, particularly in the second half of the year, supported by active promotions and improved value propositions. All of this produced an 18% increase in the number of customers.

Corporate services registered substantial growth too, despite the sharp drop in spreads. Its loan portfolio increased by 41%. Electronic banking was refined as product range expanded and penetration deepened. The evolving sophistication of the bank's offer allowed a good acquisition rate of new customers.

Significant improvements were made in the HR area also. For the first time in the bank's history, an employee satisfaction survey was done, carried out by a specialised company together with UCI and other New Europe banks of the group. The survey's main purpose was to assess areas for improvement of employee engagement, commitment and satisfaction in order to better leverage the skills and motivation of our employees and achieve even better results. Adjustments were made to the compensation policy in line with prevailing market conditions. The bank's security guards were outsourced as planned, part of a gradual process to outsource routine administrative, but non-banking, activities. A great effort went into training, focusing on sales-force knowledge and skills upgrade in line with the new business model.

2005 has already started with active campaigns in the commercial areas. Opening more than 10 new outlets is planned, including typical retail branches, leasing outlets and specialised personal lending centres. ATM and POS networks will substantially expand. Many new products and initiatives are planned in retail, including in the areas of consumer lending, cards, small business loans, deposits and asset management. Three important new products are planned for launch in the corporate area early in 2005, factoring, B2B and B2C collection services. A new work-out unit and process will be established to take care of recovery activities. A credit underwriting system for small business loans will be completed. A large-scale credit-monitoring project is planned to provide the bank with a state-of-the-art monitoring tool to allow and ensure maintenance of the highest standards and levels in asset quality. Significant investment is planned to support both businesses and processes. Specialist training will continue to improve service quality. Leadership skills upgrade, career planning and development are to become the focus of HR management, coinciding with dynamic adjustment of compensation policy. Substantial efforts are planned for development of the internal controls framework.

The bank's dominant position in the market, its strong financial standing, its acquired infrastructure and its productive channelling of operational support and expertise of UniCredit Group, our main shareholder, represent unparalleled competitive advantages. The bank is comfortably positioned to grow also should expected BNB restrictions on lending expansion occur. Efforts will be focused not only on reaching annual targets, but building an even more solid basis for further growth and developing quality long-term relationship with our clients, always in a socially responsible manner.

As always we would like to warmly thank our customers, partners and shareholders for working with us and trusting us. Special thanks to all our employees for their hard work in achieving strong results. Finally, a sincere appreciation to Mr Paolo Fiorentino, our former Chairman of the Supervisory Board, who moved to a very important position in UCI Holding, after having contributed strongly to 2004 achievements and to the development of the bank.

Andrea Moneta
Chairman of the Supervisory Board

Levon Hampartzoumian
Chairman of the Management Board
and CEO

24 February 2005, Sofia

Supervisory Board and Management Board[1]

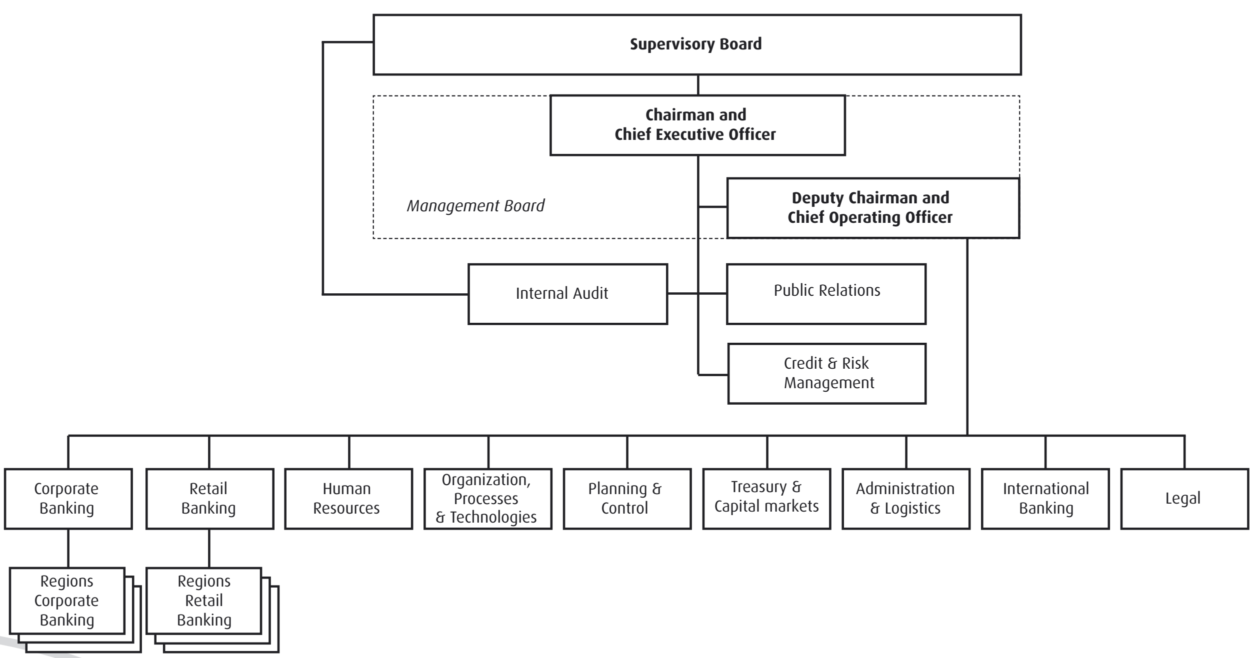
Supervisory Board		Starting date of mandate
Andrea Moneta	Chairman	3 November 2004
Fausto Alberto Galmarini	Deputy Chairman	3 October 2000
Dimitar Zhelev	Member	3 October 2000
Ivan Stancioff	Member	19 October 2001
Massimiliano Moi	Member	8 January 2003
Jan Beliecki	Member	25 September 2003
Marcello Arlotto	Member	19 May 2004

Management Board		Starting date of mandate
Levon Hampartzoumian	Chairman and Chief Executive Officer	31 August 2001
Alessandro Decio	Deputy Chairman and Chief Operating Officer	22 October 2003
Kiril Stefanov	Member	3 October 2000
Stanislav Georgiev	Member	3 October 2000
Kalinka Kirova	Member	4 February 2003

In 2004, the following changes were made on the Supervisory Board:
• Mr. Andrea Moneta replaced Mr. Paolo Fiorentino
• Mr. Marcello Arlotto replaced Mr. Franco Benincasa.

In 2005, the following changes were made on the Management Board effective from 1 January:
• Mr. Ljubomir Punchev replaced Mr. Kiril Stefanov.

Organisational Chart[2]



Standard & Poor's credit rating

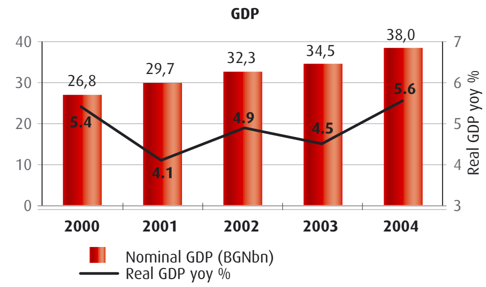
Counterparty credit rating - BBB-/Stable/A-3[3], upgraded on 2nd July 2004 from BB+/Stable/B
Certificate of deposits - BBB-/A-3, upgraded on 2nd July 2004 from BB+/B.

[1]As at the end of 2004.
[2]As of February 25, 2005.
[3]Equal to the S&P sovereign rating of Bulgaria in foreign currency.

Bulgarian Economy

2004 Overview of economy

In 2004, real economic growth accelerated to 5.6%. Investments were the key drivers, providing a very solid basis for sustainable growth. Despite robust internal demand, price inflation remained under control at 4% at the end of December, compared to 5.6% a year earlier. However, average inflation stepped up to 6.2% in response to hikes in excises and administratively regulated prices, on top of a heavyweight relative impact of a food prices surge at the end of 2003. Fiscal revenue over-performance allowed public expenditures to expand nominally by some 4% above budget, whilst bringing the budget balance to a record surplus high of 1.7% of GDP. The strong fiscal position allowed accelerated reduction in foreign debt. The ratio of public debt to GDP reached 33.1% at the end of the year, from 39.9% at the end of 2003 as a result of a gradual shift to issuing of local debt and a partial retirement of Brady bonds. Privatisation of electricity distribution companies and eventual execution of the long-stalled sale of BTC boosted restructuring efforts in key sectors of the economy, while also taking fiscal reserves to a record high of 12.7% of GDP.



The improvements in economic fundamentals and tangible progress in privatisation and reforms were well-recognised by the financial markets. Following a string of upgrades, rating agencies assigned investment grade status to foreign currency denominated bonds of Bulgaria in mid-2004. Compression of spreads over euro yield interest rates curve progressed to 47 basis points[1] at the end of the year, also due to the tightening of the credit spread.

Selected economic indicators	2004	2003	2002	2001	2000	Growth 04/03
Official exchange rate at the end of the period (BGN/USD)	1.44	1.55	1.88	2.22	2.10	-7.3%
Average official exchange rate (BGN/USD)	1.58	1.73	2.08	2.18	2.12	-8.7%
Average base interest rate (%)	2.61	2.68	3.96	4.48	4.36	-7 bp
Inflation at the end of the period (%)	4.0	5.6	3.8	4.8	11.3	-160 bp
Average inflation (%)	6.2	2.4	5.8	7.4	10.3	380 bp
Nominal GDP (EUR million)	19,433	17,663	16,533	15,190	13,679	10.0%
Real GDP growth (%)	5.6	4.5	4.9	4.1	5.4	110 bp
GDP per capita (EUR)	2,504	2,264	2,107	1,925	1,678	10.6%
Balance of payments final balance (EUR millions)	1,400	630	707	425	188	122.1%
Current account balance (EUR millions)	-1,447	-1,630	-926	-1,102	-761	-11.2%
Current account deficit (%)	7.4	9.2	5.6	7.3	5.6	-178 bp
Foreign trade turnover (EUR millions)	18,706	15,536	13,818	13,207	11,786	20.4%
Trade balance (EUR millions)	-2,718	-2,200	-1,692	-1,778	-1,280	23.6%
Foreign direct investments (EUR millions)	2,114	1,851	980	903	1,103	14.2%
Gross foreign debt at the end of the period (EUR millions)	12,246	10,639	10,769	11,935	11,883	15.1%
Gross foreign debt/GDP at the end of the period (%)	63.1	60.5	65.1	78.6	86.9	4.4%
Gross internal public debt at the end of the period (EUR millions)	1,371	1,154	1,087	955	911	18.8%
BNB foreign currency reserves (EUR millions)	6,770	5,309	4,575	4,061	3,719	27.5%
Budget deficit/GDP (%)	1.7	0.0	-0.6	-0.6	-0.6	170 bp
Unemployment rate at the end of the period (%)	12.2	13.5	16.3	17.3	17.9	-130 bp
Active commercial banks at the end of the period (number)	34	35	35	35	35	-

The current account deficit improved to 7.4% of GDP, easing concerns triggered by its widening to 9.2% in 2003. Bulgaria's trade deficit reached 14% of GDP compared to 12.5% a year earlier. However, exports reinvigorated in the second part of the year, cutting the gap between monthly year on year growths of exports and imports to only one percentage point. The trade mismatch was more than offset by improving balances on services, incomes and current transfers. The positive economic environment with attractive tax rate and decreasing risks encouraged capital inflows. Tangible progress on privatisation and business climate improvements underpinned FDI acceleration to 10.9% of GDP. The balance of payments ended with a surplus, adding to the Central Bank foreign reserves.

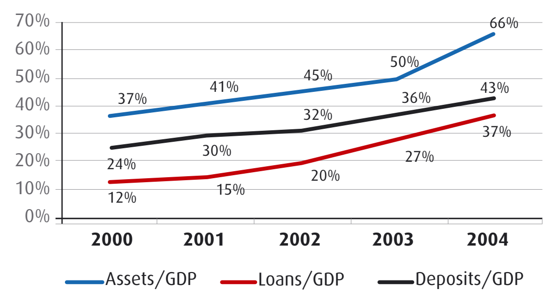
[1]Comparison of 10Y Government securities yield at the end of 2004.

On its foreign policy agenda, Bulgaria completed EU accession talks in mid-2004. After positive feedback from the EU Commission in its regular report on progress toward accession, Bulgaria was granted an EU entry date in 2007. EU membership requirements for constitutional changes were endorsed by the Bulgarian Parliament in early 2005 and paved the way for accession treaty signing in April 2005. The EU Commission substantially increased its financial support under the three pre-accession instruments of PHARE, SAPARD and ISPA to assist Bulgaria's efforts to prepare for membership in 2007.

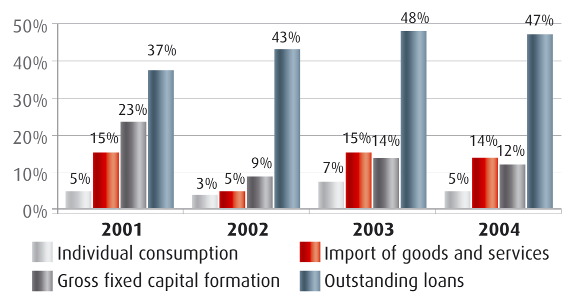
2004 Overview of banking sector

In 2004, financial intermediation continued to expand rapidly. Preliminary estimates show after tax profit of the banking sector increased by 14% in 2004 to BGN 434 million[1] supported by a fast growth in customer loans (47%). Credit growth played a significant role in boosting the economic growth of the country. Customer deposits marked another period of high annual growth at 31%[2] for the year. The ratio of loans to deposits reached 80%, suggesting that further lending growth will be increasingly driven by banks' capability to attract external borrowing. Capitalisation of the system is high with a capital to asset ratio of 11%. Asset quality remained relatively good with non-performing loans to total customer loans of 3.6%. Nevertheless, loan quality increasingly becomes a key long-term concern in the light of fast lending growth. Loan interest rates compression progressed further despite increases in funding costs. To bring loan growth rates to more sustainable levels and to address concerns over external imbalances, the Central Bank embarked on a gradual policy aimed at draining liquidity in the banking sector and curbing lending growth. Initially, BNB introduced more stringent risk classification and provisioning standards, while it concentrated on liquidity draining operations, in the second half of the year. This was done mainly using a combination of changes to reserve requirements and administrative measures to reduce local banks access to government-owned funds.

Bank penetration



Annual growth of GDP demand-side components and customer loans



Outlook for 2005

Macroeconomic fundamentals are expected to continue to remain strong in 2005. In particular, real GDP growth is estimated at 5%, underpinned by improving exports and strong demand for investments. Capital expenditures are likely to be affected only marginally by the cutback in lending growth. However, the improvement in creditworthiness will enable companies to increase their external borrowing to the extent needed to overcome the squeeze in supply of local funds. External imbalances are set to ease. The current account deficit is forecast at 7% of GDP at the end of the year, covered by FDI at 6.8% of GDP. The Central Bank will probably be consistent in curbing the lending growth during the year to approximately 30%. Customer deposit growth rates are expected to slow down, but still to grow at around 15% in 2005. The forthcoming general election is not expected to bring any major change in economic policy given the clear and shared target of EU accession, which entails clear continuity with current economic policy. In 2005, EU-related reforms will be high on the restructuring agenda including judicial system, advancement of privatisation and market liberalisation.

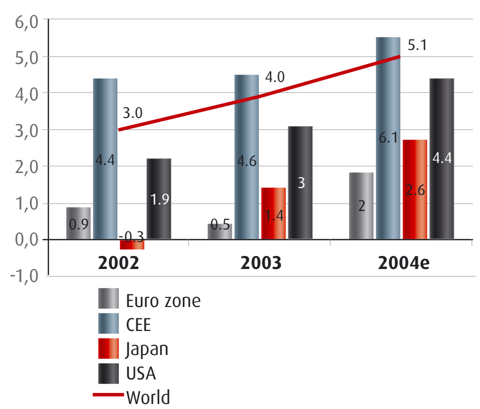
[1]2004 data for the banking system is preliminary. Source: Bulgarian National bank (BNB).
[2]Deposits growth rate is calculated sterilizing the one-off impact of privatisation related transfers at the end of 2004.

World Economy

2004 Overview

The world economy accelerated in 2004, expanding by an estimated 5%[1]. From a regional perspective, economic recovery has become increasingly broad-based. The US and Japanese economies grew by 4.4% and 2.6% respectively. Even stronger growth was experienced by a number of large developing countries, 9% in China, 7.3% in Russia and 6.4% in India. Their performance helped developing countries as a whole to post a 7.2% growth rate in 2004 - an expansion without precedent over the past 30 years. Moreover, it marks a second year of very strong growth and it may be the first time that recovery in developing countries preceded, rather than followed, recovery in high-income countries. The recovery in the EU is becoming more established, but remains relatively weak compared to the US and rest of the world. In contrast to the US, where the surge in economic activity was initially led by investment and household consumption, exports were the main source of growth in Europe and Japan, with much of the increase in external demand related to developing countries. Central and Eastern Europe grew particularly strongly by an anticipated 6.1%, underpinned by rapidly rising trade volumes and investments.

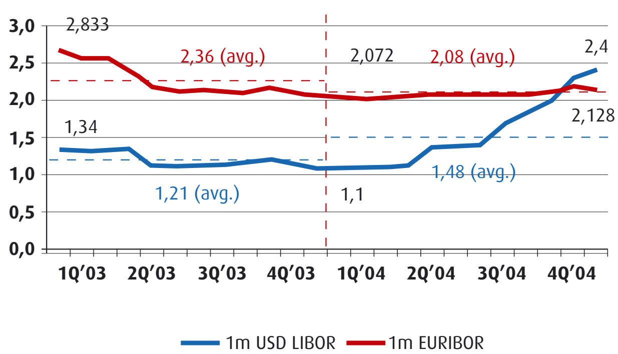
GDP growth by region



World trade growth averaged 9% in 2004[2], boosted by rapid increases in industrial production and investment activity that began to take shape in the second half of 2003 and continued into 2004. More than 20% of the increase in world merchandise trade volumes was represented by China, whose exports increased by 35% and imports by 32% to reflect both the positive impact of its accession to the WTO and unsustainable rates of investment and consumption demand. Robust demand for raw materials was an important factor underlying the trade expansion. Similarly, fast-growing global investment expenditures were particularly important in spurring export demand in countries such as Germany and Japan that specialize in the production of machinery and other capital goods.

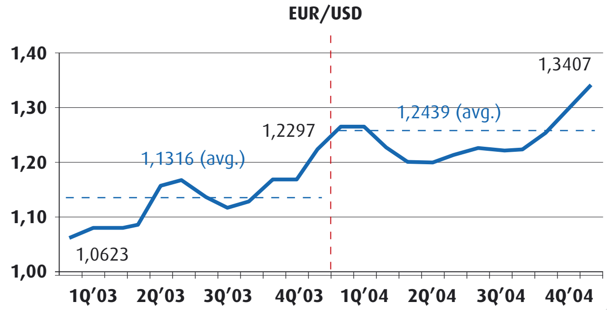
After falling to very low levels in mid-2003, inflationary pressure across the world has built up in 2004 and is estimated at 2.1% at year end. Higher prices for primary energy resources pushed up inflation. In the context of monetary policy tightening in the US, the 1 month USD LIBOR grew steadily to 2.4% at the end of 2004 from 1.1% at end of 2003. The 1 month EURIBOR underwent only a marginal increase throughout the year to 2.13% at the end of 2004 from 2.07% at end-2003.

1m USD LIBOR & 1m EURIBOR (%) - 2003/04



In foreign exchange markets, a surge in expectations of higher US interest rates and buoyant economic growth resulted in a moderate appreciation of the USD in April. Since then, concerns over the sustainability of twin deficits, in combination with rising indications that a number of central banks across the globe are looking to diversify their FX reserves away from USD, has led to US currency depreciation. Despite some volatility, other major currencies have moved rather little in trade-weighted terms, with a moderate depreciation of the yen accompanied by small appreciations of the Euro and the pound. In 2004, the Euro appreciated 9% reaching 1.34 USD at the end of 2004 from 1.23 USD at the end of 2003.

EUR/USD



Developments in financial markets have been dominated by changing expectations about the pace and timing of monetary tightening in the US. In 2004, the leading industrial indices posted moderate growth - Dow Jones increased by 3.6%, NASDAQ 8.4% and FTSE Eurotop 100 by 6.8%.

[1] Sources for GDP growth: Eurostat for US, Japan and EU and IMF for CEE, developing countries and the world.
[2] Source: World Trade Organisation.

Outlook for 2005

Global economic growth is anticipated to slow to 4.3%[1] and the world trade to 6.3%[2]. The combination of higher interest rates, rising indebtedness and savings rates close to zero will decelerate individual consumption in US bringing GDP growth to around 3.3% in 2005. In the Eurozone, gradual recovery in domestic demand will probably fail to compensate for the adverse impact of euro appreciation leading to economic growth slackening to around 1.5% annually. This in turn will harm export demand in New Europe countries, easing the growth dynamics to around 5% year on year. Price levels will suffer from sticky crude oil prices that are expected to drop below 40 USD per barrel only in the second half of the year. Building inflationary pressure in the USA is expected to drive federal fund rates up to 3.75%, while euro rates are likely to progress only moderately to 2.5%. Euro/USD exchange rate is anticipated to hold around 1.32 on average for the year, within relatively narrow fluctuation bands.

[1]Source: IMF Semi-annual Report on World Economic Outlook.
[2]Source: World Trade Organisation.

Bulbank activity review

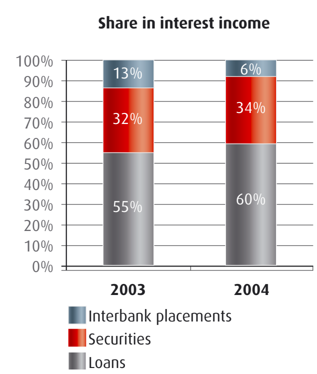
Financial results

Bulbank reports a consolidated net profit of BGN 86.3 million in 2004. This incorporates a net profit of the bank of BGN 86 million (representing 20% of the preliminary profit of the banking system[1]) and a net profit of UniCredit Leasing Bulgaria of BGN 406 thousand. Total gross operating income is up 16.8% to BGN 198 million from BGN 170 million in 2003. Net operating income totals BGN 114 million, up 10.3% against 2003. Sustainable commercial revenues grew by 27% compared to the previous year, whilst total net profit is 3.9% lower due to introduction of a more precise method for calculation of amortised costs on commercial loans, higher IT-related costs linked to the completion of the new IT system and a large non-recurring provision write-back in 2003. Ignoring the effect of write-backs of provisions[2], the bank achieved an 18.7% increase in net profit.

Summary consolidated operating income statement	2004	2003	Growth (%)	Growth (amount)
Net interest income	134,502	106,081	26.8	28,421
Fee and commission income	39,758	32,978	20.6	6,780
Net trading income	4,318	9,129	(52.7)	(4,811)
Gains from investment securities	7,042	10,387	(32.2)	(3,345)
Other operating income	12,850	11,402	12.7	1,448
GROSS OPERATING INCOME	**198,470**	**169,977**	**16.8**	**28,493**
Operating Expenses	(84,086)	(66,287)	26.9	(17,799)
NET OPERATING INCOME	**114,384**	**103,690**	**10.3**	**10,694**

Profitability is strong with return on assets 2.8% and return on average equity 15.7%, while return on average regulatory capital[3] is 26.5% due to high capitalization. Earnings per share is 52% of face value. Efficiency remains extremely strong, with the Cost/income ratio at 42.4% due to revenue growth and strict cost control.

Net interest income is the main earnings contributor with 68% of gross operating income. It grows 26.8% year on year to BGN 135 million, including also those lending fees comprising an element of effective interest income as required by IFRS 39. Also on the positive side, it was supported by further restructuring of the interest earning assets, still higher than interest bearing liabilities (by 8.7% at the end of the year). Lending interest income, representing 60% of total interest income, grew by 34% due to the 47% increase in the bank's average loan portfolio and the contribution of the leasing company. Interest income from securities, accounting for 34% of interest income, surged by 31% due to the 33% growth in average securities portfolio. Interest expenses on customer deposits went up by only 4% against 14% growth of average deposits. Interest income was supported by the increase of the US Dollar interest rates: the average 1 month USD LIBOR rose by 23%. The average annual BGN Base rate and the average 1 month EURIBOR dropped by 3% and 12% respectively. Interest income from inter-bank placements plummeted by 33% (to 6% of total interest income) due to a 39% drop in average inter-bank placements, financing the growth of loans. Lending spread for the year went down by 57 basis points as a result of increased competition. However the loan-to-deposit spread improved by 22 basis points overall, bringing about an increase of 19 basis points in net interest margin[4] to 4.72% from 4.53% in 2003, compared to a drop of 10 basis points for the whole banking system. As regards currency denomination, the growth of net interest income in BGN (48% of total net interest income) slightly outran that in foreign currency with its higher loan spreads.

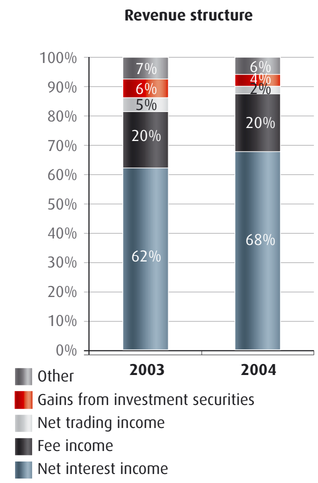


Fee income is up 21% to BGN 39.8 million, accounting for 20% of gross operating income. The growth is mainly attributable to a 54% increase in fee income from cards, 31% from packages and 28% from lending. Clean payment related fees grew by 15.4%, with the highest recorded total share of 35%. Fee income from asset management (mutual funds, structured term deposits and life insurance) more than tripled to over BGN 0.6 million.

[1]As per 4Q 2004 BNB data of the banking system.
[2]Including provision write-back from US Dollar depreciation or work out of relatively large-sized outdated receivables.
[3]Return on regulatory capital equal to 12% of risk weighted assets.
[4]Interest income/average assets

BULBANK activity review

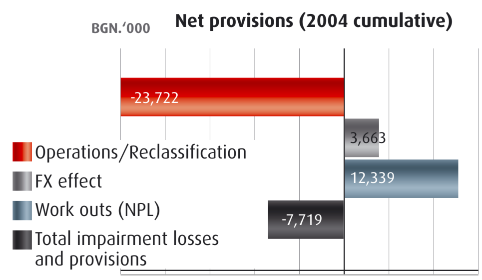
Net securities operations gains are BGN 9.7 million, down by 23% year on year mainly due to less favourable market conditions compared to 2003. This includes BGN 1.1 million capital gains from the sale of a minority shareholding in Bulstrad[1]. Net foreign currency operations gains are BGN 1.6 million, a quarter of the previous year, mainly due to negative results of hedging US Dollar denominated off-balance-sheet positions, counterbalanced by positive results from provisions. The result from customer related FX operations also slightly decreased because the BNB changed the rules relating to unlimited sales of Euro versus Leva at fixing rate[2].



Other operating net income reached BGN 12.9 million, up 12.7% year on year. It includes ordinary income from typical banking services (e.g. banking vault services) and a number of one-off items. In 2004, the bank changed its accounting policy regarding deposit insurance accruals by aligning it to the prevailing market practice and stipulations of the statutory regulations, for which the accounting effect is BGN 8.2 million. Bulbank continued to dispose of non-core fixed assets, divesting some inessential real estate premises and realizing capital gains of BGN 1 million.

Operating costs reached BGN 84 million. The growth of 27% is due to one-off factors while a tight cost control policy continued to be pursued. The main contributor is the new IT system and related activities, which led to more than a doubling of the IT operating expenses and a 38% increase in depreciation. Advertising costs surged by more than 50%, mainly to support commercial campaigns in retail. Rental costs grew by 44% due to a sharp growth in property market prices and reinitiating the process of opening new outlets. Personnel costs are up by 12% in line with organisational redesign in the network, related changes in the staff structure and compensation policy.

Net impairment losses and provisions costs amount to BGN 7.7 million compared to income of BGN 14.7 million in 2003. The reversal of the previous year was largely due to US Dollar depreciation. More than half of the BGN 23.7 million newly allocated impairment losses and provisions in 2004 were successfully covered with work-outs. Bulbank continues to pursue a strict, conservative risk assessment and provisioning policy, thus covering properly potential risks in a very fast growing lending market environment.



Income tax is BGN 20.4 million, down 29% year on year due to a stepwise cut in the corporate income tax rate to 19.5% in 2004 and 15% from 2005.

[1]Bulstrad is a leading local insurance and reinsurance company.
[2]The Bulgarian Lev is pegged to the Euro under the ruling Currency Board regime at 1.95583 per one Euro.

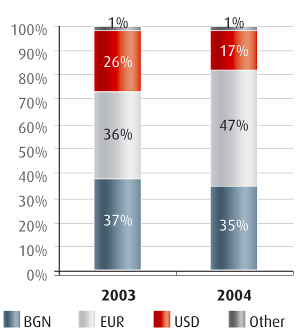
Balance sheet

The value of the consolidated balance sheet reaches BGN 3,614 million, up 27.9% compared with 2003. This incorporates the balance sheet values of BGN 3,595 million for the bank and BGN 46 million of UniCredit Leasing Bulgaria[1]. Interest earning assets represent 88.3% of total assets, up by 94 basis points and higher than the average of the banking system.

Millions of BGN

Summary consolidated balance sheet, adjusted[2]	2004	2003	Growth (%)	Growth (amount)
Assets				
Cash and balances with Central Bank	291	209	39.0	82
Due from banks[3], net	709	616	15.2	93
Securities	1,079	936	15.2	143
Loans and advances to customers[4], net	1,353	873	55.0	480
Property and equipment	161	175	(8.3)	(14)
Other assets, net	21	16	31.3	5
Total assets	**3,614**	**2,825**	**27.9**	**789**
Liabilities and shareholders' equity				
Customer deposits	2,917	2,178	34.0	739
Other liabilities	123	98	26.4	26
Total liabilities	**3,040**	**2,275**	**33.6**	**765**
Shareholders' equity	**574**	**550**	**4.4**	**24**
Total liabilities and shareholders' equity	**3,614**	**2,825**	**27.9**	**789**

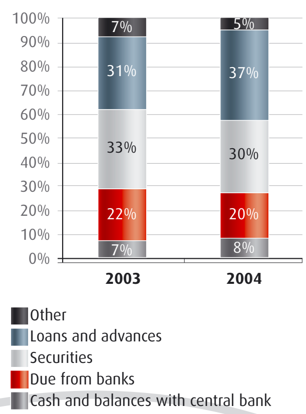
Asset currency structure



The asset currency structure changed, with the share of USD falling by 8.6 percentage points to 16.9% of the total in favour of BGN and Euro, with a total share of 82% at the end of 2004[5].

The structure of assets changes for another successive year, moving from treasury components to those related to commercial banking. The loan portfolio weight rose to 37% of assets against 31% previous year, reaching BGN 1,353 million in net terms (up 55% year on year). This is due to 52% growth of the bank's gross loan portfolio to BGN 1,394 million, from BGN 917 million in 2003, and addition of the BGN 40 million leasing portfolio of the newly established leasing company. The securities portfolio expanded by 15% to BGN 1,079 million, its share in total assets declining from 33% to 30%. Inter-bank placements at the end of 2004 were 15% higher than the previous year, registering another drop in their share of assets to 20% from 22% a year earlier. Property and equipment dropped by 8% due to normal depreciation, reaching 4% of assets.

Asset structure by instrument



The bank continued to finance its operations through customer deposits and internal funds, using external financing for short-term liquidity purposes only. Nonetheless, a first external line of Euro 7.5 million was secured from the EBRD to finance energy efficiency projects, allowing clients to obtain access to EU subsidies. Customer deposits rose 34% to BGN 2,917 million, including short-term proceeds from privatisation.

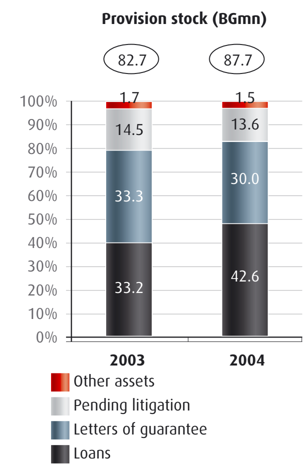
Shareholders' equity amounts to BGN 574 million, up 4.4% for the year (BGN 550 million in 2003) mainly due to reinvestment of some of the net profit of 2003. The equity ratio remained high at 15.9%, down from 19.5% in 20032. Total capital adequacy ratio is 23.3% (38% in 2003), and Tier 1 ratio is 20.4%, almost the same as the previous year. Risk weighted assets to total assets ratio is up to 53%, reflecting the growth of loan portfolio. This affords complete compliance with BNB Regulation 8 on Capital Adequacy.

[1]The value of the consolidated assets is not an exact sum of the assets of the bank and the leasing company due to inter-company transactions.
[2]Balance sheet from the financial statements is adjusted for analytical purposes, moving BGN 28 million loans to banks from Due from banks to Loans advances to customers.
[3]Excluding loans to financial institutions, added to this item in the financial statements.
[4]Including loans to financial institutions, classified as Due from banks in the financial statements.
[5]The remaining 1% of assets are denominated in currencies other than US Dollar, Euro or Bulgarian Lev, mainly Pound Sterling and Swiss Franc.

Risk management

Given the significant lending growth, fast increase of financial services penetration into economy and enhanced level of sophistication of products, business and organisation, Bulbank laid a high emphasis on risk management and control, compared to previous years. The sound risk profile of the bank and the quality of its risk management system was also confirmed by the upgrade of its credit rating by Standard and Poor's and the highest possible rating assigned by the regulator.

Credit risk was the centrepiece of risk management. Additional functionalities were implemented in the existing tools for corporate, consumer and mortgage lending. A retail lending scoring system was introduced. A specialist automated underwriting tool for small businesses was developed and implemented. Further development is planned in 2005 in the areas of credit underwriting, monitoring and work-out. The amount of write-offs was only BGN 2.7 million, almost entirely due to one outdated exposure, repaid and arranged in line with the loan agreement. Bulbank continued to pursue a strict and prudent policy of credit risk assessment and provisioning. Total loan provision coverage is 3%, specific (non-performing and watch exposures) provision coverage is 57% and general provision coverage is 0.9%.



The bank is running a balanced foreign currency position. The net open FX position of 12.9% of the capital base at the end of the year comprehensively meets the requirements stipulated in BNB Regulation 4. The open position in Euro is also not considered at risk by the regulator, given the prevailing Currency Board arrangement. Given the high volatility of the USD/EUR exchange rate, the bank started hedging the FX risk of its USD denominated, uncollateralized off-balance sheet exposures. The interest rate risk was closely scrutinised, due also to the reversed trend of the USD base interest rates and the highly competitive pricing environment. The interest rate positions were carefully monitored and managed. The bank hedged a part of its securities interest rate risks through interest rate swaps. It also uses other standard derivative instruments to manage market risks. VaR tools are applied to determine the potential maximum loss. Bulbank remains highly liquid. Despite active lending, the expected cash receipts exceeded outgoings. Liquid asset to deposit ratios[1] are at a satisfactory level - 24.9% in total and 19.6% for those denominated in foreign currency. Stress test analyses with different scenarios on expected cash-flows were undertaken regularly for monitoring and managing liquidity risks. The developments in the market risk analysis and control area during the year laid the foundation of the process for Basel II compliance by putting in place a new market risk reporting system.

A lot of efforts were put into the development of operational risk management infrastructure during 2004, laying the ground for Basel II compliance in this area also. This comprised an internal operational risk regulatory framework, collection and assessment of operational risk data, a system for regular reporting to top management on risk exposures and tools for operational risk mitigation and hedging.

A special unit was established for monitoring and management of market and operational risks. The system of market risk related limits was expanded, and the risks were also strictly monitored by the parent company.

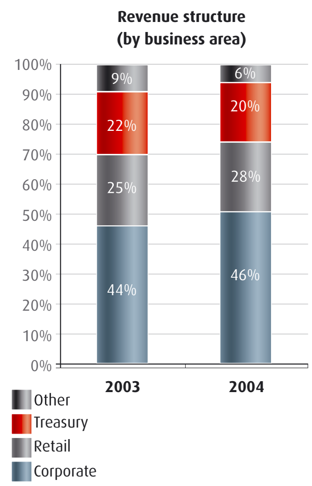
Bulbank maintains a solid geographical distribution of its assets. It invests 64%[2] of its assets in Bulgaria (BGN 754 million increase in 2004 alone), 30% in OECD countries (mainly Italy, UK and USA) and 6% only in other countries, fully in accordance with the approved investment policy.

With the introduction of the new IT system and the organisational changes undertaken during the year, and also due to new statutory regulations (BNB Regulation 10 on Internal Control), Bulbank made a substantial upgrade of its internal control system. The definition of internal control was expanded in line with the requirements of the Basel Committee on Banking Supervision. A series of new internal regulations in this regard were developed and put into effect covering all types of risks, IT security, internal audit and operational control. New control tools and procedures were introduced.

[1]Liquidity ratios as per BNB Regulation 11. Liquid assets are adjusted with the amount of overdue or pledged assets.
[2]Data as at end 2004.

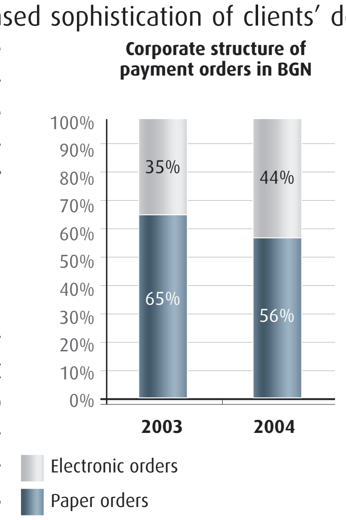
Commercial banking

Commercial banking is the main revenue contributor and the main area of development and senior management's attention. It generates BGN 151 million revenues[1] in 2004, up 27% despite the significant drop in market spreads. This represents 74% of total revenues of the bank, compared to 69% a year earlier. This growth was achieved through increases in the loan portfolio, an increased number of customers and the improved products and services model. During the year, the number of customers grew by a net sixty two thousand[2] across all segments, thus increasing the customer base by 18% to four hundred and five thousand.



The loan portfolio increased by 52% bringing the loan to deposit ratio to 47.8%, up by 5.7 percentage points. The bank directed its lending growth to the areas of corporate and small business lending, as well as mortgages. It was very cautious in consumer lending because of the still high-risk profile of the market and the product, preferring to expand mainly amongst known and low-risk customers. A new business and organisational model was developed and implemented in the first half of the year, introducing a segment based approach and emphasising better service quality. The size of the sales-force (people dedicated to portfolios of customers) increased for a further successive year, whilst back-office and administrative staff reduced in number. Sales and credit officers underwent very active and focused training to improve commercial and risk assessment knowledge and skills. Performance assessment continued to be followed closely.

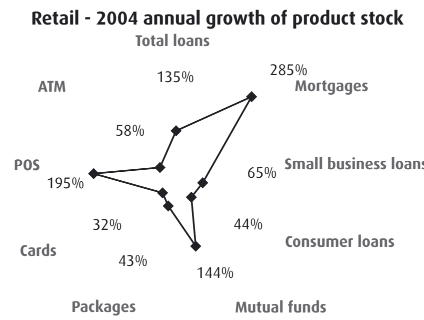
In 2004, corporate revenues reached BGN 94 million, up by 23% year on year. Bulbank strengthened its corporate banking leadership in the market in a very competitive environment and increased sophistication of clients' demand. Two main channels were created with different focus: the large corporate sub-segment, with the aim to increase revenues and share of wallet whilst maintaining adequate profitability by enlarging product offer, and the mid-corporate sub-segment, to increase service level quality and attract good customers aiming to increase market share significantly. Besides, the typical lending activity within the two corporate sub-segments, which resulted in an increase of 41% in the corporate loan portfolio, significant activities were initiated towards ensuring sustained revenue growth and a more balanced structure of corporate revenues. Therefore, transactional products and services as a generator of non-risky fee and interest income were positioned as the main focus of corporate business throughout the whole of 2004, having three key pillars: e-ability, product development and customer development. Electronic banking users were doubled compared to 2003 and currently almost half of the corporate client base could execute transactions electronically, thus creating a solid base for further cash management activities. The share of electronic payments versus conventional paper based payments reached 44% in BGN and 52% in foreign currency transactions. New value added cash management products were designed and developed which create the opportunity for Bulbank to become the core entry point for any extensive commercial relationship, capturing B2B payments cycles, proving its commitment to stay in line with recent developments worldwide. Bulbank has also reconfirmed its capability to be the main player in all major project finance transactions, participating in all strategic deals on the market.



Retail revenues increased by 33%, compared to 2003, reaching BGN 57 million. This incorporates 56% growth of net interest income and 26% in fee income. The loan portfolio of the segment more than doubled (135% growth) reaching BGN 243 million at the end of the year. At the same time, the lending spread dropped by more than 2 percentage points due to strong competition and improved offers. Retail banking[2] was subject to active development during the year, presupposed by the fast market development, the bank's positions and its longer-term plans. The bank substantially improved its service model and value proposition for the small business segment[3] as evidenced by growth of 65% in loan portfolio, 34% in deposits and over 10% in the number of customers. Offer and service was further differentiated between small companies (with annual turnover of between BGN 50 thousand and BGN 1 million) and micro companies (with annual turnover below BGN 50 thousand). Another strategic area was mortgage lending, where Bulbank started from a low position and ended the year with a nearly quadrupled loan portfolio (BGN 124 million at the end of the year) and 12% market share. The mortgage growth was strongly supported by a newly established special personal lending centre in Sofia, substantially outperforming targets. Cash loans rose 44%, extended on a safe underwriting basis. Sales of asset management products launched in 2003

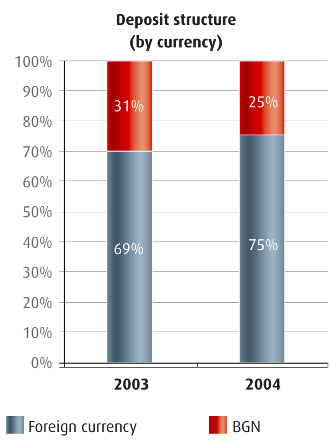
[1]Revenue split by business area is measured through applying internal transfer rate.
[2]Including all segments of individuals (private, affluent and family) and small businesses.
[3]Companies with annual turnover of up to BGN 1 million.

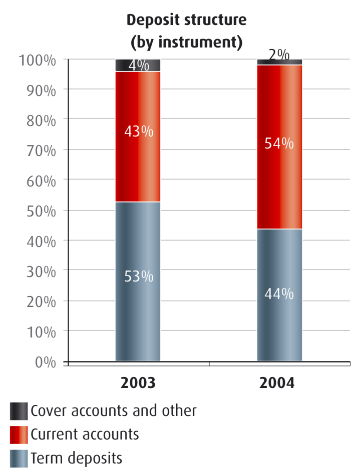
gained momentum: mutual funds rose by 144% to BGN 15 million and structured term-deposits surged almost 7 times to BGN 30 million. The bank started selling life insurance products, welloutperforming the annual targets. More than 70% more packages were sold, reaching close to twenty three thousand. The number of cards issued increased by 32% to two hundred and fifty six thousand. The number of pure credit cards tripled. The number of POS terminals almost tripled to 1,267 and the number of ATMs increased by 61 to 152. Bulbank improved its commercial campaign-running and marketing competences during the year. Advertising focused on products was strengthened to support commercial campaigns and simultaneously to rejuvenate the bank's image and to establish Bulbank as a strong retail brand. A geographical expansion and branch design enhancement project was initiated, planned for realisation in 2005.

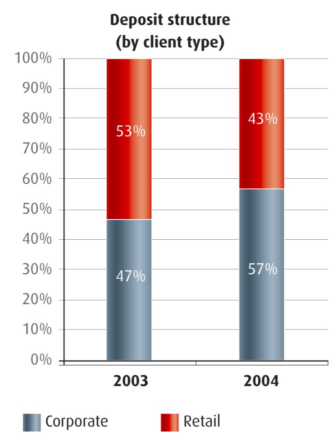


Customer deposits

Customer deposits increased by 34% or BGN 739 million to BGN 2,917 million. The BGN component is 25% of the total and the remaining 75% is denominated in foreign currency. The Euro component dominates with 53% of total, while the US Dollar is down to 21% against 35% in 2003. This is due to the increasing importance of the Euro in the country's foreign trade (more of 60% of Bulgaria's exports and 50% of the imports are with EU countries) and as a reserve currency, and the US Dollar depreciation.



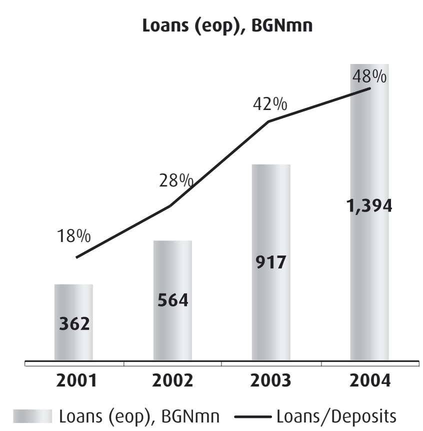




Corporate deposits grew by 63% year on year to BGN 1,671 million due to development of customer relations and short-term proceeds from privatisation. This represents 57% of total deposits. Their currency structure is dominated by foreign currency with 78% of total, mainly in Euro. Retail deposits are up 8% to BGN 1,246 million or 43% of total. They are strongly impacted by the 7.4% depreciation of the US Dollar versus the Euro during the year, given the high 40% USD proportion of retail deposits. Current accounts substantially increased their share to 54% of total due to the growth of corporate deposits, predominantly servicing company turnover.

Loan Portfolio

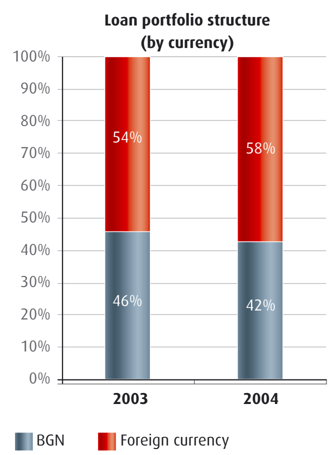
The loan portfolio posted 52% growth in 2004 up to BGN 1,394 million[1] on a gross basis from BGN 917 million a year earlier. This slightly exceeds the growth in the banking system of 47%. The loan to deposit ratio increased to 48% (80% for the banking system) from 42% and 28% in 2003 and 2002, respectively. Gross loans to total assets ratio is up to 38.6% (56% for the banking system) from 32.5% at the end of 2003. On one side, this shows that generally the bank is growing in line with the market and, on the other side, that it possesses greater growth potential compared to the overall system.

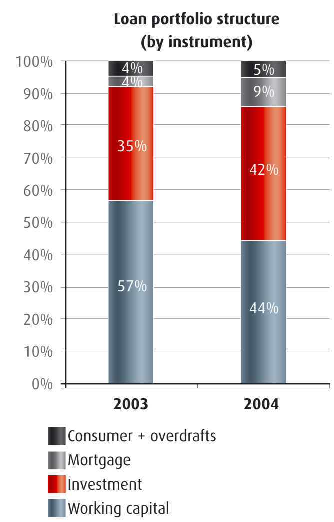


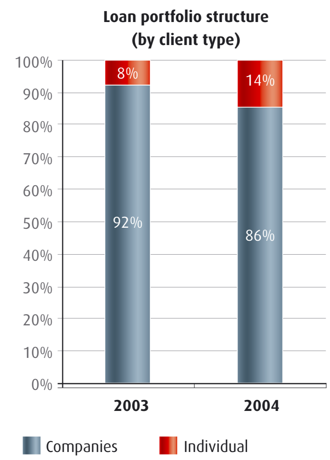
[1]Including BGN 28 million loans to financial institutions.

This development was supported by focused and selective commercial actions and would have been impossible without another substantial improvement of the credit underwriting system, largely needed before facing such accelerated growth. A new retail electronic scoring system was developed and introduced for registration and assessment of loans to individuals. A specialised underwriting tool for small business loans was implemented, incorporating sophisticated lending policy limits and various investment alternatives. The corporate underwriting tool (processing large and middle size companies' loans) was upgraded. The bank started using the expanded BNB credit register during the year covering also small-size exposures. It also became a founder and user of the first typical credit bureau established and developed by Experian-Scorex. Network managers, credit officers and sales-people underwent comprehensive and intensive credit risk management training. Thus the bank significantly improved its lending capacity and credit risk management, being the main elements of the lending policy.

The structure of the loan portfolio changed reflecting the commercial activities during the year. The share of loans to individuals increased to 14% (8% in 2003) driven by growth in mortgages reaching 9% (4% in 2003) of total portfolio. The share of foreign currency loans rose to 58% (54% in 2003) due to an increase of investment loans to 42% of total (35% in 2003).







Company[1] loans grew 42% (in line with the market) to BGN 1,203 million, accounting for 86% of the total. The predominant proportion is with mid-size companies. The risk of concentration remains under control and in line with statutory regulations: the largest exposure accounts for 5.6% of total portfolio and 13.6% of equity, and the 25 largest exposures account for 44% of total loan portfolio (47% in 2003). The average company loan is BGN 297 thousand, down 20% from BGN 370 thousand representing fast growth in small business loans. The share of working capital loans[2] is 56.4% of total company loans (47.1% in 2003). BGN denominated loans account for 35% of total company loan portfolio, Euro denominated 57% and USD denominated 8%. Bulbank holds 11.8% market share of company loans at the end of 2004, adding 30 basis points from 2003.

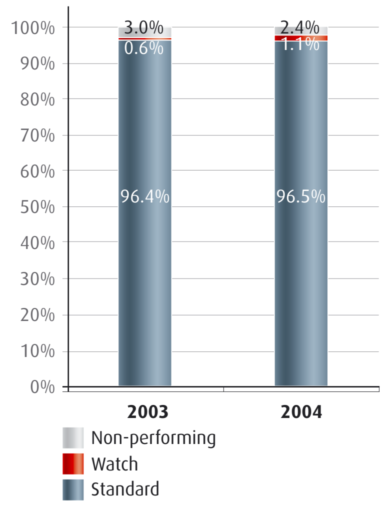
Loans to individuals grew 173% (79% growth for the market) to BGN 191 million, 14% of total loans. Thus the bank improved its market share in loans to individuals by 180 basis points to 5.1%. Given the growing property market, high demand, credit history and profitability on all other markets, the main focus during the year was on mortgage lending. The bank extended more than three thousand new mortgages, increasing its mortgage portfolio by 285% (147% growth for the market) to BGN 124 million or 12.3% market share. Despite strong demand, cash loans were not a priority for risk reasons. They were offered on a limited basis to known customers or those with a low risk profile, up by 44% to BGN 46 million. Loans on charge and revolving cards were carefully extended for similar reasons. Personal loans are almost fully granted in BGN.

[1]Including small business loans.
[2]Including overdrafts.

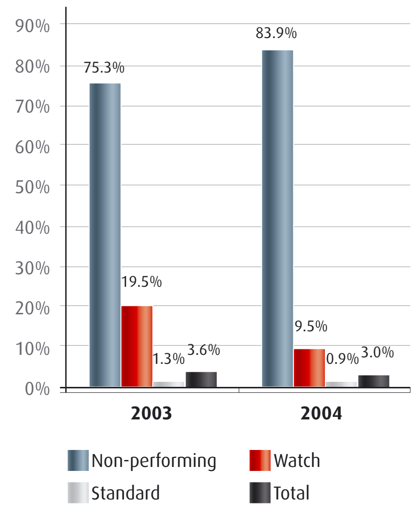
The industry structure of the portfolio changed somewhat reflecting dynamics in the product and segment structure. The main concentration remains in the sectors of manufacturing, commerce and tourism, overall 72% of total.

Industry structure	2004		2003	
	Amount	Share	Amount	Share
Processing and manufacturing	509	37%	421	46%
Commerce	339	24%	203	22%
Tourism	160	11%	131	14%
Households and individuals	191	14%	70	8%
Agriculture	37	3%	35	4%
Services	124	9%	29	3%
Transport	14	1%	13	1%
Construction	20	1%	15	2%
	1,394	**100%**	**917**	**100%**

Loan portfolio structure (by risk)



Loan provision coverage



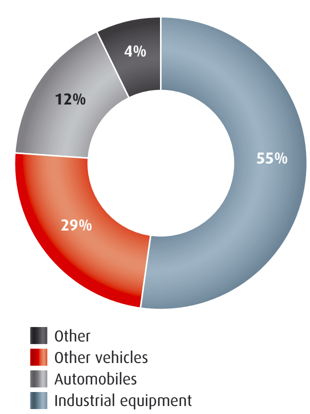
Loan quality remains high. Non-performing loan ratio[1] improved to 2.4% from 3.1% a year ago. The share of standard loans slightly increased to 96.5% of total. Non-performing loans marked a growth of 23% only (from BGN 28 million to BGN 34 million) compared to 52% of the whole portfolio. More than 60% of the amount of newly non-performing loans were compensated with repayment and work-out. The write-offs for the year amount to BGN 2.7 million (0.2% of total loan portfolio only).

Growth of new loans and strong risk management practices led to a drop in provision coverage[2], despite strict risk monitoring and a prudent provisioning policy. Total portfolio coverage fell to 3% from 3.6%. During the year, the bank changed its classification criteria in line with the amendments of BNB Regulation 9 on Credit Risk and Impairment. As a result, the provision coverage of non-performing loan rose to 84% from 75% and those on watch exposures dropped to 10% from 20%[3]. The standard loans coverage is 0.9% at the end of the year, down from 1.3% a year earlier.

Leasing

In mid February 2004, Bulbank acquired 100% of the shares of Unileasing OOD - a small leasing company - in a move to enhance its range of financial offers and also to participate in the fast growing leasing market. The company was restructured and renamed as UniCredit Leasing Bulgaria EAD. Its corporate governance and accounting rules, as well as credit rules and procedures, were fully integrated with those of Bulbank. Processes, organisation and infrastructure (including a new IT system) were established by the end of the year. The major delivery channel used is the bank's branch network, providing for 89% of new transactions. The company fully aligned its business strategy in conformity with Bulbank's preset priorities, focusing on corporate and small business segments and with its main products in vehicles and industrial equipment. By year-end, it more than quadrupled the leasing portfolio to BGN 40 million. The consolidated net profit reported by UniCredit Leasing Bulgaria (including UniCredit Auto Leasing Bulgaria EOOD, established during the year to run the vehicles business) for 2004 is BGN 406 thousand.

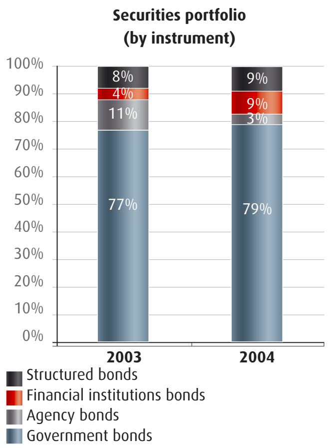
UCL 2004 new portfolio by product

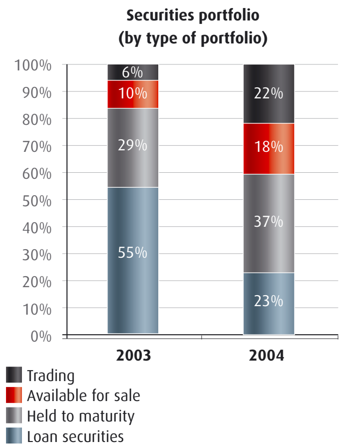


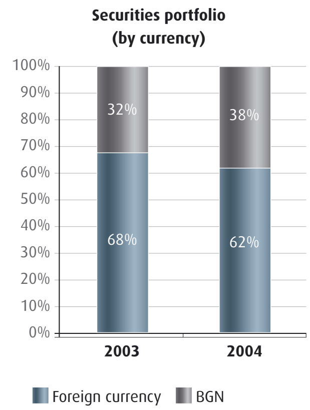
[1] Non-performing loans to total gross loans. Non-performing are all those loans classified as sub-standard and loss (provisioned more than 50%) as per the ruling BNB Regulation 9 at the end of 2004.
[2] Impairment loss stock to gross loans.
[3] In compliance with amendments of BNB Regulation 9.

Money market and capital market operations

In 2004, Bulbank maintained an active yet prudent investment policy. Debt securities portfolio grew by 12% to BGN 1,048 million[1] at the end of the year, financed by short-term inter-bank placements. This is mainly a result of 33% growth of BGN denominated Government bonds. The structure of the portfolio by instrument remains dominated by Government bonds with 79% of total (77% in 2003) growing by 16% year on year to BGN 827 million. Both structured bonds (linked to emerging market sovereign risks, mainly on Bulgaria) and financial institutions bonds hold 9% of total. The average rating of the portfolio under Standard & Poor's is "A-" and the average duration is 2.6 years, down 1.4 years compared to 2003.







Trading portfolio more than quadrupled to BGN 243 million or 22% of total (6% in 2003). It is composed mainly of bonds issued by Central and Eastern European Governments, including Bulgaria, hedged with interest rate swaps. The longer-term portfolio is structured in a way to provide higher return yet giving room to exploit mid-term market opportunities. Net interest income[2] from securities portfolio swelled 31% year on year influenced by 33% growth of average portfolio and higher yield of government bonds. The average coupon went up to 5.2%, compared to 4.6% at the end of 2003.

Inter-bank operations on domestic and international money markets were performed mainly with the intention of supporting commercial activity and providing optimal liquidity. The bank maintained mainly short-term deposits with only highly-rated international financial institutions.

In 2004, Bulbank sold its 8.6% equity participation in Bulstrad and acquired 100% of Unileasing (reported on a full consolidation basis). In line with the company's articles of association, the bank divested shares in Bankservice, thus slightly decreasing its share in capital to 6.8%. The equity investment portfolio at the end of the year is BGN 5.8 million, down 13% year on year, including ten shareholdings, mainly infrastructural in nature, supporting the normal course of the bank's operations. The biggest shareholding in terms of amount is in Orel-G-Holding[3], BGN 5.1 million and 19.3% of share capital.

Organisation

Two main developments occurred in the organisation area during the year, institutionalisation of the organisation function and divisionalisation.

Given the growing challenges and sophistication of the bank's activities and management, and in order to support the additional changes required to implement its strategy, maintain integrity and respond adequately to changes of external environment, an "organisation" function was institutionalised by establishing an Organisation Unit. Its main responsibilities include enhancement of business processes, organisational redesign, internal regulation and writing manuals, change management coordination and project management.

Leveraging implementation of the new centralised core banking information system, a new business model was introduced, allowing segment focused organisation to better serve and address differing needs of different segments of clients. The main goals are to foster customer centric functioning of branches and to make a clear distinction between commercial and operational areas. Thus improvement of quality of service, effectiveness and efficiency of operations is targeted. The main changes are:

• Segment based approach was introduced with respective specialisation of sales-force. Small business segment was moved to retail and a joint servicing model for the company and the owner was agreed. Large and mid cor-

[1] Less interest accrual, derivatives and equity investments.
[2] Applying internal transfer rates.
[3] Non-bank financial company, mainly working in the insurance and re-insurance sector.

porate service models were differentiated with the large corporate function centralised and the mid corporate business being assigned as main area of responsibility to corporate area managers. Similar to the large corporate model, the private banking function was centralised too.

• Retail and corporate business divisions were empowered with higher levels of responsibilities in terms of servicing and marketing, including credit limits and pricing. For this purpose, a number of offices were upgraded into branches.

• The bank's business was split into 8 regions, overlapping for retail and corporate, and restructuring of the network hierarchy was done to ensure better span of control. Standard organisation was implemented for branches of similar size.

• Staff numbers and structure were optimized. New positions were opened to better support regional commercial business, mainly in the areas of lending processing and credit risk assessment.

• Regional and branch managers appointments were closely linked to the results of performance and potential assessments.

The effect of the new model was almost immediately vindicated by the success of the campaigns in the summer and the steadfast growth in virtually all commercial aspects by the end of the year.

Information technology

After implementing the new core IT operating system, in 2004 the emphasis was on product and system developments with a large impact on the activity.

In product ranges, both retail and corporate functions benefited significantly. In retail, a new Business Leader package for small business was designed and revolving credit cards, joint accounts and Unico Medica package were launched. In corporate, cash management services were developed. On-line channels were substantially upgraded. All the various campaigns during the year were sufficiently supported. In the credit area, new credit scoring tools were implemented and old ones substantially upgraded. Support was given to business for providing easy communication with the BNB regarding the credit register.

A new complete IT solution for the leasing company was developed and introduced. The sales-force was supported by sophisticated tools for measurement and monitoring of their performance by product and customer. Risk management facilities were adopted for daily operational controls and audit trail purposes. One of the top business intelligence tools, Business Objects, was implemented to facilitate reporting and analytical needs. A range of activities in back-office systems improved processing and integration, providing for straight-through processing. Market risk management, management information and data management systems were improved, being subject to further efficiency and optimisation actions.

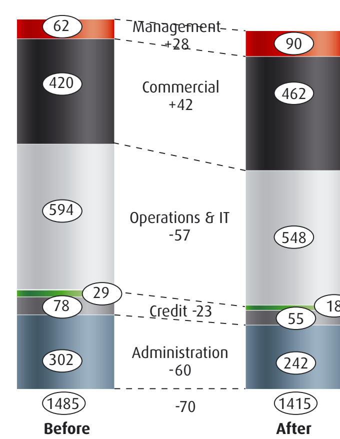
Human resources

Human resource management and development was given particular emphasis during the year due to its critical importance for the success of all the initiatives undertaken.

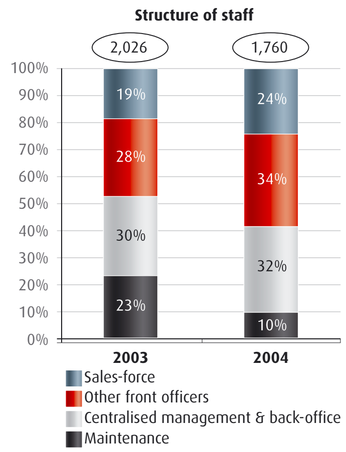
2004 was the year with the most intensive movement of personnel in the recent history of the bank. Simply as a result of the divisionalisation project, network staff was reduced by 70 people (5% of total network) to 1,415. This incorporates on one hand, increases of management and commercial staff by 28 and 42 people respectively and on the other, downsizing of credit, operations, IT and administration staff by 140 people (9.5% of total). From another perspective, 78 new people (6% of total) were hired and 304 people (26% of total) were reallocated. As a result, a stronger commercial organisation was established with clear and distinctive responsibilities, largely supported by centralised functions in headquarters.

Parallel efforts were made to have more appropriate numbers of non-banking administrative staff in the whole bank, in line with international norms. At the end of the year, 255 security guards were moved to a specialised international security company (on the same labour conditions as with Bulbank), which undertook the security servicing of the bank on a long-term contractual basis. This was a planned step for outsourcing typical non-banking activities.

Divisionalisation
(change of network staff)



So, at the end of the year, the total number of staff reached 1,760, down by 266 people or 13%. Numbers in the bank's sales-force (people dedicated to portfolios of customers) rose by 10% to 423, or 24% of staff. Thus, the total number of front-line officers, including sales positions, ended at 1,019 or 58% of total staff. Head office personnel accounted for 32% of total. Maintenance staff was down to 10% of total from 23% in 2003.



Initially, as a support to the divisionalisation project, the assessment centre of the bank was involved in the recruitment process, in addition to assessments of potential. The annual performance measurement system, covering all members of staff, was upgraded.

After a comprehensive benchmark analysis, amendments in the compensation policy were made in an additional effort to strike internal balances, to clearly link it to performance and keep it aligned to the market. More positions were included in the MBO (management by objectives) scheme to foster higher motivation.

2004 was a year of very intensive internal training, also largely linked to divisionalisation. The training program was focused on development of managerial, product and selling skills. Staff obtaining Credit Excellence Diplomas and Credit Learning Organisation programs certificates continued to enhance credit risk management knowledge and skills. Bulbank's induction program was introduced for newcomers. A third group of high potential young people started managerial training in the "Young Talents" program, led by UniCredit Group and Bocconi University in Milan. The total number of people attending different forms of training in 2004 is 2,696[1], with and average of four days per annum per banking employee.

In 2004, Bulbank conducted its first people survey amongst its employees in order to measure the level of their engagement, commitment and motivation. Reaching a welcome 70% response rate, the results were processed and delivered by a specialized international consultancy. The results were communicated around the whole bank and specific structured actions were planned and undertaken at a bank-wide as well as departmental level. The survey is planned to be repeated in a year's time.

Corporate social responsibility

During the reported period, Bulbank along with Unidea, the foundation of UniCredit, completed a project for renovation of the Haemodialysis Clinic at the Children's Hospital in Sofia and extended the project with renovation of the emergency rooms. The Clinic was officially opened at the end of the year by Mr. Georgi Parvanov, the President of the Republic, as a part of the Bulgarian Christmas Initiative. Instead of spending money for Christmas presents to customers, Bulbank donated the budgeted amount to child healthcare projects. Within the framework of its joining the UN Global Compact Initiative in 2003, the bank supported one of the UNDP initiatives in Bulgaria – The Love Bridge. The project aims to provide support to disadvantaged young people.

Bulbank continued to be a promoter of Italian-Bulgarian cultural exchange. 2004 will be remembered for the first ever concert of Filarmonica della Scala under the baton of Maestro Riccardo Muti in Bulgaria, supported by Bulbank and UCI. The event was accorded the admiration of the highest ranking Bulgarian officials, representatives of the diplomatic corps, entrepreneurs and devotees of the art of one of the world's most famous conductors. An exclusive private viewing of the exhibition of 'the father of Italian modernism', Fortunato Depero, was organised for clients and partners of Bulbank.

[1]The number exceeds the number of staff since some employees attended more than one training session during the year.

Outlook

Bulbank aims to remain the market leader in profitability, capitalisation, asset quality and efficiency. Further sound growth in sustainable revenues is planned. It will be supported by customer acquisition and development, growth of loan portfolios, strong commercial actions, expansion of delivery channels and protection of high asset quality. Large-size capital investments are planned to be made in infrastructure, products and systems. Costs will be kept under strict control. External financing of local operations on a small-scale is not excluded during the year. At least 12 new outlets, including standard multi-service small-size offices, credit centres and leasing corners will be opened in Sofia and other big cities in the country. The number of ATMs and POS terminals will increase substantially. The penetration of on-line and off-line banking electronic services is expected to increase significantly.

Bulbank plans to strengthen its competitive advantage in corporate banking through the launch of new sophisticated B2B and B2C cash management products. By mid-year factoring operations will start and the bank aims to be the leader of this market. More sophisticated value added transactions can be entered into with the support of UCI. Active use of electronic channels for transaction services is targeted. Loans are planned to grow at a slower pace than previous years. Improvement of relationship managers' competences and quality of service is on the agenda as well as increased staffing to enhance penetration in the corporate segment.

In retail banking, particular attention will be paid to small businesses, where acquisition, but also development, is planned to bring higher value for the customers and the bank. Lending is planned to continue growing fast yet at a lower rate than in 2004. Mortgages are again the main driver, where the bank will look for higher market share. Point-of-sale consumer financing models will be developed and tested only upon well-structured, organised and established processes and systems. The leasing offer will be enriched and the leasing portfolio is planned to achieve significant growth, covering also individuals. A range of deposit, transaction and card product innovations are planned. Further expansion of personal investment banking will be sought as volumes and the spectrum of services increase.

Strong focus will be laid on credit risk management. Further improvement in the credit underwriting tools will be made. A brand new work-out process and organisation will be developed to take care of non-performing loans, specialised in retail and corporate. Initiation of a project for introduction of an electronic credit monitoring tool and related processes is also on the agenda. The Basel II project will advance, incorporating the statutory requirements as well as those of the group.

The number of staff is planned to increase during the year, supporting planned expansion. Quality recruitment, strengthened management depth, career path and people development, leadership skills, internal communication improvement are just a selection of the salient points in the HR plan for the coming year.

Bulbank
UniCredit Group

BULBANK

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2004

KPMG

REPORT
OF THE INDEPENDENT AUDITOR
TO THE SHAREHOLDERS OF BULBANK AD

Sofia, 24 February 2005

We have audited the accompanying consolidated balance sheet of Bulbank AD ("the Bank") as of 31 December 2004 and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, 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 consolidated financial statements give a true and fair view of the financial position of the Bank as of 31 December 2004, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

КРМG Bulgaria OOD

KPMG Bulgaria OOD
37, Fridtjof Nansen Str.
Sofia
Bulgaria

Специализирано одиторско предприятие
София
Рег. №045
"КПМГ - България" ООД

Consolidated income statement

In thousands of BGN

	Notes	Year ended 31 December 2004	2003 (restated)
Interest income		158,823	127,299
Interest expense		(24,321)	(21,218)
Net interest income	3	**134,502**	**106,081**
Fee and commission income		43,112	35,412
Fee and commission expense		(3,354)	(2,434)
Net fee and commission income	4	**39,758**	**32,978**
Net trading income	5	4,318	9,129
Gains less losses from investment securities	6	7,042	10,387
Other operating income, net	10	12,850	11,402
TOTAL OPERATING INCOME		**198,470**	**169,977**
Operating expenses	7,8	(84,086)	(66,287)
Impairment losses and provisions	9	(7,719)	14,706
PROFIT BEFORE TAX		**106,665**	**118,396**
Income tax expense	11	(20,386)	(28,644)
NET PROFIT FOR THE PERIOD		**86,279**	**89,752**

The accompanying Notes 1 to 31 are an integral part of these financial statements.

Consolidated balance sheet

In thousands of BGN

	Notes	As at 31 December	
		2004	2003 (restated)
ASSETS			
Cash and balances with central bank	12	291,587	209,382
Due from other banks*	13	737,438	632,353
Trading securities	14	242,801	58,034
Derivative financial instruments	15	12,655	12,721
Loans and advances to customers*	16	1,325,754	856,630
Investment securities*	17	835,768	878,165
Goodwill		416	-
Other assets	18	7,609	3,031
Property and equipment	19	160,668	175,123
TOTAL ASSETS		**3,614,696**	**2,825,439**
LIABILITIES			
Due to other banks	20	21,607	13,625
Derivative financial instruments	15	8,296	2,906
Due to customers	21	2,917,169	2,177,781
Other liabilities	22	37,543	21,936
Deferred tax liability	23	12,382	11,288
Provisions	24	43,587	47,877
TOTAL LIABILITIES		**3,040,584**	**2,275,413**
SHAREHOLDERS' EQUITY			
Share capital	26	166,370	166,370
Statutory reserves		51,155	36,684
Retained earnings		295,418	287,184
Revaluation reserves		61,169	59,788
TOTAL SHAREHOLDERS' EQUITY		**574,112**	**550,026**
TOTAL EQUITY AND LIABILITIES		**3,614,696**	**2,825,439**

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

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

24 February 2005

The accompanying Notes 1 to 31 are an integral part of these financial statements.

*In 2004 the presentation and classification of items and transactions included under these caption of the financial statements were amended to achieve more appropriate presentation. Comparative amounts have been reclassified to achieve comparability with the current period. Such reclassifications have resulted in an increase in *Investment securities* of BGN 504,302 thousand against a decrease in *Loans and advances to customers* of BGN 379,497 thousand and a decrease in *Due from other banks* of BGN 124,823 thousand.

Statement of changes in shareholders' equity

In thousands of BGN

	Share capital	Statutory reserve	Retained earnings	Property and equipment revaluation reserve	Investment securities revaluation reserve	Total
Balance as of 1 January 2003 as previously reported	166,370	35,710	262,607	48,646	(84)	**513,249**
Adjustment relating to loans to customers, net of deferred taxation (Ref. note 16)	-	-	(5,849)	-	-	**(5,849)**
Balance as of 1 January 2003 as restated	166,370	35,710	256,758	48,646	(84)	**507,400**
Available-for-sale investments						
- Net fair value losses	-	-	-	-	(403)	**(403)**
Available-for-sale investments						
- Transfer to net profit	-	-	-	-	110	**110**
Transfer to statutory reserves	-	974	(974)	-	-	**-**
Transfer to retained earning	-	-	1,564	(1,564)	-	**-**
Net profit for the year as restated	-	-	89,752	-	-	**89,752**
Dividend distribution	-	-	(59,893)	-	-	**(59,893)**
Revaluation of property and equipment	-	-	-	13,083	-	**13,083**
Other distribution	-	-	(23)	-	-	**(23)**
Balance as of 31 December 2003	**166,370**	**36,684**	**287,184**	**60,165**	**(377)**	**550,026**
Balance as of 1 January 2004	166,370	36,684	287,184	60,165	(377)	**550,026**
Available-for-sale investments						
- Net fair value losses	-	-	-	-	(280)	**(280)**
Transfer to statutory reserves	-	14,471	(14,471)	-	-	**-**
Transfer to retained earning	-	-	1,578	(1,578)	-	**-**
Net profit for the year	-	-	86,279	-	-	**86,279**
Dividend distribution	-	-	(65,118)	-	-	**(65,118)**
Decrease in tax rates affecting deferred taxation	-	-	-	3,239	-	**3,239**
Other distribution	-	-	(34)	-	-	**(34)**
Balance as of 31 December 2004	**166,370**	**51,155**	**295,418**	**61,826**	**(657)**	**574,112**

The accompanying Notes 1 to 31 are an integral part of these financial statements.

Consolidated cash flow statement

In thousands of BGN

	Year ended 31 December	
	2004	**2003**
Profit after taxation	86,279	89,752
(Decrease)/Increase in allowances for impairment losses	11,973	(2,739)
Increase in accruals	55,876	58,232
Decrease in provisions	(4,253)	(11,934)
Depreciation and amortization	13,307	9,574
Foreign exchange (gains)/losses	(6,686)	74,423
Unrealised (gains)/losses on revaluation of securities	(5,269)	(241)
Deferred tax	4,333	(8,699)
Tax expense	15,955	37,199
Profit on disposal of property and equipment	(994)	(6,781)
Other non-cash movements	6,600	(23)
	177,121	**238,763**
Change in operating assets		
Increase in obligatory reserve with the National Bank	(81,898)	(23,599)
(Increase)/decrease in Trading securities	(167,317)	62,360
Increase in loans and advances to banks (repayment beyond 3 months)	(2,860)	(115,691)
Increase in loans to customers	(472,322)	(360,788)
(Increase)/decrease in other assets	(3,998)	2,458
	(728,395)	**(435,260)**
Change in operating liabilities:		
Net increase/(decrease) in deposits from banks	8,632	(45,452)
Net increase in amounts owed to other depositors	782,589	205,282
Net decrease in accrued other liabilities	(59,467)	(57,415)
Income tax paid	(16,488)	(34,588)
Dividend paid	(65,099)	(59,907)
	650,167	**7,920**
Net cash flow from operating activities	**98,893**	**(188,577)**
Cash flow from investing activities		
Acquisition of subsidiary net of cash acquired	(93)	-
Purchase of property and equipment	(7,199)	(40,796)
Proceeds from the sale of non-current assets	2,813	13,535
Acquisition of investments	15,238	(259,315)
Net cash flows from investing activities	**10,759**	**(286,576)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**109,652**	**(475,153)**
CASH AT BEGINNING OF PERIOD	**639,059**	**1,114,212**
CASH AT END OF PERIOD	**748,711**	**639,059**

The accompanying Notes 1 to 31 are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

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. The Bank possesses full banking service licence issued by the BNB.

1.Accounting Policies

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

A. Basis of Preparation

The accompanying consolidated financial statements of Bulbank as of 31 December 2004 are prepared in accordance with International Financial Reporting Standards (hereinafter "IFRS") by the Management of the Bank. The financial statements are prepared under the historical cost convention as modified by the revaluation of available-for-sale investment securities, land and buildings, financial assets and financial liabilities held for trading and all derivative contracts, and are presented in thousands of Bulgarian Leva (hereinafter, "BGN"), unless otherwise stated. Where necessary, corresponding figures have been adjusted to conform with changes in the presentation of the current year.

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

B. Basis of consolidation of subsidiaries

Subsidiaries are entities controlled by the Bank. Control exists when the Bank has the right, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

C. 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 "Net trading income" caption in the income statement.

The exchange rates at 31 December 2004 of the main foreign currencies traded by the Bank against the BGN set by the BNB are as follows:

BGN per currency unit

	2004	2003
US Dollar (USD)	1.436	1.549
Euro (EUR)	1.956	1.956
Swiss Franc (CHF)	1.268	1.255
Pound Sterling (GBP)	2.774	2.775

D. Derivative financial instruments

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

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

E. 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.

F. Interest and discount income and expense

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

G. Fees and commissions

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

H. 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 net trading income. 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.

I. Sale and repurchase agreements

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

J. Investment securities

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

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

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

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

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

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

K. Loans and impairment losses

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, in line with IFRS and special statutory regulations (Regulation № 9 of BNB). 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.

L. Property and equipment

All property and equipment is stated at historical cost less depreciation except land and buildings which are carried at fair value. The last revaluation of land and buildings has been made at the end of 2003 and the appraisal has been performed by a qualified independent valuer.

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

	2004	**2003**
Tangible fixed assets		
Buildings for own use	33	33
Furniture and installations	5 – 7	5 – 7
Office and data processing equipment	5 – 9	5 – 9
Motor vehicles	4	4
Intangible fixed assets	5 – 7	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.

In accordance with a decision of the management the useful life of the new information system introduced in 2004 is 7 years.

M. Operating leases

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

N. 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.

In accordance with IAS 19 "Employee benefits" the bank has accrued expenses for unused annual leave and due payments for employee retirement in the next 5 years.

O. 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. The tax rate in force from 01.01.2005 is used in the determination of deferred income tax.

The principal temporary differences arise from depreciation of property and equipment, provisions and certain accruals.

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 fixed rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that might fall due.

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

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

B. Credit risk

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

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

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

Derivatives

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

Credit related commitments

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

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

Geographical concentration of assets and liabilities

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

In thousands of BGN

As at 31 December 2004	**Total assets**	**Total liabilities**	**Commitments**
Bulgaria	2,325,961	2,968,993	405,210
Italy	506,157	16,794	7,488
Germany	82,440	2,515	15,720
USA	134,703	25,750	5,600
Other OECD countries	353,675	16,255	72,697
Other countries	211,760	10,277	76,345
	3,614,696	3,040,584	583,060
Unallocated assets/liabilities	-	-	-
	3,614,696	**3,040,584**	**583,060**

As at 31 December 2003	**Total assets**	**Total liabilities**	**Commitments**
Bulgaria	1,572,311	2,207,460	367,715
Italy	311,977	1,997	7,856
Germany	206,866	1,384	2,114
USA	105,346	22,685	1,041
Other OECD countries	546,924	20,390	4,595
Other countries	78,984	3,984	55,839
	2,822,408	2,257,900	439,160
Unallocated assets/liabilities	3,031	17,513	-
	2,825,439	**2,275,413**	**439,160**

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

C. Market risk

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

D. Currency risk

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

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2004. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by currency.

As a result of the Currency Board in place in Bulgaria, the Bulgarian currency is pegged to the Euro. As the currency in which the Bank presents it financial statements is the Bulgarian lev, the Bank`s financial statements are effected by movements in the exchange rates between the Bulgarian lev and currencies other than the Euro.

In thousands of BGN

As at 31 December 2004	BGN	USD	EUR	Other currencies	Total (net)
Assets					
Cash and balances with Central bank	122,054	7,447	151,370	10,716	**291,587**
Due from other banks	28	241,321	459,671	36,418	**737,438**
Trading securities	80,660	-	162,141	-	**242,801**
Derivative financial instruments	-	3,449	9,206	-	**12,655**
Loans and advances to customers	558,583	80,610	686,561	-	**1,325,754**
Investment securities	334,650	276,727	224,391	-	**835,768**
Goodwill	416	-	-	-	**416**
Other assets	7,500	47	62	-	**7,609**
Property and equipment	160,668	-	-	-	**160,668**
Total Assets	**1,264,559**	**609,601**	**1,693,402**	**47,134**	**3,614,696**
Liabilities					
Due to other banks	2,718	10,742	8,147	-	**21,607**
Derivative financial instruments	9	1,784	6,503	-	**8,296**
Due to customers	717,283	602,589	1,551,894	45,403	**2,917,169**
Other liabilities	34,344	2,442	752	5	**37,543**
Deferred tax	12,382	-	-	-	**12,382**
Provisions	100	26,837	3,414	13,236	**43,587**
Total Liabilities	**766,836**	**644,394**	**1,570,710**	**58,644**	**3,040,584**
Net Position	**497,723**	**(34,793)**	**122,692**	**(11,510)**	**574,112**
Commitments	222,356	115,727	196,655	48,322	**583,060**
As at 31 December 2003					
Total Assets	**1,042,911**	**721,228**	**1,019,290**	**42,010**	**2,825,439**
Total Liabilities	**742,931**	**733,454**	**757,936**	**41,092**	**2,275,413**
Net Position	**299,980**	**(12,226)**	**261,354**	**918**	**550,026**
Commitments	122,822	111,090	144,371	60,877	**439,160**

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 reprising 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.

In thousands of BGN

As at 31 December 2004	Up to 1 month	1-3 months	3-12 months	Over 1 year	Non-interest bearing	Total
Assets						
Cash and balances with Central bank	-	-	-	-	291,587	291,587
Due from other banks	688,404	23,121	24,876	853	184	737,438
Trading securities	-	-	-	242,801	-	242,801
Derivatives	-	-	-	-	12,655	12,655
Loans and advances to customers	1,317,172	785	5,942	1,855	-	1,325,754
Investment securities	47,544	18,945	106,390	657,051	5,838	835,768
Goodwill	-	-	-	-	416	416
Other assets	-	-	-	-	7,609	7,609
Property and equipment	-	-	-	-	160,668	160,668
Total Assets	**2,053,120**	**42,851**	**137,208**	**902,560**	**478,957**	**3,614,696**
Liabilities						
Due to other banks	14,435	2,404	-	-	4,768	21,607
Derivatives	-	-	-	-	8,296	8,296
Due to customers	2,505,257	149,115	149,433	33,909	79,455	2,917,169
Other liabilities	-	-	-	-	37,543	37,543
Deferred tax	-	-	-	-	12,382	12,382
Provisions	-	-	-	-	43,587	43,587
Total Liabilities	**2,519,692**	**151,519**	**149,433**	**33,909**	**186,031**	**3,040,584**
Total interest sensitivity gap	**(466,572)**	**(108,668)**	**(12,225)**	**868,651**	**292,926**	**574,112**

The table below summarises the interest rate by major currencies for monetary financial instruments for 2004.

2004	BGN	EUR	USD
Assets			
Current accounts	-	0.64%	0.75%
Due from other banks	2.41%	2.10%	1.97%
Trading securities	6.01%	6.50%	3.81%
Loans and advances to customers	9.22%	7.10%	5.22%
Investment securities	6.10%	4.94%	3.14%
Liabilities			
Time deposits from other banks	1.90%	1.90%	1.58%
Current accounts of other banks	0.10%	0.11%	0.07%
Time deposits from customers	2.76%	1.55%	0.70%
Current accounts of customers	0.13%	0.68%	0.10%

In thousands of BGN

As at 31 December 2003	Up to 1 month	1-3 months	3-12 months	Over 1 year	Non-interest bearing	Total
Assets						
Cash and balances with Central bank	-	-	-	-	209,382	209,382
Due from other banks	611,977	7,775	12,601	-	-	632,353
Trading securities	-	-	3,954	54,080	-	58,034
Derivatives	-	-	-	17	12,704	12,721
Loans and advances to customers	733,041	50,697	72,892	-	-	856,630
Investment securities	20,074	15,727	232,869	602,433	7,062	878,165
Other assets	-	-	-	-	3,031	3,031
Property and equipment	-	-	-	-	175,123	175,123
Total Assets	**1,365,092**	**74,199**	**322,316**	**656,530**	**407,302**	**2,825,439**
Liabilities						
Due to other banks	12,696	929	-	-	-	13,625
Derivatives	-	-	-	268	2,638	2,906
Due to customers	1,839,608	130,414	197,056	10,703	-	2,177,781
Other liabilities	-	-	-	-	21,936	21,936
Deferred tax	-	-	-	-	11,288	11,288
Provisions	-	-	-	-	47,877	47,877
Total Liabilities	**1,852,304**	**131,343**	**197,056**	**10,971**	**83,739**	**2,275,413**
Total interest sensitivity gap	**(487,212)**	**(57,144)**	**125,260**	**645,559**	**323,563**	**550,026**

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

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

F. Liquidity risk

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns, 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.

In thousands of BGN

As at 31 December 2004	Up to 1 month	1-3 months	3-12 months	Over 1 year	Non-stated maturity	Total
Assets						
Cash and balances with Central bank	291,587	-	-	-	-	291,587
Due from other banks	684,828	2,793	28,988	20,808	21	737,438
Trading securities	-	-	-	242,801	-	242,801
Derivatives	-	-	-	-	12,655	12,655
Loans and advances to customers	38,738	74,389	530,114	682,513	-	1,325,754
Investment securities	513,671*	25,871	80,072	210,316	5,838	835,768
Goodwill	-	-	-	-	416	416
Other assets	-	-	-	-	7,609	7,609
Property and equipment	-	-	-	-	160,668	160,668
Total Assets	**1,528,824**	**103,053**	**639,174**	**1,156,438**	**187,207**	**3,614,696**
Liabilities						
Due to other banks	18,551	2,404	-	-	652	21,607
Derivatives	-	-	-	-	8,296	8,296
Due to customers	1,372,102	148,615	145,426	1,251,026	-	2,917,169
Other liabilities	-	-	-	-	37,543	37,543
Deferred tax	-	-	-	-	12,382	12,382
Other provisions	-	-	-	-	43,587	43,587
Total Liabilities	**1,390,653**	**151,019**	**145,426**	**1,251,026**	**102,460**	**3,040,584**
Net Liquidity Gap	**138,171**	**(47,966)**	**493,748**	**(94,588)**	**84,747**	**574,112**
As at 31 December 2003						
Total Assets	**899,210**	**53,721**	**326,305**	**1,348,266**	**197,937**	**2,825,439**
Total Liabilities	**903,770**	**136,103**	**196,598**	**954,935**	**84,007**	**2,275,413**
Net Liquidity Gap	**(4,560)**	**(82,382)**	**129,707**	**393,331**	**113,930**	**550,026**

*Investment securities up to one month include liquidity portfolio used as collateral for funds from public sector entities (ref. note 25).

Fair values of financial assets and liabilities

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

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

3. Net interest income

In thousands of BGN

	Year ended 31 December	
	2004	**2003* (restated)**
Interest income		
Interest income arises from:		
Due from banks	10,724	16,153
Loans and advances to customers	94,587	70,527
Investment securities	41,628	37,070
Trading securities	11,799	3,549
Other financial instruments	85	-
	158,823	**127,299**
Interest expense		
Interest expense arises from:		
Due to other banks	(334)	(614)
Due to customers	(21,453)	(20,595)
Other financial instruments	(2,534)	(9)
	(24,321)	**(21,218)**
Net interest income	**134,502**	**106,081**

*Ref. note 16

4. Net fee and commission income

In thousands of BGN

	Year ended 31 December	
	2004	**2003* (restated)**
Fee and commission income		
Clean payments	15,268	13,228
Card transactions	7,465	4,843
Cash operations	5,287	4,474
Opening and maintenance of accounts	4,941	4,359
Documentary operations	4,029	3,186
Packages	2,075	1,586
Lending	2,062	1,609
Other	1,462	1,773
Electronic banking	384	323
Agency commissions	139	31
	43,112	**35,412**
Fee and commission expense		
Card transactions	(2,202)	(1,600)
Maintenance of correspondent accounts	(359)	(480)
Other	(793)	(354)
	(3,354)	**(2,434)**
Net fee and commission income	**39,758**	**32,978**

*Ref. note 16

5. Net trading income

In thousands of BGN

	Year ended 31 December	
	2004	**2003 (restated)**
Net trading income arises from:		
Trading securities	5,940	1,514
Derivative financial instruments	(3,242)	766
Foreign exchange fluctuations and related derivatives	1,620	6,849
	4,318	**9,129**

6. Gains less losses from investment securities

In thousands of BGN

	Year ended 31 December	
	2004	2003 (restated)
Net gain on disposal	7,042	7,579
Market revaluation of securities, net	-	2,808
	7,042	**10,387**

7. Operating expenses

In thousands of BGN

	Year ended 31 December	
	2004	2003
Staff costs	(30,319)	(27,145)
Depreciation and amortization	(13,224)	(9,574)
IT development and maintenance	(11,836)	(5,235)
Deposit Insurance Fund contribution	(8,262)	(8,262)
External services purchased	(7,256)	(4,419)
Post and telephone	(2,402)	(2,073)
Repairs and maintenance of property and equipment	(1,933)	(2,012)
Advertising	(1,625)	(1,063)
Stationery	(1,517)	(1,502)
Non-recoverable levies and taxes	(1,327)	(1,147)
Heating and lighting	(1,201)	(1,084)
Operating lease rentals	(1,148)	(799)
Goodwill amortization	(83)	-
Other	(1,953)	(1,972)
	(84,086)	**(66,287)**

8. Staff costs

In thousands of BGN

	Year ended 31 December	
	2004	2003 (restated)
Wages and salaries, including incentive schemes	(23,858)	(20,843)
Social security cost	(6,461)	(6,302)
	(30,319)	**(27,145)**

The average number of employees during the year was 1,967 (2003: 2,057).

9. Impairment losses and provisions

In thousands of BGN

	Year ended 31 December	
	2004	2003 (restated)
Impairment losses:		
Write downs		
Due from other banks	-	(4)
Loans and advances to customers	(19,823)	(11,603)
Other assets	-	-
	(19,823)	**(11,607)**
Reversal of write downs		
Due from other banks	25	37
Loans and advances to customers	7,711	13,582
Other assets	115	760
	7,851	**14,379**
Net impairment losses	**(11,972)**	**2,772**
Net change in provisions	**4,253**	**11,934**
Total impairment losses and provisions	**(7,719)**	**14,706**

10. Other operating income, net

In thousands of BGN

	Year ended 31 December	
	2004	**2003**
Other operating income		
Release of Deposit Insurance Fund accrual	8,263	-
Disbursement of insurance premium	1,032	-
Disposal of property and equipment	994	6,781
Vaults	671	654
Armoured car transportation services	251	178
Repayments of written-off loans	241	-
Rental services	68	106
Write-off of long-term dormant positions	48	2,830
Court proceeds	21	187
Other	1,476	1,035
	13,065	10,736
Other operating expense		
Charities and contributions	(110)	(134)
Other	(105)	(235)
	(215)	(369)
	12,850	**10,367**

*In 2003 the Bank had accrued the amount of BGN 8,262 thousand in respect to its obligation to make contribution to the Deposit Insurance Fund. The estimation was based on the daily average deposits during 2003. The contribution is payable and relates to 2004. Therefore, in 2004 the Bank changed its estimate of the existence of a liability as at the end of 2003 and reversed the accrual in the current period result.

11. Income tax expense

Taxation is payable at a statutory rate of 19.5% on adjusted profits under the annual tax return prepared under the Bulgarian tax law. Deferred tax is calculated using a tax rate of 15 % to be effective from 1st of January 2005.

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

In thousands of BGN

	Year ended 31 December	
	2004	**2003* (restated)**
Current tax	16,053	37,199
Deferred tax	4,333	(8,555)
	20,386	**28,644**

*Ref. note 16

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

In thousands of BGN

	Year ended 31 December	
	2004	**2003 (restated)**
Profit before tax	106,665	118,396
Tax at tax rate	20,800	28,689
Tax on expenses not deductible for tax purposes	62	147
Adjustment due to decreased tax rate form	(476)	(192)
	20,386	**28,644**

12. Cash and balances with central bank

In thousands of BGN

	As at 31 December	
	2004	**2003 (restated)**
Cash in hand	52,327	48,588
Precious metals	2	2
Current account with Central Bank	9,508	12,940
Statutory minimum required reserve with Central bank	229,750	147,852
	291,587	**209,382**

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 2004 and 2003.

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

13. Due from other banks

In thousands of BGN

	As at 31 December	
	2004	**2003 (restated)**
Time deposits (OECD countries)	705,377	610,352
Current accounts	3,960	5,256
Loans and advances	28,080	16,727
Overdrafts	195	208
Gross Total	**737,612**	**632,543**
Less allowance for impairment	(174)	(190)
	737,438	**632,353**

Due from other banks include interest receivable amounting to BGN 746 thousand for 2004 and BGN 344 thousand for 2003.

14. Trading securities

In thousands of BGN

	As at 31 December	
	2004	**2003 (restated)**
Government bonds (Bulgaria)	106,648	34,650
Government bonds (Other countries)	136,153	23,384
	242,801	**58,034**

Trading securities include interest receivable amounting to BGN 8,658 thousand for 2004 and BGN 1,665 thousand for 2003.

15. Derivative financial instruments

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

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

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

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

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

In thousands of BGN

	Contract /notional		**Fair values**
	amount	**Assets**	**Liabilities**
As at 31 December 2004			
Currency forwards	10,680	154	134
Currency options, bought	16,861	492	-
Currency options, written	16,464	-	492
Options on capital securities, bought	30,278	1,286	-
Options on capital securities, written	30,278	-	1,286
Credit default swaps	159,187	2,569	-
Interest rate swaps	165,621	8,154	6,373
Future contracts	3,912	-	11
	433,281	**12,655**	**8,296**
As at 31 December 2003			
Currency forwards	13,993	7	32
Currency options, bought	30,720	2,522	-
Currency options, written	27,874	-	2,522
Credit default swaps	81,903	1,875	-
Interest rate swaps	44,740	8,317	268
Future contracts	5,867	-	84
	205,097	**12,721**	**2,906**

16. Loans and advances to customers

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

In thousands of BGN

	As at 31 December	
	2004	2003 (restated)
Loans and advances		
Private enterprises	1,086,634	768,845
State owned enterprises	91,857	51,796
Private individuals	189,865	69,167
	1,368,356	889,808
Less allowance for impairment	(42,602)	(33,178)
	1,325,754	**856,630**

Loans and advances to customers include interest receivable amounting to BGN 4,419 thousand for 2004 and BGN 1,681 thousand for 2003.

In 2004 the Bank performed more precise calculations of the amortised cost of the loans and advances to customers taking into account initial fees collected at inception. These initial fees are considered integral part of the effective yield and are therefore included in the amortised cost and recognised as interest income over the life of the loans and advances based on the effective interest rate method. The effect of the recalcualtaions resulted in a restatement of the retained earnings as at the beginning of 2003 in the amount of BGN 5,849 thousand, net of deferred taxation arising out of the adjustment.

The recalculations had the following effect on the comparative figures:

In thousands of BGN

	Effect on 2003 financial statements
Income statement	
Increase in interest income	8,107
Decrease in fee and commission income	(11,793)
Decrease in income tax expense	(413)
Decrease in profit	(3,273)
Balance sheet	
Decrease in loans and advances	(11,332)
Decrease in deferred tax liability	(2,210)
Decrease in equity	(5,849)

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

	As at 31 December	
	2004	2003 (restated)
Processing and manufacturing	505,509	409,073
Commerce	268,201	207,446
Tourism	155,182	122,199
Households	189,865	69,167
Agriculture	36,214	28,433
Transport	13,997	25,668
Construction	18,054	13,978
Services	179,861	13,832
Other	1,473	12
	1,368,356	**889,808**

The ten largest loan exposures amount to BGN 354,839 thousand or 26% of the commercial loan portfolio, (2003: BGN 272,530 thousand or 30 % of the commercial loan portfolio).

17. Investment securities

In thousands of BGN

	As at 31 December	
	2004	2003 (restated)
Debt and other fixed income instruments available for sale		
Bonds and notes issued by:		
Bulgarian Government	144,836	76,863
Foreign Governments	9,880	18,235
Other issuers	33,702	3,168
	188,418	**98,266**
Listed	101,380	31,590
Unlisted	87,038	66,676
Debt and other fixed income instruments held to maturity		
Bonds and notes issued by:		
Bulgarian Government	105,664	96,873
Foreign Governments	46,797	51,525
Other issuers	92,857	120,137
	245,318	**268,535**
Listed	182,738	218,013
Unlisted	62,580	50,522
Debt and other fixed income instruments classified as originated loans and advances		
Bonds and notes issued by:		
Bulgarian Government	217,480	195,869
Foreign Governments	81,800	181,308
Other issuers	96,914	127,125
	396,194	**504,302**
Listed	178,714	308,433
Unlisted	217,480	195,869
Equity investments and other non-fixed income instruments available for sale		
Equity investments	5,838	**7,062**
Other	-	-
	5,838	**7,062**
Listed	-	-
Unlisted	5,838	7,062
	835,768	**878,165**

Investment securities include interest receivable amounting to BGN 15,726 thousand for 2004 and BGN 17,429 thousand for 2003.

The list of the equity investments at 31 December 2004 is as follows:

In thousands of BGN

	2004		2003	
	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
Bankservice	345	6.8	357	7.1
BZOK Zakrila	200	10.0	200	10.0
POK Saglasie	159	4.3	159	6.0
SWIFT	12	-	12	-
Free Trade Zone	12	5.7	12	5.7
Central Depository	3	3.0	3	3.0
Bulgarian Stock Exchange	1	0.4	1	0.4
Bulgarhydroponik	1	24.8	1	24.8
	5,838		**7,062**	

Through 2004 Bulbank has sold its participation in ZPAD Bulstrad and part of its participation in Bankservice and realised capital gain of BGN 1,091 thousand.

18. Other assets

In thousands of BGN

	As at 31 December	
	2004	2003 (restated)
Settlements	3,905	2,601
Prepayments	554	746
Materials	2,262	557
Receivables on overpaid taxes	1,817	-
Other	457	628
Gross Total	**8,995**	**4,532**
Less allowance for impairment	(1,386)	(1,501)
	7,609	**3,031**

19. Property and equipment

In thousands of BGN

	Land and Buildings	Equipment	Software	Construction in progress	Total
Cost or revalued amount					
Balance at 1 January 2003	114,235	36,676	6,796	24,204	**181,911**
Additions	50	1,951	-	38,795	**40,796**
Disposals	(5,616)	(1,284)	(2,264)	-	**(9,164)**
Transfers	-	1,737	8,350	(10,087)	**-**
Revaluation	(1,292)	-	-	-	**(1,292)**
Balance at 31 December 2003	107,377	39,080	12,882	52,912	**212,251**
Additions	150	1,454	3,839	1,756	**7,199**
Disposals	(2,052)	(7,810)	(955)	(5,679)	**(16,496)**
Transfers	74	3,028	50,238	(53,340)	**-**
Revaluation	-	-	-	-	**-**
Balance at 31 December 2004	**105,549**	**35,752**	**66,004**	**(4,351)**	**202,954**
Accumulated depreciation					
Balance at 1 January 2003	19,194	22,658	2,487	-	**44,339**
Charge for the year	3,386	5,198	990	-	**9,574**
On disposals	(927)	(1,111)	(433)	-	**(2,471)**
Revaluation	(14,314)	-	-	-	**(14,314)**
Balance at 31 December 2003	7,339	26,745	3,044	-	**37,128**
Charge for the year	3,082	4,654	5,488	-	**13,224**
On disposals	(455)	(6,920)	(691)	-	**(8,066)**
Revaluation	-	-	-	-	**-**
Balance at 31 December 2004	**9,966**	**24,479**	**7,841**	**-**	**42,286**
Net Book Value					
Balance at 31 December 2003	**100,038**	**12,335**	**9,838**	**1,329**	**175,123**
Balance at 31 December 2004	**95,583**	**11,273**	**58,163**	**1,329**	**160,668**

20. Due to other banks

In thousands of BGN

	As at 31 December	
	2004	**2003 (restated)**
Current accounts		
Foreign banks	1,702	1,719
Local banks	14,479	7,119
	16,181	8,838
Time deposits – local banks	4,774	3,596
Transfers in transit	-	489
Settlements	652	702
	5,426	4,787
	21,607	**13,625**

21. Due to customers

In thousands of BGN

	As at 31 December	
	2004	**2003 (restated)**
By type of customer		
Individuals	1,080,689	1,051,661
Companies and other entities	1,836,480	1,126,120
	2,917,169	**2,177,781**
By type of instrument		
Current accounts	1,578,587	945,841
Time deposits	1,290,068	1,144,074
Accounts held as collateral for customer liabilities	34,388	70,901
Transfers in transit	14,126	16,965
	2,917,169	**2,177,781**

Due to customers include interest payable amounting to BGN 2,996 thousand for 2004 and BGN 3,855 thousand for 2003.

22. Other liabilities

In thousands of BGN

	As at 31 December	
	2004	**2003 (restated)**
Deposit insurance premium payable	-	8,262
Payments, subject to further execution	9,794	5,512
Due to personnel	7,096	4,749
Tax payable	2,428	3,156
Dividends payable	152	133
Payables to suppliers of products for lease	18,073	-
Other	-	124
	37,543	**21,936**

23. Deferred income tax

Deferred income taxes are calculated on all temporary differences under the liability method using an anticipated statutory tax rate of 15 %.

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

In thousands of BGN

	As at 31 December	
	2004	2003 (restated)
Deferred income tax liabilities		
Property and equipment	13,711	15,540
	13,711	15,540
Deferred income tax assets		
Provisions	(61)	(189)
Other liabilities	(1,268)	(242)
Deposit insurance premium accrual	-	(1,611)
Restatement relating to loans to customers (Ref. note 16)	-	(2,210)
	(1,329)	(4,252)
	12,382	**11,288**

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

In thousands of BGN

	As at 31 December	
	2004	2003 (restated)
Property and equipment	1,249	485
Impairment allowance on due from banks	-	(7,989)
Impairments of loans and advances to customers	-	(640)
Provisions	127	(189)
Accruals	2,957	187
Other temporary differences	-	4
Adjusment relating to loans to customers (Ref. note 16)	-	(413)
	4,333	**(8,555)**

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

In thousands of BGN

	2004	2003 (restated)
Balances at 1 January as previously reported	11,288	21,784
Restatement relating to loans to customers	-	(1,797)
Balance at 1 January as restated	11,288	19,987
Increase of the net tax liability – in Income Statement	4,809	(8,555)
Increase of the tax liability due to revaluation of property and equipment	-	2,863
Decrease of the net tax liability due to change in the tax rate	(3,715)	(3,007)
Balance at 31 December	**12,382**	**11,288**

24. Provisions

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

In thousands of BGN

	As at 31 December	
	2004	2003 (restated)
Provisions on letters of guarantee and letters of credit	29,960	33,326
Provisions on outstanding and probable court proceedings	13,627	14,551
	43,587	**47,877**

25. Contingent liabilities and commitments

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

In thousands of BGN

	As at 31 December	
	2004	2003 (restated)
Letters of credit and letters of guarantee	234,209	205,106
Credit commitments	348,851	234,054
	583,060	**439,160**

Assets pledged. Assets are pledged as collateral related to deposits of public sector entities. Mandatory reserve deposits are also held with the Central Bank in accordance with statutory requirements. These deposits are not available for the Bank's day-to-day operations.

In thousands of BGN

	Asset		Related Liability	
As at 31 December	2004	2003	2004	2003
Balances with central bank	229,750	147,852	-	-
Securities related to deposits of public sector entities	427,164	416,806	427,958	406,653
	656,914	**564,658**	**427,958**	**406,653**

26. Shareholders' equity

Share capital

As at 31 December 2004, 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 2004 is as follows:

	As at 31 December 2004		As at 31 December 2003	
Shareholder	Number of Shares	Shareholding %	Number of Shares	Shareholding %
UniCredito Italiano SpA	141,743,445	85.2	141,743,445	85.2
International Finance Corporation	8,817,618	5.3	8,817,618	5.3
Allianz AG	8,318,295	5.0	8,318,295	5.0
Simest SpA	4,159,254	2.5	4,159,254	2.5
Financial institutions	18,787	0.0	1,531,384	0.9
Businesses and non-commercial organisations	2,952,717	1.8	1,441,250	0.9
Individuals	360,044	0.2	358,914	0.2
	166,370,160	**100.0**	**166,370,160**	**100.0**

27. Movement in impairment losses and provisions

The table below summarises the allowance for impairment losses and the positions:

In thousands of BGN

	As at 31 December	
	2004	**2003 (restated)**
Impairment allowances		
Due from banks	174	190
Loans and advances to customers	42,602	33,178
Other assets	1,386	1,501
	44,162	34,869
Provisions	43,587	47,877
Total impairment allowances and provisions	**87,749**	**82,746**

The movement in impairment allowances and provisions is as follows:

In thousands of BGN

	2004	**2003 (restated)**
Impairment allowances		
Balance at 1 January	34,869	37,930
Increase in allowances	19,823	11,607
Decrease in allowances	(7,851)	(14,379)
	11,972	(2,772)
Write-offs	(2,679)	(289)
Balances at 31 December	**44,162**	**34,869**
Provisions		
Balance at 1 January	47,877	59,938
Provision increase	409	967
Provision decrease	(4,662)	(12,901)
	(4,253)	(11,934)
Write-offs	(37)	(127)
Balances at 31 December	**43,587**	**47,877**

28. 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:

In thousands of BGN

	As at 31 December	
	2004	**2003 (restated)**
Cash in hand	52,327	48,588
Demand deposits with banks	13,158	5,256
Time deposits with banks up to 90 days	683,226	585,215
	748,711	**639,059**

29. Related party transactions

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

In thousands of BGN

	UniCredito Italiano Group		Management Board and Supervisory Board	
	2004	2003	2004	2003
Loans and short term placements	510,125	237,767	46	76
Securities purchased	-	9,773	-	-
Interest income earned	5,025	5,759	4	8
Deposits	259	151	1,119	799
Operating income	32	-	-	-
Operating expenses	1,795	1,846	-	-
Commission income	38	-	-	-
Commission expenses	190	112	-	-
Derivatives at fair value (assets)	1,366	2,529	-	-
Derivatives at fair value (liabilities)	6,339	251	-	-
Letters of Guarantee issued in favour of Bulbank	2,806	16,506	-	-
Letters of Guarantee issued by Bulbank	373	349	-	-

In 2004, the total remuneration of the members of the Management Board was BGN 1,416 thousand (2003: BGN 1,377 thousand). The remuneration of the members of the Supervisory Board was BGN 24 thousand. Only one of the members of the Management Board owns 1,482 ordinary shares with nominal value of BGN 1,482.

30. Group Entities

The Bank is a subsidiary of UniCredito Italiano SpA, Italy.

In 2004 the Bank acquired UniCredit Leasing EAD with its subsidiary Unileasing Auto OOD. The financial statements of these two companies are consolidated into the consolidated financial statements of the Bulbank.

31. Post balance sheet events

There are no events after the balance sheet date that would require either adjustments or additional disclosures in the financial statements.

Bulbank
UniCredit Group

BULBANK

UNCONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2004

KPMG

REPORT
OF THE INDEPENDENT AUDITOR
TO THE SHAREHOLDERS OF BULBANK AD

Sofia, 24 February 2005

We have audited the accompanying unconsolidated balance sheet of Bulbank AD ("the Bank") as of 31 December 2004 and the related unconsolidated statements of income, changes in equity and cash flows for the year then ended. These unconsolidated financial statements are the responsibility of the directors. Our responsibility is to express an opinion on these unconsolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, 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 unconsolidated financial statements give a true and fair view of the unconsolidated financial position of the Bank as of 31 December 2004, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to the fact that the Bank has also prepared consolidated financial statements which present the consolidated financial position and the results of its operations, cash flows and changes in equity in accordance with the International Financial Reporting Standards. As disclosed in the note 1.A., the accompanying unconsolidated financial statements are a part of the consolidated financial statements.

KPMG Bulgaria OOD

KPMG Bulgaria OOD
37, Fridtjof Nansen Str.
Sofia
Bulgaria

Специализирано одиторско предприятие
София
Рег. №045
"КПМГ - България" ООД

Income statement

In thousands of BGN

	Year ended 31 December	
	2004	2003 (restated)
Interest income	157,740	127,299
Interest expense	(24,295)	(21,218)
Net interest income	**133,445**	**106,081**
Fee and commission income	43,150	35,412
Fee and commission expense	(3,392)	(2,434)
Net fee and commission income	**39,758**	**32,978**
Net trading income	4,330	9,129
Gains less losses from investment securities	7,042	10,387
Other operating income, net	12,836	11,402
TOTAL OPERATING INCOME	**197,411**	**169,977**
Operating expenses	(83,620)	(66,287)
Impairment losses and provisions	(7,533)	14,706
PROFIT BEFORE TAX	**106,258**	**118,396**
Income tax expense	(20,290)	(28,644)
NET PROFIT FOR THE PERIOD	**85,968**	**89,752**

Balance sheet

In thousands of BGN

	As at 31 December	
	2004	2003 (restated)
ASSETS		
Cash and balances with central bank	291,584	209,382
Due from other banks*	737,438	632,353
Trading securities	242,801	58,034
Derivative financial instruments	12,655	12,721
Loans and advances to customers*	1,311,584	856,630
Investment securities*	836,376	878,165
Other assets	2,251	3,031
Property and equipment	160,624	175,123
TOTAL ASSETS	**3,595,313**	**2,825,439**
LIABILITIES		
Due to other banks	21,607	13,625
Derivative financial instruments	8,296	2,906
Due to customers	2,917,428	2,177,781
Other liabilities	18,211	21,936
Deferred tax liability	12,383	11,288
Provisions	43,587	47,877
TOTAL LIABILITIES	**3,021,512**	**2,275,413**
SHAREHOLDERS' EQUITY		
Share capital	166,370	166,370
Statutory reserves	51,155	36,684
Retained earnings	295,107	287,184
Revaluation reserves	61,169	59,788
TOTAL SHAREHOLDERS' EQUITY	**573,801**	**550,026**
TOTAL EQUITY AND LIABILITIES	**3,595,313**	**2,825,439**

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

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

24 February 2005

Statement of changes in shareholders' equity

In thousands of BGN

	Share capital	Statutory reserve	Retained earnings	Property and equipment revaluation reserve	Investment securities revaluation reserve	Total
Balance as of 1 January 2003 as previously reported	166,370	35,710	262,607	48,646	(84)	**513,249**
Adjustment relating to loans to customers, net of deferred taxation (Ref. note 16)	-	-	(5,849)	-	-	**(5,849)**
Balance as of 1 January 2003 as restated	166,370	35,710	256,758	48,646	(84)	**507,400**
Available-for-sale investments						
- Net fair value losses	-	-	-	-	(403)	**(403)**
Available-for-sale investments						
- Transfer to net profit	-	-	-	-	110	**110**
Transfer to statutory reserves	-	974	(974)	-	-	**-**
Transfer to retained earning	-	-	1,564	(1,564)	-	**-**
Net profit for the year as restated	-	-	89,752	-	-	**89,752**
Dividend distribution	-	-	(59,893)	-	-	**(59,893)**
Revaluation of property and equipment	-	-	-	13,083	-	**13,083**
Other distribution	-	-	(23)	-	-	**(23)**
Balance as of 31 December 2003	**166,370**	**36,684**	**287,184**	**60,165**	**(377)**	**550,026**
Balance as of 1 January 2004	166,370	36,684	287,184	60,165	(377)	**550,026**
Available-for-sale investments						
- Net fair value losses	-	-	-	-	(280)	**(280)**
Available-for-sale investments						
- Transfer to net profit	-	-	-	-	-	-
Transfer to statutory reserves	-	14,471	(14,471)	-	-	**-**
Transfer to retained earning	-	-	1,578	(1,578)	-	**-**
Net profit for the year	-	-	85,968	-	-	**85,968**
Dividend distribution	-	-	(65,118)	-	-	**(65,118)**
Decrease in tax rates affecting deferred taxation	-	-	-	3,239	-	**3,239**
Other distribution	-	-	(34)	-	-	**(34)**
Balance as of 31 December 2004	**166,370**	**51,155**	**295,107**	**61,826**	**(657)**	**573,801**

Cash flow statement

In thousands of BGN

	Year ended 31 December	
	2004	**2003**
Profit/(loss) after taxation	85,968	89,752
(Decrease)/Increase in impairment losses for bad and doubtful debts and other assets	11,786	(2,739)
Increase/decrease other accruals	55,876	58,232
Increase/decrease in provisions	(4,253)	(11,934)
Depreciation	13,218	9,574
Foreign exchange (gains)/losses	(6,686)	74,423
Unrealised (gains)/losses on securities	(5,269)	(241)
Deferred tax	4,334	(8,699)
Tax expense	15,955	37,199
Loss/(Profit) on disposal of fixed assets	(994)	(6,781)
Other non-cash movements	6,600	(23)
	176,535	**238,763**
Change in operating assets		
(Increase)/decrease in obligatory reserve with the National Bank	(81,898)	(23,599)
(Increase)/decrease in Trading securities	(167,317)	62,360
(Increase)/decrease in loans and advances to banks (repayment beyond 3 months)	(2,860)	(115,691)
(Increase)/decrease in loans to customers	(467,504)	(360,788)
(Increase)/decrease in other assets	895	2,458
	(718,684)	**(435,260)**
Change in operating liabilities:		
Net increase/(decrease) in deposits from banks	8,632	(45,452)
Net increase/(decrease) in amounts owed to other depositors	782,848	205,282
Net decrease in accrued other liabilities	(68,366)	(57,415)
Income tax paid	(16,488)	(34,588)
Dividend paid	(65,099)	(59,907)
	641,527	**7,920**
Net cash flow from operating activities	**99,378**	**(188,577)**
Cash flow from investing activities		
Acquisition of subsidiary net of cash acquired	-	-
(Purchase) of tangible fixed assets	(7,149)	(40,796)
Proceeds from the sale of non-current assets	2,790	13,535
Acquisition of investments	14,630	(259,315)
Net cash flows from investing activities	**10,271**	**(286,576)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**109,649**	**(475,153)**
CASH AT BEGINNING OF PERIOD	**639,059**	**1,114,212**
CASH AT END OF PERIOD	**748,708**	**639,059**

GENERAL INFORMATION

Basic information for Bulbank

Establishment – April 1, 1964

Major shareholders

		December 31 2004
Shareholder	**Number of shares**	**Share in %**
UniCredito Italiano SpA	141,743,445	85.2
International Financial Corporation	8,817,618	5.3
Allianz AG	8,318,295	5.0
Simest SpA	4,159,254	2.5
Total number of shares	**166,370,160**	

Scope of activities

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

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

Operational addresses

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1000 Sofia, 7 Sveta Nedelya Sq.
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Telex: 22031
Tel.: 923 2111
SWIFT: BFTBBGSF
E-mail: info@sof.bulbank.bg
HTTP://www.bulbank.bg

Treasury & Capital Markets	fax: 988 4636; 988 5370; tel.: 923 2560; REUTERS: BULB
Retail Banking and Card payments	tel.: 923 2940, 923 2411
Key Account Management	fax: 987 7464; tel.: 923 2420
Public Relations	tel.: 923 2300; fax: 923 2183
Corporate Banking	fax: 923 2877; tel.: 923 2600
Operations & IT	fax: 923 2519, 923 2449; tel.: 923 2500, 923 2450, 923 2380
Correspondents	fax: 923 2607; telex: 22031; tel.: 923 2730
Credit & Risk Management	fax: 923 2599; tel.: 923 2721, 923 2362
Planning & Control	fax: 923 2607; tel.: 923 2345
Administration & Logistics	fax: 923 2707, 988 5614; tel.: 923 2620
Internal Audit	fax: 923 3893; tel.: 923 3492, 923 3351, 923 3359
Human Resources	fax: 923 2468; tel.: 923 2478
Telephone codes:	Bulgaria - (+359...); Sofia - (+359 2...)

Financial Highlights – 5-year retrospective

(Thousands of BGN, unless otherwise stated)

	2004	2003	2002	2001	2000
Key figures					
Net profit	**86,279**	89,752	79,130	68,912	160,065
Shareholders' equity*	**574,112**	550,026	513,249	490,479	602,776
Total assets*	**3,614,696**	2,825,439	2,721,980	2,731,686	2,559,476
Bank customer deposits*	**2,917,169**	2,177,781	2,049,957	2,021,634	1,692,270
Bank customer loans*	**1,393,968**	916,634	563,935	362,353	316,380
Earnings per share (in BGN)	**0.52**	0.54	0.48	0.41	0.96
Income					
Net interest income	**134,502**	106,081	91,112	99,613	97,301
Net fee and commission income	**39,758**	32,978	41,059	30,359	28,957
Net gains from securities	**9,740**	12,667	12,642	8,226	19,037
Net gains from foreign currency operations and fluctuations	**1,620**	6,849	7,095	5,046	3,262
Gross operating income	**198,470**	169,977	158,192	145,086	149,688
Net operating Income	**114,384**	103,690	104,207	87,480	204,725
Expenses					
Operating expenses	**84,086**	66,287	62,988	55,775	59,662
HR expenses	**30,319**	27,145	26,658	27,722	30,452
Non-HR expenses	**40,543**	29,568	26,160	28,053	29,210
Depreciation	**13,224**	9,574	10,170	10,675	10,274
Impairment losses and provisions	**(7,719)**	14,706	(9,004)	(8,844)	29,944
Tax	**20,386**	28,644	25,077	18,568	44,660
Ratios (%)					
Return on average assets (ROA)	**2.8%**	3.4%	2.9%	2.5%	6.5%
Return on average equity (ROE)	**15.7%**	17.4%	16.2%	13.5%	29.5%
Capital/Asset ratio*	**15.9%**	19.5%	18.9%	18.0%	23.6%
Total capital ratio*	**23.3%**	38.0%	38.7%	54.8%	55.1%
Tier 1 capital ratio*	**20.4%**	20.5%	19.7%	27.8%	28.1%
Risk weighted assets/Total assets ratio*	**53.0%**	43.9%	32.9%	26.3%	28.1%
Loan/Deposit ratio*	**47.8%**	42.1%	27.5%	17.9%	18.7%
Cost/Income ratio[1]	**42.4%**	39.0%	39.8%	46.0%	46.7%
Resources (number)*					
Operating outlets	**94**	91	91	98	105
Employees	**1,760**	2,026	2,060	2,050	2,084
Foreign exchange rate at period-end (BGN/USD)	***1.4359***	*1.5486*	*1.8850*	*2.2193*	*2.1019*
Average annual exchange rate over the period (BGN/USD)	***1.5751***	*1.8067*	*2.0770*	*2.1850*	*2.1231*

*End of period.
[1]Depreciation is included in the nominator of cost to income ratio.

Network addresses

SOFIA REGION		
Sveta Nedelya	Sofia 1000, 7 Sveta Nedelya Sq.	+359 2/ 9232221
Vasil Levski	Sofia 1000, 100 Levski Blvd.	+359 2/ 8438331
Business Park Sofia	Sofia, Business Park Sofia, bl.10	+359 2/ 976 9182
Boulevard Bulgaria	Sofia, 27 Tvardishki Prohod Str.	+359 2/ 8598147
Tsar Samuil	Sofia, 1 Tsar Samuil Str.	+359 2/ 9173010
Sofia Airport Customs	1540 Sofia, 1 Christopher Columbus Blvd.	+359 2/ 9809795
Sofia Airport	1540 Sofia, 1 Christopher Columbus Blvd.	+359 2/ 9459002
Sofia Customs	1202 Sofia, 84 Vesletz Str.	+359 2/ 9310887
Transport Terminal	1540 Sofia, 18 Parva Balgarsta Armia Blvd.	+359 2/ 9311846
Sopharma	Sofia, 16 Iliensko Shose Str.	+359 2/ 9362606
Credit Center	Sofia 1000, 7 Sveta Nedelya Sq.	+359 2/ 9232689
Aksakov	Sofia 1000, 8 Aksakov Str.	+359 2/ 9232111
Fantastico	Sofia, 12 Anton Naidenov Str.	+359 2/ 9681997
Yanko Sakazov	1504 Sofia, 88 Yanko Sakazov Blvd.	+359 2 /9448710
Dragoman	2210 Dragoman, 3 Nikola Vaptzarov Str.	+359 7172/ 2229
Kaloyan	1220 Sofia 1000, 3 Kaloyan Str.	+359 2/ 9268501
Botevgrad	2140 Botevgrad, 79 Treti Mart Blvd.	+359 723/ 66872
Nadezhda	1606 Sofia, 2 Lomsko Shose Str.	+359 2/ 9360439
Ruski Pametnik	Sofia, 2 Buzludja Str.	+359 2/ 9530309

PLOVDIV REGION		
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Maritza	4000 Plovdiv, 4 Vasil Levski Str.	+359 32/ 945466
Customs	4000 Plovdiv, 32A Kuklensko Shose Blvd.	+359 32/ 673602
Trakia	4000 Plovdiv, 3 Osvobojdenie Blvd.	+359 32/ 681914
Rodopi	4000 Plovdiv, 1 Asenovgradsko Shose Str.	+359 32/ 623746
Pazardjik	4400 Pazardjik, 5 Esperanto Str.	+359 34/ 446262
Panagyurishte	4500 Panagyurishte, 24 Benkovski Str.	+359 357/ 4087
Pazardjik Police Department	4400 Pazardjik, PD	+359 034/ 440993
CAT – Pazardjik	4400 Pazardjik, CAT	+359 034/ 441290
Smolyan	4700 Smolyan, 52 Bulgaria Blvd.	+359 0301/ 63198
Peshtera	4550 Peshtera, 16 Dimitar Gorov Str.	+359 350/ 2107
Velingrad	4600 Velingrad, Svoboda Sq.	+359 359/ 52318
Karlovo	4300 Karlovo, 2 P. Sabev Str.	+359 335/ 92048
Asenovgrad	4230 Asenovgrad, 2 Rechna Str.	+359 331/ 65505

BOURGAS REGION		
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Sozopol	8130 Sozopol, 14 Republikanska Str.	+359 550/ 22436
Bourgas Airport	8000 Bourgas –Bourgas Airport	+359 56/ 870357
Bourgas Harbor	8000 Bourgas – Bourgas Harbor	+359 56/ 877237
Aytos	8500 Aytos , 27 Stancionna Str.	+359 558/ 22128
Karnobat	8400 Karnobat, 14 Bulgaria Blvd.	+359 559 /28800
Sungurlare	8470 Sungurlare, 16 Hristo Smirnenski Str.	+359 5571/ 2493
Tsarevo	8260 Tsarevo, 20 Kraimorska Str.	+359 550/ 52045
Malko Tarnovo	8350 Malko Tarnovo, 2 Malkotarnovska Komuna Str.	+359 5952/ 2201
Malko Tarnovo Customs	8350 Malko Tarnovo Customs	+359 5952/ 4235
Sunny Beach	8240 Sunny Beach, PO box 123	+359 554/ 23313
Nesebar	8230 Nesebar, 10 Edelvays Str.	0554/ 44082
Primorsko	8290 Primorsko, 9 Cherno More Str.	+359 550/ 32051

VARNA REGION		
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Shipka	9000 Varna, 39 Maria Luisa Str.	+359 52/ 600025
Dobrich	9300 Dobrich, 7 Nezavisimost Str.	+359 58/ 600082
Shumen	9700 Shumen, 62 Slavyanska Blvd.	+359 54/ 800697
Razgrad	7200 Razgrad, 1 Beli Lom Str.	+359 84/ 660762
Silistra	7500 Silistra, 1 Simeon Veliki Str.	+359 86/ 821556
Golden Sands	9007 Golden Sands, Shipka Hotel, PO box 81	+359 52/ 355893

ROUSSE REGION		
Rousse	7000 Rousse, 5 Sveta Troitsa Sq.	+359 82/ 818283
West Industrial Zone – Rousse	7000 Rousse, 4 Treti Mart Blvd.	+359 82/ 823548
Ferryboat Customs	7000 Rousse	+359 82/844492
Gabrovo	5300 Gabrovo, 13 Radetski Str.	+359 66/ 814210
Veliko Tarnovo	5000 Veliko Tarnovo, 2B Marno Pole Str.	+359 62/ 600151
Svishtov	5250 Svishtov, Aleko Sq.	+359 631/ 60054
Gorna Oriahovitsa	5100 Gorna Oriahovitsa, 1A M. Todorov Str.	+359 618/ 60023
Sevlievo	5400 Sevlievo, 21 Svoboda Sq.	+359 675/ 34928

BLAGOEVGRAD REGION		
Blagoevgrad	2700 Blagoevgrad, 22 Tsar Shishman Str.	+359 73/ 881332
Petrich	2850 Petrich, 1 Macedonia Sq.	+359 745/ 61668
Kulata	2868 Kulata Customs	+359 7425/ 2408
Dupnitsa	2600 Dupnitsa, 19 Hristo Botev Str.	+359 701/ 50034
Gotse Delchev	2900 Gotse Delchev, 22 Hristo Botev Str.	+359 751/ 60203
Kyustendil	2500 Kyustemdil, 54 Tsar Osvoboditel Str.	+359 78/ 52400
Pernik	2300 Pernik, 14 Kr. Pernishki Str.	+359 76/ 603201

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Nova Zagora	8900 Nova Zagora, 40 Vasil Levski Str.	+359 457/ 23906
Haskovo	6300 Haskovo, 4 Khan Kubrat Str.	+359 38/ 607701
Haskovo Police Department	6300 Haskovo – PD	+359 38/ 662439
CAT Haskovo	6300 Haskovo – CAT	+359 38/ 662447
Haskovo Municipality	6300 Haskovo – Haskovo Municipality	+359 38/ 662438
Svilengrad	6500 Svilengrad, 40 Bulgaria Blvd.	+359 379/ 71542
Dimitrovgrad	6400 Dimitrovgrad, 3 D. Blagoev Blvd.	+359 391/ 61455
Dimitrovgrad Police Department	6400 Dimitrovgrad	+359 391/ 61454
Chirpan	6200 Chirpan, 2 Yavorov Str.	+359 416/ 4551
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Sliven	8800 Sliven, 23 Rakovski Str.	+359 44/ 622446
Yambol	8600 Yambol, 19 Targovska Str.	+359 46/ 661641
Kardjali	6600 Kardjali, 1 Republikanska Str.	+359 361/ 65025

PLEVEN REGION		
Pleven	5800 Pleven, 11 Tsar Simeon Str.	+359 64/ 890311
Levski	5900 Levski, 57 Al. Stamboliiski Str.	+359 650/ 6320
Kneja	Kneja 3230, 71 marin Boev Str.	+359 9132/ 3024
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Troyan	6270 Troyan, 188 Vasil Levski Str.	+359 670/ 26204
Vratza	3000 Vratza, 10 Lukashov Str.	+359 92/ 668866
Montana	3400 Montana, 4 Stefan Karadja Str.	+359 96/ 301352
Vidin	3700 Vidin, 3 Simeon Veliki Str.	+359 94/ 600073
Vidin	3700 Vidin, North Industrial Zone	+359 94/ 602022
Vidin Police Department	3700 Vidin, 87 Simeon Veliki Str.	+359 94/ 218574
Vidin	3700 Vidin, VinTrade	+359 94/ 601298
Lom	3600 Lom, 14 Dunavska Str.	+359 971/ 66720