2005 ANNUAL REPORT

Postbank

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01

The Year in Review

THE YEAR IN REVIEW

Dear Shareholders,

The year 2005 was another successful year for Postbank. We made one more step towards our strategic goal of “20/10 by 2010 organic”. Following a year of strong growth, Postbank outperformed the market’s averages in virtually all lines of business, gaining market share and building up its strong customer base. These results are encouraging as they reflect both the condition of the Bank and the environment of the country within which it operates.

Bulgaria’s economy continued its steady and dynamic development. Real GDP growth is expected to exceed 5% for a second consecutive year. State finances appear to be in good shape. Fiscal discipline and aggressive tax collection resulted in a budget surplus of over 2% in 2005. Available sources were used by the Government to decrease government debt. Redeeming the last remaining Brady bonds (IABs in January and FLIRBs in July 2005) was a milestone for Bulgaria, breaking the link with the turbulent past.

Higher inflation in 2005 (6.5%) is the price to be paid for the high oil prices, new excise taxes required by EU and price convergence. Rising current account deficit prompted the IMF representatives to negotiate with the Bulgarian authorities specific solutions in order to reduce it. In our view, Bulgaria has to overcome this hurdle by continuing the liberalisation, improving the business environment, and boosting productivity.

Bulgaria is making efforts to act as a EU-member – adopting EU legislation and learning from the existing EU members. Now, the path looks set for the EU membership and we all hope that the country will become a EU-member in the beginning of 2007. Bulgarians largely approve the accession and they are optimistic about the future prospects of their country and themselves.

The banking market became tougher in 2005, squeezed between increasing competition and credit growth restrictions imposed by BNB. Lending to individuals was at the focal point of the banks’ strategies as they fought for clients and market share. Retail loans in the system increased by 63% in 2005 reaching 6.18 billion BGN while mortgage loans continued to be the leading product with 101% annual increase reaching 2.03 billion BGN.

During 2005, we also witnessed some ownership changes among Bulgarian banks not only by new entrants but also by well-established players in the local market. This trend is expected to continue in the future, as smaller banks will have to find expansion capital.

An important factor influencing the behaviour of the banking market in 2005 were the BNB restrictions as part of the joint effort of the Government, IMF and BNB to reign in expanding current account deficit and increasing credit risk by restricting lending to individuals in particular. In line with this decision, BNB amended the banking regulation during the year, which required Postbank to adapt dynamically to the changing environment. Ordinances on capital adequacy and risk exposures were amended to exclude unaudited profit from banks’ capital bases and to increase provisions on overdue loans (31 – 90 days). Even more restricting were the amendments on mandatory reserves, which required banks to review and limit their lending growth or face big penalties in the form of additional interest-free mandatory reserves with BNB.

Despite all the difficulties, Postbank managed to distinguish itself from its competitors and was recognized by its clients as one of the best banks on the market. In a study by GfK, a market research company, at the end of 2005 Postbank was ranked among the best five Bulgarian banks.

In 2005, many of its initiatives materialized for Postbank. We successfully communicated and implemented our strategy which to a large extend explains our strong performance. The path was set in 2004 when the Bank began its restructuring and modernisation by building up a new image and corporate structure.

The initial steps were to create a new corporate image and present it to the public as well as to re-design the internal structure and align it with the structure of EFG Eurobank Ergasias, our major shareholder. In 2005, we continued this process, turning to branch and product development. The branch network was brought in line with the new corporate image. Branches were renovated or relocated while new branches were opened on busy locations, fulfilling Postbank's aim to be always close to its customers. In total, over 40 new locations were opened in 2005. Additionally five new corporate centres were opened in major cities throughout the country offering exclusive service to our corporate customers. Product range was reviewed and renewed. Many new products and services were added to our portfolio strengthening Postbank's image as a truly universal bank, dedicated to customer service.

Proper IT infrastructure was an inseparable part in this process. IT capabilities were enhanced allowing the Bank to offer numerous new products and to streamline operations and the loan application process. We are also prepared to make the next step and to adopt the new tech platform which will eventually become the common platform of the Group. In addition, all of the growth occurred while keeping Risk and Audit results in check.

All this would be impossible without Postbank's most valuable asset – its employees. Their devotion and expertise were at the heart of all our achievements. More than 300 new employees joined the Bank in 2005 and through rigorous training and on the job coaching quickly became part of our professional team.

Postbank's overall performance translates into numbers and the numbers look good. Total income was up by 64% reaching 116.6 million BGN thanks not only to rising volumes but also to improving margins. Net profit rose steadily by 62% to 27.6 million BGN, the highest in Postbank's history.

In all, total assets rose by 47% to 1.71 billion BGN - a growth driven by rising net lending volumes – up by 60% to 1.17 billion BGN. Postbank increased its share in the total loan market by more than 1.1 percentage points to 6.57%. In all lines of business, growth was higher than the market's averages – consumer loans increased by 131%, mortgages by 242% and business lending – by 22%. This growth was converted into market shares as all lines of business finished the year better off – consumer loans (8.1%), mortgage loans (9.5%), lending to companies (5.5%) and deposits from clients (4.8%).

Postbank also affirmed its position as one of the leading lenders to individuals with the acquisition of the BRS's card portfolio in March 2005. This transaction not only added more than 180 000 cardholders to Postbank's customer base and turned Postbank into a leader on the credit card market but also created new opportunities for increasing customer loyalty and cross-selling.

Throughout the year, Postbank's Corporate and Small Business Banking Departments continued to deliver strong results both in volume and income. Active cooperation with EFG Leasing was established in order to provide customers with a full range of banking and leasing services.

The Treasury Division through securing new sources of funding supported the development of Postbank's lending operations. In 2005, Postbank signed a 195 million BGN credit line with EFG Private Bank Luxembourg and issued 60 million BGN bonds. The funding came at competitive rates, which allowed Postbank to offer better pricing of its loans and improve margins.

In 2005 we also valued the support of Postbank's sister companies operating in Bulgaria - EFG Factors and EFG Property Services Sofia. Shortly after its official establishment in September 2005, EFG Property Services was already participating in the branch expansion programme of Postbank, as well as offering real estate agency, appraisal and investment consulting services to the Group's clientele. EFG Property Services' aim is to build up a sound presence on the Bulgarian property market and position the EFG brand as that of a high-class service provider.

EFG Factors, with its representative office, continued its marketing efforts to promote factoring services on the Bulgarian market. Promotional activities both direct and in cooperation with Postbank, have established a positive and promising view for commercial finance services which ultimately will lead to the registration of a full branch, in order to stipulate and exploit a well promising greenfield Bulgarian market.

Rapid expansion of operations, branch network, and number of employees came at a price. Nevertheless, we also managed to establish sound cost control measures while effectively allocating costs to designated cost centres. At the end of the year, our cost to income ratio stood at 60% - whole 7 percentage points better than last year, while we still have way to go to reduce it to a level acceptable to us.

The market watchers recognized Postbank's performance. Fitch, the credit rating agency, raised Postbank's credit rating by a notch to BBB in August 2005, equal to the country's rating, which is a fair appraisal of our situation. In February 2006 Postbank received two awards - for Best Product 2005 in the categories Investment Products and Deposit Collection (Active Money Deposit), Card Products and Services (American Express Credit Cards) and the Grand Prix for Innovativeness and Quality Products - given at the Banks, Investments, and Money Fair in Plovdiv.

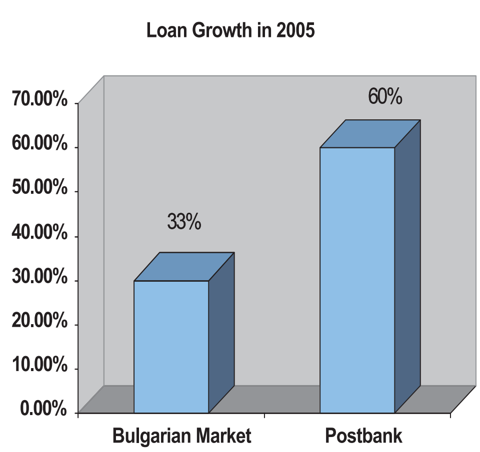
Life is not just business. We, at Postbank, are firm believers that we have an obligation of giving back to the community we are part of. In 2005, Postbank announced the "High Start with Postbank" Programme aimed at the young generation. In September, 209 scholarships were granted to eighth-grade students with the highest results at the national foreign language exam. These bright young people deserved it and we wish them success in the future. Postbank also continued to support extracurricular initiatives such as Cultural Activities, Charity, and Sports Events. Postbank is a long-term sponsor of the already traditional Postbank Cup Tournament for Ballroom and Latin American Dancing. Postbank also supported the "World Workers Games for Peace", a sports event that gathered more than 3,000 participants from over 20 countries.

Looking back at the year 2005 we see that our achievements have turned up positive results for all the stakeholders of Bulgarian Postbank – its shareholders, employees, customers, and the community. This strengthens our faith that we are on the right track and allows us to look forward at what the future has to offer us all.

Anthony C. Hassiotis
Chief Executive Officer and
Member of the Board of Directors

FINANCIAL HIGHLIGHTS

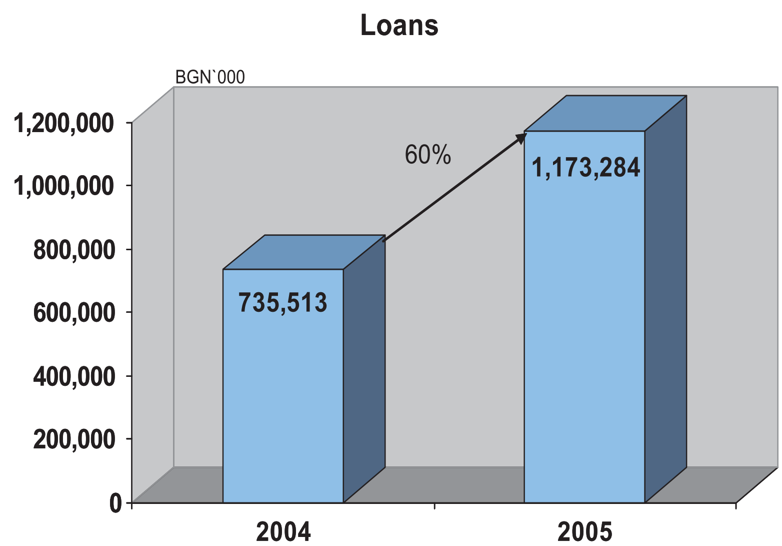
BGN`000	As at 31 December		
	2005	2004	Change 2005/2004
Balance Sheet			
Loans and Advances to customers	1,173,284	735,513	60%
Deposits	1,425,497	1,013,269	41%
Shareholders` Equity	185,204	100,342	85%
Total Assets	1,712,840	1,167,640	47%
Profit and Loss Statement			
Net Interest Income	96,211	51,721	86%
Net Fee and Commissions Income	15,212	13,644	11%
Net trading Gains	4,679	5,677	(18%)
Other operating income	550	214	157%
Total Operating Income	116,652	71,256	64%
Total Operating Expense	69,756	47,523	47%
Deposit Insurance Fund expense	3,481	2,928	19%
Provisions for impairment	(10,081)	458	(2301%)
Profit Before Tax	33,334	21,263	57%
Income tax	5,697	4,197	36%
Profit After Tax	27,637	17,066	62%
Key Financial Ratios			
ROA (after tax)	1.92%	1.65%	
ROE (after tax)	19.36%	18.31%	
Cost/Income Ratio	59.80%	66.69%	
Earnings per Share	1.71	1.66	
Total Capital Adequacy Ratio	14.29%	13.56%	
Ratings	Long-Term	Financial Strength	Sort-Term
FITCH	BBB	C/D	F3
*Stable Outlook			



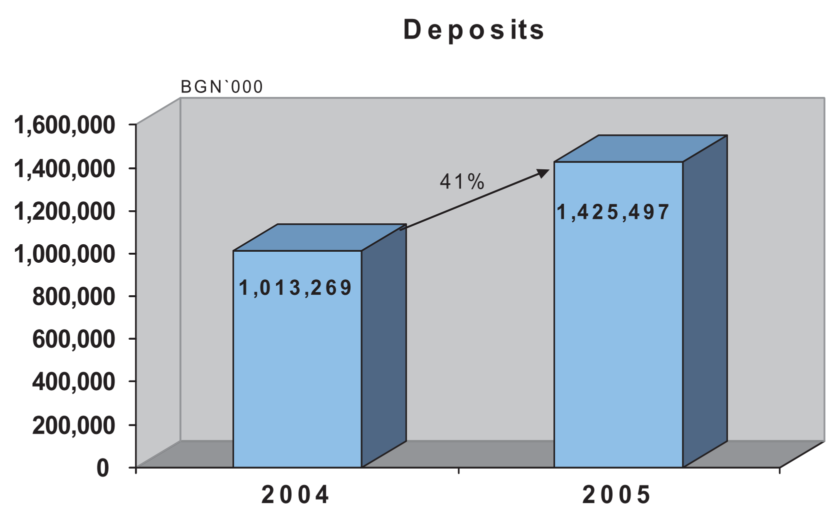
FINANCIAL REVIEW

Postbank is a leading universal bank in Bulgaria with more than 15 years of experience. It is part of a strong international financial group – EFG Group. The Bank provides a broad range of banking services to Bulgarian and international customers through its vast domestic branch network and customer service desks within post offices throughout the country. Postbank's strategy for the coming years is to strengthen its position as one of the most important players in the Bulgarian banking sector.

Total assets grew by 47% year-on-year. Loans increased by 60% while deposits grew by 41%.

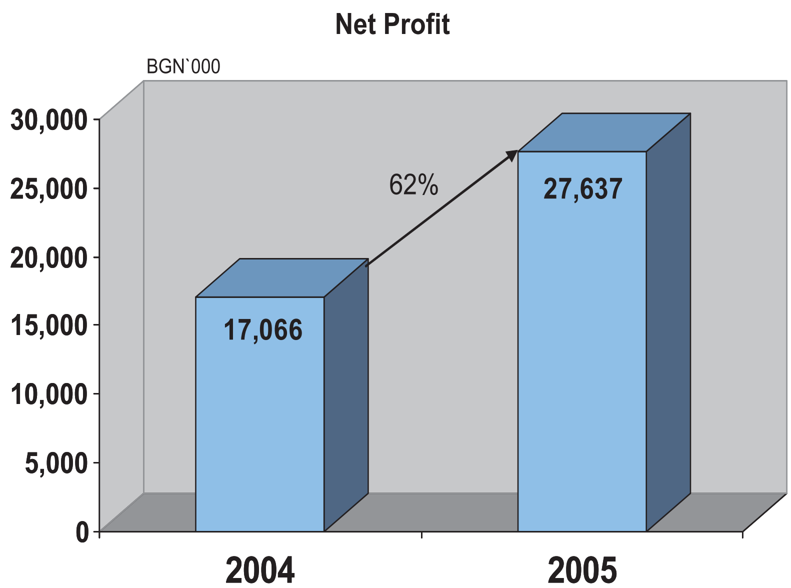


A well-defined mix of new products, competitive pricing, and excellent service helped Postbank's loans grow twice higher than the market's average.

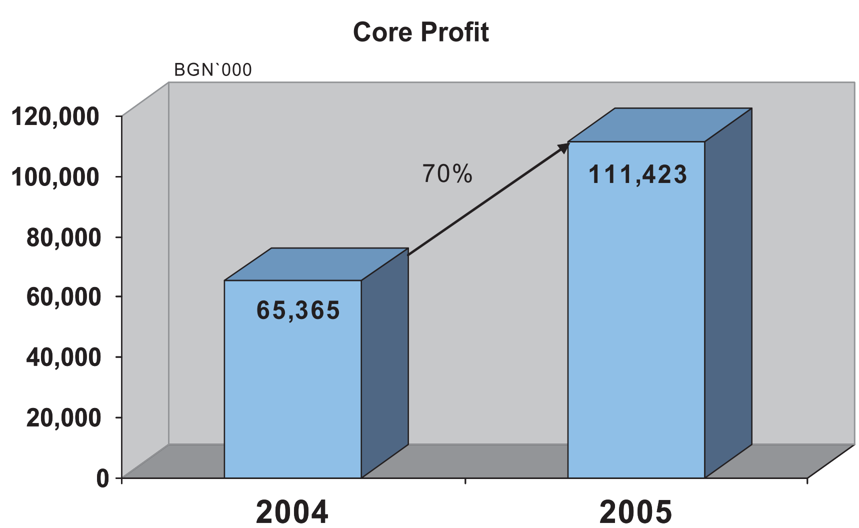


Postbank's strong brand name and sound image continued to attract depositors. Two-thirds of deposit net growth came from companies and individuals.

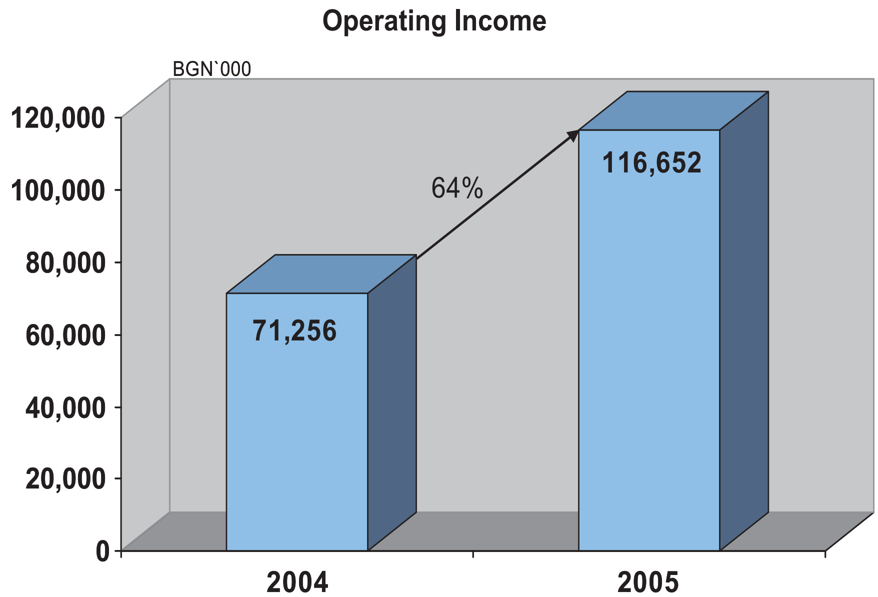
Net profit in 2005 reached BGN 27,637 thousand registering an increase of 62%.



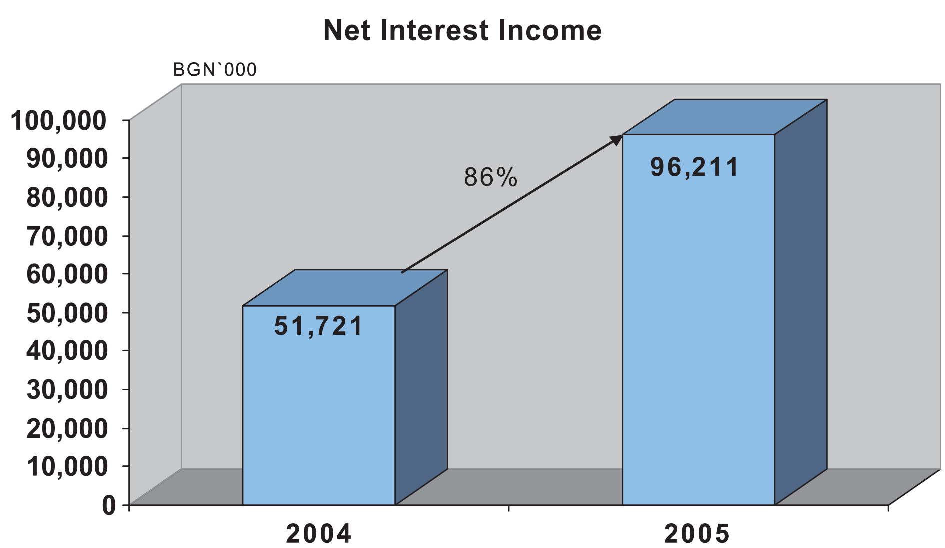
Core profit (Net Interest Income plus Net F&C Income) climbed by 70% to BGN 111,423 thousand in 2005.



The factors that contributed to that significant net profit increase were the strong rise of Net Interest Income and Net Fee and Commission Income along with the smaller increase of Operating Expenses.

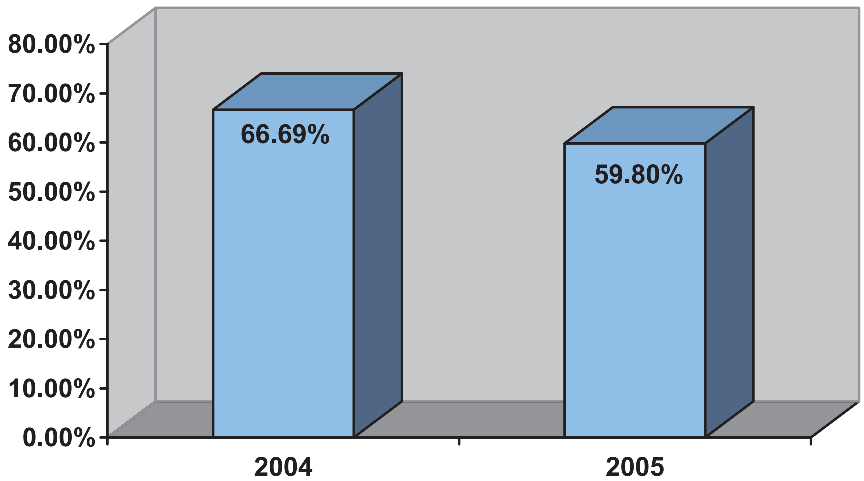


Net Interest Income grew by 86% reaching BGN 96,211 thousand mainly due to the substantial growth of the loan portfolio, which increased by 60%, exceeding the market growth rate of 33%.



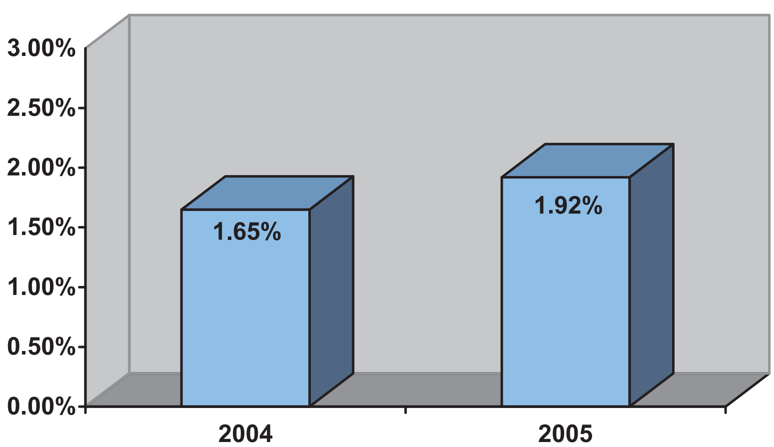
In spite of the dynamic expansion of the branch network, Total Operating Expenses increased only by 47% resulting in a Cost-to-Income Ratio of 59.80%, which is a decrease of 7 percentage points compared to 2004. Main contributors to operating expenses growth in 2005 were the higher staff costs, depreciation charges (reflecting the investments made in the branch network) and advertising and marketing costs.

Cost / Income Ratio (%)



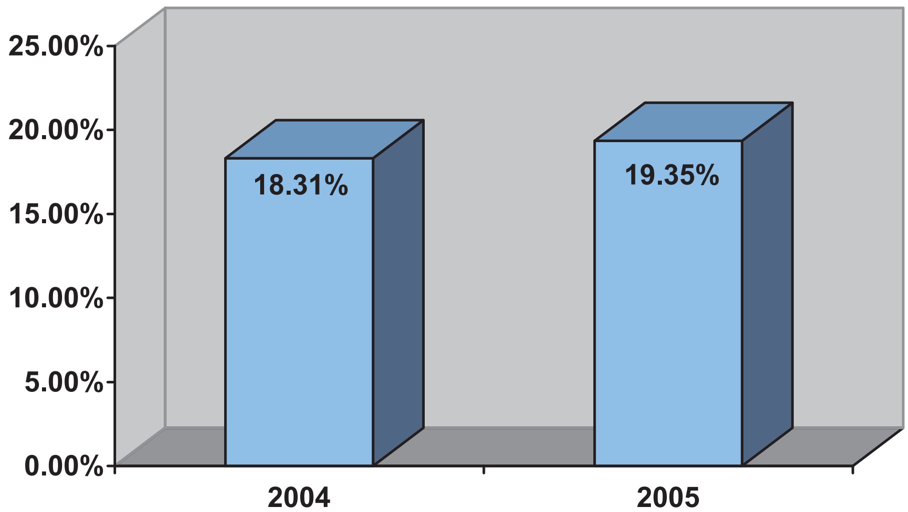
The substantial improvement in the profitability of Postbank led to an increase of after-tax Return on Assets (ROA) from 1.65% in 2004 to 1.92% in 2005.

Return on Assets



Similarly, after tax Return on Equity (ROE) increased to 19.4% in 2005.

Return on Equity



In 2005 Bulgarian Postbank continued to expand progressively, adding more than 40 new locations, 16 of which in Sofia. Additionally, five new Corporate Business Centres were opened in major cities throughout the country offering exclusive service to corporate customers.

BPB remained a leading credit card issuer in the country continuing successfully to sell Euroline cards. It also became an exclusive issuer for American Express cards in Bulgaria.

Consumer loans continued to grow at high rates both in number and volumes. Postbank has the fourth largest consumer loan portfolio while defending its position in a highly competitive environment.

With respect to housing loans, Postbank ranked fourth on the market with a market share of 9.5% as at the end of 2005 (5.8 at the end of 2004).

In 2005, a new philosophy of small business customer service was established focusing on the approach to potential customers, the understanding of their needs and the offer of reasonable solutions and competitive products.

Postbank maintained its leading position in the local financial markets (15% share in the money market and 18% in securities). In 2005 there was a total re-pricing of external funding, which led to robust savings. Additionally, two new bonds were issued at the total amount of BGN 60 million.

The Bank's corporate business continued to grow establishing cross-selling opportunities through new hybrid and innovative products. Following the establishment of Postbank's sister companies EFG Property Services Sofia and EFG Factors, the product mix offered to the Group's clientele was enhanced with professional real estate and commercial finance services.

MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS/ BOARD OF DIRECTORS

Members of the Supervisory Board (January 1st – December 12th 2005)

George Gondicas
Chairman

David Watson
Member

Andrew Stone
Member

Members of the Management Board (January 1st – December 12th 2005)

Anthony C. Hassiotis
Chairman and Chief Executive Officer

Theodore Karakassis
Member and Executive Director

Athanassios Petropoluos
Member and Executive Director

Assen Yagodin
Member and Executive Director

Members of the Board of Directors (As of December 13th 2005)

Anthony C. Hassiotis
Member of BD and Chief Executive Officer

Theodore Karakassis
Member of BD and Executive Director

Assen Yagodin
Member of BD and Executive Director

Evangelos Kavvalos
Member of BD

Michail Vlastarakis
Member of BD

Hristos Komiopoulos
Member of BD

Haralambos Kyrkos
Member of BD

SHAREHOLDER'S STRUCTURE

The shareholder ownership as of 31st December 2005 was as follows:

EFG EUROBANK ERGASIAS S.A.– 53.38%

CEH Balkan Holdings Limited - 45,32 %

Bulgarian Posts Plc. **– 0,65 %**

Bulgarian Telecommunication Company Plc. **– 0,65 %**

02

Business Review

BUSINESS REVIEW

RETAIL BANKING

The successful Retail Banking Business Model used by Eurobank in Greece was fully implemented in Postbank and it laid the ground for the dynamic expansion of the Bank's retail operations for years to come.

The smooth implementation of organisational changes both at Head Office and Branch level and the significant improvement of the network's size and quality as well as the launching of new and innovative products led to notable competitive advantages. As a result, Postbank increased its market share in all areas of retail banking, outperforming market growth rates.

The combination of the new Branch Model, innovative products, effective communication, state-of-the-art technology infrastructure, continuous training and special emphasis on service quality, are expected to further improve the positions of every Postbank branch in the local market.

The benefits of all actions undertaken during 2005 are already visible and measurable. Prospects for the coming years appear very positive.

BRANCH NETWORK

The branch is the primary point of personal contact between the Bank and its clients. In 2005, all Postbank branches fully implemented the new Branch Model - a modern one stop shop with distinct, yet interconnected points of service.

In 2005, Postbank increased its presence in the country opening 18 new branches and renovating 17 throughout the country, all branches featuring a modern open-space layout, redesigned to align with the new corporate identity. The network's dynamic expansion is planned to continue in 2006.

A crucial competitive advantage is the presence of competent and committed specialized personnel both at Branch Network and Head Office levels. This has been achieved through continuous training programmes dedicated to upgrading the knowledge, skills, performance, and quality of service of the staff at all levels and positions in the Network. Special emphasis was also given to minimizing the workload of branch personnel so that they can spend more time with customers. The surveys conducted during the year show that Postbank enjoys a very high level of customer satisfaction.

CONSUMER LENDING AND CARD BUSINESS

All major banks in Bulgaria place a significant emphasis on consumer lending trying to gain market share and increase their clientele base. This resulted in strong competition and a total market growth of approximately 50% in spite of the new regulations of the Bulgarian National Bank aimed at restricting and controlling credit growth.

It has been a successful year for the Consumer Lending Division: the Bank outgrew the market and gained market share. With the completion of the project for consolidation of the activities of Postbank with those of Bulgarian Retail Services (BRS) and the transfer of the Euroline portfolio from BRS to Postbank, the Bank became the market leader in the credit cards business, holding a share of 35% with more than 230,000 cards and almost 5,000

POS-terminals at merchant locations. Moreover, Postbank became one of the top players in the consumer lending business and is now ranked fourth in the consumer lending market.

In 2005, consumer loans processing went through a complete re-engineering, which focused on credit centralisation, a new loan application workflow, and the minimization of required documents from our customers. All the above along with the success of the new product "Fast Loan without Guarantors" led to a 94% YoY increase of outstanding loan balances and a 162% YoY increase of the number of approved loans.

Since 2004 Postbank has been the exclusive partner of American Express in Bulgaria for issuing cards and acquiring: in 2005, the Bank launched American Express Gold and Green card products - these are international credit cards issued in local currency and in Bulgaria, they can be used exclusively at Postbank's POS-network totalling more than 5,000 terminals all over the country. At the Banks, Investments, and Money Fair in Plovdiv in February 2006, Postbank's American Express Card was awarded the distinction "Best Card Product of the Year - 2005".

The Bank started Visa card acceptance through Postbank POS-terminals at merchant locations. It also started the certification procedure with the MasterCard Payment System for issuing and acquiring business.

By accepting two exclusive brands - American Express and Euroline, together with Visa and BORICA payment systems, Postbank has become one of the strongest acquirers in the market.

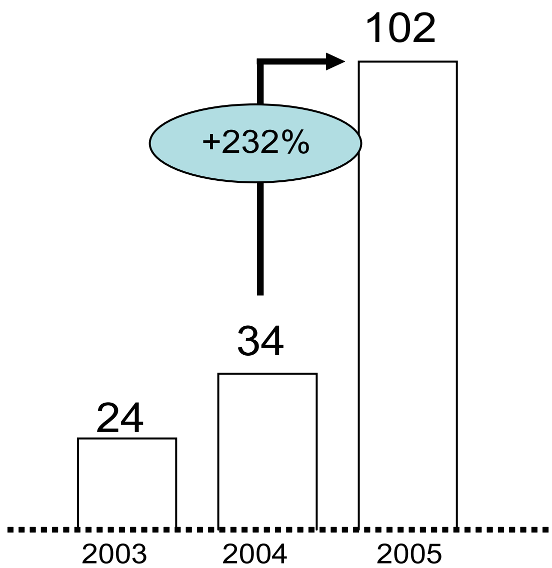
Monitoring and improvement of the quality of the consumer-lending portfolio are the Bank's main priorities in sustaining a profitable growth. Following the standards and know-how of the Group in risk management and credit assessment, along with the implementation of new collection system software, the Bank managed to improve its consumer-lending portfolio and credit performance indicators.

The impressive performance in consumer lending, the extensive range of card and loan products, together with a strong marketing support and know how, have established a major foothold for long-term profitability offering an excellent opportunity for the Bank to become the leader on the consumer lending market in Bulgaria.

MORTGAGE LENDING

In 2005 Postbank was the fastest growing bank in mortgage lending. The Bank outpaced significantly the market growth by 232%, recording the biggest market share increase from 5.7% in 2004 to 9.5% in 2005. The outstanding balance of the total mortgage portfolio tripled its growth increasing by 232% year-on-year and reaching Euro 1,037 million. Loans increased by 317%. Postbank further improved its ranking moving up to the 4th place on the market.

Mortgage Lending Balances
2003-2005 (in m. Euro)



The Bank successfully launched products with a low introductory fixed rate for the first, second and third year in euro and Bulgarian leva. In the second half of the year, a Sub-Prime Loan in EUR and in BGN without proving of income was introduced. In addition, the Bank was among the first banks in the country to offer endowment mortgages. Year 2005 was the first year of exploiting cross-selling opportunities like selling an American Express credit card along with a mortgage loan.

The bank successfully implemented a fully centralized credit process and a new structure of the Mortgage Lending Division at Head Office.

The main channel of distribution was the Branch Network. Additionally, the Bank developed and started exploiting an external third party sales network including real estate brokers, developers, financial consultants etc.

Postbank's target for 2006 is to continue gaining market share in the mortgage lending market, promoting sales through different channels of distribution. The Bank will further exploit cross-selling opportunities. The emphasis will be put on improvement of existing products as well as the infrastructure, the speeding up of the credit process while ensuring product transparency for the customers and adopting measures to increase customer satisfaction.

SMALL BUSINESS BANKING

Following its competitive strategy in the area of Small Business Banking ("SBB") based on product leadership, automation of operating processes and development of new markets, Postbank managed to become one of the leading players in the SBB segment in Bulgaria.

Thanks to its active approach to potential customers and the streamlined and fast processing of applications, Postbank gained the trust and started business relationships with thousands of new small companies and entrepreneurs. The significant expansion of its business resulted in a more than 500% annual net growth of the loan portfolio.

In order to increase its market penetration in the segment, Postbank enriched the range of products with new flexible Business Premises and Equipment Loans, Leasing, POS–Discounting and Payroll Programmes.

The priorities of the Small Business Banking Division for 2006 will be to retain the focus on micro lending, further development of cross selling activities and alternative sales channels, combined with overall improvement of efficiency at Head Office and branch level through intensive training.

CORPORATE BANKING

Year 2005 featured major developments in the field of Corporate Banking. The Bank used EFG Group know-how and maintained its leading position through designing innovative products and providing integrated solutions to its clients. The new products combine long-term financing options, protection from FX and interest rate risks, and the use of bond and syndicated loans, factoring and leasing products. Postbank's Corporate Banking Division ("CBD") strategy aims at providing customers with a comprehensive package of products and services that best meet their needs. The Bank helps its Clients realise their strategic vision in full, raise capital through modern methods that minimize costs and ensure liquidity, and manage their assets, liabilities, and financial risks in the most efficient manner.

The successful implementation of a new Corporate Loans Administration structure was completed in 2005. The Bank established a unique network of 5 Business Centres, dedicated to service large and medium corporate clients. The Business Centres are directly linked to CBD at Head Office and ensure the access of every single customer to the decision-making bodies.

Large corporate customers

The main objective of the Large Corporate Division is to provide integrated services and specialised solutions to large corporate clients. In addition to lending services (or credit enhancements), CBD ensures protection from financial market fluctuations and effective management of excess liquidity. Being strongly client-oriented, the Large Corporate Department strives to develop close, direct, and solid working relationships with each individual client. The main concern is to increase, diversify, and sustain the loan portfolio quality and to increase the returns on allocated capital. Deposits from large customers increased owing to the applied good customer identification strategies and strong account management.

Medium corporate customers

Loans to medium corporate clients recorded a significant growth due to the support of the new Business Centres. The achieved volumes were accompanied by a substantial increase of the number of customers and cross-selling opportunities.

LEASING SERVICES

EFG LEASING

Two leasing companies – EFG Leasing EAD and EFG Auto Leasing EOOD ("EFG Leasing") - were founded in early 2005. EFG Leasing EAD provides a comprehensive range of leasing products for commercial vehicles, equipment and real estate to corporate clients. EFG Auto Leasing EOOD provides financial and operating leasing of passenger cars, both to corporate and retail clients.

After only 12 months of operation, EFG Leasing ranks third among the bank-owned leasing companies, with a market share of 15%. In 2005, the total value of leased assets amounted to EUR 61,629,281, which makes EFG Leasing the fastest growing leasing company on the Bulgarian market. This impressive performance is attributed both to the strong support from EFG Eurobank Ergasias Leasing and to the growing cooperation with

Postbank in the area of car financing and corporate banking. With a pipeline of signed contracts for EUR 5.6 million and a team of young and enthusiastic employees, the company is well positioned for a good start in 2006.

Real estate leasing has the largest share in the lease portfolio - 37%, followed by industrial equipment with a 25% share. Commercial vehicles account for 22% of the portfolio; they have been generated mainly through vendor sales and have a very strong growth potential taking into account the growing vehicle market and the exclusive agreements with certain vendors. Passenger cars, with a share of 16%, are a result of the joint marketing efforts of EFG Leasing and the Auto Business Unit of the Bank. This unique approach to the car market was highly appreciated by both car dealers and clients and will facilitate the further growth in car leasing.

In 2006, both leasing companies plan to strengthen their market position and earn a market share of 20%. This will be achieved by exploring further synergies with Postbank, as well as by expanding the relations with existing vendors and identifying new ones. EFG Leasing aims at becoming the leasing company and partner of first choice for both corporate segment and car vendors.

FACTORING SERVICES

EFG Factors

After the establishment of the representative office of EFG Factors in Sofia in 2004, in 2005, the factoring activities of the Group in Bulgaria gained momentum and began to be recognized by corporate entities in the country. EFG Factors, Sofia, offered mainly international factoring services to the market, complemented by domestic and forfeiting deals. The turnover of the representative office grew rapidly and reached 10 million euro in December 2005.

Striving to increase the synergies for the whole Group, EFG Factors provides its services in cooperation with Postbank. The company is also the only Bulgarian member of Factors Chain International (FCI), an association of 202 leading factoring companies from 63 countries.

The competitive advantages of EFG Factors are:

- Client-centered approach with continuous vision and target to adjust factoring with the needs of each client individually (one-to-one factoring)
- Knowledge of the markets, experienced know-how services
- Utilization of a highly trained and specialized workforce
- Sophisticated factoring software and electronic management of receivables
- Consistent commitment to improve the quality of the services provided

In 2006 the goals of EFG Factors, Sofia will not only be to increase its penetration into the market, using its natural competitive advantage of being one of the first factoring companies in Bulgaria, but also to establish a clear and positive picture of the service within the country. The Management aims to transform the representative office into a branch and to expand the company's spread on the domestic market, thus offering all mainstream factoring products.

EFG PROPERTY SERVICES SOFIA

EFG Property Services Sofia was established officially in September 2005 as part of the expansion of the Group in South-Eastern Europe. The aim of the company is to support and widen the activities of Bulgarian Postbank in relation to the real estate sector and offer high quality services to the Group's clientele.

The Company's main fields of activity are real estate agency services, appraisal and investment consulting services with regard to real estate.

Since its establishment EFG Property Services joined efforts with Postbank's team to successfully support Postbank's 2005 Branch Expansion Program.

CAPITAL MARKETS

Overview of Bulgarian market

In 2005, the strict fiscal and monetary policy pursued by the Government and imposed by the Currency Board continued to bear fruit. The year was full of key events that contributed to the strengthening of the market economy and affirmed Bulgaria's commitment to the European integration process. Based on the positive economic results, which contributed to the decrease of the risk premium on internal and external debt securities trading, the country's credit rating was raised.

Capital Markets

In 2005, the Capital Markets Division continued to support the Bank's leading positions on the local financial market. The Division was restructured and a newly established Treasury Sales department took over the client base service. Brokerage activities moved to the Stock Exchange Department, which in addition manages the Bank's proprietary portfolio in equities.

The year 2005 set the beginning of a new aspect in the Bank's market risk management of corporate clients business. Selling of sophisticated interest and currency risk insurance schemes including options, interest swaps, and flexible forward were actively promoted.

The Bank's dealers expanded the trading portfolio by stepping out on the government debt markets in Croatia, Turkey, and Russia.

2005 saw the successful implementation of Web Based Application for Remote Stock Exchange Trading – COBOS. The system was also successfully implemented in the Bank's accounting and IT systems. Through that system, the Bank's brokers can offer some of the most attractive cost-effective on-line trading market conditions.

Treasury

In 2005 the Treasury Department sustained its leading role on the domestic financial markets through its active presence in the fields of foreign exchange, bond trading and asset/liability management. The major developments the department carried into effect were mainly oriented in two directions: Treasury was restructured so that it can meet the increasing needs of the investment community and to satisfy the high expectations of the Bank's corporate clientele. During the period, the focus fell on the development and promotion of the activities of the Treasury Sales.

The Trading Section was actively involved in new markets and products aimed at dispersing risk and improving the return to risk ratio. The Fixed Income Desk increased its share on the secondary market of sovereign and corporate debt. With the logistic help of Eurobank – Athens, we started to offer our clients a wide range of bond markets, including bonds from EEA member countries, European corporate and banking bonds and bonds from emerging Balkan markets.

The Treasury Sales Section was established to respond to the increasing financial needs of the institutional, corporate and high-net-worth clients of the bank. The Section deals primarily with derivative products, aiming at stripping client business out of currency and interest rate risks. Apart from hedging instruments, tailor-made solutions were introduced to a big number of institutional clients with specific investment needs.

The Stock Exchange Department provides institutional and private clients with investment and brokerage services linked to the Bulgarian Stock Exchange, including underwriting of bond issues and listing companies on the stock exchange. In 2005 the Bank introduced the remote Internet-based "COBOS" system for the clients of Postbank who now have direct access to the trading floor.

The key target for the Capital Markets Division in 2005 was to position the Bank in the new developing market niche such as structured products for institutional clients, derivatives for corporate clients and last but not the least, asset management for high-net-worth individuals.

03

Information Technologies

INFORMATION TECHNOLOGIES

As part of Postbank's constant efforts to provide efficient, modern and fast services to its clients, the Information Technologies Division completed a number of important projects directed at improving efficiency in business process automation.

Additional functionalities were implemented and improvement on the already existing automated processes was made.

In this way, the IT Division responded to the increased business requirements preparing to comply with the international activities connected with Basel II and Anti Money Laundering processes.

Among the major projects that contributed to the development of the Bank were:

- Implementation of a front-end enhancement for consumer loans - the Loan Workflow System, including a variety of modules concerning different products of the Bank such as credit cards, mortgages, fast consumer loans, and small business loans.
- Implementation of the Anti Money Laundering System according to the Group Guidelines and the Program "Know Your Customer" that started in 2004.
- A new Brokerage System automating the Bank's brokerage activities. The system supports equity and proprietary deals, customer portfolios and connections with the Central Depository; provides Registration Agent and Investment Intermediary activities and supports the implemented Web Based Application for Stock Exchange Trading – COBOS.
- Enhancement of Management Information System (MIS) Reports for management and group regulations requirements: implementation of Branch Network Reports, Transfer Pricing Reports, IRR GAP Report (requested from EFG Eurobank) and IRR Treasury reports.

Technical Infrastructure Activities were focused on different areas to meet the expansion of the Bank's activities and network, as well as the implementation of high technology (Intrusion Detection system, Bandwidth Optimisation, Desktop Migration to XP).

04

Risk Management

04

RISK MANAGEMENT

RISK DIVISION

The Risk Division successfully implemented organisational and functional improvements aiming at profound, comprehensive, and efficient monitoring and management of the risk portion of Postbank's activity.

Credit Risk Area

The year 2005 was a year of structural improvement and practical implementation of considerable know-how.

The Credit Risk Department was substantially restructured and began to directly participate in the approval of credit proposals. At the same time, the Department continued to deliver comprehensive credit risk opinions on big volume deals of the Corporate Banking, Small Business Banking, and Mortgage Lending Divisions, as well as of EFG Leasing EAD and EFG Auto Leasing EOOD. A process was started for the unification of the activity of the Department with that of EFG Eurobank Ergasias subsidiaries in the region.

The Credit Control Department was restructured in the beginning of 2005 in order to include a Corporate and a Retail Section. The Department started its activity with a full in-depth review of the Bank's existing and new credit policies and procedures. The analysis of the loan portfolio and reporting processes were improved. The department took an active participation in the Basel II Quantitative Impact Study 5 (QIS 5) projects of EFG Eurobank Ergasias and BNB.

Market Risk Area

In 2005, the Bank's market risk management was further strengthened under the guidance of the Market Risk Management units of EFG Eurobank Ergasias and EFG Group. The Bank's Management Board approved a new Market Risk Policy, which was immediately implemented and put into practice. Advanced methods for estimating FX, interest rate and index risks were adopted. The structure of the Bank's market risk limits was improved to capture new products and elaborate more on existing ones. Reporting to EFG Eurobank Ergasias and EFG Group was substantially improved, covering set-up specifications and frequency requirements. The Section took an active participation in the Basel II Quantitative Impact study 5 (QIS 5) projects of EFG Eurobank Ergasias and BNB.

Operational Risk Area

The Operational Risk Section was established in 2005. It is responsible for the Bank's reporting and activity compliance with the Group's guidelines and the requirements in the area of operational risk. In addition to performing monitoring and reporting on operational risk issues and cases, the Section took an active participation in the Basel II Quantitative Impact study 5 (QIS 5) projects of EFG Eurobank Ergasias and BNB.

COMPLIANCE

In 2005, the Compliance Department continued to provide support and assistance to the Bank's management in the corporate governance process in order to ensure appropriate compliance risk management and protect the interests of shareholders, customers, business partners, and employees.

Corporate Governance

Postbank has developed a Bank Corporate Governance Manual in order to ensure the best practices across the entire spectrum of activities. The Manual is based on the policy of EFG Group and enables the improvement of the corporate governance framework by creating a uniform set of rules and guidelines. It also describes the overall control environment of the Bank and is intended to meet the requirements laid down by regulators.

Code of Conduct and Professional Ethics

Our Code of Conduct and Professional Ethics provides the framework for our maintaining the highest standards of professional conduct. It is the guide we follow to protect our most valuable asset, the reputation of Postbank. Through our Code we endorse compliance with all applicable laws, regulations, and Company policies; higher standards of behaviour based on the principles of honesty, loyalty, integrity, and conscientiousness. Compliance with the Code of Conduct and Professional Ethics is monitored and controlled. By adhering to the Corporate Governance Guidelines and the Code of Conduct, we ensure that the long-term interests of our shareholders are best served and contribute to the integrity of the entire Group.

Anti-Money Laundering

In order to detect and prevent money laundering and terrorism financing, the Compliance Department developed new internal rules in line with international standards. Two software products were implemented for person and transaction monitoring – Siron AML and Siron Embargo, provided by the Swiss company IMTF. Combining the most effective methods such as rule based data mining, behaviour pattern matching and link analyses, Siron AML ensures significant protection from all forms of money laundering and terrorism financing. The Siron Embargo Module enables problematic transactions to be halted online on a preventative basis, using different internal and external data (NCCT, OFAC, EU sanction lists, etc.).

Customer Complaints

Customer complaints management was centralized and submission channels were internally promoted. The increased volume of collected data and information allowed us to improve our analyses by adding quality enhancement suggestions and proposals for new procedures and rules. Customer feedback and customer complaints help the Bank identify its customers' needs and make efforts to ensure higher levels of client satisfaction.

INTERNAL CONTROLS AND AUDIT

Effective internal and external audit and control functions are considered crucial to the long-term soundness of the Bank. The importance of audit and internal control processes is recognized and communicated by the Management throughout the Bank. In 2005 the Bank enhanced its internal control systems in all areas of activity through the development of new policies and procedures strongly focused on internal controls. Through independent appraisals of internal control systems in key areas of activity, the Internal Audit function continued to contribute to establishing a robust system of internal controls that will ensure meeting the Bank's strategic objectives.

05

Corporate Social Responsibility and Sustainability

05

CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABILITY

MISSION

Our mission is to meet the constantly evolving expectations of our customers, to create value for them and our shareholders and to promote an internal operating environment where individual skills are stimulated, knowledge is efficiently applied, and personnel development is systematically encouraged. Through this effort we strive to be the frontrunners in providing the most innovative and best quality products and services.

VISION

Our vision is to become a major trusted brand in Bulgaria servicing the lifetime financial needs of our customers, while achieving a 20/10 market share by 2010 through organic growth.

CORE VALUES

Trust
We believe in the mutual confidence among our share-holders, employees, and customers.

People-centrism
Man is the core of our corporate philosophy – our customers, employees, and partners.

Innovation
We offer flexible solutions, products and know-how based on the best European standards.

Quality
In order to satisfy the high expectations of the customers, we recognize human resources as being our most important asset and therefore we invest in our personnel providing the necessary motivation and adding value to our service.

Flexibility
We offer competitive products and services, as we are fully aware of the constantly growing needs on the market.

HUMAN RESOURCES

Postbank constantly aspires to create an employment environment fostering human capital development, encouraging initiative and change, rewarding performance and caring about people. The success and excellent reputation of Postbank are closely connected with the knowledge, experience, and personal contribution of the people working in the Bank.

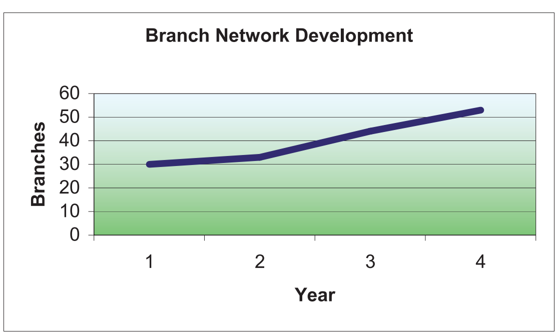
Postbank is committed to its staff's professional development and promotes an internal organisational climate where individual skills are stimulated and knowledge is efficiently applied.

New Hires

At the end of 2005, the total number of Bank employees amounted to 1304 people (average age - 37 years). The recruitment process is based on the principle of impartial and objective selection. In line with the vast growth and expansion of the Bank's branch network and activities, 332 employees were recruited in 2005. The Human Resources Division also supported the restructuring process within the Bank's Head Office and Branch Network.

Total number of employees in 2005:

- Head Office: 444
- Branch Network: 860



Following the trend in the previous year, the Bank continued to recruit young people. They were employed mainly for the new sales positions opened during the reorganisation process, where a strong proactive and sales-oriented approach is a must.

In line with the above, Postbank continued its successful tradition of organising internship programmes. In 2005, five internship programmes were organised, with 80 participating students throughout the country. Postbank hired 60% of all trainees, both in the Head Office and branch network

Training

Due to the dynamic expansion in 2005, we focused our efforts on an Induction Program, especially designed for each position in the branch network as well as selling skills trainings for the various retail products of the Bank's portfolio. A Consultative Selling Program was introduced for the first time, aimed at training active sales techniques.

In 2005, special attention was paid to key employees development and promotion. Furthermore, the number of participants in additional qualification programmes such as ACCA, CFA, CIA and the well-known Master Programs increased by almost three times.

We strive to offer constant training to our employees in order to ensure that customers are provided with the highest quality service and adequate information about available products. In 2005, the Bank conducted a total of 70,409 training hours, covering 3,810 participants.

	Participants	Employees	Total Training Hours	Total Training Hours per Employee
2005	3810	1304	70490	58,4
2004	3184	1152	67107	58,25
2003	1653	1064	50141	47,13
2002	1433	1124	46486	41,35
2001	819	1160	15860	13,67

In 2005, we started the implementation of a performance appraisal system common for the entire Group. Through this system, we receive feedback and monitor not only the performance of all Postbank employees, but also their training and career development needs.

Allowances and Incentives Policy

In 2005 Postbank kept a policy for additional allowances, an additional voluntary life insurance scheme, a voluntary Medical Services Plan and voluntary pension insurance. All Postbank employees benefit from the possibility to use the Bank's products at preferential interest rates.

SOCIAL RESPONSIBILITY

Over the years, Postbank has combined its successful growth with a broader social presence through programmes and actions in sectors such as education, culture, sports and wider social responsibility activities related to charities. These activities form an integral part of the Bank's strategy. We believe that a dynamic and successful company has to contribute and give back to the society within which it operates, thus contributing to its welfare.

The main focus of our efforts in 2005 was education as it has been one of the significant issues in the Bulgarian society in the last years of transition, and with respect to the current process of accession to the EU. Moreover, we continued our sustained efforts in fields we have been traditionally supporting, such as culture and sports. It is worth noting that in recognition of its social activities in all these fields, the Bank was recognized by the Bulgarian Donor Forum as one of the biggest donors in the financial sector for 2005.

EDUCATION

HIGH START WITH POSTBANK

Introduced in 2005, the pioneering programme gained huge success throughout the country. *High Start With Postbank*, aimed at supporting Bulgarian secondary education, was viewed as an initiative "beyond conventional corporate social programmes".

The unique *High Start with Postbank* involved more than 24,000 eighth-grade pupils from schools all over the country, who took the national foreign language exam conducted by the Ministry of Education and Science.

Facts and figures speak for themselves – 209 scholarships were granted for students from 130 high schools or total scholarship funds of BGN 84,000. What figures cannot speak about is the children's smiles, their proud parents, and the concept of education as a real value.

At special ceremonies throughout the country, the 209 scholarship winners received from the management of Postbank Certificates of Excellence and money cheques. The ceremonies were also attended by official representatives - municipal governors, mayors, representatives of the Ministry of Education and Science.

High Start With Postbank fosters an environment of healthy competition among school students and lays the foundations for the establishment of an institution promoting knowledge in a very special way. The success of the programme is based on promoting and rewarding of merit as a necessary value for the progress and development of society and mankind, but it is also based on the creation of strong relationships between Postbank, local schools and communities.

Support to young people in Bulgaria

For a third year in a row, Postbank supported the Business Club at the oldest and most respected higher education institution in Bulgaria – Sofia University St. Kliment Ohridski - by sponsoring the Club's initiative to prepare a book with the curricula vitae of the University's outstanding graduates, helping in this way business corporations make their "first contact" with those young professionals.

CULTURE

"Who Is Afraid of Virginia Wolf" in the "Salza I Smiah" Drama Theatre with the support of Postbank

Postbank supported the production of Edward Olby's famous play "Who Is Afraid of Virginia Wolf". The first-night performance took place in the New Drama Theatre "Salza i Smiah" in December 2005. Prominent Bulgarian film director Liudmil Todorov, for whom this was the first challenge in the field of theatre art, directed the play. The main roles were played by two of the most popular and loved Bulgarian actors – Askeer Award-winner for Best Theatrical Actress of 2005 – Boyka Velkova and actor Ivailo Hristov, with roles in more than 120 plays and films to his credit.

International Theatre Festival "Varna Summer"

In 2005, Postbank supported one of the most popular theatre festivals in Bulgaria – "Varna Summer". The festival is held every year in the beginning of June and is part of the big Festival of the Arts held in the town of Varna, which also includes ballet, folk, choir, jazz, film and puppet festivals, as well as an international graphic biennial. The participation of Postbank in this important initiative was a logical extension of its traditional support to Bulgarian culture.

"SFUMATO" Theatre Laboratory

Another contribution that expanded the tradition to support significant cultural events was the partnership with the SFUMATO Theatre Laboratory. Created in 1989 by prominent Bulgarian producers Professor Margarita Mladenova and Professor Ivan Dobchev as a territory for theatrical research, SFUMATO is an innovative practice, which has outpaced the existing conventional models of cultural policy in Bulgaria. Postbank sponsored the theatre season of the Laboratory proving in practice its commitment to be a driving force for innovation and quality in life.

SPORTS

Club for Latin American and Ballroom Dances “Dressed In Tails and Patent Leather Shoes”

Postbank is a traditional sponsor of one of the most popular and prestigious clubs for Latin American and Ballroom Dancing – the **“***Dressed In Tails and Patent Leather Shoes***”** *Club***.** In 2005, the annual Postbank Cup Tournament took place for the fifth year in a row. The sponsorship of Latin American and Ballroom Dancing turned out to be an efficient channel to communicate the values of Postbank: innovation, dynamic growth, and tradition.

World Workers’ Sports Games “For Peace and Solidarity”

In May 2005, Postbank sponsored the Fourth World Workers’ Sports Games “For Peace and Solidarity” that took place in the Albena Resort. The event hosted more than 20 countries from different continents and gathered more than 3000 participants. More than 440 teams took part in the games.

DONATIONS AND PARTNERSHIPS

The social activity of Postbank continued in 2005, covering various regions of Bulgaria with programmes and activities aiming at responding to the needs of the local communities where the Bank operates through its branch network.

In 2005, Postbank granted more than 100 computer systems to schools and organisations throughout the country.

The Bank was among the most active supporters of the National Campaign “Bulgarian Christmas” held under the patronage of the President of the Republic of Bulgaria. The collected amount was distributed among several hospitals and orphanages in Bulgaria.

Last but not least, Postbank responded to the national appeal for support to the disaster victims following last summer’s floods.

FINANCIAL STATEMENTS 2005

BULGARIAN POST BANK AD
FINANCIAL STATEMENTS
31 DECEMBER 2005

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Income statement

	Notes	Year ended 31 December 2005	2004
		in BGN 000	
Interest income	**1**	**123,104**	**70,180**
Interest expense	1	(26,893)	(18,459)
Net interest income		96,211	51,721
Fee and commission income	2	16,719	14,585
Fee and commission expense	2	(1,507)	(941)
Net fee and commission income		**15,212**	**13,644**
Dividends		87	-
Net foreign exchange gains less losses	3	2,140	2,249
Net gains less losses from trading securities		1,408	2,561
Net gains less loss from investment securities		1,131	867
Other operating income		463	214
Operating income		**116,652**	**71,256**
Other operating expenses	4	(69,756)	(47,523)
Deposit Insurance Fund expense		(3,481)	(2,928)
Provision for impairment	6	(10,081)	458
Profit before tax		**33,334**	**21,263**
Income tax	7	(5,697)	(4,197)
Profit after tax		**27,637**	**17,066**

Anthony C. Hassiotis
Chief Executive Officer and
Member of the Board of Directors
28 February 2006

Petia Dimitrova
Procurator and
Chief Financial Officer

Initialed for identification purposes in reference to the audit report

Stefan Nenov
Registered Auditor
28 February 2006

Balance sheet

	Notes	in BGN 000 As at 31 December 2005	2004
Assets			
Cash and balances with the Central Bank	8	171,619	117,696
Due from other banks	9	203,016	113,487
Trading securities	10	53,209	73,552
Loans and advances to customers	11	1,173,284	735,513
Investment securities, available-for-sale	12	49,721	81,122
Investment securities, held-to-maturity	12	-	1,986
Derivative financial instruments	16	917	7,257
Overpaid tax		885	-
Other assets	13	8,040	8,339
Property and equipment	14	52,149	28,688
Total assets		**1,712,840**	**1,167,640**
Liabilities			
Due to other banks	15	193,706	147,532
Derivative financial instruments	16	16	8,804
Due to customers	17	985,790	716,498
Debt securities in issue	18	80,933	31,603
Other borrowed funds	19	246,001	149,239
Current taxes		-	1,133
Deferred income tax liabilities	21	4,007	1,453
Other liabilities	20	17,183	11,036
Total liabilities		**1,527,636**	**1,067,298**
Shareholders' equity			
Share capital	23	109,925	51,250
Reserves		75,279	49,092
Total shareholders' equity		**185,204**	**100,342**
Total shareholders' equity and liabilities		**1,712,840**	**1,167,640**

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Statement of changes in shareholders' equity

	Share capital	Property and equipment revaluation reserve	Available-for-sale investments revaluation reserve	Retained earnings and other reserves	Total
					in BGN 000
Balance at 1 January 2004	**51,250**	**6,077**	**2,169**	**26,539**	**86,035**
Dividend paid	-	-	-	(4,637)	(4,637)
Net profit	-	-	-	17,066	17,066
Available-for-sale investments					
- net fair value gains, net of tax	-	-	2,248	-	2,248
Transfer to net profit or loss					
arising on investment securities					
available for sale, net of tax	-	-	(461)	-	(461)
Transfer of depreciation on revalued property	-	(4)	-	4	-
Deferred tax on property revaluation	-	91	-	-	91
Balance at 31 December 2004/1 January 2005	**51,250**	**6,164**	**3,956**	**38,972**	**100,342**
Dividend paid	-	-	-	-	-
Share issue	58,675	-	-	-	58,675
Net profit	-	-	-	27,637	27,637
Available-for-sale investments					
- net fair value gains, net of tax	-	-	(585)	-	(585)
Transfer to net profit or loss					
arising on investment securities					
available for sale, net of tax	-	-	(870)	-	(870)
Transfer of depreciation					
on revalued property	-	(34)	-	34	-
Deferred tax on property revaluation	-	5	-	-	5
Balance at 31 December 2005	**109,925**	**6,135**	**2,501**	**66,643**	**185,204**

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Cash flow statement

	in BGN 000	
	Year ended 31 December	
	2005	**2004**
Cash used in operating activities		
Interest received	121,886	65,956
Interest paid	(25,300)	(16,986)
Net gains from securities	2,776	4,168
Dividends received	87	-
Fees and commission received	16,719	14,262
Fees and commission paid	(1,507)	(941)
Amounts paid to and on behalf of employees	(18,701)	(17,744)
Other income received	330	214
Other expenses paid	(47,421)	(28,411)
Tax paid	(5,164)	(3,798)
Cash from operating activities before changes in operating assets and liabilities	**43,705**	**16,720**
Changes in operating assets and liabilities		
Net (increase) in reserve with the Central Bank	(24,034)	(36,780)
Net decrease/(increase) in trading securities	22,546	2,375
Net decrease/(increase) in due from other banks	9,473	12,602
Net (increase) in loans and advances to customers	(452,239)	(203,541)
Net (increase) in other assets	357	(4,190)
Net (decrease)/increase in derivatives	(2,463)	(1,871)
Net increase in due to other banks	48,655	69,288
Net increase in amounts due to customers	267,902	53,912
Net (decrease)/increase in other liabilities	5,511	(12,939)
Net cash used in operating activities	**(80,587)**	**(104,424)**
Cash used in investing activities		
Purchase of property and equipment (Note 14)	(31,003)	(14,432)
Purchase of investment securities	(41,588)	(25,471)
Proceeds on disposal of property and equipment	419	881
Proceeds on disposal of investment securities	72,697	17,842
Net cash used in investing activities	**525**	**(21,180)**

Cash flow statement (continued)

		in BGN 000
	Year ended 31 December	
	2005	**2004**
Cash flows (used in) from financing activities		
Proceeds from issued debt securities	60,000	-
Repayments from issued debt securities (Note 18)	(12,000)	-
Long-term financing received (Note 19)	95,868	124,914
Dividends paid	-	(4,637)
Shares issued	58,675	-
Net cash from financing activities	**202,543**	**120,277**
Effect of exchange rate changes on cash and cash equivalents	6,543	2,237
Net change in cash and cash equivalents	**129,024**	**(3,090)**
Cash and cash equivalents at beginning of year	145,374	148,464
Cash and cash equivalents at end of year (Note 24)	**274,398**	**145,374**

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28 February 2006

Notes to the financial statements

General information

Bulgarian Post Bank AD was established on 2nd April 1991 as a joint stock company under Bulgarian Law. Its Head Office is located in Sofia, Bulgaria. The Bank has a network of 58 branches, 85 representative offices and 2,576 customer service desks in post offices throughout the country.

Accounting policies

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

A. Basis of presentation

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and International Financial Reporting Standards issued by the IASB. All International Financial Reporting Standards issued by the IASB and effective at the time of preparing these financial statements have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of the International Accounting Standard IAS 39 “Financial Instruments: Recognition and Measurement”.

Following recommendations from the Accounting Regulatory Committee, the Commission adopted the Regulations 2086/2004 and 1864/2005 requiring the use of IAS 39, minus certain provisions on portfolio hedging of core deposits, by all listed companies from 1 January 2005. Since the Bank is not affected by the provisions regarding portfolio hedging that are not required by the EU-endorsed version of IAS 39, the accompanying financial statements comply with both International Financial Reporting Standards as adopted by the European Union and International Financial Reporting Standards issued by the IASB.

The financial statements are presented in the national currency of Bulgaria, the Leva (BGN). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of property, available-for-sale investment securities, financial assets held for trading and all derivative contracts.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. It also requires management to exercise its judgement in the process of applying the Bank’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note T.

Notes to the financial statements (continued)

A. Basis of presentation (continued)

Adoption of new and revised standards

In 2005 the Bank adopted the following IFRSs, which are relevant to its operations. The 2004 accounts have been amended as required , in accordance with the relevant requirements.

IAS 1 (revised 2003) Presentation of Financial Statements
IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 (revised 2003) Events after the Balance Sheet Date
IAS 16 (revised 2003) Property, Plant and Equipment
IAS 17 (revised 2003) Leases
IAS 21 (revised 2003) The Effects of Changes in Foreign Exchange Rates
IAS 24 (revised 2003) Related Party Disclosures
IAS 32 (revised 2003) Financial Instruments: Disclosure and Presentation
IAS 39 (revised 2003) Financial Instruments: Recognition and Measurement
IAS 36 (revised 2004) Impairment of Assets
IAS 38 (revised 2004) Intangible Assets

The adoption of the revised IAS 1, 8, 10, 16, 17, 21, 24, 32, and 39 (all revised 2003) and IAS 36 and 38 (all revised 2004) resulted in certain additional disclosures, but did not result in material changes to the Bank's accounting policies and accounting treatment of transactions.

Standards, interpretations and amendments to published standards that are not yet effective.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2006 or later periods but which the Bank has not early adopted.

IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007).
IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Bank assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The Bank will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.

A. Basis of presentation (continued)

IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006). This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortized balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date.

There are a number of other new standards or amendments to existing ones but the management concluded they are not relevant to the Bank's operations. These amendments and standards include:

- IAS 19 (Amendment), Employee Benefits (effective from 1 January 2006)
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006)
- IAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006)
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006)
- IFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006)
- IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006)
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006)
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective from 1 December 2005)

B. Foreign currencies transactions

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates ('the functional currency'). The financial statements are presented in the national currency of Bulgaria, the Leva (BGN), which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the Central Bank's exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Such balances are translated at the Central bank's year-end exchange rates.

At 31 December 2005, monetary assets and liabilities are translated at the reference Central Bank exchange rate – BGN 1 for EUR 0.5113 (2004: BGN 1 for EUR 0.5113) and BGN 1 for USD 0.60317 (2004: BGN 1 for USD 0.69643).

C. Interest income and expense

Interest income and expense are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period using effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount. When appropriate the Bank uses a shorter amortisation period. This is the period to the next repricing date when the market rates are changed before the expected maturity of the instrument. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income includes coupons earned on fixed income investment and trading securities.

When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognized based on the interest rate that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

D. Fees and commissions income and expense

Fees and commissions, except for those, which form part of the effective interest rate of the instrument, are generally recognized on an accrual basis when the service has been provided.

Loan commitment fees that are likely to be drawn down are deferred and recognized as an adjustment to the effective interest rate on loans.

E. Financial assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

(a) Financial assets at fair value through profit or loss

This category includes financial assets held for trading. Financial assets held for trading are the assets which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are assets for which a pattern of short-term profit taking exists. Derivatives are also categorized as held for trading.

Financial assets held for trading are initially recognized at fair value plus transaction costs and subsequently re-measured at fair value based on current bid prices at the reporting date. All related realized and unrealized gains and losses are included in net trading income in the period in which they arise. Interest earned whilst holding financial assets held for trading is reported as interest income.

Notes to the financial statements (continued)

E. Financial assets (continued)

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments, including loan assets, trade receivables, investments in debt instruments and deposits held in the Bank, that are not quoted in an active market.

Loans originated by the Bank by providing money directly to the borrower, other than those that are originated with the intent of being sold immediately or in the short term which are recorded as trading assets, are categorized as loans originated by the Bank. They are carried at amortized 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. Amortised cost is reduced with provisions for impairment . All loans and receivables are recognized when cash is advanced to borrowers.

(c) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. If the Bank sells other than an insignificant amount of held-to-maturity assets, the entire category is tainted and reclassified as available for sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method, less any provision for impairment. Interest earned whilst holding investment securities is reported as interest income. The Bank assesses its intention and ability to hold its held-to-maturity investments to maturity not only when those financial assets are initially recognized, but also at each subsequent balance sheet date.

(d) Available-for-sale

Available-for-sale investments are those 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.

Available-for-sale investments are initially recognized at fair value plus transaction costs and are subsequently re-measured at fair value based on current bid prices or amounts derived from cash flow models. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in equity. When an available-for-sale financial assets is derecognized or impaired, the cumulative gain or loss previously recognized in equity is recognized in profit or loss. Interest calculated using the effective interest method is recognized in the income statement. Dividends on available-for-sale equity instruments are recognized in the income statement when the Bank's right to receive payment is established. Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognized at settlement date – which is the date the Bank actually trades the relevant assets. The fair values of quoted investments in active markets are based on current bid prices. If the market

E. Financial assets (continued)

for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques consistent with the specific features of the security market in Bulgaria.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

F. Sale and repurchase agreements

Securities sold subject to repurchase agreement ('repos') are retained in the financial statements as trading securities and are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks, or deposits due to customers, as appropriate.

Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

Securities borrowed are not recognized in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return them is recorded at fair value as a trading liability.

G. Derivative financial instruments

Derivatives are financial instruments :

(a) whose value is changed in response to the change in specified interest rate, financial instrument price, foreign exchange rate, index of prices and rates, credit rates or credit index or other variable.

(b) that requires no initial net investment or an initial net investment is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

(c) that is settled at a future date.

G. Derivative financial instruments (continued)

Derivative financial instruments including currency swaps, interest rate swaps and currency forwards are initially recognized in the balance sheet at cost (including transaction costs) and subsequently are re-measured 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.

H. Impairment of financial assets

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that events have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data about the following loss events:
(i) significant financial difficulty of the obligor;
(ii) a breach of contract, such as a default or delinquency in interest or principal payments;

(iii) an economic or legal reasons relating to the borrower's financial difficulty
(iv) it becoming probable that the borrower will enter bankruptcy
(v) the disappearance of an active market for that financial asset because of financial difficulties;or
(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
– adverse changes in the payment status of borrowers in the group; or
– local economic conditions that correlate with defaults on the assets in the group.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment (ie, on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank

H. Impairment of financial assets (continued)

and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Estimates of changes in future cash flows for groups of assets are consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

(a) Assets carried at amortised cost

- **Loans and receivables**

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

The loan loss provision 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 loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement.

- **Held to maturity**

If there is objective evidence that an impairment loss on held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the income statement.

b) Financial assets carried at fair value

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or

H. Impairment of financial assets (continued)

prolonged decline in the fair value of the financial asset below its cost is considered in determining (whether the assets are impaired. If any such evidence exists for available for- sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the income statement.

Impairment losses recognized in the income statement on equity instruments, classified as available-for-sale, are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the income statement.

(c) Financial assets carried at cost

The Bank measures an impairment loss of an unquoted equity instruments that is not carry at fair value because its fair value cannot be reliably measured, as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for similar financial asset. Such impairment losses is not reversed.

I. Property and equipment

The Bank recognizes the cost of an item of property, plant and equipment as an asset if it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably.

The cost of the property, plant and equipment comprises purchase price, including import duties and non-refundable purchase taxes and any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The cost is the cash price equivalent at the recognition date. After initial recognition all property, plant and equipment is carried at their cost less any accumulated depreciation and impairment losses. The fair value of land and buildings is determined from market-based evidence by appraisal that is undertaken by professionally qualified valuers.

The last revaluation of land and buildings has been performed by a qualified independent valuer at the end of 2003. The accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. The fair value of plant and equipment is their market value determined by appraisal. The Bank recognizes the increase as a result of revaluation of property, plant and equipment in equity as revaluation surplus. The Bank recognizes the increase as a result of revaluation of property, plant and equipment in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss. The Bank recognizes the decrease as a result of revaluation of property, plant and equipment in profit or loss. The Bank recognizes the decrease directly

Notes to the financial statements (continued)

I. Property and equipment (continued)

in equity to the extent of revaluation surplus previously accrued in respect of that asset.

The Bank includes the subsequent costs in the asset's carrying amount or recognizes as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can

be measured reliably. All other repairs, maintenance and renewals are charged to the income statement during the financial period in which they are incurred.

The Bank reviews at the end of each financial year:

- if the expectations for the residual value and the useful life of the asset differ from previous estimates.
- if there is a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset.

The carrying amount of an item of property, plant and equipment is derecognized:

(a) on disposal

(b) when no future economic benefits are expected from its use or disposal.

The gain or loss from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognized. The Bank does not classify the gains as revenue. The gain or loss from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the asset.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Buildings	- 25 years
- Leasehold improvements	- the life of the lease
- Equipment and motor vehicles	- 4-7 years.

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

J. Intangible assets

Costs that are directly associated with identifiable non-monetary asset without physical substance controlled by the Bank and will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Expenditure which enhances or extends the performance of intangible assets beyond their original specifications is recognized as a capital improvement and added to the original costs of the asset.

Costs associated with developing or maintaining intangible assets are recognized as an expense as incurred.

Intangible assets are amortized using the straight-line method over their useful lives (4 years).

K. Borrowings, including debt securities in issue

Borrowings are recognized initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognized in the income statement over the period of the borrowings using the effective yield method.

L. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days to maturity from the date of acquisition including: cash and non-restricted balances with central banks, amounts due from other banks and short-term government securities.

M. Operating leases

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

N. Current tax and deferred income tax

Taxation has been provided for in the financial statements in accordance with Bulgarian legislation currently in force. 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. Income tax payable on profits, based on the applicable tax law is recognized as an expense in the period in which profits arise. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. The principal temporary differences arise from depreciation of property, plant and equipment, revaluation reserve of financial instruments, provisions for court cases, provisions for off balance sheet commitments and provisions for untaken annual leaves.

Notes to the financial statements (continued)

N. Current tax and deferred income tax (continued)

Deferred tax assets are recognized where it is probable that future taxable profit will be available against which the temporary differences can be utilized.

O. Employee benefits

The Bank recognizes contributions payable into a State plan in exchange of employee's service that is rendered to an entity during a period. The Bank has no legal or constructive obligations to pay further contributions.
Additionally the Bank recognizes fixed contributions payable into a separate Insurance fund. The Bank has no legal or constructive obligations to pay further contributions.

Postbank's retirement benefit obligations as at 31 December 2005 were BGN 103 thousand.(2004: nil)

P. Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.
Employee entitlements to annual leave are recognized when they accrue to employees.
A provision is made for:

- the estimated annual leave and social insurance as a result of services rendered by employees up to balance sheet date
- the estimated indemnities that the Bank will pay under court cases
- the off balance sheet commitments

Q. Dividends

Dividends will not be distributed according to the long-term strategy of the Bank.

R. Offsetting

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 recognized amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Financial risk management

1. Strategy in using financial instruments

By its nature the Bank's activities are principally related to the use of financial instruments. The Bank accepts deposits from customers at fixed rates 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 seeks to obtain above average margins, net of provisions, through lending to commercial borrowers.

Financial risk management (continued)

Such exposures involve on-balance sheet loans and advances in addition to guarantees and other commitments such as letters of credit.
The Management Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions.

2. 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. Impairment provisions are provided for losses that have been incurred at the balance sheet date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Bank's portfolio, could result in losses that are different from those provided for at the balance sheet date.

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 regularly. Limits on the level of credit risk by product, industry sector and by country are approved by the Management Board.

The exposure to any one borrower including banks is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items. Actual exposures against limits are monitored on a monthly basis. The credit risk is reduced by obtaining bank guarantees from related parties as security to loans extended by the Bank (Note 25).

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 managed in part by obtaining collateral.

(a) Derivatives

The Bank maintains strict control limits on net open derivative positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e., assets where their fair value is positive), 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.

(b) Credit related commitments

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 authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized with cash deposits

Financial risk management (continued)

or other collateral pledged to the Bank, and accordingly the Bank normally assumes minimal risk.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of the loan. 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. 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, liabilities and off balance sheet items

	Total assets	Total liabilities	Credit commitments
At 31 December 2005			
Bulgaria	1,530,448	1,392,571	277,986
Other European countries	182,392	134,993	-
Canada and US	-	72	-
Total	1,712,840	1,527,636	277,986
As at 31 December 2004			
Bulgaria	1,117,562	832,557	107,198
Other European countries	36,418	234,705	-
Canada and US	13,660	36	-
Total	1,167,640	1,067,298	107,198

The Bank's operations are concentrated primarily in Bulgaria. There are no exposures to other countries, which in total exceed 11% of the Bank's total assets, liabilities or off-balance sheet commitments as of 31 December 2005. As of 31 December 2004 the biggest exposure to other countries did not exceed 10% of the Bank's total assets, liabilities or off-balance sheet commitments.

The loan customers of the Bank are only from Bulgaria. The Bank is exposed to many sectors of the Bulgarian economy (Note 11). However, credit risk is well spread over a diversity of individual and commercial customers.

Market risk

The Bank assumes exposure to market risks. Market risks arise from open positions in interest rate and currency, which are exposed to general and specific market movements. The Management Board of the Bank estimates the market risk of positions held and the maximum losses expected, based upon a number of assumptions, and reviews various market risks on a monthly basis.

Currency risk

The Bank is exposed to the effect of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Management Board sets limits, which are monitored regularly, on the level of exposure by currency.

As at 31 December 2005 and 31 December 2004, the Bank has the exposures disclosed in the table below. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency. The off-balance sheet gap represents the difference between the notional amounts of foreign currency derivative financial instruments, which are principally used to reduce the Bank's exposure to currency movements, and their fair values.

At 31 December 2005	BGN	USD	EUR	Other	Total
Assets					
Cash and balances with BNB	105,736	4,264	59,549	2,070	171,619
Due from other banks	32,761	8,151	149,782	12,322	203,016
Trading securities	9,696	16,398	27,115	-	53,209
Derivative financial instruments	-	-	917	-	917
Loans to customers	585,266	30,485	557,533	-	1,173,284
Investment securities					
- available-for-sale	9,900	-	39,821	-	49,721
- held-to-maturity	-	-	-	-	-
Other assets	6,070	959	1,888	8	8,925
Property and equipment	52,149	-	-	-	52,149
Total assets	801,578	60,257	836,605	14,400	1,712,840
Liabilities					
Due to other banks	50,043	3,865	139,797	1	193,706
Derivative financial instruments	-	-	16	-	16
Due to customers	488,643	151,740	331,412	13,995	985,790
Other borrowed funds	-	-	246,001	-	246,001
Debt securities in issue	61,390	-	19,543	-	80,933
Current taxes	-	-	-	-	-
Deferred tax liability	4,007	-	-	-	4,007
Other liabilities	12,840	1,690	2,479	174	17,183
Total liabilities	616,923	157,295	739,248	14,170	1,527,636

Notes to the financial statements (continued)

Currency risk (continued)

At 31 December 2005	BGN	USD	EUR	Other	Total
Net on-balance sheet position	184,655	(97,038)	97,357	230	185,204
Off-balance sheet net notional position	(21,928)	96,178	(73,050)	(171)	1,029
Credit commitments	218,924	6,243	52,819	-	277,986

At 31 December 2004					
	BGN	USD	EUR	Other	Total
Assets					
Cash and balances with BNB	64,940	2,502	12,213	38,041	117,696
Due from other banks	50,172	28,944	30,546	3,825	113,487
Trading securities	26,306	24,983	22,263	-	73,552
Derivatives	-	-	7,257	-	7,257
Loans to customers	361,210	32,827	341,476	-	735,513
Investment securities					
- available-for-sale	10,552	11,395	59,175	-	81,122
- held-to-maturity	-	-	1,986	-	1,986
Other assets	6,549	-	75	1,715	8,339
Property and equipment	28,688	-	-	-	28,688
Total assets	548,417	100,651	474,991	43,581	1,167,640
Liabilities					
Due to other banks	53,785	18,754	74,993	-	147,532
Derivatives	-	8,100	-	704	8,804
Due to customers	383,218	141,375	181,481	10,424	716,498
Other borrowed funds	-	-	149,239	-	149,239
Debt securities in issue	12,091	-	19,512	-	31,603
Current taxes	1,133	-	-	-	1,133
Deferred tax liability	1,453	-	-	-	1,453
Other liabilities	7,753	-	1,631	1,652	11,036
Total liabilities	459,433	168,229	426,856	12,780	1,067,298
Net on-balance sheet position	88,984	(67,578)	48,135	30,801	100,342
Off-balance sheet net notional position	-	213,018	(214,565)	-	(1,547)
Credit commitments	62,616	3,562	41,020	-	107,198

Notes to the financial statements (continued)

Interest rate risk

Interest sensitivity of assets and liabilities

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Management Board reviews the level of mismatch of interest rate and the necessary repricing that may be undertaken on a monthly basis. The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

As at 31 December 2005	Up to 1 month	1-3 months	3-12 months	1–5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and BNB	-	-	-	-	-	171,619	171,619
Due from banks	198,700	4,316	-	-	-	-	203,016
Trading securities	-	2,818	12,975	11,806	25,610	-	53,209
Derivatives	-	-	-	-	-	917	917
Loans to customers	839,138	17,180	125,878	173,132	17,956	-	1,173,284
Investment securities - available for sale	4,637	-	261	19,585	23,057	2,181	49,721
Other assets	-	-	-		-	61,074	61,074
Total assets	1,042,475	24,314	139,114	204,523	66,623	235,791	1,712,840
Liabilities							
Due to other banks	193,706	-	-	-	-	-	193,706
Derivatives	-	-	-	-	-	16	16
Due to customers	808,004	36,105	129,474	12,207	-	-	985,790
Issued debt securities	-	30,466	50,467	-	-	-	80,933
Other borrowed funds	36,178	-	209,823	-	-	-	246,001
Other liabilities	-	-	-	-	-	21,190	21,190
Total liabilities	1,037,888	66,571	389,764	12,207	-	21,206	1,527,636
Interest sensitivity gap	4,587	(42,257)	(250,650)	192,316	66,623	214,585	185,204

Notes to the financial statements (continued)

Interest rate risk (continued)

As at 31December 2004	Up to 1 month	1-3 months	3-12 months	1–5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and BNB	-	-	-	-	-	117,696	117,696
Due from banks	94,860	13,918	4,388	321	-	-	113,487
Trading securities	26,368	3,859	22,763	12,527	8,035	-	73,552
Derivatives	-	-	-	-	-	7,257	7,257
Loans to customers	700,681	316	5,752	28,764	-	-	735,513
Investment securities - available-for-sale	11,573	937	2,867	43,060	22,251	434	81,122
- held-to-maturity	-	1,986	-	-	-	-	1,986
Other assets	-	-	-	-	-	37,027	37,027
Total assets	833,482	21,016	35,770	84,672	30,286	162,414	1,167,640
Liabilities							
Due to other banks	64,678	9,681	73,173	-	-	-	147,532
Derivatives	-	-	-	-	-	8,804	8,804
Due to customers	588,397	49,816	65,495	12,790	-	-	716,498
Issued debt securities	-	-	11,993	19,610	-	-	31,603
Other borrowed funds	29,594	-	119,645	-	-	-	149,239
Other liabilities	-	-	-	-	-	13,622	13,622
Total liabilities	682,669	59,497	270,306	32,400	-	22,426	1,067,298
Interest sensitivity gap	150,813	(38,481)	(234,536)	52,272	30,286	139,988	100,342

Interest rate risk (continued)

The Bank is exposed to the effect of fluctuations in the prevailing levels of market interest rates on its financial positions and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The tables below summaries the effective interest rate by major currencies for monetary financial instruments.

As at 31 December 2005	%	BGN	USD	EUR
Assets				
Cash and balances with Central Bank		-	-	-
Due from other banks		3.09	4.33	2.53
Trading securities		4.73	6.95	5.55
Loans and advances to customers		11.94	8.20	6.93
Investment securities		8.11	5.87	7.82
Liabilities				
Debt securities in issue		4.28	-	5.63
Due to other banks		2.60	3.03	2.57
Due to customers		2.27	1.42	1.56
Other borrowed funds		-	-	3.13

As at 31 December 2004	%	BGN	USD	EUR
Assets				
Cash and balances with Central Bank		-	-	-
Due from other banks		2.86	3.44	3.10
Trading securities		5.55	2.79	5.58
Loans and advances to customers		10.02	7.87	5.93
Investment securities		7.78	3.28	6.55
Liabilities				
Debt securities in issue		7.63	-	5.63
Due to other banks		1.73	2.01	2.51
Due to customers		1.91	0.65	1.08
Other borrowed funds		-	-	4.89

Liquidity risk

The table below analyses assets and liabilities of the Bank by maturity based on the remaining period at balance sheet date to the contractual maturity date.
The management of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank and is reviewed regularly.

The maturities of assets and liabilities and the ability to replace at an acceptable cost, interest bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

31 December 2005	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and BNB balances	171,619	-	-	-	-	171,619
Due from other banks	198,700	4,316				203,016
Trading securities	-	-	3,334	14,625	35,250	53,209
Derivatives	-	917	-	-	-	917
Loans to customers	11,469	90,626	245,935	442,541	382,713	1,173,284
Investment securities - available-for-sale	5,771	-	261	20,632	23,057	49,721
- held-to-maturity	-	-	-	-	-	-
Other assets	-	-	-	-	61,074	61,074
Total assets	387,559	95,859	249,530	477,798	502,094	1,712,840
Liabilities						
Due to other banks	189,886	1,807	2,013	-	-	193,706
Derivatives	-	16	-	-	-	16
Due to customers	568,504	90,613	228,833	97,840	-	985,790
Other borrowed funds	29,830	-	13,193	202,978		246,001
Debt securities in issue	-	-	19,543	61,390	-	80,933
Deferred tax liability	441	-	2,540	1,026	-	4,007
Other liabilities	-	-	-	-	17,183	17,183
Total liabilities	788,661	92,436	266,122	363,234	17,183	1,527,636
Net liquidity gap	(401,102)	3,423	(16,592)	114,564	484,911	185,204
Cumulative maturity gap	(401,102)	(397,679)	(414,271)	(299,707)	185,204	

Notes to the financial statements (continued)

Liquidity risk (continued)

31 December 2004						
	Up to 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Assets						
Cash balances	117,696	-	-	-	-	117,696
Due from other banks	94,860	13,918	4,388	321	-	113,487
Trading securities	1.308	-	4,819	16,317	51,108	73,552
Derivative financial instruments	-	-	7,257	-	-	7,257
Loans to customers	39,598	114,242	186,546	314,057	81,070	735,513
Investment securities - available-for-sale	11,573	937	2,867	43,060	22,685	81,122
- held-to-maturity	-	1,986	-	-	-	1,986
Other assets	5,566	129	1,065	30,267	-	37,027
Total assets	270,601	131,212	206,942	404,022	154,863	1,167,640
Liabilities						
Due to other banks	66,996	67,551	12,985	-	-	147,532
Derivative financial instruments	-	-	8,804	-	-	8,804
Due to customers	579,327	46,074	59,907	31,190	-	716,498
Other borrowed funds	-	-	6,480	124,441	18,318	149,239
Debt securities in issue	-	-	11,993	19,610	-	31,603
Deferred tax liability	-	-	-	1,453	-	1,453
Current tax	-	-	1,133	-	-	1,133
Other liabilities	7,722	2,381	762	171	-	11,036
Total liabilities	654,045	116,006	102,064	176,865	18,318	1,067,298
Net liquidity gap	(383,444)	15,206	104,878	227,157	136,545	100,342
Cumulative maturity gap	(383,444)	(368,238)	(263,360)	(36,203)	100,342	

S. Fair values of financial assets and liabilities

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation and is best evidenced by a quoted market price.

The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies.

The following table summarizes the carrying amounts and fair values of financial assets and liabilities of Postbank AD. Market prices are used to estimate fair values of assets and liabilities.

	Carrying value		Fair value	
	2005	**2004**	**2005**	**2004**
Financial assets				
Due from other banks	203,016	113,487	203,016	113,487
Loans to customers	1,173,284	735,513	1,173,284	735,513
Held to maturity investments	-	1,986	-	2,007
Financial liabilities				
Due to other banks	193,706	147,532	193,706	147,532
Due to customers	985,790	716,498	985,790	716,498
Debt securities in issue	80,933	31,603	80,641	32,752
Other borrowed funds	246,001	149,239	246,001	149,239

a) *Due from other banks*

Due from other banks includes inter-bank placements and items in the course of collection. The fair value of floating rate placements and overnight deposits approximates their carrying amount.

b) *Loans and advances to customers*

Loans and advances are carried at amortized cost and are net of provisions for impairment. The fair value of floating rate loans and advances approximates their carrying amount. Management estimates that the fair value of fixed rate loans and advances is not materially different from their carrying amount. Fair value incorporates expected future losses, while amortized cost and related impairment include only incurred losses at the balance sheet date

c) *Investment securities – held to maturity*

The fair value of held to maturity securities is based on quoted market prices.

Notes to the financial statements (continued)

S. Fair values of financial assets and liabilities (continued)

d) *Deposits and borrowings*

The fair value of deposits and other borrowings approximates their carrying amount. A very substantial part of these funds is short term. Borrowed funds carry predominantly floating rates and due to the interest rate reprising carrying value is not materially different from their fair value.

e) Debt securities in issue

The fair value of mortgage and corporate bonds issued by the Bank is based on quoted market prices.

T. Critical accounting estimates and judgments in applying accounting policy

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.

Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment on a monthly basis. The impairment review is in compliance with the approved management policy for assessment of risk exposures. 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. This evidence 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.

Impairment of available for-sale equity investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

T. Critical accounting estimates and judgments in applying accounting policy (continued)

Application of the effective interest rate method

The application of the effective interest rate method for credit card receivables requires the use of estimates about the expected life and other patterns and characteristics of the portfolio. In building up these estimates the Company utilizes the experience of other entities in EFG Eurobank Ergassias Group and makes adjustments, as appropriate, to reflect Bulgarian market conditions.

1	Net interest income	2005	2004
	Interest income		
	Loans and advances to customers	110,576	59,436
	Due from other banks	4,737	3,251
	Trading securities	3,188	2,751
	Investment securities	4,177	4,742
	SWAP deals	426	-
		123,104	70,180
	Interest expense		
	Customers	13,587	9,163
	Banks and other financial institutions	3,475	4,172
	Debt securities	2,365	2,007
	Other borrowed funds	6,909	3,117
	Subordinated debt	265	-
	Others	292	-
		26,893	18,459

2	Net fee and commission income	2005	2004
	Fees and commission income		
	Fund transfers	6,279	5,355
	Cash operations	3,510	2,797
	Money transfers	2,331	2,620
	Account maintenance	1,947	1,884
	Receipts from sale of services	1,608	893
	Commission securities	357	468
	Investment banking	388	323
	Fee income on off-balance commitments	265	221
	Others	34	24
		16,719	14,585
	Fee and commission expense		
	Visa cards, cheques and other fees	565	233

Cash transactions and correspondent accounts fees	317	263
Commission securities	105	96
Commissions to bonds	54	47
Others	466	302
	1,507	941

3 Net foreign exchange gains less losses

	2005	2004
Foreign exchange translation gains less losses	1,983	1,302
Foreign exchange transaction gains less losses	157	947
	2,140	2,249

4 Other operating expenses

	2005	2004
Staff costs (Note 5)	21,942	19,143
Operating lease rentals	7,812	4,588
Depreciation (Note 14)	7,431	5,857
Transaction processing services - BRS credit cards	5,267	-
Advertising and marketing	4,813	2,793
External services	3,192	1,845
Software costs	2,820	1,945
Mediation services - BRS credit cards	2,862	-
Communication	2,509	2,462
Post Office commissions	2,336	2,299
Security	2,135	1,833
Materials and utilities	1,650	1,244
Repairs and maintenance	1,395	815
Insurance	1,026	451
Levies and taxes	1,082	596
Other operating costs	989	1,140
Travel and accommodation	495	512
	69,756	47,523

Post Offices' commissions represent amounts paid to Bulgarian Posts for services performed on behalf of and at the expense of the Bank for the Bank's network of service desks throughout the country.

5 Staff costs

	2005	2004
Wages and salaries	17,405	14,426
Social security costs	4,169	4,282
Other	368	435
	21,942	19,143

Notes to the financial statements (continued)

The number of persons employed by the Bank as at 31 December 2005 was 1,310 (2004: 1,152).

6 Provision (expense) write back	2005	2004
Loans and advances to customers (Note 11)	(10,124)	386
Provisions for court litigations (Notes 20 and 22)	40	69
Other assets (Note 13)	3	3
	(10,081)	458

7 Income tax expense	2005	2004
Current tax	2,204	3,968
Deferred tax (Note 21)	2,817	229
Prior year tax expense	676	-
	5,697	4,197

Tax is payable at an effective rate of 15% (2004: 19.5%) on adjusted profits under Bulgarian tax law.

The tax on the operating profit differs from the theoretical amount that would arise using the basic tax rate as follows:

	2005	2004
Profit before tax	33,334	21,263
Tax calculated at a tax rate of 15% (2004: 19.5%)	5,000	4,146
Effect of change in tax rate	-	(33)
Tax effect of expenses not deductible for tax purposes	21	84
Prior year tax expense	676	-
Income tax expense	5,697	4,197

Additional information about deferred tax is presented in Note 21.

The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessment and penalties. The Bank's management is not aware of any circumstances which may give rise to a potential material liability in this respect. The last full-scope tax audit of the Bank has been carried out in February 2005, covering the period from 1 January 2000 to 31 December 2002. The tax authorities imposed tax liabilities for the amount of BGN 701,083 and interest amount of BGN 389,626.

Notes to the financial statements (continued)

8 Cash and balances with the Central Bank

	2005	2004
Cash in hand	38,643	31,868
Balances with Central bank other than mandatory reserve	36,782	13,667
Included in cash and cash equivalents (Note 24)	75,425	45,535
Mandatory reserve with Central Bank (Note 22)	96,194	72,161
	171,619	117,696

9 Due from other banks	2005	2004
Deposits in other banks up to 90 days	183,899	80,186
Repurchase agreements up to 90 days	15,448	20,027
Less impairment provision	(374)	(374)
Included in cash and cash equivalents (Note 24)	198,973	99,839
Loans and advances to other financial institutions	125	319
Repurchase agreements more than 90 days	3,826	13,260
Interest receivable	92	69
	203,016	113,487

Approximately 90% (2004: 32%) of the amounts due from other banks represent funds placed in banks domiciled in OECD countries, with the remainder held with banks in Bulgaria.

10 Trading securities	2005	2004
Government bonds as follows:		
Bulgarian government bonds	49,503	67,489
Ukrainian government bonds	1,954	-
Turkish government bonds	1,237	-
Romanian government bonds	515	4,031
Mortgage and corporate bonds issued by banks	-	2,032
	53,209	73,552

Included in the amount of the bonds is accrued interest in the amount of BGN 1,292 thousand (2004: BGN 1,446 thousand). Government bonds include securities pledged for state funds deposited in the Bank (Note 22) amounting to BGN 3,129 thousand (2004: BGN 2,000 thousand pledged for state funds).

Notes to the financial statements (continued)

11 Loans and advances to customers

	2005	2004
Corporate loans	567,565	586,960
Loans to individuals	631,954	166,966
Gross loans and advances	1,199,519	753,926
Less allowance for loan losses on loans and advances	(26,235)	(18,413)
	1,173,284	735,513

Movement in allowance for losses on loans and advances as follows:

	2005	2004
Balance at 1st January	18,413	19,608
Increase / (decrease) in provision for loan impairment (Note 6)	10,124	(386)
Bad debts written off	(2,302)	(809)
Balance at 31 December	26,235	18,413

Included within loans and advances to customers are related accrued interest receivable of BGN 4,367 thousand (2004: BGN 2,638 thousand).

As at 31 December 2005 loans and advances of BGN 56,838 thousand (2004: BGN 36,638 thousand) are pledged as security for the mortgage bonds issued by the Bank (Note 22).

Industry segmentation of loan portfolio were as follows:

	2005	%	2004	%
Private individuals	494,987	41.3	166,969	22.1
Commerce and services	412,754	34.4	315,250	41.8
Manufacturing	186,237	15.5	137,999	18.3
Vegetable oil manufacturing	62,898	5.3	48,163	6.4
Transportation and communication	15,533	1.3	42,187	5.6
Agricultural	13,841	1.1	10,974	1.5
Construction	8,002	0.7	20,408	2.7
Other	5,267	0.4	11,976	1.6
	1,199,519	100	753,926	100

Notes to the financial statements (continued)

11 Loans and advances to customers (continued)

The analysis of the ten largest loans and advances to customers compared to the gross loan portfolio is as follows:

	2005	2004
The ten largest loans and advances to customers	94,458	187,616
Percentage of gross loans	7.9%	24.9%

In 2005 the Bulgarian Post Bank AD acquired credit card portfolio from Bulgarian Retail Services AD (BRS). BRS is part of the EFG Group. The consideration paid was BGN 85,757 thousand. The agreement for transfer of the portfolio was signed on 24 March 2005.

12 Investment securities

Investment securities available-for-sale	2005	2004
Debt securities, including:		
Bulgarian government bonds	23,587	38,194
Romanian government bonds	12,520	12,859
Mortgage and corporate bonds issued by banks	8,836	28,444
Corporate bonds issued by companies	2,596	1,191
Unlisted equity investments	1,712	434
Participation in Global Bulgarian and Romanian Growth Fund	470	-
	49,721	81,122

Included in the amount of the investment securities is accrued interest in the amount of BGN 1,813 thousand (2004: BGN 2,304 thousand)

Investment securities held-to-maturity

Securities held-to-maturity, consisting of mortgage bonds issued by Bulgarian-American Credit Bank of BGN 1,986 thousand and accrued interest of BGN 36 thousand have matured on 29 March 2005.

13 Other assets

	2005	2004
Other debtors	3,670	1,233
Amounts in transit	2,596	3,563
Other assets	862	2,502
Assets for resale	802	904
Deferred expenses	720	713
Materials	96	58
Prepayments	84	159
Less provision on other assets (Note 6)	(790)	(793)
	8,040	8,339

14 Notes to the financial statements (continued)

Property and equipment

	Property	Equipment and other fixed assets	Total
At 1 January 2004			
Gross amount	7,447	28,204	35,651
Accumulated depreciation	(1,435)	(14,048)	(15,483)
Net book amount	6,012	14,156	20,168
Year ended 31 December 2004			
Opening net book amount	6,012	14,156	20,168
Additions	2,802	11,630	14,432
Disposals	(8)	(47)	(55)
Depreciation charge (Note 4)	(623)	(5,234)	(5,857)
Closing net book amount	8,183	20,505	28,688
At 31 December 2004			
Gross amount	10,241	39,787	50,028
Accumulated depreciation	(2,058)	(19,282)	(21,340)
Net book amount	8,183	20,505	28,688
Year ended 31 December 2005			
Opening net book amount	8,183	20,505	28,688
Additions	11,495	19,508	31,003
Disposals	(50)	(59)	(109)
Depreciation charge (Note 4)	(736)	(6,695)	(7,431)
Devaluation	-	(2)	(2)
Closing net book amount	18,892	33,257	52,149
At 31 December 2005			
Gross amount	20,567	50,054	70,621
Accumulated depreciation	(1,675)	(16,797)	(18,472)
Net book amount	18,892	33,257	52,149

15 Due to other banks

	2005	2004
Current accounts	32,201	13,213
Deposits from other banks	161,505	134,319
	193,706	147,532

Included within due to other banks is related accrued interest payable of BGN 361 thousand (2004: BGN 761 thousand).

16 Derivative financial instruments and trading liabilities

The Bank utilizes currency swaps, interest rate swaps and currency forwards, which are negotiated between the Bank and counterparties for non-hedging purposes. Currency swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities. Currency forwards represent commitments to purchase foreign and local currency.

The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in 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 favorable or unfavorable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out in the following table.

	Contract / notional amount	Assets	Liabilities
Year ended 31 December 2005			
Derivatives held for trading			
Foreign exchange derivatives			
Currency swaps	117,889	916	-
Currency Forward	1,564	1	-
Interest rate Swap	53,840	-	16
Total derivative assets/(liabilities)	173,293	917	16
Year ended 31 December 2004			
Derivatives held for trading			
Foreign exchange derivatives			
Currency swaps	214,565	7,257	8,804
Total derivative assets/(liabilities)	214,565	7,257	8,804

Notes to the financial statements (continued)

17 Due to customers

	2005	2004
Demand deposits		
- individuals	299,084	231,213
- corporate clients	241,560	176,333
Term deposits		
- individuals	382,268	281,203
- corporate clients	62,878	27,749
	985,790	716,498

Deposits from clients include BGN 5,196 thousand (2004: BGN 3,022 thousand) held as collateral for irrevocable commitments under letters of credit and guarantee arrangements. Included within due to customers is related accrued interest payable of BGN 2,408 thousand (2004: BGN 1,279 thousand).

18 Debt securities in issue

Three years mortgage bonds emission was issued in 2002, denominated in BGN of the nominal amount BGN 12,000 thousand. The fixed coupon rate is 7.625%. The mortgage bonds expired in May 2005.

A second emission of mortgage bonds was issued at the end of June 2003 of the nominal amount of EUR 10 million (BGN 19,558 thousand). The proceeds, net of issue costs were BGN 19,543 thousand. The mortgage bonds with expiry date in June 2006 and carry fixed coupon rate of 5.625% paid on a half yearly basis.

In July 2005 corporate bonds of the nominal amount of BGN 30 million were issued. The new corporate bonds carry floating coupon rate calculated based on 3 month SOFIBOR plus 1.2%. The proceeds, net of issue costs were BGN 29,930 thousand. The accrued interest as at 31 December 2005 is BGN 353 thousand. The corporate bonds expiry date is July 2008.

In November 2005 a third emission of mortgage bonds was issued. The nominal amount is BGN 30 million and the premium is BGN 996 thousand. The new mortgage bonds carry fixed coupon rate of 3.770%. The proceeds, net of issue costs were BGN 29,928 thousand. The accrued interest as at 31 December 2005 is BGN 183 thousand. The corporate bonds expiry date is November 2008.

19 Other borrowed funds

As of 31 December 2005 other borrowed funds consisted of the following:

	2005	2004
EFG PRIVATE BANK –Luxembourg S.A	157,606	-
EFG PRIVATE BANK –Luxembourg S.A	39,238	39,259
European Bank for Reconstruction and Development (EBRD)	29,830	29,594
First International Merchant Bank, Malta (FIMB)	12,978	19,440
European Bank for Reconstruction and Development (EBRD)	6,349	1,747
Syndicated Term Loan Facility	-	59,199
	246,001	149,239

Included in other borrowed funds is accrued interest of BGN 2,089 thousand (2004: BGN 1,702 thousand). Other borrowed funds are reduced by the unamortized amount of fees and commissions paid to the lender of BGN 463 thousand (2004: BGN 967 thousand).

Maturity	EBRD Loan 1	EBRD Loan 2	FIMB	EFG PRIVATE BANK Luxembourg S.A	EFG PRIVATE BANK Luxembourg S.A
2006	29,830	705	6,489	-	-
2007	-	1,410	6,489	39,238	-
2008	-	1,410	-	-	157,606
2009	-	1,410	-	-	-
2010	-	1,414	-	-	-
Total	29,830	6,349	12,978	39,238	157,606

Loan from European Bank for Reconstruction and Development (EBRD) – Loan 1

On 17 October 2003, Bulgarian Post Bank and the European Bank for Reconstruction and Development (EBRD) executed a Loan Agreement whereby the Bank can borrow up to EUR 15 million in three tranches of EUR 5 million each, for the purpose of granting funds to individuals for buying, constructing, renovating and repairing of real estate. The Loan Agreement contains various financial covenants and other restrictions that are typical for this type of facility. The loan is being repaid in 21 equal semi-annual installments starting on 19 January 2006 with the last installment due on 16 October 2015. The loan was fully utilized as at 31 December 2005. In January 2006 the loan was repaid.

Loan from European Bank for Reconstruction and Development (EBRD) – Loan 2

19 Other borrowed funds (continued)

On 16 March 2004, Bulgarian Post Bank and the European Bank for Reconstruction and Development (EBRD) executed a Loan Agreement whereby the Bank can borrow up to EUR 5 million in two tranches of EUR 2.5 million each, for the purpose of granting funds to enterprises, firms, businesses, sole proprietors or other private legal entities for improving rational energy utilization in Republic of Bulgaria. The Loan Agreement contains various financial covenants and other restrictions that are typical for this type of facility. The loan is being repaid in 9 equal semi-annual installments on 19 January and 19 July each year, commencing on 19 July 2006. As at 31 December 2005 the utilization of the loan was EUR 3,280 thousand (BGN 6,415 thousand).

Loan from European Bank for Reconstruction and Development (EBRD)

On 30 June 2005, Bulgarian Post Bank and the European Bank for Reconstruction and Development (EBRD) executed a Loan Agreement whereby the Bank can borrow up to EUR 5 million in two tranches of EUR 2.5 million each. The Loan Agreement contains various financial covenants and other restrictions that are typical for this type of facility. The loan should be repaid in 7 equal semi-annual installments on 19 January and 19 July each year, commencing on 31 March 2007. The loan was not utilized as at 31 December 2005.

Loan from First International Merchant Bank, Malta (FIMB)

On 7 August 2003, Bulgarian Post Bank and the First International Merchant Bank (FIMB) executed a Loan Agreement whereby the Bank borrowed EUR 10 million for the purpose of trade financing. The tenure of the loan is 3 years. The loan is being repaid in 3 equal semi-annual installments, starting 24 months after disbursement date. The last installment is due on 10 December 2006. The loan was fully utilized as at 31 December 2005.

Syndicated Loan Facilities arranged by EFG Telesis Finance S.A

On 27 July 2004, a Syndicated Loan Agreement was executed between Bulgarian Post Bank (borrower); EFG Telesis Finance S.A. (arranger) and EFG Eurobank Ergasias S.A (agent). Bulgarian Post Bank was granted EUR 30 million. The loan facility shall be used for general finance purposes. Agreement contains various financial covenants and other restrictions that are typical for this type of facility. The loan was repaid in 2005.

Loan from EFG PRIVATE BANK –Luxembourg S.A

On 23 November 2004, Bulgarian Post Bank and EFG PRIVATE BANK – Luxembourg S.A executed a Loan Agreement whereby the Bank borrowed EUR

20 million for general finance purposes. The Bank shall repay the loan principal on 26 November 2007. The loan is fully utilized as of 31 December 2005.

Loan from EFG PRIVATE BANK –Luxembourg S.A

On 09 August 2005, Bulgarian Post Bank and EFG PRIVATE BANK –Luxembourg S.A executed a Loan Agreement whereby the Bank borrowed EUR 80 million for general finance purposes. The loan is to be repaid in 2008. The loan was fully utilized as at 31 December 2005.

20 Other liabilities

	2005	2004
Due to customers	10,639	9,393
Creditors	1,149	669
Credit cards commissions	4,309	-
Provision for court claims (Notes 6 and 22)	105	171
Off balance sheet items provisions	150	-
Unused paid leave accrual	470	185
Withholding tax obligations	361	618
	17,183	11,036

The total amount of the provision for court claims paid in 2005 was BGN 26 thousand. The timing of the expected cash outflow of the court cases provided for could not be reliably estimated. Based on management's estimation it is expected that in two years time the outflow may be realised.

21 Deferred income taxes

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 15%, which is the tax rate effective from 1 January 2006 (2005: 15%). The movement on the deferred income tax account is as follows:

	2005	2004
Deferred tax liability at beginning of year	1,453	1,139
Income statement charge (Note 7)	2,817	229
(Credit) / debit to revaluation reserves in equity	(263)	85
Deferred tax liability at end of year	4,007	1,453

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

	2005	2004
Deferred income tax liabilities		
Accelerated tax depreciation	1,028	483
Property revaluation	293	298

21 Deferred income taxes (continued)

Available-for-sale revaluation	439	697
Difference between statutory loan loss provisions and IFRS provisions	2,366	-
	4,126	1,478
Deferred income tax assets		
Unused holidays	81	25
Provision for court claims and off balances	38	-
	119	25
Net deferred tax liability	4,007	1,453

The deferred tax (charge) / credit in the income statement comprises the following temporary differences:

	2005	2004
Difference between statutory loan loss provisions and IFRS provisions	(2,366)	-
Equity investments	-	-
Depreciation	(545)	(222)
Unused holidays	56	(7)
Provision for court claims and off balances	38	-
Net deferred tax charge	(2,817)	(229)

22 Contingent liabilities and commitments

Legal proceedings

There are a number of legal proceedings outstanding against the Bank at 31 December 2005. The provision for probable losses (Notes 6 and 20) booked in relation to these legal cases is BGN 105 thousand (2004: BGN 171 thousand).

Credit related commitments

Guarantees issued by the Bank carry the same credit risk as loans. All letters of credit are secured by cash collateral. All guarantees issued by the Bank are securitised.

Loan commitments represent unused portions of approved loans, guarantees or letters of credit. For 2005 BGN 163,924 thousand of the total amount of undrawn loan commitments arise from unused limits of credit cards. The Bank has exposure to credit risk, however the likely amount of loss although not easy to quantify, is considerably less than the total unused commitments since these are contingent upon continued customer compliance with specific loan agreements. While there is some credit risk associated with the remainder of commitments, the risk is smaller than on balance sheet credit exposures.

22 Contingent liabilities and commitments (continued)

	2005	2004
Undrawn loan commitments	256,352	93,955
Guarantees	18,326	11,389
Letters of credit	3,308	1,854
	277,986	107,198

Assets pledged

Mandatory reserve deposits are held with the Central Bank in accordance with statutory requirements.

	Asset		Related liability	
	2005	2004	2005	2004
Mandatory reserves with BNB (Note 8)	96,194	72,161	1,202,427	902,007
Due to customers (Note 17)	5,196	3,022	5,228	3,022
Due from banks	-	561	-	561
Trading securities (Note 10)	3,129	2,000	640	655
Loans to customers (Note 11)	56,838	36,638	50,725	31,603
	161,357	114,382	1,259,020	937,848

Operating lease commitments.

The future minimum lease payments under building operating leases are as follows:

	2005	2004
Less than 1 year	10,069	5,698
Over 1 year and less than 5 years	11,757	12,833
Over 5 years	37,677	3,384
	59,503	21,915

23 Share capital

The total authorised number of ordinary shares at year-end was 21,984,980 shares (2004: 10,250,000 shares) with a par value of BGN 5 per share (2004: BGN 5 per share). All shares rank equally and carry one vote.

24 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than 90 days maturity:

	2005	2004
Cash in hand (Note 8)	38,643	31,868

Notes to the financial statements (continued)

24 Cash and cash equivalents (continued)

Balances with Central bank (Note 8)	36,782	13,667
Due from other banks (Note 9)	198,973	99,839
	274,398	145,374

25 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. On 14 March 2005 CEH Balkan Holdings Limited acquired shares held by NDK amounting to 0.46 %. Thus CEH Balkan Holdings Limited owns 97.20 % of the Bank's share capital. (2004: CEH Balkan Holdings Limited owned 96.74% of the Bank's share capital).

On 29 August 2005 the Bank issued 11,734,980 shares amounted to BGN 58,674,900 (EUR 30,000,000), which were acquired by EFG Eurobank Ergasias. Thus as at 31 December 2005 the capital of Postbank becomes BGN 109,924,900 (2004: BGN 51,250,000). As at 31 December 2005 EFG Eurobank Ergasias owns directry 53.38 % of Postbank. EFG Eurobank Ergasias owns another 45.32% through its 100 % subsidiary CEH Balkan Holdings Limited .

Bulgarian Post Bank AD is part of the EFG Eurobank Ergasias.

The ultimate parent is EFG Bank European Financial Group.

Transactions and balances with EFG Eurobank Ergasias		
	2005	**2004**
Loans and bank placements		
At beginning of year	331	41,269
Net change during the year	129,563	(40,938)
As at end of year	129,894	331
Interest income earned	525	87
Fees and commissions earned	-	74

No provisions have been recognized in respect of loans and placements made to related parties.

	2005	**2004**
Deposits and borrowings		
At beginning of year	69,131	27,255
Received during the year	52,323	43,580
Repaid during the year	-	(1,704)
As at end of year	121,454	69,131
Interest expense incurred	2,547	1,684
Fees and commissions expense	-	-

Notes to the financial statements (continued)

25 Related party transactions (continued)

Transactions and balances with EFG Eurobank Ergasias (continued)		
Off-balance sheet commitments		
Guarantees issued by the Bank	-	-
Guarantees received by the Bank	3,663	29,344

Expenses	2005	2004
Costs for services and Technical assistance	71	63

Derivatives	Contract / notional amount	Assets	Liabilities
Year ended 31 December 2005			
Derivatives held for trading			
Foreign exchange derivatives			
Currency swaps	70,410	837	-
Currency Forward	992	26	-
Interest rate Swap	21,053	-	82
Total derivative assets/(liabilities)	92,455	863	82
Year ended 31 December 2004			
Derivatives held for trading			
Foreign exchange derivatives			
Currency swaps	89,463	4,444	-
Total derivative assets/(liabilities)	89,463	4,444	-

Transactions and balances with other related parties	2005	2004
Loans and bank placements		
At beginning of year	85,618	-
Net change during the year	(85,618)	85,618
As at end of year	-	85,618
Interest income earned	3,384	3,970
Fees and commissions earned	118	-

No provisions have been recognized in respect of loans and placements made to related parties.

Deposits and borrowings		
At beginning of year	54,172	-
Received during the year	255,952	54,172
Repaid during the year	(97,792)	-
As at end of year	212,332	54,172

Notes to the financial statements (continued)

25 Related party transactions (continued)

Transactions	2005	2004
Expenses for mediation services & Transaction processing contract	8,129	-
Interest expense incurred	2,893	577
Audit expenses	290	150
Fees and commissions expense	37	-

In 2005 the Bank acquired the credit card portfolio from BRS. The company is part of the EFG Bank European Financial Group (Note 11).

Transactions and balances with key management personnel

In 2005 the total remuneration of the key management was BGN 1,288 thousand (2004: BGN 894 thousand).

	2005	2004
Key management personnel loans	247	187
Key management personnel deposits	14	-

Notes

Notes