Postbank

ANNUAL REPORT
2002

Directors' report for the year ended 31st december 2002

Bulgarian Post Bank is one of the top five banks in the country in terms of assets and has its Head Office in Sofia. Established on 2nd April 1991 as a joint stock company under Bulgarian Law, the Bank is a universal bank with a full banking licence. With a staff of 1,078 as at 31st December 2002, the Bank provides a full range of banking services to Bulgarian and International customers through its extensive network of 29 branches, 84 representative offices and close correspondent relationships with major banks throughout the world. Customer service desks are also provided at 2,760 Post Offices throughout the country.

As at 31st December 2002 the paid up share capital of the Bank was BGN 51,250,000.

The Bank's major shareholder is ALICO/CEH Balkan Holdings Ltd, jointly owned by American Life Insurance Company (ALICO), a subsidiary of American International Group Inc., New York, and EFG Eurobank Ergasias SA, a subsidiary of EFG Bank Group, Geneva. Senior managers representing these financial institutions are resident in Bulgaria and hold executive positions in the Bank.

The share ownership as at 31st December 2001 and 31st December 2002 was as follows:

Shareholders	%
ALICO/CEH Balkan Holdings Ltd.	86.24
DZI	5.47
DSK Bank	5.03
Bulgarian Posts EOOD	1.40
Bulgarian Telecommunication Company EAD	1.40
National Palace of Culture	0.46

The Bank has a two tier organisational structure. The General Meeting of Shareholders appoints the Supervisory Board. The Supervisory Board nominates the members of the Management Board, of which at least two are appointed Executive Directors.

Business review

During the course of 2002 Bulgarian Post Bank confirmed its position as one of the most important players in all banking sectors in Bulgaria.

The Bank's income increased by over 20% compared to 2001 and net profit increased by 70% resulting in a 10.7% return on capital.

Rapid progress has been achieved in most business areas. Notably, the multitude of tailor made lending products and solutions offered to the Bank's clients has led to a 35% increase in lending to individuals and private enterprises. This has been achieved with due attention to the improvement of risk control systems. The growth rate of lending was recognized through the 'Most Dynamic Bank of the Year' award of the Bulgarian Banker weekly.

Treasury activities have been equally successful with a four-fold increase of trading gains and significantly more sophisticated investment activity. The Bank entered the east European segment of emerging markets while maintaining its leading position on Bulgarian financial markets (between 25 and 35% share of money, government bond and capital markets). In May the Bank successfully issued its first mortgage bond and later was named best broker of the Bulgarian Stock Exchange.

Retail banking continued to develop in order to meet growing consumer needs. The existing wide and popular range of retail products was strengthened with three new products, one of which an innovative bank assurance service. The Bank established itself as a leading provider of merchant based consumer lending with more than 80% of this market segment.

The Bank continued to improve its structure and internal organization. Internal control systems and budget procedures were significantly strengthened. Further branch restructuring was pursued through the creation of front office sales units. Most important was the successful modernization and centralization of the Bank's software platform. The implementation of CsoftBank++ has allowed the Bank to offer all its customers across the whole of Bulgaria a full range of real time services. Its MIS and other capabilities allow for quick and easy development of new products and alternative distribution channels while maintaining proper control and security.

Directors' responsibilities

It is the obligation of the Directors to prepare financial statements for each financial year that present fairly the state of affairs of the Bank as of the end of the financial year and of the profit or loss for that period in accordance with International Financial Reporting Standards.

The Directors confirm that suitable accounting policies have been used and applied consistently, and reasonable and prudent judgments and estimates have been made in the preparation of the financial statements for the year ended 31st December 2002. The Directors also confirm that applicable accounting standards have been followed and believe that it is appropriate for the financial statements to be prepared on a going concern basis.

The Directors are responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

A resolution to reappoint the auditors, PricewaterhouseCoopers, will be proposed at the General Meeting of Shareholders.

By order of the Management Board

Panagiotis Varelas
Chief Executive Officer and
Member of the Management Board

Sofia, 28th March 2002

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Report of the auditors

To the shareholders of Bulgarian Post Bank AD

We have audited the accompanying balance sheet of Bulgarian Post Bank AD as of 31st December 2002 and the related statements of income, changes in shareholders' equity, and cash flow for the year then ended. These financial statements set out on pages 7 to 34 are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31st December 2002 and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

Sofia, Bulgaria
28th March 2003

Income statement

in BGN 000s

	Notes	Year ended 31st December 2002	2001
Interest income	1	42,865	39,114
Interest expense	1	(9,673)	(9,436)
Net interest income		33,192	29,678
Fee and commission income	2	15,792	13,795
Fee and commission expense	2	(816)	(522)
Net fee and commission income		14,976	13,273
Net foreign exchange gains less losses	3	2,866	1,886
Net gains less losses from trading securities		1,517	(834)
Net gains less losses from investment securities		11	70
Other operating income		812	1,114
Operating income		53,374	45,187
Other operating expenses	4	(38,918)	(37,183)
Provision expense	6	(4,896)	(3,527)
Profit before tax		9,560	4,477
Income tax	7	(2,540)	(1,426)
Profit after tax		7,020	3,051

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Balance sheet

in BGN 000s

	Notes	As at 31st December 2002	2001
Assets			
Cash and balances with the Central Bank	8	68,079	72,655
Due from other banks	9	123,705	200,660
Trading securities	10	75,539	57,468
Loans and advances to customers	11	394,988	297,043
Investment securities, available-for-sale	12	38,409	875
Investment securities, held-to-maturity	12	9,570	-
Other assets	13	2,844	3,269
Property and equipment	14	12,633	7,537
Total assets		725,767	639,507
Liabilities			
Due to other banks	15	44,860	44,022
Derivative financial instruments	16	1,420	-
Due to customers	17	583,959	515,493
Debt securities in issue	18	12,000	-
Current taxes		1,879	1,460
Deferred income tax liabilities	20	315	497
Other liabilities	19	5,706	5,540
Total liabilities		650,139	567,012
Shareholders' equity			
Share capital	22	107,969	107,969
Accumulated deficit and other reserves		(32,341)	(35,474)
Total shareholders' equity		75,628	72,495
Total shareholders' equity and liabilities		725,767	639,507

Athanassios Petropoulos
Executive Director and
Member of the Management Board

Panagiotis Varelas
Chief Executive Officer and
Member of the Management Board

28th March 2003

Statement of changes in shareholders' equity

in BGN 000s

	Share capital	Fair value reserve for available-for-sale securities	Accumulated deficit and other reserves	Total equity
Balance at 1st January 2001	107,969	70	(36,542)	71,497
Dividend paid	-	-	(1,983)	(1,983)
Net profit	-	-	3,051	3,051
Transfer to net profit of gain arising on investment securities available for sale, net of tax	-	(70)	-	(70)
Balance at 31st December 2001 / 1 January 2002	107,969	-	(35,474)	72,495
Dividend paid	-	-	(4,505)	(4,505)
Net profit	-	-	7,020	7,020
Available-for-sale investments - net fair value gains, net of tax	-	629	-	629
Transfer to net profit of gain arising on Investment securities available for sale, net of tax	-	(11)	-	(11)
Balance at 31st December 2002	107,969	618	(32,959)	75,628

The accumulated losses have principally arisen due to the application of IAS 29 (Financial Reporting in Hyperinflationary Economies) adopted by the Bank in 1996 and 1997.

The current year statutory net profit transferred to distributable reserves of the Bank for the year ended 31st December 2002 amounted to BGN 7,616 thousand (2001: BGN 4,505 thousand).

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Cash flow statement

in BGN 000s

	Year ended 31st December	
	2002	**2001**
Cash flows from operating activities		
Interest received	39,029	39,317
Interest paid	(9,748)	(9,255)
Fees and commission received	15,792	13,795
Fees and commission paid	(816)	(522)
Amounts paid to and on behalf of employees	(13,771)	(13,087)
Other income received	4,127	2,236
Other expenses paid	(21,727)	(24,096)
Tax paid	(2,303)	(896)
Cash from operating activities before changes in operating assets and liabilities	10,583	7,492
Changes in operating assets and liabilities		
Net decrease / (increase) in reserve with the Central Bank	6,183	(7,498)
Net (increase) / decrease in trading securities	(16,498)	18,474
Net decrease in due from other banks	(1,028)	(367)
Net (increase) in loans and advances to customers	(101,638)	(128,808)
Net decrease / (increase) in other assets	870	(2,505)
Net increase in deposits from other banks	667	22,332
Net increase in amounts due to customers	68,524	99,063
Net increase in other liabilities	366	628
Net cash (used in)/from operating activities	(31,971)	8,811
Cash flows from investing activities		
Purchase of property and equipment (Note 14)	(8,950)	(1,573)
Purchase of investment securities	(45,381)	(69)
Proceeds on disposal of property and equipment	1,724	776
Proceeds on disposal of investment securities	694	508
Net cash (used in) from investing activities	(51,913)	(358)
Cash flows (used in) from financing activities		
Issue of debt securities (Note 18)	12,000	-
Increase in share capital	-	-
Dividends paid	(4,505)	(1,983)
Net cash from / (used in) financing activities	7,495	(1,983)
Net change in cash and cash equivalents	(76,389)	6,470
Cash and cash equivalents at beginning of year	232,390	225,920
Cash and cash equivalents at end of year (Note 23)	156,001	232,390

Accounting policies

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

Basis of presentation

The financial statements of the Bank are prepared in accordance with International Financial Reporting Standards ("IFRS"). The Bank maintains its accounting records in accordance with Bulgarian banking regulations. These financial statements have been prepared from those accounting records and adjusted as necessary in order to comply in all material respects with IFRS issued by the International Accounting Standards Board.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

The financial statements are presented in the national currency of Bulgaria, the Leva (BGN).

In June 1997, to address the issue of hyperinflation price instability, a currency board was established in Bulgaria based on an exchange rate set in law of 1 BGN for 1 DEM, later 1 BGN for 0,5113 EUR and since then inflation has been low, between 1% and 10%. The Bulgarian economy ceased to be hyperinflationary in 1997 and the Bank discontinued the preparation and presentation of financial statements prepared in accordance with International Accounting Standard 29 ('Financial Reporting in Hyperinflationary Economies'). The Bank has treated the non-monetary assets, liabilities and share capital amounts expressed in the measuring unit current at the end of 1997 as the basis for the amounts carried forward.

Where necessary, comparative figures have been adjusted to conform to changes in the presentation of the current year.

Foreign currencies

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Such balances are translated at year-end exchange rates.

At 31st December 2002, monetary assets and liabilities are translated at the reference Central Bank exchange rate - BGN 1 for EUR 0.5113 (2001: BGN 1 for EUR 0.5113) and BGN 1 for USD 0.5305 (2001: BGN 1 for USD 0.4506).

Interest income and expense

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective yield method. Interest income includes coupons earned on fixed income investment and trading securities and accrued discount and premium on treasury bills and other discounted instruments. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Fees and commissions income and expense

Fees and commissions consist mainly of fees on loans, transfers and cash operations and are generally recognised on an accrual basis.

Fees and commission expense relates to fees incurred by the Bank in dealings with other banks, and are recognized at the date of the transaction.

Trading securities

Trading securities are securities, which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists. Trading securities are initially recognised at cost (which includes transaction costs) and subsequently re-measured at fair value based on current bid prices at the reporting date. All related realised and unrealised gains and losses are included in net trading income. Interest earned whilst holding trading securities is reported as interest income.

Due to shallow domestic market Bulgarian securities held for trading purposes are shown at prices which might be somewhat different from current bid prices. While management has used available market information in estimating fair value, the market information may not be fully reflective of the value that could be realized at sale.

Sale and repurchase agreements

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

Securities borrowed are not recognised 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.

Investment securities

Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale. Management determines the appropriate classification of its investments at the time of the purchase.

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

Held-to-maturity investments are carried at amortised cost using the effective yield method, less any provision for impairment. Interest earned whilst holding investment securities is reported as interest income.

Loans and the provisions for loan losses

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 categorised as loans originated by the Bank and are carried at amortised cost, which is defined as the fair value of cash consideration given to originate those loans as is determinable by reference to market prices at origination date. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction. All loans and advances are recognised when cash is advanced to borrowers.

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 allowance 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 impairments; subsequent recoveries are credited to the provision for loan losses in the income statement.

If the amount of the provision for loan impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the 'provision for loan impairment' line in the income statement.

Property and equipment

In 1998 the fixed assets of the Bank were revalued based on independent valuation to ensure that the restated fixed assets carrying values do not exceed the estimated recoverable amounts. Since the valuation resulted in a write down of the carrying values, no revaluation reserve was created. The assets existing as at 31 December 1998 are stated at revalued amount less accumulated depreciation. Property and equipment acquired after that date are stated at historical cost less accumulated depreciation.

Depreciation is calculated on the straight-line method to write off the cost of each asset to their residual values over their estimated useful life. Depreciation rates are 4% per annum on buildings, and between 15% and 25% per annum on computer equipment and fixtures and fittings.

Property, plant and equipment are periodically reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of fixed assets are determined by reference to their carrying amount and are taken into account in determining operating profit.

Repairs and renewals are charged to the income statement when the expenditure is incurred.

Property held for resale is recorded at lower of cost or recoverable value.

Borrowings

Borrowings are recognised initially at 'cost', 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 recognised in the income statement over the period of the borrowings using the effective yield method.

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 balances with the Central Bank, and amounts due from other banks.

Operating leases

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

Income taxes

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. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax. Income tax payable on profits, based on the applicable tax law is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available which these losses can be utilised against.

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 as a result of services rendered by employees up to balance sheet date.

Dividends

Current year dividends are distributed based on a decision of the Annual General Meeting of Shareholders. The dividends for 2002 will be approved at the Annual General Meeting of Shareholders and therefore, no accrual for dividends has been included in these financial statements.

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

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. 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.

Credit risk

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

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.

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

The current swaps the Bank has contracted at a specific rate of interest during a fixed period of time are accounted for as derivatives and accounted for as such unless these commitments do not extend beyond the period expected to be needed to perform appropriate underwriting, in which case they will be considered as “regular way” transactions.

Commitments to extend credit represent unused portions of approved loans, guarantees or letters of credit. In general, all of the Bank’s guarantees and letters of credit are collateralised with cash deposits or collateral pledged to the Bank, and accordingly the Bank normally assumes minimal risk.

Geographical concentration of assets, liabilities and off balance sheet items

The loan customers of the Bank are only in Bulgaria, and the majority of placements and current accounts with foreign banks are domiciled in OECD countries.

The Bank is exposed to many sectors of the Bulgarian economy and 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.

in BGN 000s

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 continuously, on the level of exposure by currency.

As at 31st of December 2002, the Bank has the undernoted exposures. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency.

At 31st December 2002	BGN	USD	EUR	Other	Total
Assets					
Cash and balances with BNB	36,382	23,928	5,877	1,892	68,079
Due from other banks	46,778	43,207	27,040	6,680	123,705
Trading securities	30,008	19,438	26,093	-	75,539
Loans to customers	205,953	56,372	132,663	-	394,988
Investment securities					
- available-for-sale	7,293	9,304	21,812	-	38,409
- held-to-maturity	-	5,655	3,915	-	9,570
Other assets	1,437	817	590	-	2,844
Property and equipment	12,633	-	-	-	12,633
Total assets	340,484	158,721	217,990	8,572	725,767
Liabilities					
Due to other banks	16,985	6,486	21,129	260	44,860
Derivative financial instruments	-	-	1,420	-	1,420
Due to customers	262,279	213,750	101,152	6,778	583,959
Debt securities in issue	12,000	-	-	-	12,000
Current taxes	1,879	-	-	-	1,879
Deferred tax liability	315	-	-	-	315
Other liabilities	3,233	693	1,780	-	5,706
Total liabilities	296,691	220,929	125,481	7,038	650,139
Net on-balance sheet position	**43,793**	**(62,208)**	**92,509**	**1,534**	**75,628**
Off-balance sheet net notional position	-	59,211	(60,631)	-	(1,420)
Credit commitments	64,199	10,899	5,271	-	80,369

At 31st December 2001	BGN	USD	EUR	Other	Total
Total assets	318,878	200,206	116,442	3,981	639,507
Total liabilities	248,741	206,285	107,141	4,845	567,012
Net position	**70,137**	**(6,079)**	**9,301**	**(864)**	**72,495**
Credit commitments	36,068	12,943	-	-	49,011

in BGN 000s

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 necessary reprising 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 31st December 2002	Up to 1 month	1-3 months	3-12 months	1–5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and BNB balances	-	-	-	-	-	68,079	68,079
Due from other banks	103,445	15,437	4,776	47	-	-	123,705
Trading securities	13,931	1,000	8,052	16,597	35,959	-	75,539
Loans to customers	367,773	13,316	10,707	3,192	-	-	394,988
Investment securities							
- available for sale	10,183	66	5,480	11,159	10,646	875	38,409
- held-to-maturity	295	1,050	2,396	5,829	-	-	9,570
Other assets	-	-	-	-	-	15,477	15,477
Total assets	495,627	30,869	31,411	36,824	46,605	84,431	725,767
Liabilities							
Due to other banks	23,731	2,052	2,073	17,004	-	-	44,860
Derivative instruments	-	-	-	-	-	1,420	1,420
Due to customers	505,384	31,546	44,187	-	-	2,842	583,959
Debt securities in issue	-	-	-	12,000	-	-	12,000
Other liabilities	-	-	-	-	-	7,900	7,900
Total liabilities	529,115	33,598	46,260	29,004	-	12,162	650,139
Interest sensitivity gap	(33,488)	(2,729)	(14,849)	7,820	46,605		

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in BGN 000s

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 Management Board is satisfied that the Bank's position is such that exposure to movements in interest rates is minimised.

The tables below summarise the effective interest rate by major currencies for financial instruments.

As at 31st December 2002	%	BGN	USD	EUR
Assets				
Cash and balances with Central Bank		0.00	0.00	0.00
Due from other banks		4.62	1.65	3.65
Trading securities		6.05	6.74	7.09
Loans and advances to customers		11.47	5.62	6.65
Investment securities		5.65	7.02	0.00
Liabilities				
Debt securities in issue		7.63	0.00	0.00
Due to other banks		5.02	1.21	2.98
Due to customers		1.73	0.99	1.24

As at 31st December 2001	%	BGN	USD	EUR
Assets				
Cash and balances with Central Bank		0.00	0.00	0.00
Due from other banks		7.59	1.90	5.00
Trading securities		6.09	5.71	5.33
Loans and advances to customers		12.47	5.90	6.94
Liabilities				
Due to other banks		7.58	1.60	3.05
Due to customers		1.89	1.49	2.14

in BGN 000s

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.

31st December 2002	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash balances	68,079	-	-	-	-	68,079
Due from other banks	103,445	15,437	4,776	47	-	123,705
Trading securities	5,103	1,000	8,052	61,384	-	75,539
Loans to customers	64,487	51,072	144,097	135,332	-	394,988
Investment securities						
- available-for-sale	-	1,066	4,625	21,772	10,946	38,409
- held-to-maturity	295	1,050	2,396	5,829	-	9,570
Other assets	1,916	252	676	9,850	2,783	15,477
Total assets	243,325	69,877	164,622	234,214	13,729	725,767
Liabilities						
Due to other banks	36,809	973	2,074	5,004	-	44,860
Derivative financial instruments	720	700	-	-	-	1,420
Due to customers	508,226	31,546	44,187	-	-	583,959
Debt securities in issue	-	-	-	12,000	-	12,000
Deferred tax liability	-	-	192	123	-	315
Current tax	-	1,879	-	-	-	1,879
Other liabilities	3,587	1,147	610	362	-	5,706
Total liabilities	549,342	36,245	47,063	17,489	-	650,139
Net liquidity gap	(306,017)	33,632	117,559	216,725	13,729	75,628

31st December 2001	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Total assets	275,565	19,979	122,382	213,169	8,412	639,507
Total liabilities	486,913	36,940	43,159	-	-	567,012
Net liquidity gap	(211,348)	(16,961)	79,223	213,169	8,412	72,495

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. However, judgement is necessarily required to interpret market data to determine the estimated fair value. While Management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

Management has estimated that the fair value of certain balance sheet items is not materially different from their recorded values. These balance sheet items include cash, term deposits, placements with banks and other financial institutions, securities held for trading purposes or available for sale, deposits from banks and other financial institutions, current accounts and deposits from customers and other short-term assets and liabilities which are of a contractual nature. Management believes that the carrying amount of these particular financial assets and liabilities approximates to their fair value.

Notes to the financial statements

in BGN 000s

1	Net interest income	2002	2001
	Interest income		
	Loans and advances to customers	33,886	25,080
	Due from other banks	4,790	8,920
	Trading securities	2,532	5,114
	Investment securities	1,657	-
		42,865	39,114
	Interest expense		
	Customers	8,122	7,635
	Banks and other financial institutions	1,551	1,801
		9,673	9,436

2	Net fee and commission income	2002	2001
	Fee and commission income		
	Loans and advances to customers	4,429	3,968
	Fund transfers	3,544	3,290
	Cash operations	2,754	2,545
	Western Union transfers	2,299	1,512
	Account maintenance	1,760	1,653
	Others	1,006	827
		15,792	13,795
	Fee and commission expense		
	Visa cards, cheques and Western Union fees	342	174
	Cash transactions and correspondent accounts fees	298	248
	Others	176	100
		816	522

3	Net foreign exchange gains less losses	2002	2001
	Foreign exchange translation gains less losses	2,149	2,068
	Foreign exchange transaction gains less losses	717	(182)
		2,866	1,886

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in BGN 000s

4	Other operating expenses	2002	2001
	Staff costs (Note 5)	13,771	13,087
	External services	5,730	5,213
	Operating lease rentals	4,014	3,722
	Communication	2,266	1,761
	Depreciation (Note 14)	2,154	1,583
	Post Office commissions	2,128	2,035
	Security	2,090	2,324
	Software costs	1,794	2,437
	Materials and utilities	1,552	1,634
	Advertising and marketing	757	460
	Repairs and maintenance	754	499
	Insurance	554	585
	Levies and taxes	416	442
	Travel and accommodation	496	581
	Other operating costs	442	820
		38,918	37,183

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

5	Staff costs	2002	2001
	Wages and salaries	9,052	8,547
	Social security costs	4,323	4,260
	Other	396	280
		13,771	13,087

The number of persons employed by the Bank as at 31 December 2002 was 1,078 (2001: 1,186).

6	Provision (expense) writeback	2002	2001
	Loans and advances to customers (Note 11)	(4,601)	(3,629)
	Bank guarantees and letters of credit	-	83
	Amounts due from other banks	4	120
	Provisions for court litigations (Notes 19 and 21)	(240)	-
	Other assets	(59)	(101)
		(4,896)	(3,527)

in BGN 000s

7	Income tax expense / (credit)	2002	2001
	Current tax	2,722	2,084
	Deferred tax (Note 20)	(182)	(658)
	Income tax expense	2,540	1,426

Tax is payable at an effective rate of 23.5% (2001: 28.0%) 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:

	2002	2001
Profit before tax	9,560	4,477
Tax calculated at a tax rate of 23.5% (2001: 28.0%)	2,247	1,254
Effect of change in tax rate	-	(45)
Tax effect of expenses not deductible for tax purposes	293	217
Income tax expense	2,540	1,426

Further information about deferred tax is presented in Note 20.

8	Cash and balances with Central Bank	2002	2001
	Cash in hand (Note 23)	37,371	35,764
	Mandatory reserve with Central Bank (Note 21)	30,708	36,891
		68,079	72,655

in BGN 000s

9	Due from other banks	2002	2001
	Deposits in other banks	90,691	192,098
	Repurchase agreements	28,597	5,191
	Less impairment provision	(658)	(663)
	Included in cash and cash equivalents (Note 23)	118,630	196,626
	Deposits in other banks	4,831	3,795
	Interest receivable	244	239
		123,705	200,660

Deposits in other banks include BGN 2,744 thousand (2001: BGN 2,979 thousand) which amounts are restricted to cover letters of credit and guarantees.

Approximately 38% (2001: 64%) 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	2002	2001
	Treasury bonds	42,655	14,290
	Treasury bills	28,907	41,937
	Mortgage and municipality bonds	1,497	-
	Interest receivable	2,480	1,241
		75,539	57,468

Treasury bonds consist of long-term Bulgarian government securities, amounting to BGN 24,146 thousand (2001: BGN 14,290 thousand) and long-term Romanian government securities of BGN 18,509 thousand.

Treasury bills include short- and medium-term Bulgarian government securities amounting to BGN 28,907 thousand (2001: BGN 25,440 thousand and short and medium-term US government and EUR securities amounting to BGN 16,497 thousand). Treasury bills also include securities pledged under repurchase agreements amounting to BGN 5,145 thousand (2001: BGN 11,840 thousand).

Mortgage and municipality bonds include short-term debt securities issued by United Bulgarian Bank, Bulgarian-American Credit Bank and Varna municipality.

in BGN 000s

11	Loans and advances to customers	2002	2001
	Corporate loans	339,592	255,166
	Mortgage and consumer loans	72,651	54,999
	Gross loans and advances	412,243	310,165
	Less allowance for loan losses on loans and advances	(17,255)	(13,122)
		394,988	297,043

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

	2002	2001
Balance at 1st January	13,122	10,496
Increase in provision for loan impairment (Note 6)	4,601	3,629
Bad debts written off	(468)	(1,003)
Balance at 31st December	**17,255**	**13,122**

The aggregate amount of non-performing loans on which interest was not being accrued amounted to BGN 6,345 thousand as at 31st December 2002 (2001: BGN 4,284 thousand). Included within loans and advances to customers is related accrued interest receivable of BGN 1,920 thousand (2001: BGN 1,012 thousand).

As at 31st December 2002 loans in the amount of BGN 13,607 thousand (2001: nil) are pledged as security to the mortgage bonds issued by the Bank in 2002 (Notes 18 and 21).

Industrial segmentation of loan portfolio were as follows

	2002	%	2001	%
Commerce and service	207,360	50.3	92,802	30.0
Private individuals	72,991	17.7	55,179	17.8
Manufacturing	72,242	17.5	104,472	33.7
Vegetable oil manufacturing	29,800	7.2	21,303	6.9
Transportation and communication	21,280	5.2	20,338	6.5
Agricultural	5,427	1.3	10,450	3.4
Construction	2,685	0.7	2,342	0.7
Other	458	0.1	3,279	1.0
	412,243		310,165	

in BGN 000s

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

	2002	2001
The ten largest loans and advances to customers	147,080	65,471
Percentage of gross loans	36%	21%

12 Investment securities

	2002	2001
Investment securities available-for-sale		
- Debt securities at fair value	37,534	-
- Unlisted equity investments at cost	875	875
	38,409	875

Investment securities available-for-sale consist of short- and long-term Bulgarian government securities, amounting to BGN 33,340 thousand and mortgage bonds issued by First Investment Bank and Bulgarian-American Credit Bank of BGN 2,472 thousand.

Investment securities held-to-maturity

Securities held-to-maturity consist of middle-term debt securities issued by Gazprom (BGN 5,655 thousand) and mortgage bonds issued by First Investment Bank and Bulgarian-American Credit Bank in the amount of BGN 981 thousand and 2,934 thousand, respectively.

13 Other assets

	2002	2001
Amounts in transit	1,275	1,424
Prepayments	1,072	863
Deferred expenses	537	474
Materials	128	139
Other assets	659	1,137
Less provision on other assets (Note 6)	(827)	(768)
	2,844	3,269

in BGN 000s

14	Property and equipment	Property	Equipment and other	Total
	At 31st December 2001			
	Gross book amount	3,625	14,553	18,178
	Accumulated depreciation	(703)	(9,938)	(10,641)
	Net book amount	2,922	4,615	7,537
	Year ended 31st December 2002			
	Opening net book amount	2,922	4,615	7,537
	Additions	-	8,950	8,950
	Disposals	(9)	(1,691)	(1,700)
	Depreciation charge	(130)	(2,024)	(2,154)
	Closing net book amount	2,783	9,850	12,633
	At 31st December 2002			
	Gross book amount	3,616	21,812	25,428
	Accumulated depreciation	(833)	(11,962)	(12,795)
	Net book amount	2,783	9,850	12,633

15	Due to other banks	2002	2001
	Current accounts	4,498	4,262
	Deposits from other banks	40,362	39,760
		44,860	44,022

Included within due to other banks is related accrued interest payable of BGN 329 thousand (2001: BGN 158 thousand).

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in BGN 000s

16 Derivative financial instruments and trading liabilities

The Bank utilises currency swaps 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.

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

	Contract/	Assets notional amount	Liabilities
Year ended 31st December 2002			
Derivatives held for trading			
Foreign exchange derivatives			
Currency swaps	59,211	-	(1,420)
Total derivative assets/(liabilities)		-	(1,420)

17 Due to customers

	2002	2001
Demand deposits		
- individuals	164,925	149,821
- corporate clients	213,646	115,466
Term deposits		
- individuals	199,639	207,050
- corporate clients	5,749	43,156
	583,959	515,493

Term deposits from corporate clients include deposits of BGN 2,843 thousand (2001: BGN 2,511 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 900 thousand (2001: BGN 958 thousand).

in BGN 000s

18 Debt securities in issue

Debt securities in issue represent 3-year mortgage bonds denominated in BGN issued by the Bank in 2002. They carry fixed interest rate of 7.625 %. As at 31st December 2002 loans in the amount of BGN 13,607 thousand (2001: nil) are pledged as security to the mortgage bonds issued by the Bank in 2002 (Notes 11 and 21).

19 Other liabilities

Other liabilities	2002	2001
Creditors	4,387	3,815
Provision for court claims (Notes 6 and 21)	240	-
Unused paid leave accrual	171	601
Deferred income and other liabilities	908	1,124
	5,706	5,540

20 Deferred income taxes

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 23.5% (2001: 23.5%). The movement on the deferred income tax account is as follows:

	2002	2001
Deferred tax liability at beginning of year	497	1,155
Income statement credit (Note 7)	(182)	(658)
Deferred tax liability at end of year	315	497

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

	2002	2001
Deferred income tax liabilities		
Provision for losses	192	427
Equity securities	123	123
	315	550
Deferred income tax assets		
Depreciation	-	(53)
Net deferred tax liability	315	497

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

	2002	2001
Provision for losses	235	864
Equity investments	-	24
Depreciation	(53)	(230)
Net deffered tax credit	182	658

in BGN 000s

21 Contingent liabilities and commitments

Legal proceedings

There are a number of legal proceedings outstanding against the Bank at 31st December 2002. Based on professional advice, the Management has made a provision of BGN 240 thousand (2001: nil) for probable losses (Notes 6 and 19).

Credit related commitments

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

Loan commitments represent unused portions of approved loans, guarantees or letters of credit. 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 minimal.

	2002	2001
Guarantees	11,932	7,453
Letters of credit	3,764	2,451
Undrawn loan commitments	64,673	39,107
	80,369	49,011

Assets pledged.

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

	Asset		Related liability	
	2002	2001	2002	2001
Balances with Central Bank (Note 8)	30,708	36,891	-	-
Due from banks (Note 9)	2,744	2,979	2,744	2,979
Loans to customers (Note 11)	13,607	-	12,000	-
Trading securities (Note 10)	5,145	11,840	4,930	11,840
	52,204	51,710	19,674	14,819

in BGN 000s

21 Contingent liabilities and commitments (continued)

Operating lease commitments.

Where the Bank is the lessee the future minimum lease payments under non cancellable building operating leases are as follows:

	2002	2001
Less than 1 year	582	627
Over 1 year and less than 5 years	-	-
Over 5 years	-	-
	582	627

22 Share capital

	Number of Shares (thousands)	Ordinary shares (historical) (thousnad Leva)	Ordinary shares (Hyperinflated) (thousand leva)	Difference Hyperinflated less historical values (thousand Leva)
At 31st December 2001	10,250	51,250	107,969	56,719
At 31st December 2002	10,250	51,250	107,969	56,719

The historical amount represents the statutory value of the Bank's ordinary shares.

The total authorised number of ordinary shares at year-end was 10,250,000 shares (2001: 10,250,000 shares) with a par value of BGN 5 per share (2001: BGN 5 per share). All shares rank equally and carry one vote.

23 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:

	2002	2001
Cash in hand (Note 8)	37,371	35,764
Due from other banks (Note 9)	118,630	196,626
	156,001	232,390

in BGN 000s

24 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. As at 31st December 2002 ALICO/CEH Balkan Holdings Limited owns 86.24% of the share capital of the Bank (2001: 86.24%). American Life Insurance Company (ALICO), incorporated in USA, and EFG Eurobank Ergasias SA, incorporated in Greece each owns 50% of ALICO/CEH Balkan Holdings Limited (ACBH). ALICO is a subsidiary of American International Group, Inc., and EFG Eurobank Ergasis SA is a subsidiary of European Financial Group.

	Associated companies	
Type of related party	**2002**	**2001**
Loans and bank placements		
At beginning of year	549	-
Net change during the year	29	549
As at end of year	578	549
Interest income earned	6	6

No provisions have been recognised in respect of loans and placements made to related parties (2001: nil).

	2002	2001
Deposits and borrowings		
At beginning of year	2,890	1,681
Received during the year	5,880	3,285
Repaid during the year	(6,194)	(2,076)
As at end of year	2,576	2,890
Interest expense incurred	30	97
Derivatives – currency swaps asset / (liability)	(1,162)	-
Costs for services and technical assistance	3,139	2,982
Guarantees issued by the Bank	-	-
Guarantees received by the Bank	36,572	42,094

In 2002 the total remuneration of the directors approximates to BGN 861 thousand (2001: BGN 877 thousand).

Management Board

The members of the Management Board of the Bank at the end of 2002 were:

Mr. Theodore Karakassis
Chairman
(Deputy General Manager EFG Eurobank Ergasias SA)
Born in 1947 in Athens, Greece

Mr. Panagiotis Varelas
Chief Executive Officer
(Former Head of Retail Banking Division, EFG Eurobank Ergasias SA)
Born in 1959 in Athens, Greece

Mr. Athanassios Petropoulos
Executive Director
(Former Head of Corporate Banking Division, Bank of Crete, EFG Group)
Born in 1957 in Athens, Greece

Mr. Konstantinos Konstantellos
Executive Director
(Former Head of Retail Banking Division)
Born in 1956 in Athens, Greece

Mr. Anastassios Omiridis
Regional Chief Financial Officer, ALICO
(Former PricewaterhouseCoopers Manager)
Born in 1967 in Philadelphia, USA

D. Houbeva

Mrs. Daniella Houbeva
Chief Financial Officer
(former ALICO executive)
Born in 1972 in Plovdiv, Bulgaria

Mr. Assen Yagodin
Head of Treasury Division
(Former Head of Money and Capital Market Division, Chief Expert Dealer)
Born in 1966 in Sofia, Bulgaria

Supervisory Board

The members of Supervisory Board of the Bank at the end of 2002 were:

Mr. Andreas Vassiliou
Chairman
(Senior Vice President, ALICO
Chairman - Middle East, Africa and South Asia, ALICO
President & CEO - Central and Eastern Europe, ALICO)

Mr. George Gondicas
Vice Chairman
(Honorary Chairman of the Board of Directors of EFG Eurobank Ergasias SA)

Mr. Bruce Dozier
Member
(Vice-President and General Counsel of ALICO)

Mr. David Watson
Member
(Advisor to the Management of EFG Eurobank Ergasias SA)

Directors' interests

None of the Directors have any interest in the shares of the Bank as at 31st December 2002.

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