annual report 2005

Bulbank
UniCredit Group

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CONTENTS

FINANCIAL HIGHLIGHTS (Consolidated)

(Thousands of BGN, unless otherwise stated)

	2005	2004	Growth
Key figures			
Net profit	96,116	86,279	11.4%
Shareholders' equity (eop)	609,609	574,112	6.2%
Total assets (eop)	3,474,829	3,614,696	–3.9%
Bank customer deposits (eop)	2,618,771	2,917,169	–10.2%
Bank customer deposits (av.)	2,469,957	2,340,521	5.5%
Bank customer loans (eop)	1,706,858	1,393,968	22.4%
Bank customer loans (av.)	1,595,642	1,068,020	49.4%
Leasing Portfolio (eop)	80,729	25,342	218.6%
Earnings per share (in BGN)	0.58	0.52	11.4%
Income			
Net interest income	162,850	134,502	21.1%
Net fee and commission income	44,657	39,758	12.3%
Net trading income	11,615	4,318	169.0%
Gains less losses from investment securities	3,090	7,042	–56.1%
Gross operating income	228,589	198,470	15.2%
Net operating Income	138,808	114,384	21.4%
Expenses			
Operating expenses	89,781	84,086	6.8%
Staff costs	33,266	30,319	9.7%
Non-staff costs	39,742	40,460	–2.0%
Depreciation	16,773	13,307	26.0%
Impairment losses and provisions	25,443	7,719	229.6%
Income tax expense	17,249	20,386	–15.4%
Ratios (%)			
Return on average assets (ROA)	2.9	2.8	0.1pp
Return on average equity (ROE)	16.3	15.7	0.6pp
Capital/Asset ratio (eop)	17.5	15.9	1.7pp
Total capital ratio (eop)	21.6	23.3	–1.7pp
Tier 1 capital ratio (eop)	18.8	20.4	–1.6pp
Risk weighted assets/Total assets ratio (eop)	61.5	53.0	8.5pp
Non-performing loans/Gross loans	1.6	2.4	–0.8pp
Loan/Deposit ratio	65.2	47.8	17.4pp
Cost/Income ratio	39.3	42.4	–3.1pp
Resources (number) – (eop)			
Bank Operating outlets	105	94	11
Leasing Outlets	4	1	3
Employees	1,897	1,760	137
Sales-force	462	426	36
Foreign exchange rate at period-end (BGN/USD)	1.6579	1.4359	15.5%
Average annual exchange rate over the period (USD/BGN)	1.5741	1.5751	–0.1%

LETTER TO SHAREHOLDERS

Ladies and Gentlemen,

It is our pleasure to present our 2005 annual accounts and development plans.

We proudly report a very successful year with earnings per share reaching a five-year-high of BGN 0.58, up 11.4% compared to 2004. Even more important, all the focused efforts and investments over the past few years have delivered solid risk-adjusted revenue generation capacity, thus creating sustainable value to the shareholders.

The Bulgarian economy expanded in 2005 by an estimated 5.5% in real terms. The banking sector experienced another year of rapid growth, reporting some 30% increase in volumes. Aiming at limiting the current account deficit, the Central Bank introduced a series of lending restrictions, which had a tangible negative effect on most banks but a marginal impact on Bulbank. The risks inherent to the booming lending activity over the last 5 years started to materialize, reflected in the increase of the non-performing loan ratio of the sector, particularly in loans to individuals. Personal loans grew by 63% in nominal terms during the year. Overall the banking system remained stable, despite the effects of the fierce competition leading to another significant drop in spreads. USD appreciated by 11.2% versus EUR and all major base interest rates went up, which influenced the banks and the market.

Bulbank posted a net profit of BGN 96.1 million on a consolidated basis, up 11.4% compared to last year. Gross operating income went up 15.2%, including 46.1% in retail and 15.5% in corporate banking. Average loans grew by 49.4%, including 109% growth in retail and 39% in corporate. Average deposits increased by 5.5% only, due to the withdrawal of large tickets of institutional customers. Bulbank sustained its unique mix of high profitability, financial strength and superb efficiency. ROE grew to 16.3% from 15.7%; ROA to 2.9% from 2.8%; tier 1 capital adequacy remained solid with 18.8%; NPL ratio went down to 1.6% from 2.4%; Cost/Income ratio improved even further from 42.4% to 39.3%.

Bulbank had a busy business development programme during the year. The branch network expanded by 11 new outlets, including 3 specialised credit centres. The first small business centre opened its doors as a special vehicle to promote and sell services to small businesses. UniCredit Leasing Bulgaria almost tripled its revenues and net profit during the year. The leasing company leveraged powerfully with the bank's branch network as its main delivery channel. It opened 3 outlets of its own in order to foster car leasing operations in the country. ATM and POS networks substantially expanded. Mortgage loans, a strategic product, grew 2.2 times and reached 13% market share. Small business banking was another focal point, where revenues increased by 36% compared to the previous year, boosted by 74% growth in loans and 33% growth in deposits. The product spectrum of assets under management became broader and volumes more than doubled. New credit card products were launched, including Gold and Platinum cards for VIP customers. Bulbank was the first bank in Bulgaria to launch factoring operations. Two brand-new to the market cash management products were offered to support large and mid-size corporations. The bank made another significant step in developing its credit underwriting and risk management system. A work-out unit was established to take charge of bad loan collection and repossession of collateral, as a proactive response to the fast growing loan portfolio and the increasing credit risk in the banking system. The automated credit underwriting applications specialised by segment were modified in line with the evolving market, business and credit risk management requirements. Significant investments were made in infrastructure and system development. Activespecialist training was delivered with the focus on sales and management skills. A two-year leadership training programme was initiated for first-line managers, based on the concept of emotional intelligence.

2005 was marked by the business combination of UniCredit Group and HVB Group, giving birth to a stronger pan-European financial group, holding a leading position in Central and Eastern Europe. As a result, it is planned to merge Bulbank with HVB Biochim and Hebros Bank, two other important players on the local market. This will create a banking institution with more than 20% market share in all main financial and commercial indicators and more than 1.1 million customers. The preliminary studies of the integration process began in 2006. The process will gain momentum over the course of the current year and the legal merger into a single entity is envisaged to be complete in 2007. The main objectives are to consolidate the leading position in all strategic segments and to reach excellence in business model, service quality, risk management and processes. This will be achieved by leveraging the unique positioning of the three institutions and the pool of expertise available in Bulgaria, Italy, Austria and Germany. The merger process will be the prevailing context of the bank's business development, as it steadily continues. New mortgage centres will be opened, spreading the success of those in Sofia, Burgas, Varna and Plovdiv. A specialised consumer lending company will be established as a joint venture with Clarima, the UniCredit consumer lending vehicle. Another wave of growth in ATM and POS networks will follow. New products, brand reinforcement and active infrastructure development is planned to sustain our growth. As a responsible corporate citizen, the bank will continue to pursue its long-term charity programme.

We would like to thank our customers, partners and shareholders for their trust. We want to express our excitement at experiencing our joint development journey with our colleagues, who have demonstrated high commitment to our corporate values and goals. Finally, we would like to express our heartfelt gratitude to Mr. Alessandro Decio, who was promoted to a new position in the Holding Company, for his contribution to the development and the continuous success of Bulbank.

Andrea Moneta
Chairman of the Supervisory Board

Levon Hampartzoumian
Chairman of the Management Board and CEO

23 February 2006
Sofia

SUPERVISORY BOARD AND MANAGEMENT BOARD[1]

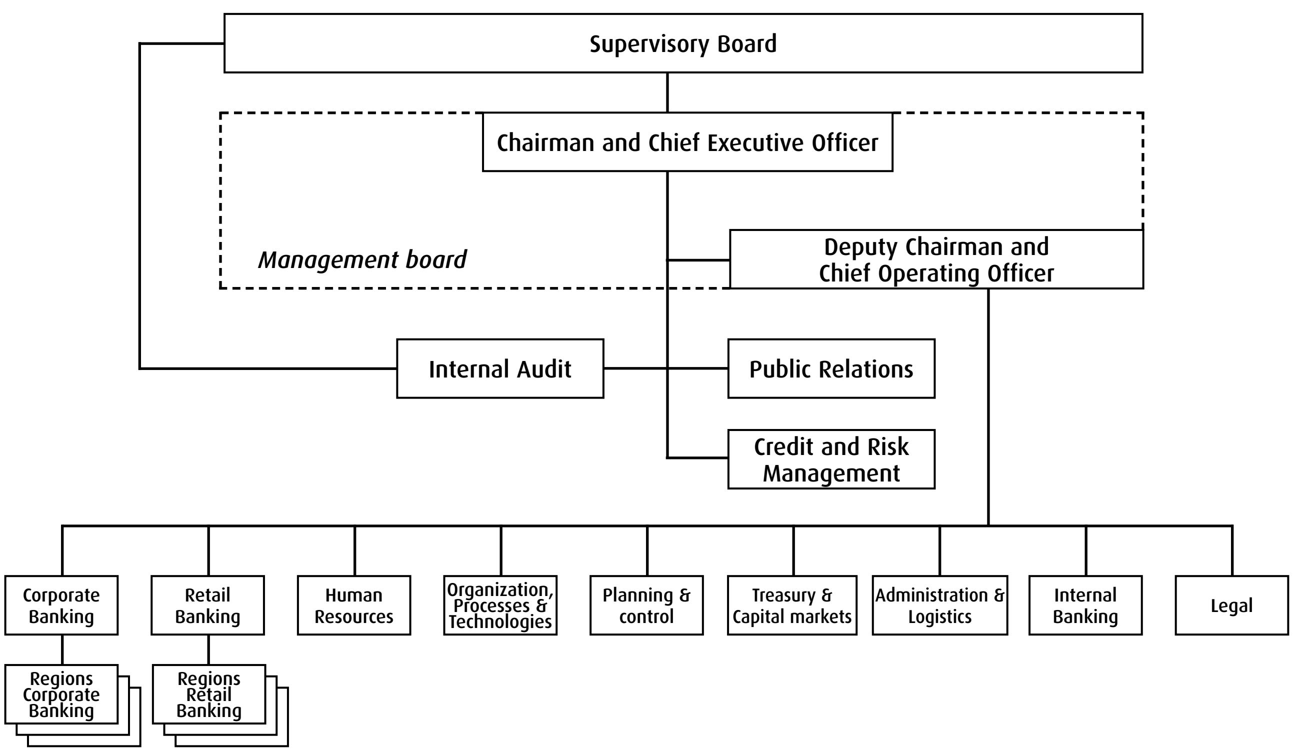
Supervisory Board		Starting date of mandate
Andrea Moneta	Chairman	3 November 2004
Fausto Alberto Galmarini	Deputy Chairman	3 October 2000
Dimitar Zhelev	Member	3 October 2000
Ivan Stancioff	Member	19 October 2001
Jan Beliecki	Member	25 September 2003
Marcello Arlotto	Member	19 May 2004
Massimiliano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

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
Ljubomir Punchev	Member	7 January 2005
Kalinka Kirova	Member	4 February 2003
Stanislav Georgiev	Member	3 October 2000

Changes in the management bodies that took place between 1 January 2006 and the publication date of this annual report:

- In the Supervisory Board, Mr. Alessandro Decio replaced Mr. Marcello Arlotto.
- In the Management Board, Mr. Andrea Casini replaced Mr. Alessandro Decio.

ORGANISATIONAL CHART[2]



STANDARD & POOR'S CREDIT RATING

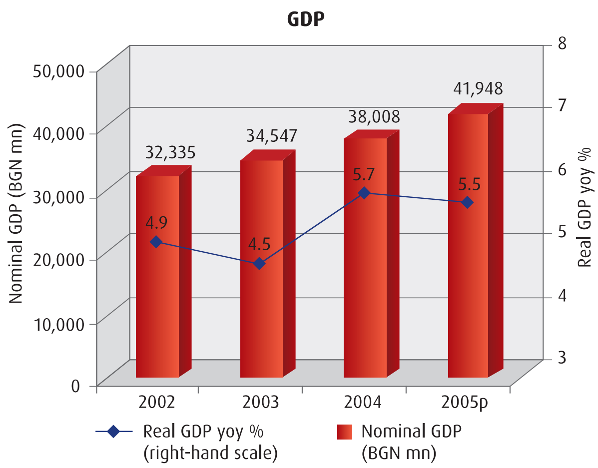
Counterparty credit rating	**BBB/Positive/A-2**[3], upgraded on 19 December 2005 from BBB/Stable/A-2
Certificate of deposit rating	**BBB/A-2**

[1] As of 31 December 2005.
[2] As of 31 December 2005.
[3] Equal to the S&P sovereign rating of Bulgaria in foreign currency.

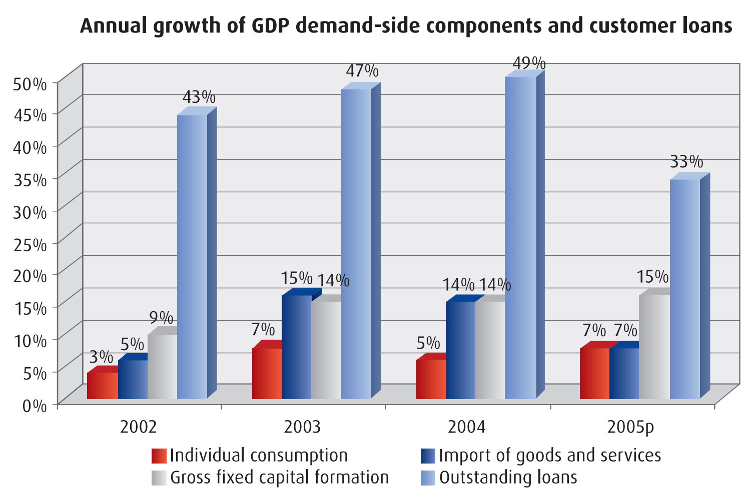
BULGARIAN ECONOMY

2005 Overview of economy

Despite the temporary easing of growth momentum in the third quarter, GDP grew robustly by 5.5% in 2005, against revised 5.7% real growth in 2004. Investments and household consumption expenditures were the key GDP growth drivers, while the negative contribution of net exports to growth increased.



At the end of the year the current account shortfall widened to 11.8%, from a revised 5.8% deficit in 2004. The key economic fundamentals behind current account deterioration in 2005 were higher energy prices, acceleration in investment demand and a slide in export sales volumes in the third quarter of the year. Despite the widening of the current account deficit to levels far from those generally believed as risk free, there is no immediate danger for the macroeconomic stability. A large current account deficit in Bulgaria is part of the transition context. It is driven by surges in investment activities and foreign capital inflows, and does not necessarily signal weakening of macroeconomic fundamentals. Moreover, the current account deficit is financed in a sustainable manner, also reflecting strengthened foreign investors' confidence, as green-field FDI is expected to have increased to a record high of 10.3% of GDP in 2005. Central Bank foreign reserves kept on rising, despite the early retirement of Brady bonds amounting to approximately EUR 1 billion, which allowed public external debt to drop to below 20% of GDP in early 2006. Still, the current account mismatch remains a key source of vulnerability in the Bulgarian economy. Indeed, fixed exchange rates under the currency board constrain manoeuvreability of economic policy if faced with adverse changes in external conditions.



In the period under review industrial output grew robustly by 6.7% annually, still below the 17.7% growth posted in 2004. Circumstances in the labour market improved moderately, with newly created jobs almost equally divided between manufacturing and services sectors, mostly in the fast growing construction and wholesale and retail trades. Thus, the number of unemployed declined, relative to the size of the labour force, to 10.7% at the end of 2005, against 12.2% in 2004.

Economic development continued to exhibit relatively broadly based regional disparities. Some 7, out of 28 districts from the viewpoint of the administrative division of the country, were at the forefront of economic expansion, also featuring high concentrations of FDI and new job creation.

Improvements in economic fundamentals and tangible progress in reaching standards of industrialised markets were highly appreciated by the financial markets. All three leading credit agencies upgraded Bulgaria in 2005, while the narrowing of spreads over EUR yield curve reached the 39bp level in January 2006. Further rating upgrades are contingent upon the completion of EU membership-required reforms and the progress in policy measures aimed at reducing the remaining structural rigidities in Bulgarian economy.

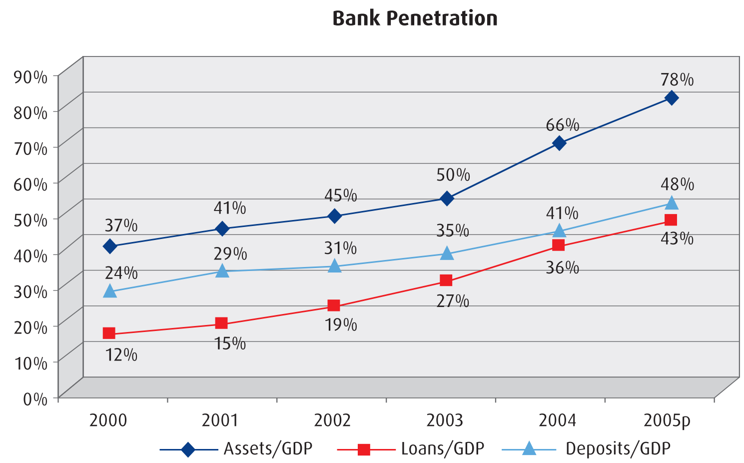
Selected economic indicators	2005	2004	2003	2002	2001	Growth 05/04
Official exchange rate at the end of the period (BGN/USD)	1.66	1.44	1.55	1.88	2.22	15.5%
Average Official exchange rate (BGN/USD)	1.57	1.58	1.73	2.08	2.18	−0.4%
Avg. Basic Interest Rate	2.04	2.61	2.68	3.96	4.48	−57 bp
Inflation at the end of the period (%)	6.5	4	5.6	3.8	4.82	250 bp
Average Inflation (%)	5.0	6.2	2.4	5.8	7.36	−120 bp
Nominal GDP (EUR millions)	21,448[p]	19,570	17,663	16,553	15,190	9.6%
Real GDP growth (%)	5.5[p]	5.7	4.5	4.9	4.1	−20 bp
GDP per capita (EUR)	2,779[p]	2,522	2,264	2,107	1,925	10.2%
Balance of payments final balance (EUR millions)	569	1,400	630	717	425	−59.3%
Current account balance (EUR millions)	−2,531	−1,131	−1,630	−926	−1,102	123.7%
Current account balance /GDP (%)	−11.8	−5.8	−9.2	−5.6	−7.3	−600 bp
Foreign trade turnover (EUR millions)	23,277	18,923	15,536	13,818	13,207	23.0%
Trade balance (EUR millions)	−4,369	−2,953	−2,200	−1,692	−1,778	47.9%
Foreign direct investments (EUR millions)	1,789	2,727	1,851	980	903	−34.4%
Gross foreign debt at the end of the period (EUR millions)	14,325	12,522	10,641	10,769	11,935	14.4%
Gross foreign debt/GDP at the end of the period (%)	66.8	64.0	60.2	65.1	78.60	280 bp
Total Public debt/GDP (%)	30.8	39.8	46.4	54.7	70.13	−907 bp
Gross internal public debt at the end of the period (EUR millions)	1,453	1,371	1,154	1,087	955	6.0%
BNB FX reserves (EUR millions)	7,370	6,770	5,309	4,575	4,061	8.9%
Budget deficit/GDP (%)	2.3	1.7	0.0	−0.6	−0.6	60 bp
Unemployment rate at the end of the period (%)	10.7	12.2	13.5	16.3	17.3	−147 bp
Acting commercial banks at the end of the period	34	34	35	35	35	–

Source:BNB, NSI and Ministry of Finance

[p] preliminary data

The regular European Commission monitoring report from October 2005 highlighted several “problematic” areas, namely the ability to absorb EU funds, ensuring high level of food safety, and fighting organised crime and corruption, where immediate corrective actions were recommended to ensure timely accession in 2007. EU accession date decision, expected to be made in May 2006, will have significant implications on the economy and business activity in the country during 2006.

2005 Overview of banking sector



In 2005, financial intermediation continued to expand rapidly approaching Central European levels. Fundamentals of the banking sector improved further; ROE was 18.9% (up from 17.3% in 2004) as profitability drew support from expanding economy and rising demand for banking services. Cost efficiency (measured by the cost-to-income ratio) improved to 54.7% from 57.8% in 2004. The non-performing loans ratio increased slightly to 3.65% at the end of the year, including more than doubling of the NPL ratio of personal loans cancelled out by the drop for that of business loans. Loan loss provisions were 12% of total operating income, up from 9% reported in the previous year.

In early 2005, in order to bring lending growth down to a more sustainable level, BNB introduced temporary administrative control measures on the pace of credit expansion using minimum reserve requirement as a tool. As a result the credit growth cooled down to 32% at the end of the year and is expected to slow down further to around 20% in 2006. Although the spending appetite of both households and corporate sector in 2005 was pretty strong, customer deposits attracted by banks posted a steep 26% annual increase. The rise was facilitated by improving financials and rising external capital inflows in the corporate sector. Similarly, higher incomes in the household sector, remittances from abroad and rising property prices contributed to the growth of retail deposits. On the demand side, lending restrictions of the BNB were built in a way to provide strong stimuli for banks to grow deposits from local residents. Importantly, the robust increase in customer deposits enabling the lending growth in 2005 was entirely funded by savings attracted locally, thus also reducing banking sector external indebtedness in relative terms.

Outlook for 2006

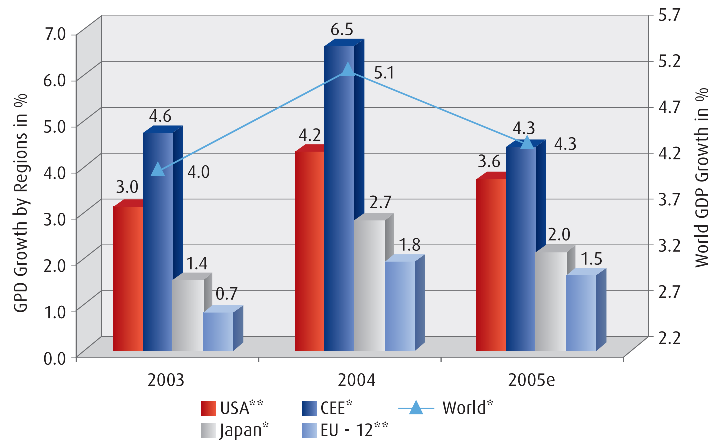
No major changes in economic policy in 2006 are expected. Fiscal policy will keep its role as a key intervention instrument preventing the economy from overheating. Such policies will also draw support from BNB measures to drive rapid credit growth down to more sustainable levels. Progress on the agenda of real sector reforms will be fundamental for the success of the overall policy framework in 2006. Key areas to watch will be removing remaining rigidities in the labour market and progress on education and health care reforms. The latter will have far reaching implications, not only for competitiveness and fiscal sustainability, but also on reaching the challenging Maastricht inflation criterion.

In 2006, financial intermediation is expected to grow fast on both assets and liabilities sides. Still, penetration on the lending side will continue to be constrained by the temporary administrative control on the lending growth, introduced by BNB in early 2006. Deceleration of lending growth rates is expected to bring some stabilization of applicable interest rates on newly extended loans. This will be also underpinned by some funding costs increase, as benchmark rates go up globally and competition for local savings intensifies. We are also likely to witness a modest deterioration of loan quality. Indeed, rivalry for building market share has lead to fast easing of borrowers' creditworthiness standards, which appears to have been accompanied by some accumulation of bad loans. The role of non-banks in financial intermediation will increase, especially in the context of rising preferences of households for higher yield and deeper diversification. Retail lending, and especially mortgage lending, will continue to draw support from increased inclinations of households for acquisition of real assets (mostly real estate), as a preferred method of wealth accumulation. Approaching EU membership is likely to have only a limited impact on the banking sector, as it was already restructured indirectly, via the entry of foreign banks and privatization.

WORLD ECONOMY

2005 Overview

The global economy grew by an estimated 4.3% in 2005, down from 5.1% a year earlier[1]. Growth softening was worldwide, reaching virtually every economic region. The major determinants of the slower global growth were energy and commodity prices, the constrained capacity building in resource sectors and the tightened monetary policy. In the USA, high oil prices, rising short-term interest rates and the severe hurricane season were the major catalysts for GDP growth dampening to the forecasted 3.6%[2] from 4.2% in 2004. Still, USA and China remained in the forefront of the expansion of global economic activities, while in Europe the economy continued its very slow recovery rising by an estimated 1.5% in 2005. In Japan, rising domestic demand and household incomes, offset by tighter labour market conditions and the decreasing pace of industrial restructuring, resulted in an estimated 2.0% GDP growth.[3]



Widening global current account imbalances remained a main worry worldwide in 2005. In the US, the foreign trade deficit expanded further under the pressure of rising domestic demand and soaring crude oil prices. Still, capital inflows remained just strong enough to ensure that the current account deficit is financed in a sustainable manner. The pickup in oil prices had the opposite effect for oil exporters, putting them in surplus. As a result, differences in growth structure and pace across regions widened in the course of the year. Monetary policy stances are therefore becoming more differentiated: US, Canada and EU have raised interest rates, in Japan they have remained on hold, and in the UK interest rates were reduced in the 3rd quarter.

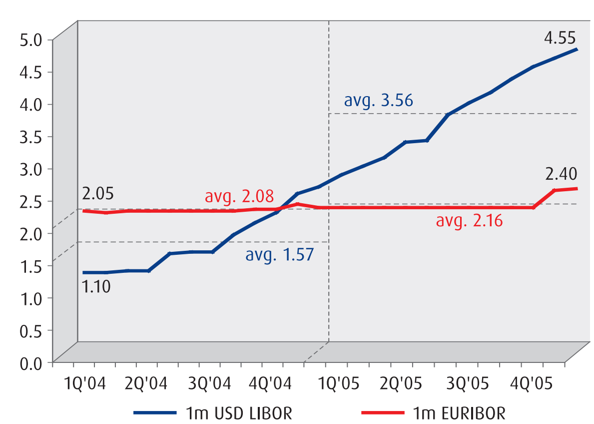
The significant dynamics of international exchange rates over the past few years abated in 2005. In particular, the trend of USD decline against major currencies came to an end, notwithstanding the persistence of the US current account deficit.

Oil prices have continued their ascent, hitting a new nominal high of some $65 a barrel in late August, before falling back somewhat later in the year. CPI increased slightly in advanced economies to an estimated 2.2% in 2005 from 2.0% in 2004. Likewise, inflation dynamics in emerging markets and developing countries inched up to an anticipated 5.9% in 2005, from 5.8% a year earlier, with higher energy and commodity prices being the most relevant inflation drivers. World trade growth dynamics lost momentum in 2005 to 7% from 10.3% posted in 2004, mainly thanks to the deceleration recorded in the industrial production and the exports of the high-income economies. The volumes of the latter grew by less than 4% annually in early 2005, before strengthening somewhat in the second half of the year. Merchandise export volumes of developing countries (excluding China) were relatively strong, growing at an estimated 12% annually towards the middle of 2005. Chinese exports, boosted by the liberalization of trade with textiles grew by an impressive 24% in 2005.[4]

Financial market conditions remained benign in 2005. Despite the rising volatility, long-term interest rates continued to be exceptionally supportive for investments around the globe. In the context of monetary policy tightening in the US, the 1-month USD LIBOR grew steadily to 4.4% at the end of 2005 from 2.1% an year earlier. In contrast, the 1-month EURIBOR increased only marginally to 2.44% at the end of 2005 from 2.20% at end-2004.

In foreign exchange markets, rising expectations of higher US interest rates and resilient economic growth in the US

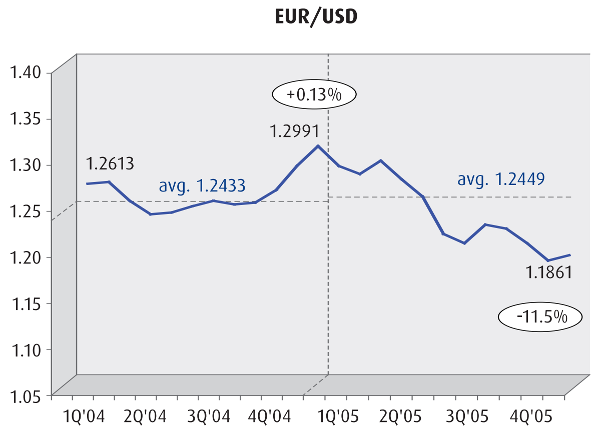
1m USD LIBOR & 1m EURIBOR (%)- 2004/05



[1] IMF *World Economic Outlook*, Sep. 2005
[2] UniCredit Group database & forecast
[3] IMF *World Economic Outlook*, Sep. 2005
[4] World Bank *Prospects for the Global Economy 2006*

resulted in a moderate appreciation of the USD. In the first quarter of 2005, strong net private-sector capital inflows made the dollar much less reliant on the accumulation of reserves by foreign central banks (foreign official asset purchases) than in 2004. Through the rest of the year, growing interest rate differentials increased the financial incentive to hold dollar versus euro denominated assets. Thus, at the end of 2005, the US dollar appreciated by 11.2% against the Euro to 1.19 USD/EUR.

Global equity markets sustained their resilience on the back of improving profitability and healthier balance sheets in the corporate sector.



Outlook for 2006

Global economic growth is expected to stay at 4.3% in 2006[1]. Global GDP growth is forecasted to ease further in early 2006, but to regain momentum afterwards as the adverse impact of higher oil prices will be balanced by still-accommodative macroeconomic policies (with only moderate tightening expected in most countries), benign financial market conditions (in particular low long-term interest rates), and increasingly stable corporate financials.

[1] IMF *World Economic Outlook*, Sept. 2005

BULBANK ACTIVITY REVIEW

Financial results

Bulbank reports a consolidated net profit of BGN 96.1 million in 2005 (up from BGN 86.3 million in 2004). This incorporates a net profit of the bank of BGN 94.2 million (representing 16% of the preliminary profit of the banking system[1]) and a net profit of UniCredit Leasing Bulgaria of BGN 1.9 million. Total gross operating income is up 15.2% to BGN 229 million and net operating income increases by 21.4% reaching BGN 139 million.

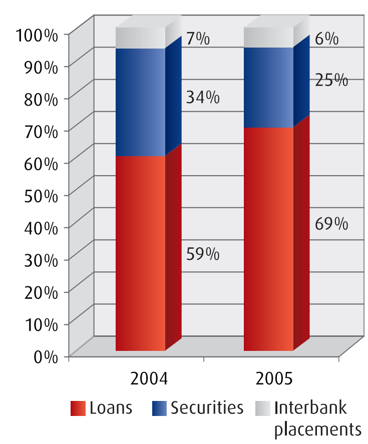
Thousands of BGN

Summary consolidated operating income statement	2005	2004	Growth (%)	Growth (amount)
Net interest income	162,850	134,502	21.1	28,348
Fees and commissions income	44,657	39,758	12.3	4,899
Net trading income	11,615	4,318	169.0	7,297
Gains from investment securities	3,090	7,042	(56.1)	(3,952)
Other operating income	6,377	12,850	(50.4)	(6,473)
GROSS OPERATING INCOME	**228,589**	**198,470**	**15.2**	**30,119**
Operating Expenses	(89,781)	(84,086)	6.8	(5,695)
NET OPERATING INCOME	**138,808**	**114,384**	**21.4**	**24,424**

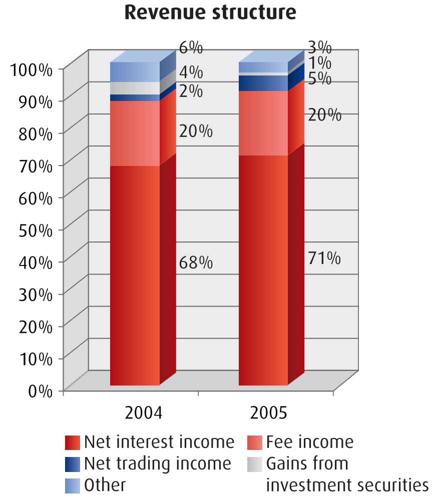
Profitability is strong, with return on assets of 2.9% and return on average equity of 16.3%. Earnings per share are BGN 0.58, an increase of 11.4% compared to 2004. Efficiency improved even more, with Cost/Income ratio of only 39.3% due to steady revenue growth and strict cost control.

Net interest income was the main earnings contributor with 71% of gross operating income. It grew 21.1% year on year to BGN 163 million. Net interest income generation was further supported by the optimization of the asset structure; as of the end of the year, interest-earning assets were 87.7% and interest-bearing liabilities were 82.5% of the balance sheet total respectively. Lending interest income, representing 69% of total interest income, grew by 41% due to the 49% increase in the bank's average annual loan portfolio and the high contribution of leasing operations. Interest income from securities accounted for 25% of interest income, and exhibited a decline of 8% due to lower spreads and volumes. Interest expense on customer deposits went up by 15% due to increase in prices and ave-rage volumes. Interest income was supported by the increase in base rates. The average 1-month USD LIBOR rose by 113% and the average 1-month EURIBOR was up by 4%. Nevertheless, interest income from inter-bank placements was almost unchanged, due to lower volumes, and accounted for 6% of total interest income. Lending spread for the year went down by 85 basis points. The effect on net interest income was offset by the 39 basis points increase in the deposit spread. Overall, net interest margin[2] improved from 4.72% to 5.35% compared to a 26 basis points deterioration for the banking system.

Share in interest income



Revenue structure



Fee income was up 12.3% to BGN 44.7 million, accounting for 20% of gross operating income. The growth is mainly attributable to the 76% increase in loan related fees, 55% increase in fee income from packages and 14% from cards. Clean payment-related fees grew by 13%, cash operations fees were up 11%.

Net securities operations gains were BGN 3.1 million, down by 56% year

[1] As per 4Q 2005 BNB data of the banking system.
[2] Net interest income/Average Assets

on year mainly due to less favourable market conditions and the smaller portfolio size compared to 2004. Net foreign currency operations gains were BGN 6.9 million, four times those in 2004, largely due to USD hedging effects, mitigated by a corresponding increase in provisions on USD-denominated instruments.

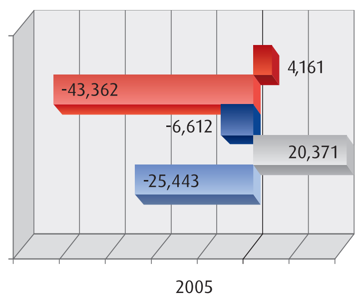
Other operating net income was down 50% to BGN 6.4 million. The decline is explained by large one-offs in this category in 2004.

Operating costs reached BGN 89.8 million. The increase of 6.8% is mainly attributed to the 26% increase in depreciation after implementation of the new IT system. Personnel costs grew by 9.7%, directly due to the geographical expansion. Non-personnel costs were down 2% in 2005, mostly as a result of a decrease in IT maintenance costs.

Net impairment losses and provisions amounted to BGN 25.4 million, compared to BGN 7.7 million in 2004. The increase was due to the tightening of the provisioning policy, growth of the loan portfolio and the appreciation of the USD. A large proportion of the impairment was offset by the receipt of more than BGN 24 million from active collection and work-out activity. Bulbank continues to pursue a strict, conservative and prudent risk assessment and provisioning policy, thus covering properly potential risks in the rapidly expanding lending market. As a result, the bank's NPL ratio of 1.6% is well below the 3.6% of the banking system.

Income tax was BGN 17.2 million, down 15% year on year due to the cut in corporate income tax rate from 19.5% in 2004 to 15% in 2005.

Net provisions (2005 cumulative)



Balance sheet

The value of the consolidated balance sheet reached BGN 3,475 million, down by 3.9% compared with the end of 2004 in nominal terms. However, there was a 12.5% growth ignoring the short-term one-offs at the end of 2004. This incorporates the balance sheet numbers of BGN 3,409 million for the bank and BGN 64 million of UniCredit Leasing Bulgaria. Interest-earning assets accounted for 88.7% of total assets, up by 119 basis points.

Millions of BGN

Summary Consolidated Balance Sheet[1]	**2005**	**2004**	**Growth (%)**	**Growth (amount)**
Assets				
Cash and balances with Central Bank	239	292	(18.1)	(53)
Due from Banks (net)2	372	709	(47.6)	(338)
Securities	979	1,079	(9.2)	(99)
Loans and Advances to customers (net)3	1,707	1,354	26.1	353
Property and equipment	154	161	(3.9)	(6)
Other assets, net	24	21	15.1	3
Total assets	**3,475**	**3,615**	**(3.9)**	**(140)**
Liabilities and shareholders' equity				
Customer deposits	2,619	2,917	(10.2)	(298)
Other liabilities	246	123	99.7	123
Total liabilities	**2,865**	**3,041**	**(5.8)**	**(175)**
Shareholders' equity	**610**	**574**	**6.2**	**35**
Total liabilities and shareholders' equity	**3,475**	**3,615**	**(3.9)**	**(140)**

(1) Balance Sheet from the financial statements is adjusted for analytical purpose.

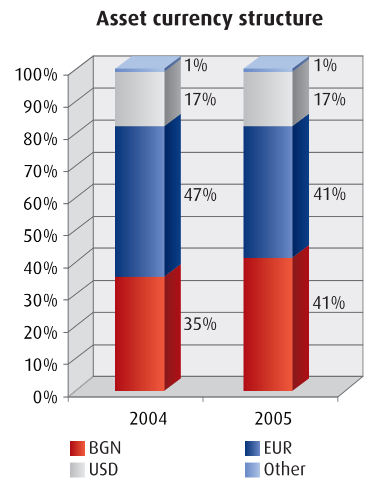
(2) Excluding loans to financial institutions, added to this item in financial statements.

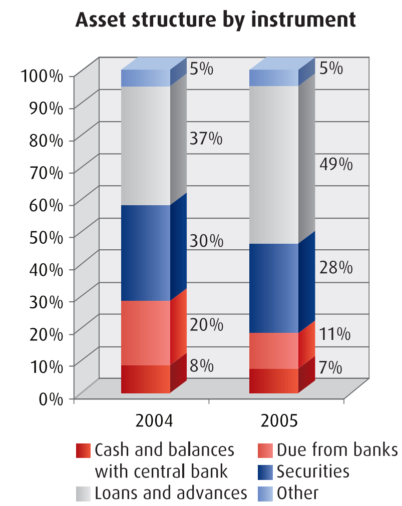
(3) Including loans to financial institutions, classified as Due from banks in financial statements.

[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.

The asset currency structure changed, with the EUR share falling by 6.7 percentage points to 41% of the total, in favour of BGN due to one-offs as of 31 December 2004.

The shift from treasury components to those related to commercial banking continued in 2005. The loan portfolio weight rose to 49% of total assets against 37% previous year, reaching BGN 1,707 million in net terms (up 26.1% year on year). The securities portfolio decreased by 9.2% to BGN 979 million, its share in total assets declining from 30% to 28%. Interbank placements at the end of 2005 were 47.6% lower than in the previous year, registering another drop in their share of total assets from 20% to 11%. Property and equipment declined by 3.9% for the depreciation effect of the new IT system.





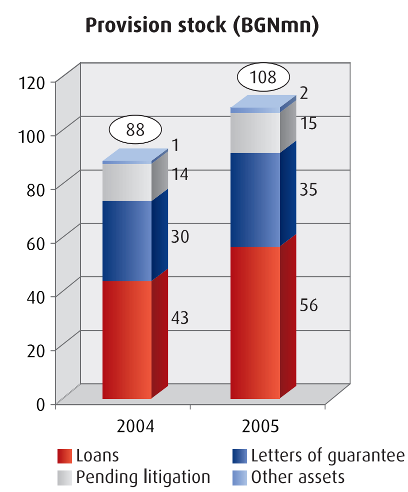
The bank continued to finance its operations through customer deposits and internal funds. Nonetheless during 2005 it attracted external long-term borrowings amounting to BGN 93 million, mainly for financing UniCredit Leasing Bulgaria activities and while complying with the statutory regulations regarding related party transactions. Due to strong one-off effects at the end of 2004, customer deposits declined by 10.2% to BGN 2,619 million.

Shareholders' equity amounts to BGN 609 million, up 6.2% for the year (BGN 574 million in 2004) due to reinvestment of some of the net profit of 2004 and higher net profit in 2005. The equity ratio increased to 17.5%, up from 15.9% in 2004. Total capital adequacy ratio is 21.6% (23.3% in 2004), and Tier 1 ratio is 18.8%, down from 20.4% in 2004. Risk-weighted assets to total assets ratio is up by 8.5 percentage points to 61.4%, reflecting the growth of loan portfolio. This affords complete compliance with BNB Regulation 8 on Capital Adequacy.

Risk management

In the context of fast lending growth and the increasing level of complexity of most loan products, Bulbank has demonstrated continued focus on risk management and control. The sound risk profile of the bank and the quality of its risk management system was recognised by the rating agencies, reflected in the consecutive upgrades of Bulbank's credit rating over the past two years.

Credit risk was the centrepiece of risk management. Additional functionalities were implemented in the existing tools for corporate, small business, consumer and mortgage lending. The retail lending scoring system introduced in 2004 was further improved. The lending underwriting process procedures have been refined. Additional efforts were made in the area of classified loans. The bank signed framework agreements with two collection agencies to improve collection of retail loans. A separate workout unit was established during the year, in charge of loan loss collection, as a response to the increasing risk of the system and as a pre-emptive measure against probable increase in doubtful debts of the bank coincident with the growth of the loan portfolio.



The strong emphasis on asset quality is reflected in the NPL ratio of Bulbank, which improved even further in 2005 compared to a slight deterioration of that for the whole banking sector. Bulbank continued to pursue a strict and prudent policy of credit risk assessment and provisioning. Total loan provision coverage is 3.3%.

Market risk monitoring was enhanced through the newly introduced requirements of the Central Bank, enforced via the Capital Adequacy Regulation, which took into account the EU and Basel II guidelines. The bank is running a balanced foreign currency position. The total net open FX position of 9.7% of the capital base at the end of the year meets the requirements of BNB. The open position in EUR is also not considered at risk by the regulator, given the prevailing Currency Board arrangement. With the high volatility of the EUR/USD exchange rate in mind, the bank continued to hedge the FX risk of its USD-denominated, uncollateralized off-balance sheet exposures. The interest rate risk was closely scrutinised, due to the continuing upward trend of the USD base interest rates, the uncertainty around Euro-zone base rates and the highly competitive pricing environment. The interest rate positions were carefully monitored and managed. The bank hedged partially its securities' interest rate risks through interest rate swaps. It also used other standard derivative instruments to manage market risks. VaR tools were applied to determine the potential maximum loss. Bulbank remains comfortably liquid. Despite active lending, the expected cash receipts exceeded outflows. Liquid asset-to-deposit ratios[1] are at a satisfactory level: 29.6% in total and 29.1% for those denominated in foreign currency. Stress test analyses with different scenarios on expected cash flows have been performed regularly for monitoring and managing liquidity risks. The developments in the market risk analysis and control area during the year continued the process towards full Basel II compliance for statutory purposes from 2007.

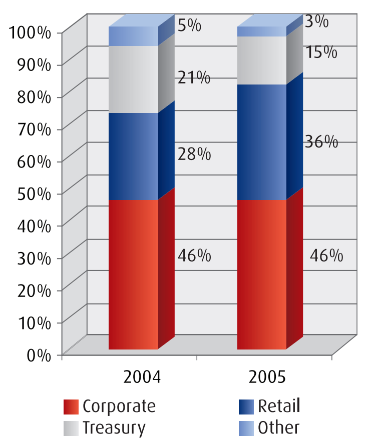
For a second year in a row, continuing efforts were put into the maintenance and improvement of the operational risk management infrastructure, aiming at meeting Basel II standards also in this area. This comprised of an internal operational risk regulatory framework, collection and assessment of operational risk data, a system for regular reporting to the top management on risk exposures and tools for operational risk mitigation and hedging. Close monitoring of risky areas was established and further steps were taken for separating and analysing the potential risk-bearing processes. As a result the sustained losses and the estimated losses against the gross operating income of the bank dropped significantly and their gross increase during the year was marginal.

Bulbank continued to maintain healthy geographical distribution of its assets. It invests 73%[2] of its assets in Bulgaria (BGN 221 million increase in 2005), 24% in OECD countries (mainly Italy, Germany and USA) and 6% only in other countries, fully in accordance with the approved investment policy.

Commercial banking

Commercial banking reinforced its position as the main revenue growth driver. It generated BGN 185 million revenues in 2005, up 27% year-on-year. This represents 82% of total revenues of the bank, compared to 74% a year earlier. This growth was achieved through strong growth in the loan portfolio, an increased number of customers and the improved product offer. During the year, the number of customers grew by a net thirty-one thousand[3] across all segments, thus increasing the customer base by 8% to 435,000.

Revenue structure (by business area)



The loan portfolio increased by 22.4% at the end of the year compared to the end of 2004, bringing the loan to deposit ratio to 65.2%, up by 17.4 percentage points. The average annual loan portfolio, however, grew by more than 49% compared to 43% for the whole banking sector. Loans to individuals increased by 81% in 2005. Mortgages were the fastest growing instrument, up by 114%, followed by the small business loans, up 74%.

In 2005, Corporate banking revenues amounted to BGN 104 million, a 15.5% growth year-on-year. The main revenue contributor was lending. Corporate loan portfolio grew by 10.4% reaching BGN 1,270 million as of 31 December 2005 (38.9% on an average annual basis to BGN 1,261 million). The significance of this growth is reinforced by both the quality of the portfolio, which remained superb in 2005 (an NPL ratio of only 1.1%), and also by the 15% growth of net interest income revenues from lending, despite the constant drop of the lending spreads.

2005 was a year of continued focused efforts in transactional services, new corporate products launch and customer retention. These were aimed not only at increased revenues but also at a wider recognition of Bulbank as an innovative solution provider in the Bulgarian Corporate market and at improving the quality of client portfolio. As a result, fee income increased by 17% annually to BGN 33 million in line with the strategy for sustaining a balanced structure of the income statement.

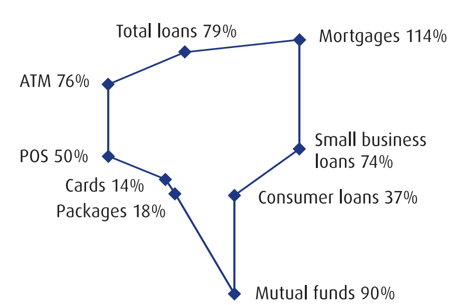
Due to the strong evidence of customer demand, factoring convergence in Central and Eastern European countries with Western Europe and the virtual non-existence of the product on the local market, Bulbank grasped the opportunity to develop factoring ahead of the competition. Leveraging on Bulbank's core strengths of network, brand and

[1] Liquidity ratios as per BNB Regulation 11. Liquid assets are adjusted with the amount of overdue or pledged assets.
[2] Data as of 31 December 2005.
[3] New net customers, including gross new less gross left customers and closed dormant accounts.

size, domestic factoring with recourse was launched in 2005. Being a demand-driven product introduction, factoring is considered essential both on revenue and on customer service sides. In 2005, a new Structured Finance unit was established to support advisory services to corporate and institutional customers. By providing specialised investment and structured financing services (mergers/acquisitions, green field and expansion investment projects, projects involving international investors, etc), it is intended thereby to prove its potential as a major player in all significant segments of the market.

Within the concept of cash management products and services (the foundation of which was established in 2004), Bulbank pioneered the market by introducing Bulcollect and Buldirect. Bulcollect is a unique cash management offer for suppliers with a large network of buyers for effective cash collection, reconciliation of suppliers' cash receivables and optimization of suppliers' liquidity management and costs and ensures an increased deposit base, risk-free fee income, cross-selling opportunities and easier client acquisition. Buldirect is a response to a growing need among local and multinational companies for streamlining their cash flow process and improving their cash management. The product represents an automated direct debit system with extra features. Another pillar of the cash management concept was the usage of electronic channels (being the platform of any cash management enhanced solution). As a result of a structured effort that was ongoing for more than a year, e-penetration in terms of payments among Bulbank corporate customers is among the highest on the domestic market. At the end of 2005 over 56% of the medium-sized and almost all large corporate clients used Telebank or Bulbank Online (or both). In 2005 e-payments accounted for 55% of all BGN payments and 65% of all foreign currency payments.

Retail - 2005 annual growth of product stock



Retail banking revenues increased by 46% compared to 2004, reaching BGN 81 million. This incorporates 71% growth of net interest income and 23% in fee income. The loan portfolio of the segment more than doubled (79% growth), reaching BGN 437 million at the end of the year. At the same time, the lending spread dropped by more than 1.5 percentage points due to strong competition and improved offers. Retail banking[1] 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[2] as evidenced by growth of 74% in loan portfolio and 33% in deposits. 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 is already one of the leaders with a loan portfolio of BGN 266 million at the end of the year and 13% market share. The mortgage growth was strongly supported by three newly-established specialised personal lending centres. Cash loans rose by 37%, extended on a safe underwriting basis.

Sales of asset management products sustained momentum: mutual funds rose by 90% to BGN 29 million and structured term deposits increased by 71% to BGN 71 million. 26% more packages were sold, almost reaching twenty seven thousand. The number of cards issued increased by 14% to 282,000. The number of POS terminals went up by almost 50% to 1,902 and the number of ATMs increased by 76% to 267.

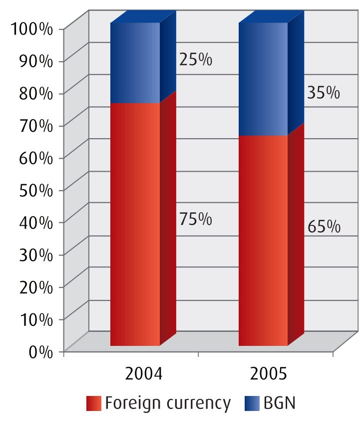
Bulbank markedly improved its commercial campaign-running and marketing competence during the year. Advertising focused on specific products was strengthened to support commercial campaigns and simultaneously to rejuvenate the bank's image and to establish Bulbank as a strong retail brand, in addition to its powerful positions in corporate banking. A geographical expansion and branch design enhancement project was successfully carried out.

[1] Including all segments of individuals (private, affluent and family) and small businesses.
[2] Companies with annual turnover of up to BGN 1 million.

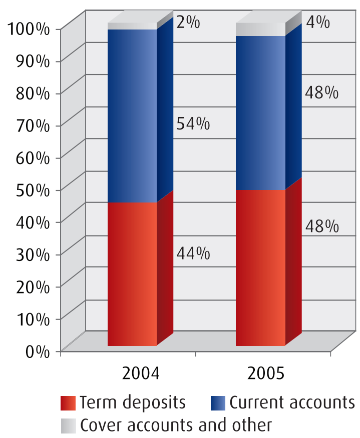
Customer deposits

Customer deposits decreased by 10.2% or BGN 298 million to BGN 2,619 million in nominal terms. This does not include the large ticket transfers during the year related to institutional accounts, which on one side limits the deposit base, but on the other significantly reduces the risk of concentration, strengthens sustainability and improves the yield on deposits. The nomalised growth in deposits adjusted for the above one-offs ammounts to 9.2%.

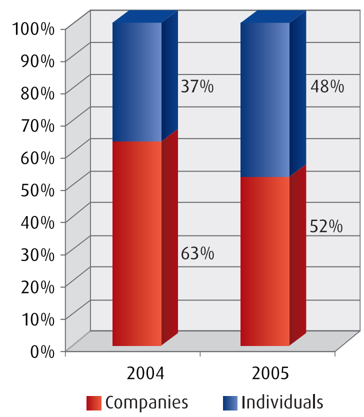
Deposit structure (by currency)



Deposit structure (by instrument)



Deposit structure (by client type)



BGN component is up by 10 percentage points to 35% of the total. EUR and USD components are respectively down to 40% (compared to 53% last year) and up to 24% of the total (compared to 21% in 2004)[1].

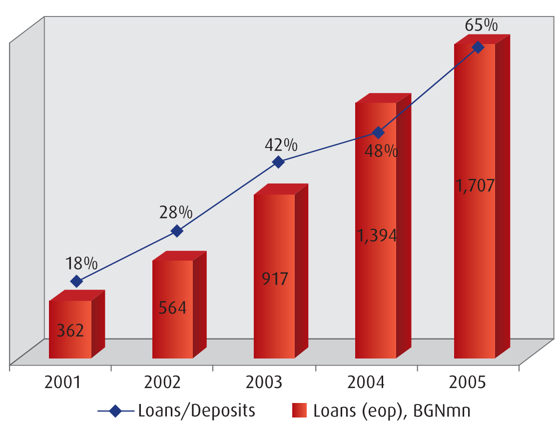
Corporate deposits (without small business) dropped to BGN 1,229 million at the end of 2005 due to the strong one-offs at end 2004. Retail deposits (including Small Business) are up to 18.4% to BGN 1,490 million. Thus, the share of deposits of companies is down to 52% of the total. The currency structure of deposits is dominated by foreign currency with 57% of total, mainly in EUR. Term deposits increased their share from 44% to 48% of the total.

Loan Portfolio

The bank loan portfolio posted a 22.4% growth in 2005 to BGN 1,707 million[2] on a gross basis, up from BGN 1,394 million a year earlier. The average annual loan portfolio is BGN 1,596 million in 2005, up 49% compared to 2004. The loan to deposit ratio increased to 65% (compared to 84% for the banking sector) from 48% in 2004. This represents an excellent growth opportunity.

The structure of the loan portfolio changed, reflecting the commercial activities during the year. The share of loans to individuals increased to 20% (14% in 2004) driven by the steep growth in mortgages, which reached 16% (9% in 2004) of total portfolio. The share of foreign currency loans declined slightly from 58% to 55%. Working capital loans increased by 29% reaching 47% of total loan portfolio.

Loans (eop), BGNmn



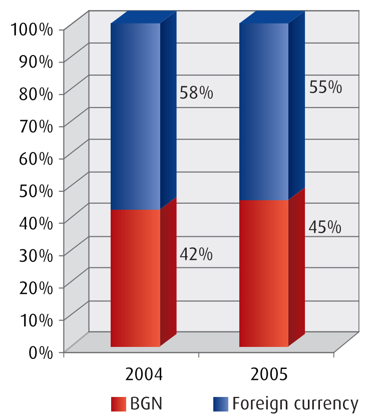
Loans to companies grew by 13.2% to BGN 1,362 million, accounting for 80% of the total. The average annual growth is 39%, but reduces at the end of the year due to repayment of a couple of large items. The predominant part is to medium-sized companies. Concentration risk is down with the 25 largest exposures to total loans at 34% from 44% in 2004 (and at 129% from 141% to own capital[3]). The share of working capital loans[4] is 58.8% of total company loans (56.4% in 2004). Bulbank holds 11% market share of company loans at the end of 2005.

Loans to individuals grew by 80.5% (63% growth for the market) to BGN 345 million, and account for 20% of total loans. Thus the bank increased its market share in loans to individuals by 50 basis points to 5.6%. Given the growing property market, high demand, credit history and profitability of all other markets, the main focus during the

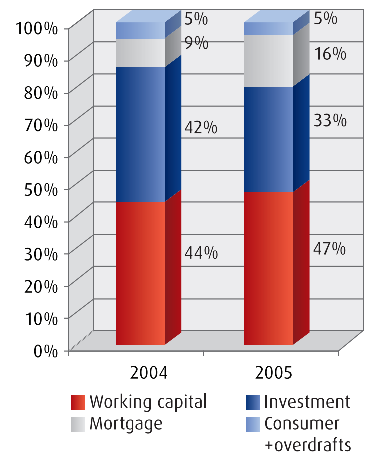
[1] The rounding to 100% falls to other foreign currency.
[2] Including BGN 28 million loans to financial institutions.
[3] As per the definition of the BNB.
[4] Including overdrafts.

year was again mortgage lending. The bank increased its mortgage portfolio by 114% (101% growth for the market) to BGN 266 million or 13.1% market share. Despite strong demand, consumer loans were not a priority for risk considerations. They were nonetheless up by 37% to BGN 63 million. Loans on charge and revolving cards were extended on a limited basis for similar reasons. Personal loans were almost entirely denominated in BGN.

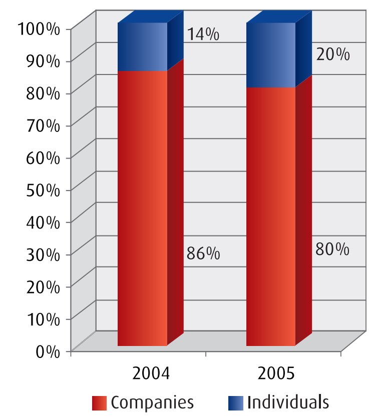
Loan portfolio structure (by currency)



Loan portfolio structure (by instrument)



Loan portfolio structure (by client type)



The industry structure did not change dramatically during the year, although the share of top two industries exhibited a slight decline. The main areas of concentration are still manufacturing, commerce and tourism, overall 63% of total.

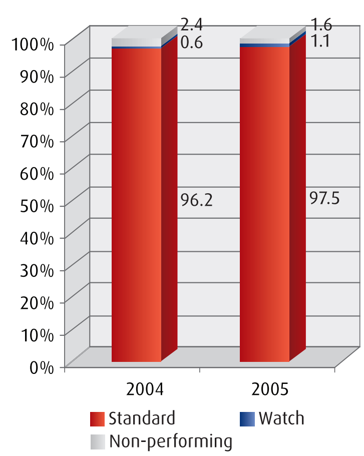
Millions BGN

Industry structure of the bank portfolio	2005		2004	
	Amount	Share	Amount	Share
Processing and manufacturing	614	35%	509	37%
Commerce	323	19%	339	24%
Tourism	148	9%	160	11%
Households and individuals	345	20%	191	14%
Agriculture	44	3%	37	3%
Services	148	9%	124	9%
Transport	49	3%	14	1%
Construction	36	2%	20	1%
	1,707	**100%**	**1,394**	**100%**

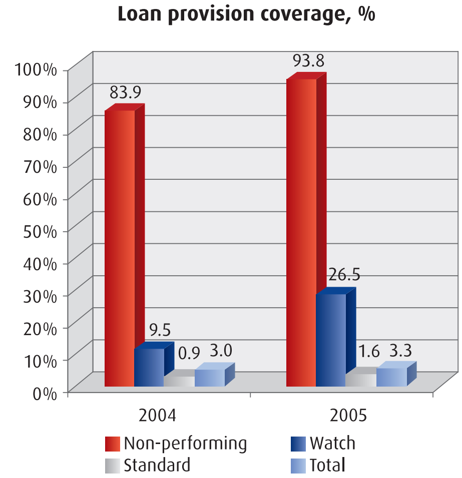
Loan quality remains excellent. Non-performing loan ratio[1] improved further to 1.6% from 2.4% a year ago. The share of standard loans increased to 97.5% of total. Despite the growth of the loan portfolio, non-performing loans declined by 19% (from BGN 34 million to BGN 27 million) due to active work out and collection activity. The overall amount of write-offs is BGN 4.9 million.

During the year, the bank amended its provisioning rules in line with the changing BNB requirements and also to reflect its conservative and prudent practices with respect to credit risk. As a result, total provision coverage increased from 3% to 3.3%. Standard loans provision coverage was 1.6% (up from 0.9%), watch loans coverage increased to 26.5% and NPL ones to 93.8%.

Loan portfolio structure (by risk), %



Loan provision coverage, %

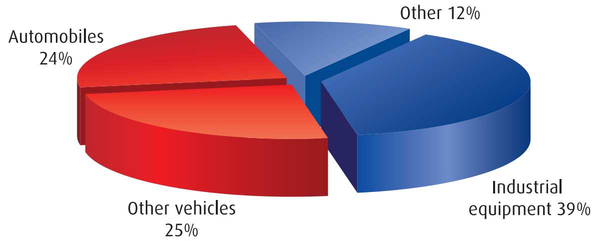


[1] Non-performing loans to total gross loans. Non-performing are all those loans classified as sub-standard and loss as per the ruling BNB Regulation 9 as of the end of 2005.

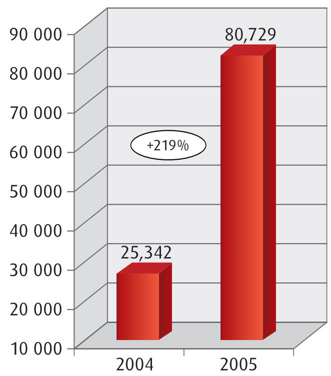
Leasing

The leasing business of Bulbank, started up in 2004, is a success. UniCredit Leasing Bulgaria (UCL) reports more than 3 times growth in leasing portfolio in 2005 to BGN 81 million, also improving market share amongst the banking group leasing companies – being the main player on the local market with 10% at the end of the year from 6% in 2004. The consolidated net profit reported by UniCredit Leasing Bulgaria (including UniCredit Auto Leasing Bulgaria EOOD) for 2005 more than quadrupled to BGN 1.9 million and gross operating income increased by four times to BGN 4.4 million.

UCL 2005 new portfolio by product



Leasing Portfolio, BGN ths

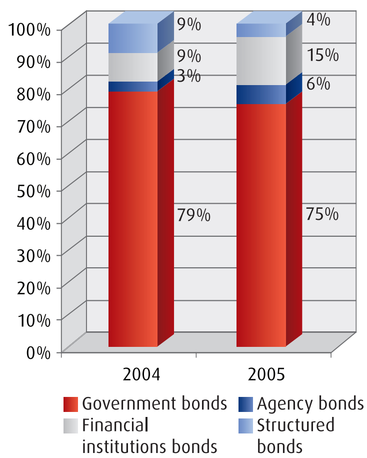


UCL has been using the bank's branch network as its main distribution channel, making 75% of the business. However, in order to strengthen the business locally, 3 leasing offices were opened in other large cities outside Sofia and there are plans to cover all 8 regional outlets of the bank in 2006. The company business model, strategy and internal rules are aligned with those of Bulbank. In terms of segments, corporate and small business segments are the main focus, although the company started offering leasing to individuals in 2005, mainly car leasing. Vehicles represent the main portion of UCL portfolio with 52% of total, followed by industrial equipment with 39%.

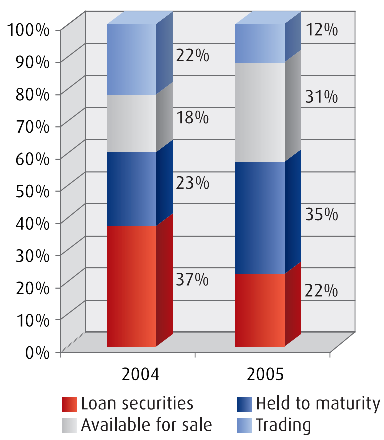
Money market and capital market operations

In 2005, Bulbank continued its active investment policy, fully complying with the existing rules regarding market risk. The sought after balance between risk and return was achieved within the framework of the investment policy of the bank by investing mostly in Government bonds issued by Bulgaria, G7 countries and countries about to join the EU. Such investments account for 75% of total portfolio. The decline in the volume of Bulgarian Government Securities is mainly a result of the retirement of Brady bonds by the Bulgarian Government.

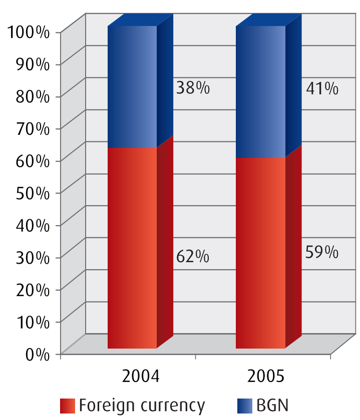
Securities portfolio (by instrument)



Securities portfolio (by type of portfolio)



Securities portfolio (by currency)



Bulbank made further steps in the optimization of its asset structure, by reducing the deposits with first-class foreign banks from BGN 705 million to BGN 361 million and by reducing the securities portfolio by 7% to BGN 974 million. The released resource was used to finance the growth in loan portfolio.

The average rating of the portfolio under Standard & Poor's is "A-" and the average duration is 3 years, up 0.4 years compared to 2004.

Interbank operations on domestic and international money markets were geared towards providing optimal liquidity. Money market operations comprised mainly of short-term deposits, ensuring a flexible approach for liquidity management. Credit lines for EUR 70 million were acquired for small business financing from international financial institutions. In 2005, Bulbank was an active player in the fast growing Bulgarian corporate bonds market.

Bulbank possessed shares in 9 companies at the end of the year at a total amount of BGN 5.4 million, down from BGN 5.8 million in 2004.

Development

2005 was marked by extensive development activities in many aspects, particularly in the areas of new business and product development, distribution channels enhancement, and credit risk management. These are described in detail in the respective sections of this document.

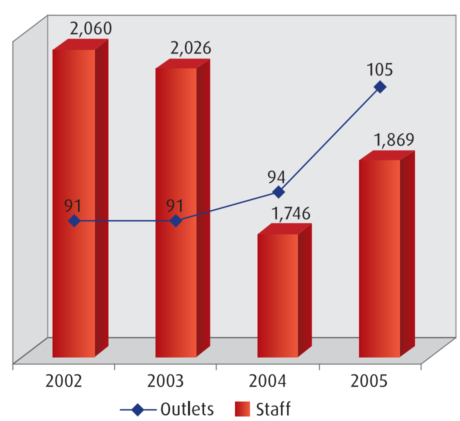
Particular emphasis was placed again on systems and IT development. One of the largest and high priority projects during the year was the one for reengineering of the reporting data warehouse of the bank. As a result, a unified reporting data base was built up using state-of-the-art technology to support business and senior management decision making, planning and monitoring, but also to control operations and significantly optimise report generation. A large number of developments were made in the areas of hardware optimisation, communications and security. A lot of efforts were exerted for strengthening further the control systems responding to the changing regulations, market environment and overall development of the bank. The implementation of a specialised leasing operational application for the leasing company was completed. A specialised operational system development for the factoring company was initiated. A specialist application for calculation and accounting of amortised costs was designed, developed and implemented. A specialist project management application was initiated and implemented to support and intensify the change management and development activity of the bank. Basel II standards implementation was another area of attention within the context of the significant impact on financials and business that it has, complexity of the project and central bank requirement for compliance by 1 January 2007.

Human resources

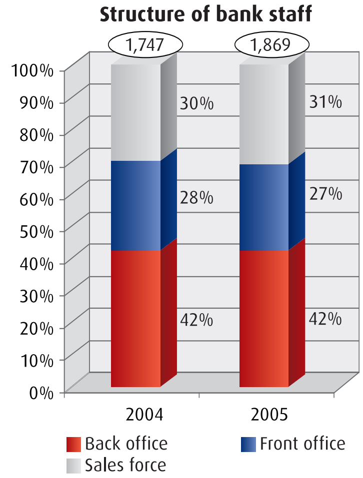
Management of human resources received special attention due to its strategic importance and contribution to the bank's development and fulfilment of its business goals.

2005 was a year of active organizational development of the branch network as well as the Head Office. Nine new outlets, three new lending centres and one small business centre have been established with over 70 new employees altogether. Three new units were created at Head Office: loan work-out, factoring, and consumer finance, the last two being instrumental for the establishment of the respective stand-alone companies.

Number of bank staff and outlets



Structure of bank staff



The total number of Bulbank group employees increased by 137 from 1,760 to 1,897. At the end of the year, the total number of employees of the bank only reached 1,869, an increase of 122.[1] 10 The geographical expansion and increase of sales force are the main reasons for growth. The total number of commercial positions reached 578, 31% of total bank and 46% of branch network staff. Sales force (people directly engaged with commercial activities in all market segments) increased by 9% to 455, 24% of total staff and 36% of network staff. The weight of front office staff (people servicing customers) reached 58% of total. The number of staff at Head Office increased to 612,

[1] The steep drop in number of staff in 2004 compared to 2003 is due to outsourcing of security staff.

33% of total, mainly due to newly opened business lines and credit risk management units, described above.

Compensation policy was actively enhanced, driven by performance, market dynamics watch and group principles. The variable part of compensation, strictly linked to contribution, was developed further. The principles of personal target allocation, performance related bonus range, pre-advice and team solidarity factors, ruling for the MBO covered positions, were cascaded to the whole bank. The MBO system (Management by Objectives), applying previously mainly to managers, was enhanced by enlarging the scope of eligible staff. For the first time, sales force positions were assigned semi-annual targets, thus qualifying for a semi-annual MBO too.

As a result of the employee satisfaction survey done at the end of 2004, an intensive action plan was done for development targeting enhancement in the following areas: leadership, client focus, training and development and pay.

People development was a main priority in 2005. More than 150 newcomers visited induction training. Specialist training in sales skills and products continued with great intensity aligned with the business plans of retail and corporate divisions. Special Corporate and Small business events were organised, where the bank's strategy and plans for development were presented along with discussion panels and training. IT specialist training continued aimed at introducing new technologies in support of business and services, increased processing capacity and upgrade of infrastructure. Soft skills and management workshops were organised for a focused group of managers and experts, including presentation skills, negotiation skills, process management and time management. A two-year leadership development programme was initiated for first line managers based on the emotional Intelligence concept. A fourth consecutive group of young people with high potential joined the "Young Talents" managerial programme, a joint venture of UniCredit Group and Bocconi University.

The assessment centre of the bank supported the active recruitment process and was involved in evaluation of employees' potential. This supported the career planning process. A new initiative named "Know Your People" was launched, bringing together people from various areas and locations in the bank and the top executives in an atmosphere of informal discussion, aiming at improvement of internal communication and ideas generation.

Corporate social responsibility

Being a member of UniCredit Group and Global Compact initiative of the United Nations, Bulbank places a special emphasis on corporate social responsibility. The total amount given to charity in 2005 grew by 35% compared to the previous year.

In 2005, the joint project with Unidea, UniCredit Foundation, for repair and renovation of premises and dormitory of the School for Visually Impaired Children in Sofia was completed. The bank started its biggest and best structured joint bank-employee donation campaign targeting fund raising for the reconstruction of the orphanage house in the town of Roman, which suffered badly from the summer floods.

One of the first joint initiatives of Bulbank, HVB Bank Biochim and Hebros Bank after the announced merger between UniCredit and HVB was the support to the municipality authorities in creating a friendly and safe urban environment in one of the central public parks in Sofia. The bank supported the construction of a new cathedral in Sofia. A number of other carefully selected, projects was also backed.

Outlook

2006 will be marked by the process of integration of Bulbank, HVB-Biochim and Hebros Bank. The integration project planned to start in the first quarter of 2006 aims to ensure sustainable growth building upon the strengths of the three banks in a timely and well-organised manner. The main objectives will be to reinforce the combined entity's market positioning and provide for excellence in services and processes to the best interest of customers, shareholders, employees and other stakeholders. The potential to make this happen is great, given the limited overlapping of business and branches and the strong franchise in virtually all segments of the market. The direct connection to markets in Italy, Germany and Austria, one of the main trade partners of Bulgaria, is an unparalleled advantage for business customers, and which will be leveraged. In the fast growing retail segment, the combined entity will have access to a large customer base of more than one million customers, which will be exploited through shared product proliferation and marketing. In order to make use of this enormous potential and reach the goals, the integration project plans legal merger of all three banks in 2007 with a joint sales force and back office supported by a state-of-the-art centralised banking IT system.

Apart from integration, Bulbank will continue its development programme on a selective basis. The factoring business will be split into a stand-alone company, aimed at creating and capturing an optimum stake in this new market within Bulgaria. Clarima Bulgaria, a specialised consumer lending company in a joint-venture with Clarima Italy, will be registered and will open doors in the first half of the year, targeting POS consumer lending with a well-designed business and processing model. The distribution network will be developed selectively only through opening new specialised credit centres and leasing offices outside Sofia. The ATM and POS networks will be further expanded to support the fast-growing card business. Electronic banking development will continue. The bank is already well advanced in the most important regulatory-related projects for 2006, including IBAN standards implementation and Basel II. People development, targeting high performance and excellence, will be a central aspect of HR policy for the year.

BULBANK AD

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
WITH INDEPENDENT AUDITOR`S REPORT THEREON

KPMG

REPORT
OF THE INDEPENDENT AUDITOR
TO THE SHAREHOLDERS OF BULBANK AD

Sofia, 23 February 2006

We have audited the accompanying consolidated balance sheet of Bulbank AD ("the Bank") as of 31 December 2005 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 2005, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Bulgaria OOD

KPMG Bulgaria OOD
37, Fridtjof Nansen Str.
Sofia
Bulgaria

Consolidated income statement

In thousands of BGN

	Notes	Year ended 31 December 2005	2004
Interest income		193,063	158,823
Interest expense		(30,213)	(24,321)
Net interest income	3	**162,850**	**134,502**
Fee and commission income		48,505	43,112
Fee and commission expense		(3,848)	(3,354)
Net fee and commission income	4	**44,657**	**39,758**
Net trading income	5	11,615	4,318
Gains less losses from investment securities	6	3,090	7,042
Other operating income, net	10	6,377	12,850
TOTAL OPERATING INCOME		**228,589**	**198,470**
Operating expenses	7, 8	(89,781)	(84,086)
Impairment losses and provisions	9	(25,443)	(7,719)
PROFIT BEFORE TAX		**113,365**	**106,665**
Income tax expense	11	(17,249)	(20,386)
NET PROFIT FOR THE PERIOD		**96,116**	**86,279**

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

Consolidated balance sheet

In thousands of BGN

	Notes	As at 31 December	
		2005	**2004**
ASSETS			
Cash and balances with central bank	12	238,764	291,587
Due from other banks	13	405,352	737,438
Trading securities	14	115,495	242,801
Derivative financial instruments	15	14,383	12,655
Loans and advances to customers	16	1,673,358	1,325,754
Investment securities	17	863,638	835,768
Goodwill		416	416
Other assets	18	9,010	7,609
Property and equipment	19	154,413	160,668
TOTAL ASSETS		**3,474,829**	**3,614,696**
LIABILITIES			
Due to other banks	20	50,290	21,607
Derivative financial instruments	15	10,654	8,296
Due to customers	21	2,618,771	2,917,169
Long-term borrowings	22	92,927	–
Other liabilities	23	28,942	37,542
Deferred tax liability	24	13,798	12,382
Provisions	25	49,838	43,588
TOTAL LIABILITIES		**2,865,220**	**3,040,584**
SHAREHOLDERS' EQUITY			
Share capital	27	166,370	166,370
Statutory reserves		51,155	51,155
Retained earnings		332,377	295,418
Revaluation reserves		59,707	61,169
TOTAL SHAREHOLDERS' EQUITY		**609,609**	**574,112**
TOTAL EQUITY AND LIABILITIES		**3,474,829**	**3,614,696**

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

Stanislav Georgiev,
Member of the Management Board

23 February 2006

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

Consolidated 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 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 of revaluation reserves						
on realised surplus	–	–	1,578	(1,578)	–	**–**
Net profit for the year	–	–	86,279	–	–	**86,279**
Dividend distribution	–	–	(65,118)	–	–	**(65,118)**
Lower tax rate effect	–	–	–	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**
Balance as of 1 January 2005	166,370	51,155	295,418	61,826	(657)	**574,112**
Available-for-sale investments						
– Net fair value losses	–	–	–	–	(1,060)	**(1,060)**
Transfer of revaluation reserves						
on realised surplus	–	–	402	(402)	–	**–**
Net profit for the year	–	–	96,116	–	–	**96,116**
Dividend distribution	–	–	(59,177)	–	–	**(59,177)**
Other distribution	–	–	(382)	–	–	**(382)**
Balance as of 31 December 2005	**166,370**	**51,155**	**332,377**	**61,424**	**(1,717)**	**609,609**

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

Consolidated cash flow statement

In thousands of BGN

	Notes	Year ended 31 December	
		2005	**2004**
Profit/(loss) after taxation		96,116	86,279
(Decrease)/Increase in impairment losses for bad and doubtful debts and other assets	9	19,193	11,972
Increase/decrease other accruals		(33,259)	55,876
Increase/decrease in provisions	9	6,250	(4,253)
Depreciation	7	16,773	13,307
Foreign exchange (gains)/losses		1,669	(6,686)
Unrealised (gains)/losses on securities		6,359	(5,269)
Deferred tax	11	1,719	4,333
Tax expense	11	15,530	16,053
Loss/(Profit) on disposal of fixed assets		(585)	(994)
Other non-cash movements		–	6,600
		129,765	**177,218**
Change in operating assets			
(Increase)/decrease in obligatory reserve with the National Bank	12	38,077	(81,898)
(Increase)/decrease in Trading securities		125,040	(167,317)
(Increase)/decrease in loans and advances to banks (repayment beyond 3 months)		45,722	(2,860)
(Increase)/decrease in loans to customers		(347,191)	(472,321)
(Increase)/decrease in other assets		(1,839)	(3,998)
		(140,191)	**(728,394)**
Change in operating liabilities			
Net increase/(decrease) in deposits from banks		120,419	8,632
Net increase/(decrease) in amounts owed to other depositors		(393,757)	782,589
Net decrease in accrued other liabilities		–	(59,565)
Income tax paid		(12,316)	(16,488)
Dividend paid		(56,005)	(65,099)
		(341,659)	**650,069**
Net cash flow from operating activities		**(352,085)**	**98,893**
Cash flow from investing activities			
Acquisition of subsidiary net of cash acquired		–	(93)
(Purchase) of tangible fixed assets	19	(14,010)	(7,199)
Proceeds from the sale of non-current assets		4,077	2,813
Acquisition of investments		–	15,238
Sale of investments		28,550	–
Net cash flows from investing activities		**18,617**	**10,759**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(333,468)**	**109,652**
CASH AT THE BEGINNING OF THE PERIOD	29	**748,711**	**639,059**
CASH AT THE END OF THE PERIOD	29	**415,243**	**748,711**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

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 Presentation

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board ("IASB"), and interpretations issued by the Standing Interpretations Committee of the IASB.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 2 (O).

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 subsidiearies are included in the consolidated fiancial 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 2005 of the main foreign currencies traded by the Bank against the BGN set by the BNB are as follows:

BGN per currency unit

	2005	2004
US Dollar (USD)	1.658	1.436
Euro (EUR)	1.956	1.956
Swiss Franc (CHF)	1.258	1.268
Pound Sterling (GBP)	2.854	2.774

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. These securities are classified as financial assets at fair value through profit and loss. 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 which are not traded on an active market 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 losses 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. The amount of the impairment 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 losses 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	
	2005	2004
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 – 7

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 decision taken by the MB the implemented new information system in 2004 has 7 years useful life.

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 post – employment benefits.

O. Critical accounting estimates, and judgements in applying accounting policies

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

(i) Impairment losses on loans and advances

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

ii). 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 those related to 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 applicable for 2006 is applied in the calculation of of deferred income tax amount.

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

P. Standards, Interpretations and amendments to published International Financial Reporting Standards that are not yet effective and might be relevant to the Bank's activities

➢ ***IFRS 7 Financial Instruments: Disclosures (effective from 1 January 2007)***

The Standard will require increased disclosure in respect of the Bank's financial instruments. It supersedes IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions and is applicable to all entities that prepare financial statements in accordance with IFRSs.

The Bank considers that the significant additional disclosures required will relate to its financial risk management objectives, policies and processes.

➢ ***Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007)***

As a complimentary amendment arising from IFRS 7 (see above), the Standard will require increased disclosure in respect of the Bank's capital.

This amendment will require significantly more disclosures regarding the capital structure of the Bank.

➢ ***Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006)***

The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item if certain criteria are met.

This amendment is not relevant to the Bank's operations, as the Bank does not have any intragroup transactions that would qualify as a hedged item in the consolidated financial statements.

➢ ***Amendment to IAS 39 Financial Instruments: Recognition and Measurement – The Fair Value Option (effective from 1 January 2006)***

The amendment restricts the designation of financial instruments as "at fair value through profit or loss".

The Bank believes that this amendment should not have a significant impact on the classification of financial instruments, as the Bank should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit or loss.

➢ ***Amendment to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts – Financial Guarantee Contracts (effective from 1 January 2006)***

The amendment requires guarantees that are not insurance contracts to be measured at fair value upon initial recognition.

The Bank has not yet completed its analysis of the impact of the amendment.

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 intraday 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 2005	Total assets	Total liabilities	Commitments
Bulgaria	2,548,426	2,573,597	454,404
Italy	181,343	92,026	6,409
Germany	185,439	22,806	11,656
USA	114,203	3,301	2,993
Other OECD countries	361,138	145,301	41,678
Other countries	84,280	28,189	65,826
	3,474,829	2,865,220	582,966
Unallocated assets/liabilities	–	–	–
	3,474,829	**2,865,220**	**582,966**
As at 31 December 2004			
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**

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 2005. 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 2005	BGN	USD	EUR	Other currencies	Total (net)
Assets					
Cash and balances with Central bank	122,228	5,209	108,677	2,650	238,764
Due from other banks	18,885	198,878	174,147	13,442	405,352
Trading securities	94,337	–	21,158	–	115,495
Derivative financial instruments	–	5,489	8,894	–	14,383
Loans and advances to customers	724,214	60,454	888,396	294	1,673,358
Investment securities	312,915	315,058	227,098	8,567	863,638
Goodwill	416	–	–	–	416
Other assets	8,963	47	–	–	9,010
Property and equipment	154,413	–	–	–	154,413
Total Assets	**1,436,371**	**585,135**	**1,428,370**	**24,953**	**3,474,829**
Liabilities					
Due to other banks	14,592	19,042	16,046	610	50,290
Derivative financial instruments	–	7,568	2,727	359	10,654
Due to customers	907,558	621,830	1,038,019	51,364	2,618,771
Long-term borrowings	–	–	92,927	–	92,927
Other liabilities	24,129	1,193	2,488	1,132	28,942
Deferred tax	13,798	–	–	–	13,798
Provisions	4,295	26,715	3,546	15,282	49,838
Total Liabilities	**964,372**	**676,348**	**1,155,753**	**68,747**	**2,865,220**
Net Position	**471,999**	**(91,213)**	**272,617**	**(43,794)**	**609,609**
Commitments	281,195	77,437	193,040	31,294	582,966

As at 31 December 2004					
Total Assets	**1,264,559**	**609,601**	**1,693,402**	**47,134**	**3,614,696**
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

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 2005	Up to 1 month	1-3 months	3-12 months	Over 1 year	Non-interest bearing	Total
Assets						
Cash and balances with Central bank	–	–	–	–	238,764	238,764
Due from other banks	400,707	–	–	–	4,645	405,352
Trading securities	3,716	–	27,120	84,659	–	115,495
Derivatives	–	–	–	–	14,383	14,383
Loans and advances to customers	1,663,023	895	5,638	1,863	1,939	1,673,358
Investment securities	95,109	50,280	82,212	630,684	5,353	863,638
Goodwill	–	–	–	–	416	416
Other assets	–	–	–	–	9,010	9,010
Property and equipment	–	–	–	–	154,413	154,413
Total Assets	**2,162,555**	**51,175**	**114,970**	**717,206**	**428,923**	**3,474,829**
Liabilities						
Due to other banks	35,547	2,801	–	–	11,942	50,290
Derivatives	–	–	–	–	10,654	10,654
Due to customers	2,124,055	152,519	179,434	69,564	93,199	2,618,771
Long-term borrowings	39,299	24,205	29,423	–	–	92,927
Other liabilities	–	–	–	–	28,942	28,942
Deferred tax	–	–	–	–	13,798	13,798
Provisions	–	–	–	–	49,838	49,838
Total Liabilities	**2,198,901**	**179,525**	**208,857**	**69,564**	**208,373**	**2,865,220**
Total interest sensitivity gap	**(36,346)**	**(128,350)**	**(93,887)**	**647,642**	**220,550**	**609,609**

The table below summarises the interest rate by major currencies for monetary financial instruments for 2005:

2005	BGN	EUR	USD
Assets			
Current accounts	–	0.73%	3.26%
Due from other banks	2.22%	2.20%	3.24%
Trading securities	5.81%	7.01%	6.65%
Loans and advances to customers	8.59%	6.22%	5.97%
Investment securities	5.94%	5.12%	3.72%
Liabilities			
Time deposits from other banks	2.01%	2.70%	2.78%
Long-term borrowings from banks	–	3.01%	–
Current accounts of other banks	0.10%	0.10%	0.08%
Time deposits from customers	2.89%	1.61%	0.74%
Current accounts of customers	0.11%	0.81%	0.15%

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	–	–	–	–	37,542	37,542
Deferred tax	–	–	–	–	12,382	12,382
Provisions	–	–	–	–	43,588	43,588
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%	7.04%	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%

F. Liquidity risk

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

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

In thousands of BGN

As at 31 December 2005	Up to 1 month	1-3 months	3-12 months	Over 1 year	Non-stated maturity	Total
Assets						
Cash and balances with Central bank	238,764	–	–	–	–	238,764
Due from other banks	371,729	–	16,560	17,026	37	405,352
Trading securities	115,495	–	–	–	–	115,495
Derivatives	–	–	–	–	14,383	14,383
Loans and advances to customers	92,224	117,465	635,861	827,808	–	1,673,358
Investment securities	76,372	25,023	111,713	645,177	5,353	863,638
Goodwill	–	–	–	–	416	416
Other assets	–	–	–	–	9,010	9,010
Property and equipment	–	–	–	–	154,413	154,413
Total Assets	**894,584**	**142,488**	**764,134**	**1,490,011**	**183,612**	**3,474,829**
Liabilities						
Due to other banks	44,890	3,790	284	567	759	50,290
Derivatives	–	–	–	–	10,654	10,654
Due to customers	950,162	152,232	176,013	1,340,364	–	2,618,771
Long-term borrowings	382	–	1,956	90,589	–	92,927
Other liabilities	–	–	–	–	28,942	28,942
Deferred tax	–	–	–	–	13,798	13,798
Provisions	–	–	–	–	49,838	49,838
Total Liabilities	**995,434**	**156,022**	**178,253**	**1,431,520**	**103,991**	**2,865,220**
Net Liquidity Gap	**(100,850)**	**(13,534)**	**585,881**	**58,491**	**79,621**	**609,609**
As at 31 December 2004						
Total Assets	**1,528,824**	**103,053**	**639,174**	**1,156,438**	**187,207**	**3,614,696**
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**

G. Fair values of financial assets and liabilities

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

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

3. Net interest income

In thousands of BGN

	Year ended 31 December	
	2005	**2004**
Interest income		
Interest income arises from:		
Due from banks	10,752	10,724
Loans and advances to customers	133,246	94,587
Investment securities	39,579	41,628
Trading securities	8,336	11,799
Other financial instruments	1,150	85
	193,063	**158,823**
Interest expense		
Interest expense arises from:		
Due to other banks	(2,325)	(334)
Due to customers	(24,647)	(21,453)
Other financial instruments	(3,241)	(2,534)
	(30,213)	**(24,321)**
Net interest income	**162,850**	**134,502**

4. Net fee and commission income

In thousands of BGN

	Year ended 31 December	
	2005	**2004**
Fee and commission income		
Clean payments	17,235	15,268
Card transactions	8,545	7,465
Cash operations	5,858	5,287
Opening and maintenance of accounts	5,133	5,325
Packages	3,208	2,075
Documentary operations	3,128	4,029
Agency commissions	27	139
Other	5,371	3,524
	48,505	**43,112**
Fee and commission expense		
Card transactions	(2,701)	(2,202)
Maintenance of correspondent accounts	(372)	(359)
Other	(775)	(793)
	(3,848)	**(3,354)**
Net fee and commission income	**44,657**	**39,758**

5. Net trading income

In thousands of BGN

	Year ended 31 December	
	2005	**2004**
Net trading income arises from:		
Trading securities	2,402	5,940
Derivative financial instruments	2,361	(3,242)
Foreign exchange fluctuations and related derivatives	6,852	1,620
	11,615	**4,318**

6. Gains less losses from investment securities

In thousands of BGN

	Year ended 31 December	
	2005	**2004**
Net gain on disposal	4,111	7,042
Market revaluation of securities, net	(1,021)	–
	3,090	**7,042**

7. Operating expenses

In thousands of BGN

	Year ended 31 December	
	2005	**2004**
Staff costs	(33,266)	(30,319)
Depreciation and amortization	(16,773)	(13,307)
IT maintenance	(7,714)	(11,836)
Deposit Insurance Fund contribution	(8,734)	(8,262)
External services purchased	(8,647)	(7,256)
Post and telephone	(2,718)	(2,402)
Repairs and maintenance of property and equipment	(2,172)	(1,933)
Advertising	(1,742)	(1,625)
Stationery	(1,748)	(1,517)
Non-recoverable levies and taxes	(1,296)	(1,327)
Heating and lighting	(1,187)	(1,201)
Operating lease rentals	(1,927)	(1,148)
Other	(1,857)	(1,953)
	(89,781)	**(84,086)**

8. Staff costs

In thousands of BGN

	Year ended 31 December	
	2005	**2004**
Wages and salaries, including incentive schemes	(26,779)	(23,858)
Social security cost	(6,487)	(6,461)
	(33,266)	**(30,319)**

The average number of persons employed by the bank during the year was 1,917 (1,967 for 2004 г.).

9. Impairment losses and provisions

In thousands of BGN

	Year ended 31 December	
	2005	**2004**
Impairment losses:		
Write downs		
Due from other banks	–	–
Loans and advances to customers	(30,247)	(19,823)
Other assets	(437)	–
	(30,684)	**(19,823)**
Reversal of write downs		
Due from other banks	38	25
Loans and advances to customers	11,453	7,711
Other assets	–	115
	11,491	**7,851**
Net impairment losses	**(19,193)**	**(11,972)**
Net change in provisions	**(6,250)**	**4,253**
Total impairment losses and provisions	**(25,443)**	**(7,719)**

10. Other operating income, net

In thousands of BGN

	Year ended 31 December	
	2005	**2004**
Other operating income		
Received insurance premiums	765	1,032
Vaults	668	671
Disposal of property and equipment	584	994
Rental services	102	68
Court proceeds	92	21
Armoured car transportation services	70	251
Release of Deposit Insurance Fund accrual	–	8,262
Write-off of long-term dormant positions	–	48
Other	4,306	1,718
	6,587	**13,065**
Other operating expense		
Charities and contributions	(90)	(110)
Other	(120)	(105)
	(210)	**(215)**
Other operating income, net	**6,377**	**12,850**

11. Income tax expense

Taxation is payable at a statutory rate of 15 % on adjusted profits under the annual tax return prepared under the Bulgarian tax law. Deferred tax is calculated using a tax rate of 15 %, applicable for 2006.

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

In thousands of BGN

	Year ended 31 December	
	2005	**2004**
Current tax	15,530	16,053
Deferred tax	1,719	4,333
	17,249	**20,386**

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

	2005	**2004**
Profit before tax	113,365	106,665
Tax at tax rate in force	17,004	20,800
Temporary tax difference, transformed into permanent	161	–
Tax on expenses not deductible for tax purposes	84	62
Adjustment due to decreased tax rate from 01.01.2005	–	(476)
	17,249	**20,386**

12. Cash and balances with central bank

In thousands of BGN

	As at 31 December	
	2005	**2004**
Cash in hand	47,088	52,327
Precious metals	3	2
Current account with Central Bank	–	9,508
Statutory minimum required reserve with Central bank	191,673	229,750
	238,764	**291,587**

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 2005 and 2004.

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	
	2005	**2004**
Time deposits (OECD countries)	343,219	705,377
Time deposits with domestic banks	17,858	–
Current accounts	7,712	3,960
Loans and advances	33,586	28,080
Overdrafts	1,163	195
Repo	1,950	–
Gross Total	**405,488**	**737,612**
Less provisions for impairment	(136)	(174)
	405,352	**737,438**

Due from other banks include interest receivable amounting to BGN 215 thousand as of 31.12.2005 and BGN 746 thousand as of 31.12.2004.

14. Trading securities

In thousands of BGN

	As at 31 December	
	2005	**2004**
Government bonds (Bulgaria)	98,552	106,648
Corporate bonds of domestic issuers	16,943	–
Government bonds (Other countries)	–	136,153
	115,495	**242,801**

Trading securities include interest receivable amounting to BGN 2,660 thousand as of 31.12.2005 and BGN 8,658 thousand as of 31.12.2004.

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 amount	Fair values	
		Assets	**Liabilities**
As at 31 December 2005			
Currency forwards	94,539	965	399
Currency options, bought	29,842	698	–
Currency options, written	–	–	–
Options on capital securities, bought	34,052	1,653	–
Options on capital securities, written	34,052	–	1,653
Forex swaps	74,268	1,934	1,934
Credit default swaps	91,184	1,251	–
Interest rate swaps	124,414	7,882	6,668
Future contracts	–	–	–
	482,351	**14,383**	**10,654**
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
Forex swaps	–	–	–
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**

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	
	2005	**2004**
Receivables under repurchase agreements	150	–
Receivables under accepted letters of credit	1,939	–
Loans and advances		
Private enterprises	1,337,190	1,086,634
State owned enterprises	45,345	91,857
Private individuals	345,243	189,865
	1,727,778	1,368,356
Total loans and advances	**1,729,867**	**1,368,356**
Less allowance for impairment	(56,509)	(42,602)
	1,673,358	**1,325,754**

Loans and advances to customers include interest receivable amounting to BGN 5,569 thousand as of 31.12.2005 and BGN 4,419 thousand as of 31.12.2004.

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

In thousands of BGN

	As at 31 December	
	2005	**2004**
Processing and manufacturing	591,729	505,509
Commerce	333,994	268,201
Tourism	146,993	155,182
Households	345,243	189,865
Agriculture	45,763	36,214
Transport	48,664	13,997
Construction	41,637	18,054
Services	173,023	179,861
Other	732	1,473
	1,727,778	**1,368,356**

The ten largest loan exposures amount to BGN 301,048 thousand or 18 % of the commercial loan portfolio, (354,839 thousand or 26% for 2004).

17. Investment securities

In thousands of BGN

	As at 31 December	
	2005	**2004**
Debt and other fixed income instrument available for sale		
Bonds and notes issued by:		
Bulgarian Government	97,112	144,836
Foreign Governments	113,961	9,880
Other issuers	85,222	33,702
	296,295	**188,418**
Listed	165,592	101,380
Unlisted	130,703	87,038
Debt and other fixed income instrument held to maturity		
Bonds and notes issued by:		
Bulgarian Government	78,426	105,664
Foreign Governments	137,568	46,797
Other issuers	130,653	92,857
	346,647	**245,318**
Listed	296,489	182,738
Unlisted	50,158	62,580
Debt and other fixed income instrument classified as loans and receivables		
Bonds and notes issued by:		
Bulgarian Government	202,340	217,480
Foreign Governments	–	81,800
Other issuers	13,003	96,914
	215,343	**396,194**
Listed	–	178,714
Unlisted	215,343	217,480

Following the adoption of the revised IAS 39, *Financiual Instruments: Recognition and Measurement*, effective from 1 January 2005, the Bank classifies in this category only Bulgarian Government and Other issuers'securities for which no active market exists.

Equity investments and other non-fixed income instruments available for sale		
Equity investments	5,353	5,838
Other	–	–
	5,353	**5,838**
Listed	–	–
Unlisted	5,353	5,838
	863,638	**835,768**

Investment securities include interest receivable amounting to BGN 14,909 thousand as of 31.12.2005 and BGN 15,726 thousand as of 31.12.2004.

The list of the equity securities as at 31 December 2005 is as follows:

In thousands of BGN

As at 31 December	**2005**		2004	
	Carrying value	**Share in %**	Carrying value	Share in %
Orel-G Holding	4,084	19.3	5,105	19.3
Bankservice	345	6.8	345	6.8
Borika EAD	519	5.3	–	–
BZOK Zakrila	200	10	200	10
POK Saglasie	159	4.3	159	4.3
SWIFT	30	–	12	–
Burgas Free Trade Zone	12	5.7	12	5.7
Central Depository	3	3	3	3
Bulgarian Stock Exchange	1	0.4	1	0.4
Bulgarhydroponik	–	–	1	24.8
	5,353		**5,838**	

At 31 December 2005, the equity investment in Orel-G Holding was reassessed for impairment. As a result, an impairment loss of BGN 1,021 thousand was recognized.

18. Other assets

In thousands of BGN

	As at 31 December	
	2005	**2004**
Settlements	3,248	3,905
Prepayments	2,176	554
Materials	503	2,262
Receivables on overpaid taxes	1,995	1,817
Other	2,912	457
Gross Total	**10,834**	**8,995**
Less provisions	(1,824)	(1,386)
	9,010	**7,609**

19. Property and equipment

In thousands of BGN

	Land and Buildings	Equipment	Software	Construction in progress	Total
Movement, incl. revaluation					
Balance at 1 January 2004	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)	–	**(10,817)**
Transfers	74	3,028	44,558	(53,339)	–
Balance at 31 December 2004	105,549	35,752	60,324	1,329	**202,954**
Additions	–	3,051	195	10,764	**14,010**
Disposals	(2,605)	(2,434)	(251)	(538)	**(5,828)**
Transferred to other categories	(1,274)	1,274	–	–	–
Transfers	–	2,203	1,643	(3,846)	–
Balance at 31 December 2005	**101,670**	**39,846**	**61,911**	**7,709**	**211,136**
Accumulated depreciation					
Balance at 1 January 2004	7,339	26,745	3,044	–	**37,128**
Charge for the year	3,082	4,654	5,488	–	**13,224**
Disposals	(455)	(6,920)	(691)	–	**(8,066)**
Balance at 31 December 2004	9,966	24,479	7,841	–	**42,286**
Charge for the year	3,024	4,845	8,904	–	**16,773**
Disposals	(106)	(2,150)	(80)	–	**(2,336)**
Transferred to other categories	(139)	139	–	–	–
Balance at 31 December 2005	**12,745**	**27,313**	**16,665**	**–**	**56,723**
Net Book Value					
Balance at 31 December 2004	**95,583**	**11,273**	**52,483**	**1,329**	**160,668**
Balance at 31 December 2005	**88,925**	**12,533**	**45,246**	**7,709**	**154,413**

20. Due to other banks

In thousands of BGN

	As at 31 December	
	2005	**2004**
Current accounts		
Foreign banks	3,690	1,702
Local banks	11,544	14,479
	15,234	**16,181**
Time deposits – local banks	26,460	4,774
Settlements	759	652
Acceptances under letters of credit	1,939	–
Liabilities under repurchase agreements	5,898	–
	35,056	**5,426**
	50,290	**21,607**

21. Due to customers

In thousands of BGN

	As at 31 December	
	2005	**2004**
By type of customer		
Private individuals	1,248,298	1,080,689
Companies and other entities	1,370,473	1,836,480
	2,618,771	**2,917,169**
By type of instrument		
Current accounts	1,253,219	1,578,587
Time deposits	1,264,246	1,290,068
Cover accounts	77,242	34,388
Transfers under execution	22,062	14,126
Liabilities under repurchase agreements	2,002	–
	2,618,771	**2,917,169**

Due to customers include interest payable amounting to BGN 4,683 thousand as of 31.12.2005 and BGN 2,996 thousand as of 31.12.2004.

22. Long-term borrowings

In thousands of BGN

	As at 31 December	
	2005	**2004**
International financial institutions	4,599	–
Foreign banks	88,328	–
	92,927	**–**

Long-term borrowings include interest payable amounting to BGN 509 thousand as of 31.12.2005.

23. Other liabilities

In thousands of BGN

	As at 31 December	
	2005	**2004**
Payments under execution	11,562	9,793
Due to personnel	8,772	7,096
Tax payable	1,154	2,428
Dividends payable	3,324	152
Payables to suppliers of products for lease	4,130	18,073
	28,942	**37,542**

24. Deferred income tax

Deferred income taxes are calculated on all temporary differences under the liability method using 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	
	2005	**2004**
Deferred income tax liabilities		
Property and equipment	16,512	13,711
	16,512	13,711
Deferred income tax assets		
Other provisions	(1,518)	(61)
Other liabilities	(893)	(1,268)
Available-for-sale securities	(303)	–
	(2,714)	(1,329)
	13,798	**12,382**

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

In thousands of BGN

	As at 31 December	
	2005	**2004**
Property and equipment	2,801	1,249
Provisions	(1,457)	127
Accruals	214	2,957
Other temporary differences	161	–
	1,719	**4,333**

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

In thousands of BGN

	As at 31 December	
	2005	**2004**
Balances at 1 January	12,382	11,288
Increase of the net tax liability – in Income Statement	1,719	4,809
Decrease of net diferred tax liability - negative revaluation reserve of available-for-sale securities	(303)	–
Decrease of the net tax liability due to change in the tax rate	–	(3,715)
Balance at 31 December	**13,798**	**12,382**

25. 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	
	2005	**2004**
Provisions on letters of guarantee and letters of credit	34,568	29,960
Provisions on outstanding and probable court proceedings	15,270	13,628
	49,838	**43,588**

26. 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 28.

In thousands of BGN

	As at 31 December	
	2005	**2004**
Letters of credit and letters of guarantee	201,026	234,209
Credit commitments	381,940	348,851
	582,966	**583,060**

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

In thousands of BGN

	Asset		Related Liability	
As at 31 December	**2005**	**2004**	**2005**	**2004**
Balances with central bank	191,673	229,750	–	–
Securities related to deposits of public sector organisations	313,493	427,164	264,334	427,958
	505,166	**656,914**	**264,334**	**427,958**

27. Shareholders' equity

Share capital

As at 31 December 2005, 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 2005 is as follows:

	As at 31 December 2005		As at 31 December 2004	
Shareholder	**Number of Shares**	**Shareholding %**	**Number of Shares**	**Shareholding %**
UniCredito Italiano SpA	143,294,088	86.1	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	18,787	0.0
Businesses and non-commercial organisations	1,414,653	0.9	2,952,717	1.8
Private individuals	347,465	0.2	360,044	0.2
	166,370,160	**100.0**	**166,370,160**	**100.0**

28. Movement in impairment losses and provisions

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

In thousands of BGN

	As at 31 December	
	2005	**2004**
On-balance sheet		
Due from banks	136	174
Loans and advances to customers	56,509	42,602
Other assets	1,824	1,386
	58,469	44,162
Off-balance sheet	49,838	43,588
Total Provisions	**108,307**	**87,750**

The movement in impairment allowances and provisions is as follows:

In thousands of BGN

	As at 31 December	
	2005	**2004**
On-balance sheet		
Balance at 1 January	44,162	34,869
Increase in impairment allowances	30,684	19,823
Decrease in impairment allowances	(11,491)	(7,851)
	19,193	11,972
Write-offs	(4,886)	(2,679)
Balances at 31 December	**58,469**	**44,162**
Off-balance sheet		
Balance at 1 January	43,588	47,878
Provision increase	9,969	409
Provision decrease	(3,719)	(4,662)
	6,250	(4,253)
Write-offs	–	(37)
Balances at 31 December	**49,838**	**43,588**

29. 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	
	2005	**2004**
Cash in hand	47,088	52,327
Demand deposits with banks	7,224	13,158
Time deposits with banks up to 90 days	360,931	683,226
	415,243	**748,711**

30. 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	
	2005	2004	**2005**	2004
Loans and short term placements	169,616	510,125	499	46
Securities purchased	11,518	–	30	–
Interest income earned	5,898	5,025	23	4
Deposits, long-term borrowing, lease contracts	30,948	259	550	1,119
Interest expense	114	–	–	–
Operating income	69	32	–	–
Operating expenses	1,859	1,795	–	–
Commission income	143	38	–	–
Commission expenses	254	190	–	–
Derivatives at fair value (assets)	4,276	1,366	–	–
Derivatives at fair value (liabilities)	10,382	6,339	–	–
Letters of Guarantee issued in favour of Bulbank	17,301	2,806	–	–
Letters of Guarantee issued by Bulbank	38	373	–	–

In 2005, the total remuneration of the members of the Management Board was BGN 1,611 thousand (BGN 1,416 thousand for 2004). The remuneration of the members of the Supervisory Board was BGN 24 thousand.

31. Group Entities

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

The financial statements of Unicredit Leasing Bulgaria EAD with its subsidiary Unicredit Leasing Auto Bulgaria EOOD are consolidated into the consolidated fiancial statements of Bulbank.

32. Post balance sheet events

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

BULBANK AD

UNCONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
WITH INDEPENDENT AUDITOR`S REPORT THEREON

REPORT
OF THE INDEPENDENT AUDITOR
TO THE SHAREHOLDERS OF BULBANK AD

Sofia, 23 February 2006

We have audited the accompanying unconsolidated balance sheet of Bulbank AD ("the Bank") as of 31 December 2005 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 2005, 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 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

Income statement

In thousands of BGN

	Notes	Year ended 31 December 2005	2004
Interest income		189,395	157,740
Interest expense		(29,834)	(24,295)
Net interest income	**3**	**159,561**	**133,445**
Fee and commission income		48,480	43,150
Fee and commission expense		(3,848)	(3,392)
Net fee and commission income	**4**	**44,632**	**39,758**
Net trading income	5	11,628	4,330
Gains less losses from investment securities	6	3,090	7,042
Other operating income, net	10	6,062	12,836
TOTAL OPERATING INCOME		**224,973**	**197,411**
Operating expenses	7,8	(89,015)	**(83,620)**
Impairment losses and provisions	9	(24,835)	(7,533)
PROFIT BEFORE TAX		**111,123**	**106,258**
Income tax expense	11	(16,913)	(20,290)
NET PROFIT FOR THE PERIOD		**94,210**	**85,968**

Balance sheet

In thousands of BGN

	Notes	As at 31 December	
		2005	**2004**
ASSETS			
Cash and balances with central bank	12	238,762	291,584
Due from other banks	13	405,352	737,438
Trading securities	14	115,495	242,801
Derivative financial instruments	15	14,383	12,655
Loans and advances to customers	16	1,613,040	1,311,584
Investment securities	17	865,246	836,376
Other assets	18	3,893	2,251
Property and equipment	19	154,309	160,624
TOTAL ASSETS		**3,410,480**	**3,595,313**
LIABILITIES			
Due to other banks	20	50,290	21,607
Derivative financial instruments	15	10,654	8,296
Due to customers	21	2,618,897	2,917,428
Long-term borrowings	22	34,022	–
Other liabilities	23	25,590	18,210
Deferred tax liability	24	13,799	12,383
Provisions	25	49,838	43,588
TOTAL LIABILITIES		**2,803,090**	**3,021,512**
SHAREHOLDERS' EQUITY			
Share capital	27	166,370	166,370
Statutory reserves		51,155	51,155
Retained earnings		330,158	295,107
Revaluation reserves		59,707	61,169
TOTAL SHAREHOLDERS' EQUITY		**607,390**	**573,801**
TOTAL EQUITY AND LIABILITIES		**3,410,480**	**3,595,313**

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

Stanislav Georgiev,
Member of the Management Board

23 February 2006

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 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 of revaluation reserves						
on realised surplus	–	–	1,578	(1,578)	–	**–**
Net profit for the year	–	–	85,968	–	–	**85,968**
Dividend distribution	–	–	(65,118)	–	–	**(65,118)**
Lower tax rate effect	–	–	–	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**
Balance as of 1 January 2005	166,370	51,155	295,107	61,826	(657)	**573,801**
Available-for-sale investments						
– Net fair value losses	–	–	–	–	(1,060)	**(1,060)**
Transfer of revaluation reserves						
on realised surplus	–	–	402	(402)	–	**–**
Net profit for the year	–	–	94,210	–	–	**94,210**
Dividend distribution	–	–	(59,177)	–	–	**(59,177)**
Other distribution	–	–	(384)	–	–	**(384)**
Balance as of 31 December 2005	**166,370**	**51,155**	**330,158**	**61,424**	**(1,717)**	**607,390**

Cash flow statement

In thousands of BGN

	Notes	Year ended 31 December	
		2005	2004
Profit/(loss) after taxation		94,210	85,968
(Decrease)/Increase in impairment losses for bad and doubtful debts and other assets	9	18,585	11,786
Increase/decrease other accruals		(17,393)	55,876
Increase/decrease in provisions	9	6,250	(4,253)
Depreciation	7	16,754	13,218
Foreign exchange (gains)/losses		1,669	(6,686)
Unrealised (gains)/losses on securities		6,359	(5,269)
Deferred tax	11	1,719	4,334
Tax expense	11	15,194	15,956
Loss/(Profit) on disposal of fixed assets		(585)	(994)
Other non-cash movements		–	6,600
		142,762	**176,536**
Change in operating assets			
(Increase)/decrease in obligatory reserve with the National Bank	12	38,077	(81,898)
(Increase)/decrease in Trading securities		125,040	(167,317)
(Increase)/decrease in loans and advances to banks (repayment beyond 3 months)		45,722	(2,860)
(Increase)/decrease in loans to customers		(300,435)	(467,504)
(Increase)/decrease in other assets		(2,080)	895
		(93,676)	**(718,684)**
Change in operating liabilities			
Net increase/(decrease) in deposits from banks		61,896	8,632
Net increase/(decrease) in amounts owed to other depositors		(393,890)	782,848
Net decrease in accrued other liabilities		–	(68,367)
Income tax paid		(12,250)	(16,488)
Dividend paid		(56,005)	(65,099)
		(400,249)	**641,526**
Net cash flow from operating activities		**(351,163)**	**99,378**
Cash flow from investing activities			
(Purchase) of tangible fixed assets	19	(13,931)	(7,149)
Proceeds from the sale of non-current assets		4,077	2,790
Acquisition of investments		–	14,630
Sale of investments		27,550	–
Net cash flows from investing activities		**17,696**	**10,271**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(333,467)**	**109,649**
CASH AT THE BEGINNING OF THE PERIOD	29	**748,708**	**639,059**
CASH AT THE END OF THE PERIOD	29	**415,241**	**748,708**

GENERAL INFORMATION

Basic information for Bulbank

Establishment – April 1st, 1964

Major shareholders

		December 31 2005
Shareholder	**Number of shares**	**Share in %**
UniCredito Italiano SpA	143,294,088	86.1
International Financial Corporation	8,817,618	5.3
Alianz AG	8,318,295	5.0
Simest SpA	4,159,254	2.5

Scope of activities

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

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

Operational Addresses

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1000 Sofia, 7 Sveta Nedelya Sq.
Fax: 988 4636; 988 5370
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	Tel.: 923 2940; 923 2411
Corporate Banking	Fax: 923 2877; Tel.: 923 2600
Operations	Fax: 923 2449; Tel.: 923 2450
Public Relations	Tel.: 923 2300; Fax: 923 2183
IT	Fax: 923 2519; Tel.: 923 2380
International Banking	Fax: 923 2607; 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 (consolidated) – 5-year retrospective

(Thousands of BGN, unless otherwise stated)

	2005	2004	2003	2002	2001
Key figures					
Net profit	**96,116**	86,279	89,752	79,130	68,912
Shareholders' equity*	**609,609**	574,112	550,026	513,249	490,479
Total assets*	**3,474,829**	3,614,696	2,825,439	2,721,980	2,731,686
Bank customer deposits*	**2,618,771**	2,917,169	2,177,781	2,049,957	2,021,634
Bank customer loans*	**1,706,519**	1,393,968	916,634	563,935	362,353
Earnings per share (in BGN)	**0.58**	0.52	0.54	0.48	0.41
Income					
Net interest income	**162,850**	134,502	106,081	91,112	99,613
Net fee and commission income	**44,657**	39,758	32,978	41,059	30,359
Net gains from securities	**11,615**	4,318	9,129	12,642	8,226
Net gains from foreign currency operations and fluctuations	**3,090**	7,042	10,387	7,095	5,046
Gross operating income	**228,589**	198,470	169,977	158,192	145,086
Net operating Income	**138,808**	114,384	103,690	104,207	87,480
Expenses					
Operating expenses	**89,781**	84,086	66,287	62,988	55,775
HR expenses	**33,266**	30,319	27,145	26,658	27,722
Non-HR expenses	**39,742**	40,460	29,568	26,160	28,053
Depreciation	**16,773**	13,307	9,574	10,170	10,675
Impairment losses and provisions	**25,443**	7,719	14,706	(9,004)	(8,844)
Tax	**17,249**	20,386	28,644	25,077	18,568
Ratios (%)					
Return on average assets (ROA)	**2.9%**	2.8%	3.4%	2.9%	2.5%
Return on average equity (ROE)	**16.3%**	15.7%	17.4%	16.2%	13.5%
Capital/Asset ratio*	**17.5%**	15.9%	19.5%	18.9%	18.0%
Total capital ratio*	**21.6%**	23.3%	38.0%	38.7%	54.8%
Tier 1 capital ratio*	**18.8%**	20.4%	20.5%	19.7%	27.8%
Risk weighted assets/Total assets ratio*	**61.5%**	53.0%	43.9%	32.9%	26.3%
Loan/Deposit ratio*	**65.2%**	47.8%	42.1%	27.5%	17.9%
Cost/Income ratio1	**39.3%**	42.4%	39.0%	39.8%	46.0%
Resources (number)*					
Operating outlets	**105**	94	91	91	98
Employees	**1,897**	1,760	2,026	2,060	2,050
Foreign exchange rate at period-end (BGN/USD)	**1.6579**	1.4359	1.5486	1.8850	2.2193
Average annual exchange rate over the period (BGN/USD)	**1.5741**	1.5751	1.8067	2.0770	2.1850

* End of period.

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

UniCredit Group – The First Truly European Bank

After the merger with HVB Group, UniCredit Group is a strong European banking network which serves more than 28 million customers via 7,000 offices in 20 countries. By joining forces, the new Group will significantly strengthen its position in Central and Eastern Europe, increasing the number of outlets to some 2,800 and the number of clients to around 16 million.

Central and Eastern Europe: No 1 franchise

- Countries of presence 16
- Customer loans EUR 41 bn
- Customer deposits EUR 47 bn
- Branches 2,800
- Employees 58,000

Italy: No 2 with 10% market share

- Customer loans EUR 122 bn
- Customer deposits EUR 72 bn
- Branches 3,317
- Employees 40,000

Austria: No 1 with 18% market share

- Customer loans EUR 51 bn
- Customer deposits EUR 35 bn
- Branches 405
- Employees 12,000

Germany: No 2 with 5% market share

- Customer loans EUR 153 bn
- Customer deposits EUR 61 bn
- Branches 681
- Employees 26,000

Data as of year end 2004.

Network addresses

I. SOFIA REGION		
Sveta Nedelya	Sofia, 7 Sveta Nedelya sq.	9232111
Aksakov	Sofia 8 Aksakov str.	9233410
Al. Stamboliiski	Sofia,108 Al. Stamboliiski blvd.	8102621
BGA Balkan	Sofia, 1 Christophore Columb blvd	9268391
Botevgrad	Botevgrad 79 3-ti Mart blvd	0723/66872
Boulevard Bulgaria	Sofia, 27 Tvardishki prohod str.	8182722
Business Park Sofia	Sofia, Mladost 4, Business Park, House N 10	9769183
Cherni Vrah	Sofia, 54 Cherni Vrah blvd.	9690025
Credit Centre	Sofia, 7 Sveta Nedelya sq.	9232186
Customs Sofia	Sofia, 84 Vesletz str.	8105921
Customs Sofia Airport	Sofia, 1 Christophore Columb blvd	9268390
Dragoman	Dragoman 3 N. Vaptzarov str.	07172/2229
Fantastiko	Sofia 12 Anton Naydenov str.	9681997
Kaloyan	Sofia 3 Kaloyan str.	9268425
Levski Memorial	Sofia, 100 V. Levski blvd.	8145021
Mladost	Sofia, Mladost 1, 16 Al. Malinov blvd. floor 1	8174921
Nadezhda	Sofia, 2 Lomsko Shousse	9360439
Ruski Pametnik	Sofia, 2 Bouzludja str.	9530309
Scorpion Shiping	Sofia, 18 Ist Bulgarian Army blvd.	9311846
SMEs Centre	Sofia, Mladost 1 16 Al. malinov blvd. floor 2	8174926
Sopharma	Sofia, 16 Iliensko shousse str.	9360986
Tzar Samuil	Sofia, 1 Tzar Samuil str.	9173040
Yanko Sakazov	Sofia 88 Yanko Sakazov str.	9448710

II. BLAGOEVGRAD REGION		
Blagoevgrad	Blagoevgrad, 22 Tzar Shishman str.	073/828633
Dupnitza	Dupnitza, 19 Hr. Botev str.	0701/50034
Gotze Delchev	Gotza Delchev, 22 Hr. Botev str.	0751/60203
Kustendil	Kustendil, 54 Tzar Osvoboditel str.	078/559320
Pernik	Pernik, K. Pernishki Building 14	076/603201
Petrich	Petrich, 10 Macedonia sq.	0745/61668

III.BOURGAS REGION		
Aitos	Aitos, 27 Stantzionna str.	0558/22109
Bourgas	Bourgas 22 Alexandrovska str.	056/877262
Bourgas Airport	Bourgas - Bourgas Airport	056/870357
Credit Centre	Bourgas 22 Alexandrovska str.	056/877104
Customs Malko Tarnovo	Border Control Office M. Tarnovo	05952/4235
Karnobat	Karnobat 14 Bulgaria blvd.	0559/28821
Malko Tarnovo	Malko Tarnovo 2 Malkotarnovska komuna	05952/2214
Nesebar	Nesebar 10 Edelvais str.	0554/44082
Port Bourgas	Bourgas Port Complex	056/877237
Primorsko	Primorsko, 9 Cherno more str.	0550/32051

Slanchev Bryag	KK Slanchev Bryag PO Box 123	0554/22554
Sozopol	Sozopol 14 Republikanska str.	0550/22436
Sungurlare	Sungurlare 15 Hr. Smirnenski str.	05571/2493
Tzarevo	Tzarevo 20 Kraimorska str.	0550/52045

IV.PLEVEN REGION

Knezha	Knezha, 71 Marin Boev str.	09132/2394
Levski	Levski, 57 Al. Stamboliiski str.	0650/83167
Lom	Lom, 14 Dunavska str.	0971/66720
Lovech	Lovech, 22A D. Pashkov str.	068/601341
Montana	Montana, 4 St. Karadja str.	096/390423
Pleven	Pleven, 11 Tzar Simen str.	064/890319
Regional Police Department	Vidin, 87 Tzar Simeon Veliki str.	094/6947574
SOMAT Vidin	Vidin, North Industrial Zone	094/602022
Troyan	Troyan, 188 V. Levski str.	0670/62604
Vidin	Vidin, 3 Tzar Simeon Veliki str.	094/690214
Vitrade Vidin	Vidin, Vitrade Wholesale	094/601298
Vratza	Vratza, 10 Loukashov str.	092/668852

V. PLOVDIV REGION

Asenovgrad	Asenovgrad 2 Rechna str.	0331/65505
Credit Centre	Plovdiv 1A Raiko Daskalov str.	032/646953
Customs	Plovdiv 32A Kouklensko shousse blvd.	032/673602
Ivan Vazov	Plovdiv, 4 Ivan Vazov blvd	032/601615
Karlovo	Karlovo, 2 P. Sabev str.	0335/92048
Karlovsko shousse	Plovdiv, 8 Karlovsko shousse str.	032/ 946335
KAT-Pazardjuk	Pazardjik KAT	034/441290
Maritza	Plovdiv 4 Vasil Levski str.	032/ 945466
Panagiurishte	Panagiurishte 24 G. Benkovski str.	0357/4087
Pazardjik	Pazardjik, 5 Esperanto str.	034/405717
Peshtera	Peshtera 16 Dimitar Gorov str.	0350/2107
Police Department - Pazardjik	Police Department Pazardjik	034/440993
Raiko Daskalov	Plovdiv 1A Raiko Daskalov str.	032/646961
Rodopi	Plovdiv, 1 Asenovgradsko shousse str.	032/623746
Smolian	Smolian 51 Bulgaria blvd. Building 14	0301/63198
Trakia	Plovdiv, 3 Osvobozhdenie blvd.	032/ 681914
Velingrad	Velingrad Svoboda sq.	0359/52318

VI. ROUSSE REGION

Gabrovo	Gabrovo, 13 Radetski str.	066/814224
Gorna Oryahovitsa	Gorna Oryahovitsa, 1A M. Todorov str.	0618/60159
Rousse	Rousse, 5 Sveta Troitza sq.	082/818229
Sevlievo	Sevlievo, Svoboda sq. Building 21	0675/34998
Svishtov	Svishtov, Aleko sq, Aleko Cinema	0631/60054
Veliko Tarnovo	Veliko Tarnovo, 2B Marno Pole str.	062/600154

VII. STARA ZAGORA REGION

Chirpan	Chirpan, 2 Yavorov str.	0416/4037
Dimitrovgrad	Dimitrovgrad, 3 D. Blagoev blvd.	0391/61455
Galabovo	Galabovo, 8 Dr. Zhekov str.	0418/62224
Haskovo	Haskovo, 4 Han Kubrat str.	038/607721
Haskovo Municipality	Haskovo Municipality	038/662438
Kardjali	Kardjali, 1 Republikanska str.	0361/65460
KAT – Haskovo	Haskovo – KAT	038/662447
Kazanlak	Kazanlak, 11 Sevtopolis sq.	0431/64777
Nova Zagora	Nova Zagora 49 V. Levski str.	0457/23906
Police Department Dimitrovgrad		0391/61454
Radnevo	Radnevo, 6 G. Dimitrov str.	0417/83075
Regional Police Department Haskovo	Haskovo, Police Department	038/662439
Sliven	Sliven, 23 Rakovski str.	044/622446
Stara Zagora	Stara Zagora, 126 Simeon Veliki blvd.	042/696245
Svilengrad	Svilengrad, 40 Bulgaria blvd.	0379/71541
Yambol	Yambol, 19 Targovska str.	046/661641

VIII. VARNA REGION

Cherno more	Varna, 1 P. Karavelov str.	052/662125
Credit Centre	Varna 74-76 Knyaz Boris I blvd	052/654405
Dobrich	Dobrich, 7 Nezavisimost str.	058/600082
Razgrad	Razgrad, 1 Vasil Levski str.	084/660763
Shipka	Varna, 39 Maria Luiza str.	052/ 600025
Shumen	Shumen, 64 Slavyanski blvd.	054/800599
Silistra	Silistra 20 Simeon Veliki str.	086/821556
Targovishte	Targovishte, 1 Vasil Levski str.	0601/61225
Zlatni piasatzi	KK Zlatni piasatzi, Shipka Hotel Po Box 81	052/355843

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