Investbank AD

Financial Statements

For the year ended 31 December 2004

with independent auditor's report thereon

KPMG

REPORT
OF THE INDEPENDENT AUDITOR
TO THE SHAREHOLDERS OF INVESTBANK AD

Sofia, 28 February 2005

We have audited the accompanying balance sheet of Investbank AD ("the Bank") as of 31 December 2004 and the related statements of income and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as of 31 December 2004, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Krassimir Hadjivinev
Registered auditor
Authorised representative

KPMG Bulgaria OOD
37 Fridtjof Nansen Str.
1142 Sofia
Bulgaria

София
Рег. №045
"КПМГ - България" ООД

Margarita Goleva
Registered auditor

0202 Маргарита Голева
Регистриран одитор

Income statement

for the year ended 31 December 2004

In thousands of BGN	Note	2004	2003
Interest and similar income		10,732	4,738
Interest expense and similar charges		(5,018)	(2,151)
Net interest income	3	5,714	2,587
Fee and commission income		2,787	1,245
Fee and commission expense		(450)	(142)
Net fee and commission income	4	2,337	1,103
Net trading income	5	955	1,878
Other operating income/(expenses), net	6	45	247
Total income from banking operations		9,051	5,815
General administrative expenses	7	(8,136)	(6,914)
Impairment losses	8	(731)	1,180
Profit before taxes		184	81
Income tax expense	9	(41)	(19)
Profit after tax		143	62

The income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 28.

Kiril Savov Grigorov
Executive Director

Damjan Nikolov Damjanov
Executive Director

KPMG Bulgaria OOD

Krassimir Hadjidinev
Registered auditor
Authorised representative

Margarita Goleva
Registered auditor

ТБ "ИНВЕСТБАНК" АД
ibank
ЦЕНТРАЛНО УПРАВЛЕНИЕ - СОФИЯ

София
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Регистриран одитор

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Investbank AD
Financial Statements
For the year ended 31 December 2004

Balance sheet
as at 31 December 2004

In thousands of BGN	Note	2004	2003
ASSETS			
Cash and balances with Central Bank	10	20,689	9,015
Due from other banks	11	10,590	5,951
Trading securities	12	21,340	16,942
Loans and advances to customers	13	96,429	66,667
Investments	14	3,846	560
Non-current assets	15	4,068	2,075
Other assets	16	598	839
Total Assets		157,560	102,058
LIABILITIES			
Deposits from banks	17	34,780	17,192
Deposits from customers	18	105,431	64,987
Other liabilities	19	595	3,248
Total Liabilities		140,806	85,427
Shareholders' equity			
Issued share capital	20	16,000	16,000
Reserves	20	754	631
Total shareholders' equity		16,754	16,631
Total liabilities and shareholders' equity		157,560	102,058

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 28.

The financial statements have been approved by the Executive Directors on 24 February 2005:

Kiril Savov Grigorov
Executive Director

Damjan Nikolov Damjanov
Executive Director

KPMG Bulgaria OOD

Krassimir Hadjidinev
Registered auditor
Authorised representative

Margarita Goleva
Registered auditor

0202 Маргарита Голева
Регистриран одитор

София
Рег. №045

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Cash flow statement
for the year ended 31 December 2004

In thousands of BGN	Note	2004	2003
Net cash flow from operating activities			
Profit/(loss) after tax		143	62
Impairment losses	8	731	(1,180)
Depreciation	7	945	928
Tax expense		41	19
		1,860	(171)
Change in operating assets			
(Increase) in dealing securities		(4,398)	(798)
(Increase) in loans to customers		(30,493)	(33,587)
Decrease in loans and advances to other banks		(11,728)	(2,983)
(Increase)/decrease in other assets		241	(180)
Change in operating liabilities			
Net increase in deposits from banks		17,588	14,049
Net increase in deposits from customers		40,444	28,599
Net increase/(decrease) in other liabilities		(2,653)	2,053
Tax paid		(41)	(19)
Net cash flow from operating activities		10,820	6,963
Cash flow from investing activities			
(Purchase) of property, plant and equipment		(2,938)	(1,112)
(Purchase) of investments		(3,277)	(264)
Net cash flow from investing activities		(6,215)	(1,376)
Cash flow from financing activities			
Decrease of registered capital		-	(31,982)
Net cash flow from financing activities		-	(31,982)

Statement of cash flows, continued

For the year ended 31 December 2004

In thousands of BGN	Note	2004	2003
Net increase in cash and cash equivalents	21	4,605	(26,395)
Cash and cash equivalents at 1 January		10,434	36,829
Cash and cash equivalents at 31 December	21	15,039	10,434

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7to 28.

Kiril Savov Grigorov
Executive Director

Damjan Nikolov Damjanov
Executive Director

KPMG Bulgaria OOD

Krassimir Hadjidinev
Registered auditor
Authorised representative

Margarita Goleva
Registered auditor

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Investbank AD
Financial Statements
For the year ended 31 December 2004

Statement of Changes in Equity
for the year ended 31 December 2004

In thousands of BGN	Note	Share capital	Reserves	Total
Balance at 01 January 2003		47,982	569	48,551
Net profit for the year		-	62	62
Decrease of share capital		(31,982)	-	(31,982)
Balance at 01 January 2004	20	16,000	631	16,631
Other movements in reserves		-	(20)	(20)
Net profit for the year		-	143	143
Balance at 31 December 2004	20	16,000	754	16,754

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 28.

Kiril Savov Grigorov
Executive Director

Damjan Nikolov Damjanov
Executive Director

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Notes to the financial statements

1. BASIS OF PREPARATION

(a) Statute

Investbank AD (the Bank) is a bank, incorporated in the Republic of Bulgaria and has its registered office in the city of Sofia, 155 G.S. Rakovski Str.

The enterprise is a licensed Bank under the local legislation. Its principle activities include all types of banking operations on the domestic and foreign markets.

(b) Statement of compliance

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.

(c) Basis of preparation

The financial statements are presented in new (redenominated) Bulgarian Leva (BGN) rounded to the nearest thousand.

The financial statements are prepared on a fair value basis for derivative financial instruments, financial assets and liabilities held for trading, and available-for-sale assets, except those for which a reliable measure of fair value is not available. Recognised assets and liabilities that are hedged are stated at fair value in respect of the risk that is hedged. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost.

In compliance with Accounting Law since 1 January 2003, financial institutions in Bulgaria prepare financial statements in accordance with IFRS.

Comparatives in the financial statements as of 31 December 2004 are the figures presented in the published financial statements prepared in accordance with the IFRS as of 31 December 2003 and result from consistent applying of the accounting policy.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Income recognition

Interest income and expense is recognised in the income statement as it accrues, taking into account the effective yield of the asset or an applicable floating rate. Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Fee and commission income arises on financial services provided by the Bank and is recognised when the corresponding service is provided.

Net trading income includes gains and losses arising from disposals and changes in the fair value of financial assets and liabilities held for trading.

Notes to the financial statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(b) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the income statement.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the reporting currency at the foreign exchange rates ruling at the dates that the values were determined.

(c) Financial instruments

(i) Classification

Trading instruments are those that the Bank principally holds for the purpose of short-term profit taking. These include investments, certain purchased loans and derivative contracts that are not designated and effective hedging instruments, and liabilities from short sales of financial instruments. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as trading assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as trading liabilities.

Originated loans and receivables are loans and receivables created by the Bank providing money to a debtor other than those created with the intention of short-term profit taking. Originated loans and receivables comprise loans and advances to banks and customers other than purchased loans as well as bonds purchased at original issuance.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity. These include certain purchased loans and advances to banks and customers and certain debt investments.

Available-for-sale assets are financial assets that are not held for trading purposes, originated by the Bank, or held to maturity. Available-for-sale instruments include money market placements and certain debt and equity investments.

(ii) Recognition

The Bank recognises financial assets held for trading and available-for-sale assets on the date it commits to purchase the assets. From this date any gains and losses arising from changes in fair value of the assets are recognised.

Held-to-maturity loans and originated loans and receivables are recognised on the day they are transferred to the Bank.

(iii) Measurement

Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition all trading instruments and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

Notes to the financial statements

All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(c) Financial instruments, continued

(iii) Measurement,continued

and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument

(iv) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

(v) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of available-for-sale assets are recognised directly in equity. When the financial assets are sold, collected or otherwise disposed of the cumulative gain or loss recognised in equity is transferred to the income statement.

Gains and losses arising from a change in the fair value of trading instruments are recognised in the income statement.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, cash deposited with central banks and short-term highly liquid investments with maturities of three months or less when purchased, including treasury bills and other bills eligible for rediscounting with the central bank.

(e) Investments

Investments that the Bank holds for the purpose of short-term profit taking are classified as trading instruments. Debt investments that the Bank has the intent and ability to hold to maturity are classified as held-to-maturity assets. Other investments are classified as available-for-sale assets.

(f) Loans and advances to banks and customers

Loans and advances originated by the Bank are classified as originated loans and receivables.

Notes to the financial statements

Purchased loans that the Bank has the intent and ability to hold to maturity are classified as held-to-maturity assets. Purchased loans that the Bank does not intend to hold until maturity are classified as available-for-sale instruments.

Loans and advances are reported net of allowances to reflect the estimated recoverable amounts (refer accounting policy j).

Notes to the financial statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(g) Derecognition

A financial asset is derecognised when the Bank loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

Available-for-sale assets and assets held for trading that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the Bank commits to sell the assets. The Bank uses the specific identification method to determine the gain or loss on derecognition.

Held-to-maturity instruments and originated loans and receivables are derecognised on the day they are transferred by the Bank.

(h) Securities borrowing and lending agreements and repurchase transactions

(i) Securities borrowing and lending

Investments lent under securities lending arrangements continue to be recognised in the balance sheet and are measured in accordance with the accounting policy for assets held for trading or available-for-sale as appropriate. Cash collateral received in respect of securities lent is recognised as liabilities to either banks or customers. Investments borrowed under securities borrowing agreements are not recognised. Cash collateral placements in respect of securities borrowed are recognised under loans and advances to either banks or customers. Income and expenses arising from the securities borrowing and lending business are recognised on an accrual basis over the period of the transactions and are included in interest income or expense.

(ii) Repurchase agreements

The Bank enters into purchases (sales) of investments under agreements to resell (repurchase) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognised. The amounts paid are recognised in loans to either banks or customers. The receivables are shown as collateralised by the underlying security. Investments sold under repurchase agreements continue to be recognised in the balance sheet and are measured in accordance with the accounting policy for either assets held for trading or available-for-sale as appropriate. The proceeds from the sale of the investments are reported as liabilities to either banks or customers.

The difference between the sale and repurchase considerations is recognised on an accrual basis over the period of the transaction and is included in interest.

(i) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when the Bank has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis.

(j) Impairment

Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Notes to the financial statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(j) Impairment, continued

(i) Originated loans and advances and held-to-maturity loans

The recoverable amount of originated loans and advances and purchased loans that are classified as held-to-maturity, is calculated as the present value of the expected future cash flows, discounted at the instrument's original effective interest rate. Short-term balances are not discounted.

Loans and advances are presented net of specific and general allowances for uncollectibility. Specific allowances are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts. General allowances are maintained to reduce the carrying amount of portfolios of similar loans and advances to their estimated recoverable amounts at the balance sheet date. The expected cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Increases in the allowance account are recognised in the income statement. When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the write-down or allowance is reversed through the income statement.

(ii) Financial assets remeasured to fair value directly through equity

The recoverable amount of an equity instrument is its fair value. The recoverable amount of debt instruments and purchased loans remeasured to fair value is calculated as the present value of expected future cash flows discounted at the current market rate of interest.

Where an asset remeasured to fair value directly through equity is impaired, and a write down of the asset was previously recognised directly in equity, the write down is transferred to the income statement and recognised as part of the impairment loss. Where an asset measured to fair value directly through equity is impaired, and an increase in the fair value of the asset was previously recognised in equity, the increase in fair value of the asset recognised in equity is reversed to the extent the asset is impaired. Any additional impairment loss is recognised in the income statement.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the income statement.

(k) Property, plant and equipment

Property and equipment are stated at cost less accumulated depreciation.

Depreciation is provided on a straight line basis at prescribed rates designed to write-off the cost of the assets over their expected useful lives. The following are approximations of the annual rates used:

Assets	%
Buildings	4
Equipment	30
Hardware	50
Fixtures and fittings	15
Vehicles	25

Assets are not depreciated until they are brought into use and transferred from assets in the course of construction into the relevant asset category.

Notes to the financial statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(l) Intangible assets

Other intangible assets, which are acquired by the Bank, are stated at cost less accumulated amortisation and any impairment losses.

Amortisation is calculated on a straight-line basis over the expected useful life of the asset. The annual rates of amortisation are as follows:

Assets	%
Computer software	50
Other intangible assets	15

(m) Provisions

A provision is recognised in the balance sheet when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) Taxation

Tax on the profit for the year comprises current tax and the change in deferred tax. Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted by the balance sheet date, and any adjustment of tax payable for previous years.

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is calculated on the basis of the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. The effect on deferred tax of any changes in tax rates is charged to the income statement, except to the extent that it relates to items previously charged or credited directly to equity.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Notes to the financial statements

3. NET INTEREST INCOME

In thousands of BGN	2004	2003
Net interest income		
Interest and similar income		
Interest and similar income arise from:		
- Loans and advances to banks	141	344
- Loans and advances to customers	9,861	3,712
- Trading instruments	730	682
	10,732	4,738
Interest expense and similar charges		
Interest expense and similar charges arise from:		
- Deposits from banks	(76)	(102)
- Deposits from other customers	(4,745)	(1,861)
- Trading instruments	(197)	(188)
	(5,018)	(2,151)
Net interest income	5,714	2,587

4. NET FEE AND COMMISSION INCOME

In thousands of BGN	2004	2003
Fee and commission income		
- Credit related	393	166
- Contingent liabilities fees and commissions	488	210
- Deposit accounts maintenance	1,357	769
- Other	549	100
	2,787	1,245
Fee and commission expense		
- Deposit accounts maintenance	(109)	(118)
- Other	(341)	(24)
	(450)	(142)
Net fee and commission income	2,337	1,103

Notes to the financial statements

5. NET TRADING INCOME

In thousands of BGN	**2004**	**2003**
Net trading income:		
- Debt instruments and related derivatives	(28)	702
- Investments for sale	325	764
- Foreign exchange rate fluctuations	658	412
Net trading income	955	1,878

6. OTHER OPERATING INCOME/(EXPENSE), NET

In thousands of BGN	**2004**	**2003**
Income from dividends	1	12
Other non-financial services provided	71	133
Other income/(expense) - net	(37)	50
Gain on sale of property, plant and equipment	10	52
Total operating income/(expense), net	45	247

7. GENERAL ADMINISTRATIVE EXPENSES

In thousands of BGN	**2004**	**2003**
General and administrative expenses arise from:		
- Personnel cost	3,103	2,554
- Depreciation and amortization	945	928
- Administration, marketing and other costs	4,088	3,432
Total	8,136	6,914

Personnel costs include salaries, social and health security contributions and contributions to the unemployment fund under the provisions of the local legislation.

According to Deposit Guarantee Act all Bulgarian banks should make annual instalments of 1.5% of the total deposit base from the previous year, determined on an average daily basis. Annual instalments are accounted for as expenses in the year of payment. In 2004 Investbank AD made an annual instalment to deposit guarantee fund at the amount of BGN 203 thousand.

Notes to the financial statements

8. IMPAIRMENT LOSSES

In thousands of BGN	**2004**	**2003**
Write downs		
Loans and advances to customers	2,073	59
Other contingent liabilities	-	800
	2,073	859
Reversals of write downs		
Loans and advances to customers	(142)	(2,039)
Other off-balance sheet items	(1,200)	-
Net impairment losses	731	(1,180)

In 2004 a reversal of provision was made at the amount of BGN 1,200 thousand, which has been initially provided for in 2003 with regard to a bank guarantee issued on behalf of the Ministry of Environment and Water of Bulgaria as loan collateral granted to Sevko AD.

9. TAXATION

Income tax expense

In thousands of BGN	**2004**	**2003**
Current taxes	(41)	(19)
Total income tax expense in income statement	(41)	(19)

10. CASH AND BALANCES WITH CENTRAL BANK

In thousands of BGN	**2004**	**2003**
Cash on hand	4,449	4,228
Cash in transit	-	255
Balances with the Central Bank	16,240	4,532
Total	20,689	9,015

The current account with the Bulgarian National Bank is used for direct participation in the money and treasury bill markets and for settlement purposes. In 2004, Bulgarian National Bank increased the requirements of minimum reserves held by banks in compliance with Article. 41, paragraph 1 of Law on Banks, which resulted in substantial increase of cash and cash equivalents of Investbank AD held with BNB, as of 31 December 2004.

Notes to the financial statements

11. DUE FROM OTHER BANKS

In thousands of BGN	**2004**	**2003**
Current accounts and amounts with local banks	280	365
Current accounts and amounts with foreign banks	2,333	2,110
Deposits with Bulgarian banks	7,956	3,098
Deposits with foreign banks	21	378
Total	10,590	5,951

12. TRADING SECURITIES

In thousands of BGN	**2004**	**2003**
Financial assets held for trading:		
Government securities – Republic of Bulgaria		
- Short- and medium-term denominated in Bulgarian Leva	17,204	9,327
- Long–term denominated in foreign currency	4,136	7,615
Total	21,340	16,942

13. LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis by type of borrower

In thousands of BGN	**2004**	**2003**
Other financial institutions	851	19
Individuals	10,529	3,412
Private companies	87,881	64,205
Total loans and advances	99,261	67,636
Less allowance for impairment	(2,832)	(969)
Total	96,429	66,667

(b) Analysis by sector of economy

In thousands of BGN	2004	2003
Manufacturing	10,858	8,362
Construction	4,178	1,834
Agriculture	10,022	3,418
Transport and communications	4,955	1,641
Trade and services	47,194	36,011
Other industries	22,054	16,370
	99,261	67,636
Less allowance for impairment	(2,832)	(969)
Total	96,429	66,667

(c) Impairment allowances

In thousands of BGN	2004	2003
At 1 January 2003	969	3,377
Increase/(decrease) impairment losses	1,931	(2,038)
Written off	68	370
Total	2,832	969

14. INVESTMENTS

In thousands of BGN	2003	2002
Equity investments	338	412
Other equity investments		
- Bulgarian issuers	483	157
- International issuers	3,025	-
Total	3,846	569

Equity investments represent shares in domestic companies including shares in local banking, settlement and stock exchange institutions, incident to the Bank's membership in them as well as bonds of international issuers. For valuation purposes these assets are classified as available-for-sale.

Notes to the financial statements

Equity investments are stated at cost where the fair value can not be reliably determined.

15. NON-CURRENT ASSETS

In thousands of BGN	Buildings	Equipment	Vehicles	Fixtures and fittings	Other	Total
Cost						
At 1 January 2004	75	1,854	1,005	996	1,347	5,277
Additions	469	461	371	244	1,560	3,105
Disposals	(165)	(163)	(202)	(38)	(26)	(594)
At 31 December 2004	379	2,152	1,174	1,202	2,881	7,788
Depreciation						
At 1 January 2004	(35)	(1,378	(489)	(698)	(602)	(3,202)
Charge for the year	(16)	(327)	(239)	(103)	(260)	(945)
On disposals	6	163	188	43	27	427
At 31 December 2004	(45)	(1,542)	(540)	(758)	(835)	(3,720)
Net book value 31 December 2004	334	610	634	444	2,046	4,068
Net book value 31 December 2003	40	476	516	298	745	2,075

16. OTHER ASSETS

In thousands of BGN	2004	2003
Assets for resale	-	341
Other assets	598	498
Total	598	839

17. DEPOSITS FROM BANKS

In thousands of BGN	2004	2003
Term depostits		
- in local currency	16,809	7,955
- in foreign currencies	4,896	255
Payables under repurchase agreements	13,075	8,982
Total	34,780	17,192

Notes to the financial statements

In 2004, the Bank continued to finance its short-term liquidity through sell-buy repurchase agreements with banks. As at 31 December 2004, the attracted funds under repo deals amount to BGN 13,075 thousand.

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18. DEPOSITS FROM CUSTOMERS

In thousands of BGN	**2004**	**2003**
Individuals	61,243	39,151
Institutions	40,286	25,836
Mortgage bonds	3,902	-
Total	105,431	64,987

19. OTHER LIABILITIES

In thousands of BGN	**2004**	**2003**
In local currency		
Transfers under execution	404	458
Provisions	-	1,200
Other accounts payable	191	1,590
Total	595	3,248

20. CAPITAL AND RESERVES

As at 31 December 2004 the registered share capital of the Bank was BGN 16,000 thousand, which was fully paid in. The capital of the Bank comprises BGN 16,000 thousand ordinary shares, each with a face value of BGN 1. Reserves comprise of accumulated profits and losses from previous years.

21. CASH AND CASH EQUIVALENTS

In thousands of BGN	**2004**	**2003**
Cash on hand	4,449	4,483
Balances with banks	10,590	5,951
Total	15,039	10,434

22. REPURCHASE AND RESALE AGREEMENTS

The Bank raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates. At 31 December 2004 assets sold under repurchase agreements were as follows:

In thousands of BGN	**Fair value of underlying assets-collateral**	**Carrying amount of corresponding liabilities**
Bulgarian Government securities	13,258	13,075

23. ASSETS PLEDGED AS SECURITY

Details of the carrying amounts of the assets pledged as collateral are as follows

In thousands of BGN	**2004**	**2003**
Bulgarian Government securities, pledged as collateral	13,258	8,950
Cash and cash equivalents	458	491
Total	13,716	9,441

24. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Memorandum items

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to one year. Expirations are not concentrated in any period.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

Notes to the financial statements

24. COMMITMENTS AND CONTINGENT LIABILITIES, CONTINUED

Memorandum items, continued

In thousands of BGN	**2004**	**2003**
Bank guarantees and letters of credit		
- in Bulgarian Leva	12,325	10,877
- in foreign currencies	3,442	1,072
Accepts	455	49
Loan commitments	5,222	5,331
Total	21,444	17,329

These commitments and contingent liabilities have off balance-sheet credit risk because only organization fees and accruals for probable losses are recognized in the balance sheet until the commitments are fulfilled or expire. Many of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

At 31 December 2004 the value of collateral held for guarantees and letters of credit exceeds 150 %.

(b) Other contingencies

The Bank is the defendant in a number of lawsuits alleging infringement of obligations to third parties. The claims of the plaintiffs amount to approximately BGN 4,092 thousand. Preliminary hearings and discovery proceedings on these actions are in progress. The ultimate outcome of the matter cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

25. RISK MANAGEMENT DISCLOSURES

A. Trading activities

The Bank maintains active trading positions in a variety of derivative and non-derivative financial instruments. Most of the Bank’s trading activities are customer driven. In anticipation of customer demand, the Bank carries an inventory of capital market instruments and maintains access to market liquidity by quoting bid and offer prices to and trading with other market makers. Positions are also taken in the interest rate, foreign exchange, debt, equity, and commodity markets based on expectations of future market conditions. These activities constitute the proprietary trading business and enable the Bank to provide customers with capital market products at competitive prices. As trading strategies depend on both market-making and proprietary positions, given the relationships between instruments and markets, those are managed in concert to maximise net trading income.

The Bank manages its trading activities by type of risk involved and on the basis of the categories of trading instruments held.

25. RISK MANAGEMENT DISCLOSURES, CONTINUED

A. Trading activities, continued

(i) Credit risk

The Bank's credit exposure at the balance sheet date from financial instruments held or issued for trading purposes is represented by the fair value of instruments with a positive fair value at that date, as recorded on the balance sheet. Notional amounts disclosed in the notes to the financial statements do not represent the amounts to be exchanged by the parties to derivatives and do not measure the Bank's exposure to credit or market risks. The amounts to be exchanged are based on the terms of the derivatives.

The risk that counterparties to trading instruments might default on their obligations is monitored on an ongoing basis. In monitoring credit risk exposure, consideration is given to trading instruments with a positive fair value and to the volatility of the fair value of trading instruments. To manage the level of credit risk, the Bank deals with counterparties of good credit standing, enters into master netting agreements whenever possible, and when appropriate, obtains collateral. Master netting agreements provide for the net settlement of contracts with the same counterparty in the event of default.

(ii) Market risk

All trading instruments are subject to market risk, the risk that future changes in market conditions may make an instrument less valuable or more onerous. The instruments are recognised at fair value, and all changes in market conditions directly affect net trading income.

The Bank manages its use of trading instruments in response to changing market conditions. Exposure to market risk is formally managed in accordance with risk limits set by senior management by buying or selling instruments or entering into offsetting positions.

B. Non-trading activities

Below is a discussion of the various risks the Bank is exposed to as a result of its non-trading activities and the approach taken to manage those risks

(i) Liquidity risk

Liquidity risk arises in the general funding of the Bank's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Bank usually has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, other liabilities evidenced by paper, and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Bank strategy. In addition the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

The following table provides an analysis of the financial assets and liabilities of the Bank into relevant maturity Bankings based on the remaining periods to repayment.

Notes to the financial statements

25. RISK MANAGEMENT DISCLOSURES, CONTINUED

B. Non-trading activities, continued

(i) Liquidity risk, continued

31 December 2004

	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 to 5 years	Maturuty not defined	Total
Assets						
Cash and balances with central Banks	20,689	-	-	-	-	20,689
Due from other banks	10,590	-	-	-	-	10,590
Trading securities	21,340	-	-	-	-	21,340
Loans and advances to customers	3,226	6,942	28,705	57,556	-	96,249
Investments	702	-	3,025	-	119	3,846
Property and equipment	-	-	-	-	4,068	4,068
Other assets	-	-	-	-	598	598
Total assets	56,547	6,942	31,730	57,556	4,785	157,560
Liabilities						
Deposits from banks	19,553	2,474	4,139	8,614	-	34,780
Deposits from customers	43,422	8,846	22,015	31,148	-	105,431
Other liabilities	595	-	-	-	-	595
Total liabilities	63,570	11,320	26,154	39,762	-	140,806
Liquidity Gap	(7,023)	(4,378)	5,576	17,794	4,785	16,754

When analyzing the discrepancies in the maturity structure of the assets and liabilities it should be taken into consideration the fact that deposits from customers have longer than declared maturity up to 1 month. Individuals prefer to have their deposits on demand in case of necessity and they use demand accounts, but major part of term deposits from customers are with maturity structures significantly longer than contracted.

Notes to the financial statements

25. RISK MANAGEMENT DISCLOSURES, CONTINUED

C. Non-trading activities, continued

(i) Liquidity risk, continued

31 December 2003

	Up to 1 month	**From 1 month to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**Maturuty not defined**	**Total**
Assets						
Cash and balances with central Banks	9,015	-	-	-	-	9,015
Due from other banks	5,951	-	-	-	-	5,951
Trading securities	16,942	-	-	-	-	16,942
Loans and advances to customers	4,160	7,510	37,532	17,465	-	66,667
Investments	157	-	-	-	412	569
Property and equipment	-	-	-	-	2,075	2,075
Other assets	-	-	-	-	839	839
Total assets	36,225	7,510	37,532	17,465	3,326	102,058
Liabilities						
Deposits from banks	15,437	1,055	700	-	-	17,192
Deposits from customers	35,528	6,706	19,075	3,678	-	64,987
Other liabilities	2,048	-	-	1,200	-	3,248
Total liabilities	53,013	7,761	19,775	4,878	-	85,427
Liquidity Gap	(16,788)	(251)	17,757	12,587	3,326	16,631

(ii) Market risk

Interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities the Bank is also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices, such as the savings rate and six months LIBOR and different types of interest. Risk management activities are aimed at optimising net interest income, given market interest rate levels consistent with the Bank's business strategies.

Asset-liability risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes. This means that in rising interest rate environments, margins

Notes to the financial statements

25. RISK MANAGEMENT DISCLOSURES, CONTINUED

B. Non-trading activities, continued

(iii) Market risk, continued

Interest rate risk, continued

At 31 December 2004 both interest-earning assets and interest–bearing liabilities are predominantly fixed interest and have similar maturities and repricing dates.

The table below summarises the sensitivity of the Bank's non-trading book at the reporting date.

			Fixed rate instruments				
	Total	**Floating rate instru ments**	**Less than 1 month**	**Between 1 month and 3 months**	**Between 3 months and 1 year**	**Between 1 and 5 years**	**More than 5 years**
Assets							
Cash and balances with central banks	-	-	-	-	-	-	-
Due from other banks	9,364	84	9,280	-	-	-	-
Trading securities	20,951	-	-	-	1	6,906	14,044
Loans and advances to customers	97,012	57,482	645	1,758	8,218	26,736	2,173
Investments	3,754	821	-	-	-	2,933	-
Non-interest earning assets	26,479	-	-	-	-	-	-
Total assets	157,560	58,387	9,925	1,758	8,219	36,575	16,217
Liabilities							
Deposits from banks	34,484	-	21,609	218	4,756	7,901	-
Deposits from customers	104,663	-	43,858	10,050	19,349	26,039	1,599
Non-interest bearing liabilities	1,659	-	-	-	-	-	-
Total liabilities	140,806	-	65,467	10,268	27,873	33,940	1,599
Asset-Liability Gap	16,754	58,387	(55,542)	(8,510)	(19,654)	2,635	14,618

Currency risk

The Bank is exposed to currency risk through transactions in foreign currencies. It does not make investments in foreign operations.

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 currencies outside the Euro-zone and the lev.

Notes to the financial statements

25. RISK MANAGEMENT DISCLOSURES, CONTINUED

B. Non-trading activities, continued

(iv) Market risk, continued

Currency risk, continued

The Bank's transactional exposures give rise to foreign currency gains and losses that are recognised in the income statement. These exposures comprise the monetary assets and monetary liabilities of the Bank that are not denominated in the measurement currency of the Bank. These exposures were as follows:

In thousands of BGN	2004
Assets	
Bulgarian leva and euro-	140,415
US dollars	15,981
Other	1,164
Liabilities	
Bulgarian leva and euro-	124,719
US dollars	15,993
Other	94
Net position	
Bulgarian leva and euro	15,696
US dollars	(12)
Other	1,070

In respect of monetary assets and liabilities in foreign currencies that are not economically hedged, the Bank ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate.

(v) Credit risk

The Bank is subject to credit risk through its trading, lending, and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees.

Credit risk associated with trading and investing activities is managed through the Bank's market risk management process.

Notes to the financial statements

The risk that counterparties to both derivative and other instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Bank deals with counterparties of good credit standing.

25. RISK MANAGEMENT DISCLOSURES, CONTINUED

B. Non-trading activities, continued

(vi) Credit risk, continued

The Bank's primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. In addition, the Bank is exposed to off balance sheet credit risk through commitments to extend credit and guarantees issued.

Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for Banks of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The major concentrations of credit risk arise by location and type of customer in relation to the Bank's investments, loans and advances, commitments to extend credit and guarantees issued.

The amounts reflected in the tables represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value. The amounts, therefore, greatly exceed expected losses, which are included in the allowance for uncollectibility.

The Bank's policy is to require suitable collateral to be provided by its customers prior to the disbursement of approved loans. It is the Bank's policy that the total amount of loans outstanding be collateralised. Guarantees and letters of credit are also subject to strict credit assessments before being provided. The agreements specify monetary limits to the Bank's obligations. The extent of collateral held for guarantees and letters of credit exceeds 150 %.

Collateral for loans, guarantees, and letters of credit is usually in the form of cash, inventory, listed investments, or other property and bank counter guarantees.

The table below shows a breakdown of total credit extended to customers, other than financial institutions, by the Bank by type of collateral:

In thousands of BGN	**2004**	**2003**
Secured by cash and state securities	10,512	8,376
Secured by mortgages	51,297	28,153
Other collateral	37,452	31,107
	99,261	67,636
Less allowances for impairment	(2,832)	(969)
Total	96,429	66,667

Notes to the financial statements

26. RELATED PARTY TRANSACTIONS

In thousands of BGN

Related party	Nature of the related party relationship	Type of transaction	Outstanding balance
Festa Holding AD	Shareholder	1) Deposits received	20
Chernomorsko zlato AD	Common control	1) Loan	442
		2) Bank guarantee	408
		3) Deposits received	131
Vinkom AD	Shareholder	1) Loan	719
		2) Bank guarantee	644
		3)Deposits received	33

Remunerations of Management Board in 2004 are in the amount of BGN 199 thousand and remunerations of Supervisory Board are in the amount of BGN 93 thousand.

27. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

There are no events subsequent to the balance sheet date of such a nature that they would require additional disclosures or adjustments to the financial statements.