# ANNUAL REPORT 2004

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# THE YEAR IN REVIEW

## LETTER TO SHAREHOLDERS

**Dear shareholders,**

The year 2004 was a milestone for Postbank. While the Bank continued to develop aggressively on all fronts, it also started on a new chapter of its corporate life, as EFG Eurobank Ergasias acquired AIG's share in CBH, a joint venture, controlling 87% of Postbank's shares. By further buying out other smaller shareholdings, EFG Eurobank Ergasias currently owns more than 97% of Postbank.

In addition, Postbank's CEO Mr. Panagiotis Varelas successfully completed his assignment in Bulgaria and returned to the mother company in Greece. Postbank welcomed in August Mr. Anthony C Hassiotis as the new CEO, a seasoned international Banker.

The past year was an extremely challenging year for the economy of the country and the Banking sector as a whole.

Previously closed doors now opened up before Bulgaria. In April 2004 it became a member of NATO and two months later the EU closed the last negotiation chapter and invited the country to join the European Union in 2007.

Bulgaria's future looked bright in 2004. Real GDP grew at over 5%, significantly outperforming the EU economy. Inflation rate was reined within acceptable levels, while unemployment was at historically low levels at the end of the year. Brady bonds were called back by the Government, thus successfully reducing the Government debt at levels below 40% of GDP.

All of this was positively evaluated by the leading international credit rating agencies. Moody's, S&P and Fitch all raised their Bulgaria rating several times in 2004, the last two granting it investment grade rating.

Later in the year, Postbank also saw its credit rating raised by Fitch to the same level as the sovereign, reflecting the Bank's own strength, future prospects, as well as the support it receives from the parent company, EFG Eurobank Ergasias.

During the course of 2004, Postbank confirmed its position as one of the leading players in the Banking sector in Bulgaria.

With over 13 years of experience in the Bulgarian market, Postbank has an active presence in all areas of Banking, i.e. retail, cards, corporate, investment, treasury, capital markets, stock brokerage, leasing, etc.

The favorable development of business resulted in significant growth in the Bank's footings, as well as the overall profitability, which showed a significant increase over the previous year results.

At the operational level the Bank expanded its branch network, while in the latter part of the year it commenced an organizational restructuring, aiming at improving the efficiency of the Bank in order to both benefit our clients and align ourselves to the business model used so successfully by our mother company in Greece. Initial results are already visible and very encouraging.

In 2004 Postbank achieved recognition in various fields. Its e-Banking service, launched in February, was awarded first prize for the "E-business" category at the International Web Festival in Albena; the same year "My Home" housing loan program was honored the special award "Financial Product of 2003" at the International "Banks, Investments, Money" Fair. Postbank was also awarded first place for "Best Internal Communications in 2003", organized by the Bulgarian Public Relations Society. The prize was given for the project of the successful introduction of the Bank's new corporate identity in 2003.

Overall, stable macroeconomic indicators and a positive business outlook should continue to work in Postbank's favour, so as to allow it to focus on the market, improving performance and creating value for its shareholders. While competition is expected to be tough, Postbank has laid the foundations of success to allow it to continue building on it and overcome any challenge the future has to offer.

Sofia, April 2005

Anthony C Hassiotis
Chief Executive Officer and Chairman of the Management Board

## FINANCIAL REVIEW

### Key figures of Bulgarian Post Bank AD

| BGN`000 | As at 31 December | | |
|---|---|---|---|
| | 2004 | 2003 | Change |
| **Balance Sheet** | | | |
| Loans and Advances to Customers | 735,513 | 529,470 | 39% |
| Deposits | 1,013,269 | 759,518 | 33% |
| Shareholders` Equity | 100,342 | 86,035 | 17% |
| **Total Assets** | **1,167,640** | **904,964** | **29%** |
| | | | |
| **Profit and Loss Statement** | | | |
| Net Interest Income | 51,721 | 43,510 | 19% |
| Net Fee and Commissions Income | 12,751 | 11,205 | 14% |
| Net Trading Gains | 5,677 | 5,293 | 7% |
| Other Operating Income | 1,107 | 1,610 | -31% |
| **Total Operating Income** | **71,256** | **61,618** | **16%** |
| **Total Operating Expense** | **50,451** | **42,740** | **18%** |
| Provisions for Impairment | 458 | -3,463 | -113% |
| Profit Before Tax | 21,263 | 15,415 | 38% |
| Income Tax | 4197 | 3,827 | 10% |
| **Profit After Tax** | **17,066** | **11,588** | **47%** |
| | | | |
| **Key Financial Ratios** | | | |
| ROA (after tax) | 1.46% | 1.28% | |
| ROE (after tax) | 17.01% | 13.47% | |
| Cost/Income Ratio | 70.80% | 69.36% | |
| Earnings per Share | 1.66 | 1.13 | |
| | | | |
| **Ratings** | Long-Term | Financial Strength | Sort-Term |
| FITCH | BBB- | C/D | F3 |

## FINANCIAL REVIEW

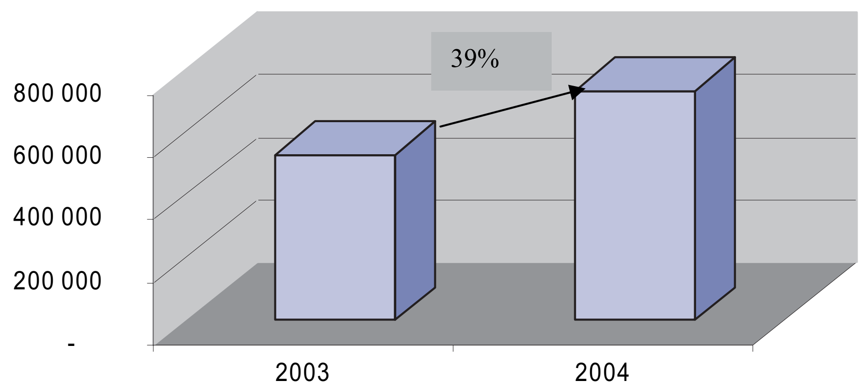
Postbank is a leading universal bank in Bulgaria with more than 14 years of experience. It is part of a strong international financial group – EFG Group. The Bank provides a broad range of banking services to Bulgarian and international customers, through its vast domestic branch network and post office representatives 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.

Following the positive perspective in the market and the stability of the Bank, the international rating agency Fitch Ratings upgraded the Long-Term rating of Postbank to `BBB-` from `BB+`, Short-Term to `F3` from `B`, Outlook changed to Stable from Positive, Support changed to `2` from`3`, Individual rating was confirmed at `C/D`. The Long-, Short-term and Support ratings of Postbank continue to be constrained by the 'BBB-' country ceiling for Bulgaria and reflect potential support from its parent bank.

2004 was one of the most successful and dynamic years for Postbank:

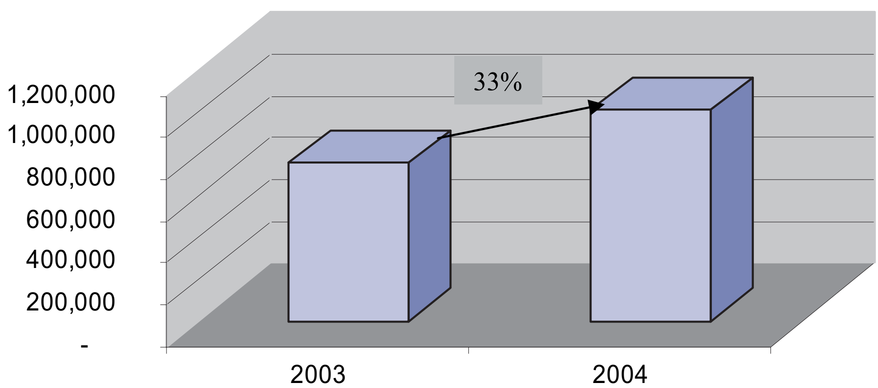
Total assets grew up by 29% Y.O.Y. Bank`s loans increased by 39%, while deposits grew up by 33%. Corporate loans were the engine of growth for 2004, increasing by 40% Y.O.Y. At the same time, Retail loans grew up by 33%. Loan loss provisions (LLP) decreased Y.O.Y in 2004 (from 3.6% to 2.4%), reflecting an improvement in the Bank's asset quality. LLP were not significant relative to the loan book.

Total Loans

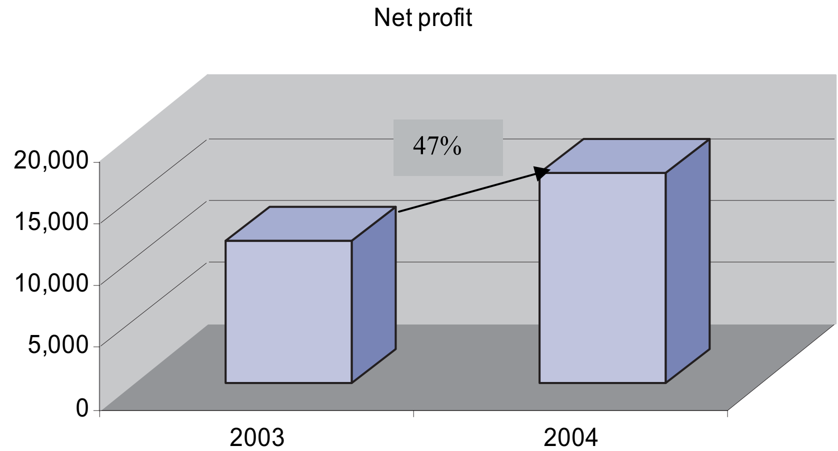



Customer deposits were the main source of funding, accounting for 67% of non-equity funding. Around 2/3 were placed by individuals and the remainder by commercial customers. Postbank increased its level of interbank funding during the first half of 2004, reaching 14% of non-equity funding.

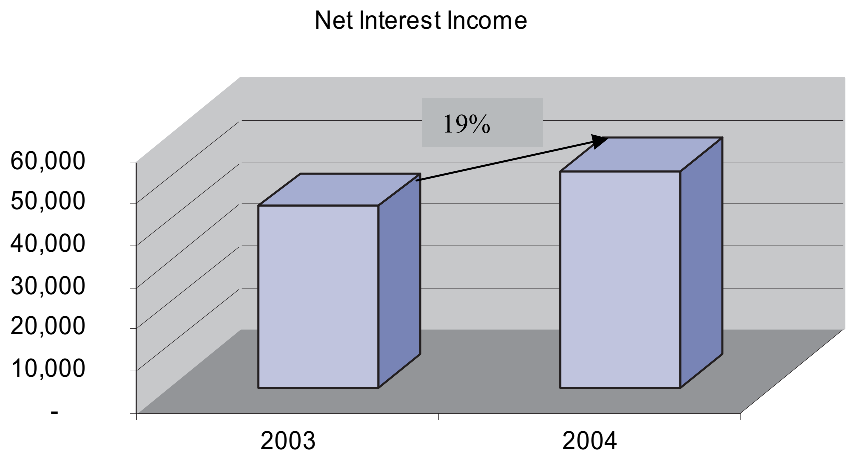
Deposits



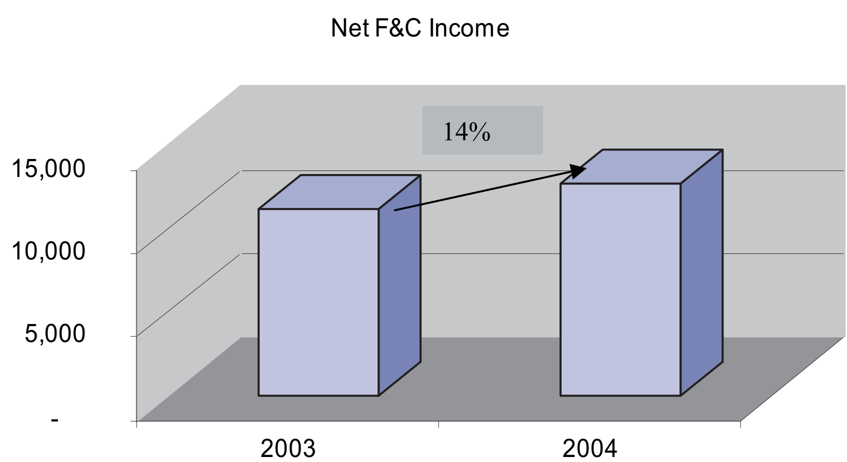
In 2004 Net profit marked 47% Y.O.Y growth, outpacing the market.



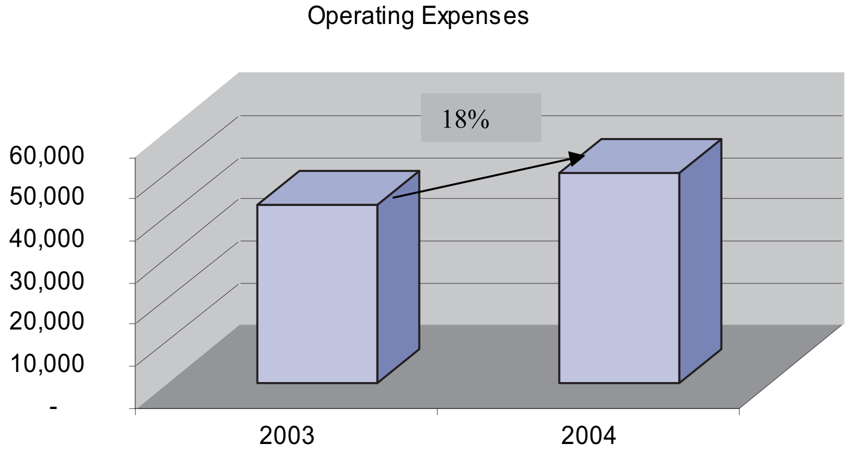

Net Interest income increased by 19% in 2004, driven by loan growth.



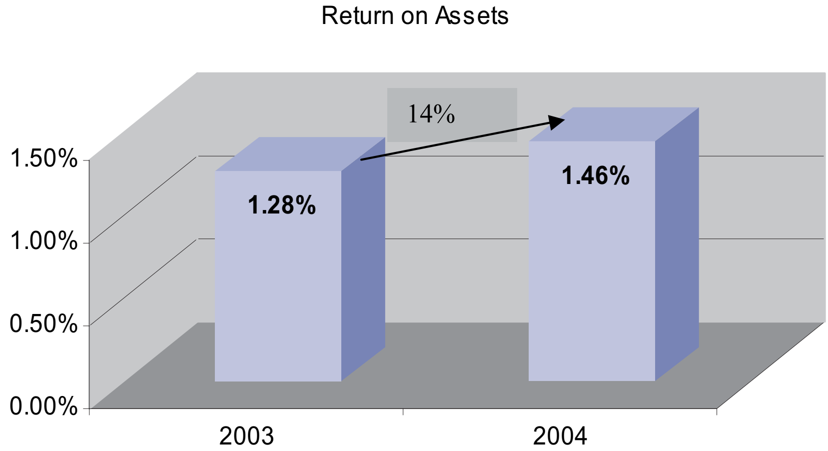

Net F&C income is also an important contributor to earnings. Net Fee income has been growing in 2004 (18% of operating income) as the Bank has developed new products.



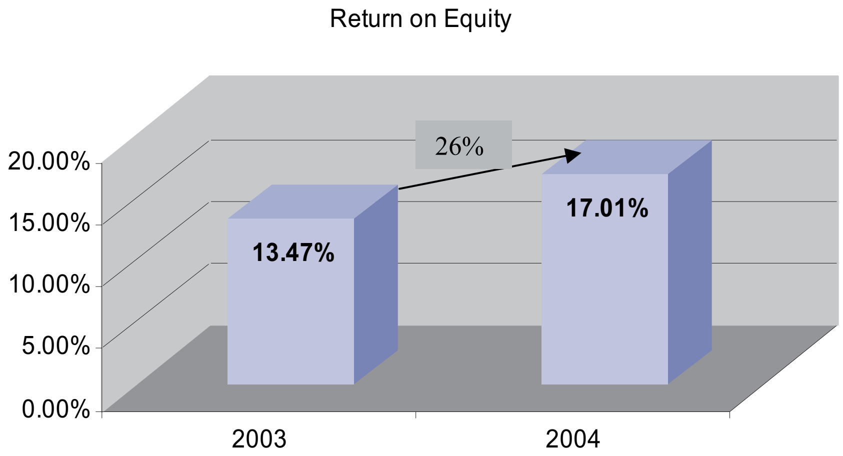
Operating expenses increased by around 18% in 2004, mainly due to higher staff costs, higher depreciation charge (reflecting investments in the branch network, IT systems and software) and advertising/marketing costs relating to the Bank's new corporate image and product launches.




The substantial improvement in the profitability of Postbank led to the rise in after-tax Return on Assets (ROA) from 1.28% in 2003 to 1.46% in 2004.




Similarly, after-tax Return on Equity (ROE) increased by 26% (from 13.47% in 2003 to 17.01% in 2004).



Postbank/BRS remained a leading credit card issuer in the country, branding the Euroline card, combining continuous strong growth in number of cards and outstandings. Postbank/BRS became the leading acquirer and increased its share in total POS market from 14% to 23%.

In housing loans Postbank was ranked fifth on the market with a market share of 5.76%.

In terms of products, the Bank was a market leader in car loans through dealers.

A new philosophy for serving small business customers was established, focusing on the approach to potential customers, understanding their needs and proposing reasonable solutions and competitive products.

In 2004 Postbank had a leading position in the local financial markets (15-25% share in the money market and the government and corporate bond markets, and around 35% of the brokerage activity on the Stock Exchange). The Bank was licensed by the Central bank for special custodian of Pension funds together with several other local banks.

A new leasing company, EFG Leasing EAD, was set up at the end of September 2004. The new leasing company will take full advantage of the know–how and support of both Postbank and EFG Eurobank Ergasias S.A., one of the leading commercial banks in Greece.

Internet banking was introduced for corporate and retail customers in the first half of 2004, reaching 2 300 customers at the end of the year. The new service was awarded first prize at the International Web Festival in Albena in June 2004.

## Management structure as of 31.12.2004

## Members of the Supervisory Board

***George Gondicas***
Chairman
(Honorary Chairman of the Board of Directors of EFG Eurobank Ergasias SA)

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

***Andrew Stone***
Member

### Members of the Management Board

***Panagiotis Varelas***
Member and Chief Executive Officer (from June 2001 to July 2004)

***Anthony C Hassiotis***
Chairman and Chief Executive Officer (as from August 2004)

***Theodore Karakassis***
Member and Executive Director
(Deputy General Manager EFG Eurobank Ergasias SA)

***Athanassios Petropoulos***
Member and Executive Director

***Assen Yagodin***
Member and Executive Director

**The shareholder ownership as of 31st December 2004 was as follows:**

ACBH – 96.74%
Bulgarian Posts Plc. – 1.40%
Bulgarian Telecommunication Company Plc. – 1.40%
National Palace of Culture – 0.46%

# BUSINESS REVIEW

## RETAIL BANKING

Establishing a retail organization that provides fast, flexible and high quality products and services to individuals and companies were the main objectives of Postbank during 2004. As a result, a full plan was implemented, including reorganization of the branch network, as well as consumer, mortgage and small business lending factories.

## BRANCH NETWORK

During 2004 the Bank focused on its branch network expansion along with restructuring the network organization, following the mother company model. This implies that the branches become sales points, the administrative and operational functions are centralized, while the product development and lifecycle of family products is now the responsibility of specific business units.
The concept of specialized loan officers was also introduced and staff followed an intensive education program on products and sales, which will be completed during 2005. On the organizational front many of the processes and procedures of the branch network were revised, with main objective being the reduction of the execution time of operations, in related risk and operational cost. The above issues will also be a focus point during 2005.
During the past year Postbank opened and renovated more than 20 locations throughout the country with the new corporate identity and modern open-space layout.
Prospects for the coming years appear positive. The combination of the new Head Office and branch structure, the harmonized and significantly extended network, customized solutions, innovative products and simplified processes are expected to improve the position of each branch on the local market and the quality of client service.

## ALTERNATIVE NETWORK

### ATMs

Postbank is amongst the banks with a highly developed ATM network throughout the country. The total number of the ATMs has grown for only a year from 63 to 100, accounting for 6% of the ATMs in Bulgaria.

### POS-terminals

POS-terminal installation increased substantially in 2004 with 324 new terminals. About 74% were placed with merchants, whereas the rest of them were installed in branches and offices of Postbank.

### E-Banking

Postbank started its new service Internet Banking on February 2004. All clients of the Bank have the privilege to work with this modern service, allowing them to perform all types of transactions in real-time, 7x24-working regime. For less than a year the clients of e-banking exceeded some 2500 in number.
The e-banking product was awarded first prize in the “E-Business” category at the International Web-Festival in Albena, 2004.

### Bulgarian Posts EAD

As a bank that is always close to its clients, Postbank continues its long-term relationships with Bulgarian Posts EAD. With more than 2000 post office representatives throughout the country, we offer our clients basic bank operations with savings and deposit accounts. As at the end of 2004, Postbank and Bulgarian Posts started a joint project for offering selected retail products in specific Post Offices in Bulgaria.

## CONSUMER LENDING AND CARDS

In order to respond to the challenges of the rapidly growing consumer lending market and the constantly evolving customer needs, the Consumer Lending Division went through series of structural and organizational changes in 2004.

Two separate business units were created – Consumer Loans and Car Loans, allowing the Bank to have more focus on the separate lines of business.

In the Consumer Loans area, Postbank emphasized on the pioneering Fast Loan product with enhanced characteristics and special promotions in cooperation with Bulgarian Retail Services (BRS), which was supported by several promotional campaigns. As a result, the consumer loan portfolio of the Bank increased by over 70% during the year.

The Car Loans Department concentrated mainly on auto loans and in 2004 Postbank remained one of the leading providers of car financing. The existing car loan product was further enhanced in order to satisfy the growing demands of the market environment.

The establishment of our affiliated company EFG Leasing at the end of 2004 and the forthcoming establishment of EFG Auto Leasing in early 2005 will allow both products – leasing and bank loan - to widen the product range and give the Bank a competitive advantage.

On the credit cards business, Postbank was selected amongst all Bulgarian banks by American Express to become its exclusive partner in Bulgaria for issuing Green and Gold American Express credit cards.

Finally, another very important initiative in this area was the decision taken at the end of the year to start the process of consolidating the activities of Postbank with those of Bulgarian Retail Services (BRS), the issuer of the Euroline credit card and the leading credit card issuer in the country.

Having the best product range, strong marketing support and multiple distribution channels Postbank is aiming to enter strongly the credit card market and become the preferred choice for Bulgarian consumers.

## MORTGAGE LENDING

In 2004 intense competition in Mortgage Lending continued, with interest rates and speed of delivery being the main reference point. Postbank continued to be one of the leading banks in the mortgage lending, focusing on new products development, as well as on further improving its services in order to provide optimal client service.

Total mortgage lending outstanding balances (housing and home equity) increased by 41% compared to 2003, amounting to BGN 67.2 million and representing 30.5% of the Bank’s total retail loan book.

The housing loans balances posted 70% growth, reaching BGN 58.1 million, which sets Postbank among the first five banks with 5.76% market share.

An innovation of Postbank’s mortgage loans in 2004 was the supplementary consumer loan for coverage of the customers expenses, adherent to the property deal. Additional flexible features were launched to facilitate the customers when they make pre-term payments of the loan.

Apart from the main channel of distribution - the branch network, Postbank made the first steps in building and operating external networks with co-operation of third parties – real estate brokers, constructing companies, etc.

Aiming to expand its position in mortgage lending, the Bank will focus on further development of its sales channels, cross-selling to its existing client base, as well as targeting its mortgage products to new client segments. This will be supported by the introduction of a new, unique for Bulgaria, business model with dedicated sales forces in the network and overall reorganization of the mortgage lending activity, supported by unified, centralized processes.

## SMALL BUSINESS BANKING

The targeted customer base of Small Business Banking (SBB) Division is all professionals and small businesses with an annual turnover of up to BGN 1 million.

Following the market expectations for more flexible business solutions, SBB Division expanded and special consultants were appointed and trained for each branch of the Bank. The development boosted the generation of business and the establishment of special new loan products. The main competitive advantages of Working Capital, Professional Equipment and Business Premises Loan Programs are flexibility, speed and simplification.

The competitive strategy of Postbank in the area of Small Business Banking is based on product leadership and differentiation, automation of the operating processes and development of new markets. Implementing this strategy, the Bank aims in the coming years to expand significantly and acquire leading position in the segment of professionals and small businesses, the backbone of the Bulgarian economy.

## DEPOSITS

Postbank, acknowledged as one of the most reliable financial institutions, traditionally has a strong market share in deposits. In 2004 the deposits from individual customers increased by 17 % (from BGN 436,4 million to BGN 512,4 million). More than 70% of new deposits belong to entirely new clients of the Bank.
Saving accounts represent the biggest share of Postbank's individual deposits, followed by short – term deposits (one-month) and mid – term deposits (three, six and twelve-months).

In 2005 the Bank is planning to further develop the variety of the deposit products, and strengthen its position in this key product category.

## CORPORATE BANKING

### CORPORATE BANKING DEVELOPMENT

Despite the strong competition and the tightening profitability margins, Corporate Banking Division has managed to maintain its upward momentum, expanding the base of Medium and Large Corporate borrowing relationships.

In 2004 Large Corporate Lending portfolio increased by 7.8% compared to 2003, while Medium Corporate Lending portfolio outpaced this trend with 62.3%. The quality of lending was maintained at healthy levels with delinquency rate below 0.5%.

This trend was backed also by an expansion in the corporate deposit base with 53.7% increase. Also, on top of the realized lending volume, additional funds were generated through investment banking (M-Tel, BTC, Sofia Med and Sheraton) and which are booked offshore.

With the recently established Leasing Company and in cooperation with EFG Factors, substantial potential for synergies in corporate relationships development is expected. Together with project finance provided through international credit lines and agreements with EBRD, USAID and SAPARD Agency and the initiated private and investment banking opportunities, the first major step towards providing a one-stop solution for corporate clients has been achieved.

The Large and Medium Corporate Departments were substantially developed and intensive training to the staff was performed. The effort was extended towards developing a regionalized marketing structure for Medium Corporate, in recognition of the potential for developing this market.

Corporate Banking Division has recognized the need to enhance profitability, while improving the diversification of the corporate portfolio by setting the Medium Corporate market as the major target in the following years, yet maintaining the quality in Large Corporate lending. To increase market penetration in these two segments, a range of new products or product features are currently being implemented.

### TREASURY AND BROKERAGE

#### Treasury

The new organizational structure of the Treasury Division, implemented in late 2004, aimed at improving customer services and at more efficient management of the available funds. Two new departments were created – Treasury Sales and Analyses Departments. As a result, the efficiency of the Division was improved in terms of generating income – from interest, trading and fees, and commissions.

#### Proprietary Operations

During 2004, the Treasury activities of Postbank included foreign exchange, interest rate and bonds, as well as liquidity management and treasury sales.

Postbank maintained its leading position in the primary and secondary Government securities market, but also continued its active policy on the Non-sovereign bonds market.

The Bank's role as a Manager and Underwriter became one of the priorities of the Treasury Division. During the year the Bank successfully managed about four mortgage and corporate issues. The active management of the maintained portfolio of fixed-income securities contributed significantly to the sound net results of the Division.

Treasury successfully raised liquid funds from international institutional investors through syndicated loan facility, arranged by EFG Telesis. Apart from this, the Division successfully utilized funds from EFG Luxembourg and EBRD.

### Treasury Sales

Further development of sales was a principal priority of Treasury. It is covering a wide range of customers and products. More specifically, the Treasury Sales services institutional customers, as well as individual clients of the Bank. The rising importance of the Non-sovereign bonds market in Bulgaria provided a wide field for developing Treasury Sales activities.

Structured deposits, foreign exchange swaps and forwards are among the products that Treasury offered to its customers in the past year. In order to further facilitate clients in their decisions, Treasury Sales provides them with a daily briefing and prices of the offered by the Bank bond issues.

### Equity Brokerage

The year 2004 saw a strong market trend upwards, which has all the potential to continue during 2005. The Index of the Bulgarian Stock Exchange (BSE), SOFIX, rose by more than 30% and reached 658 points a little before the end of the year. The average daily market turnover during the same period exceeded EUR 500 000.

In this environment, Postbank positioned itself very well for future expansion on this market. It managed to maintain its leading position on the Bulgarian market with a market share of 14%. The active year marked significant development in capital markets profits, supported by the improved business climate of the country.

For 2005 the Bank aims to start proprietary trading, gaining from the great growth potential of the local market. An additional support for the stock-brokerage desk would come from alternative channels for clients' servicing, such as Internet Banking and trading - an important execution tool for clients, wishing to conduct market transactions exclusively over the Internet.

# B

# TECHNOLOGIES & SERVICES

## TECHNOLOGIES AND SERVICES

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 in relation to the main organizational developments in the network and the Head Office. Among the major projects that contributed to the development of the Bank were:

**FlexCube Treasury Backoffice system** - launched successfully in December, covering Money Market, Foreign Exchange, Securities, Nostro and Loro accounts maintenance. The Product Walk Through for the FlexCube Core System, Interfaces and Internet Banking system were successfully completed.

**The Epicor ERP system** became operational in January, containing General Ledger and Fixed Assets Modules. In November the new Accounts Payable Module for automation of the payment process to suppliers was implemented. The new Active Planner Module for automation of the budgeting process in the Bank as a part of the Epicor ERP system is scheduled for 2005.

**The I-Apply Loan Workflow system** was implemented in January, the first stage covering the Consumer Lending workflow, and the second one - Mortgage Lending process. The workflow for the Small Business Banking loans and the Credit Cards is planned to be covered by I-Apply in 2005.

**The Internet Banking system** was launched in January with individuals and corporate clients services. New services were implemented throughout the year, such as: public utilities payments, domestic debit cards, securities trading etc. At the end of 2004, registered customers amounted to 2 294 - financial institutions, commercial banks, corporate clients and individuals. E-postbank was awarded 1st prize at the International Web Festival in Albena in June 2004.

New features were developed for the **VCSoftBank++ core banking system** as well. New clients' statements were produced to comply with the corporate image of Postbank. The signature verification module, the Central Bank requirements for the new Central Credit Register, the new Balloon Loan product, the Know-Your-Customer and Anti-Money Laundering rules, the Fund Transfer module, as well as the Safety Boxes module were put in operation.

**New VISA debit cards** were also implemented. A new, contemporary **Integrated Voice & Data network** was developed, providing the Bank with central telephony service management and control and many new telephony features, decreasing the Bank's operating expenses.

# RISK MANAGEMENT

## RISK SECTOR

### Structure

Risk Sector was established in the beginning of 2004 as a successor of the previously existing Credit Division. With its establishment, Risk Sector included the following departments:

### Credit Risk Department

Credit Risk Department is responsible for submitting credit risk opinions on all corporate and small business loan proposals, as well as technical opinions on the price of all assets, proposed as collateral on different types of loans.

More than 760 corporate and small business credit proposals were considered in 2004 (incl. new loans, renewals and amendment of terms). For the same period, based on the centralized in the beginning of 2004 valuation process, 1 695 opinions on the price of assets, proposed as security on loans, were given by the technical experts in the Department.

### Credit Administration Department

Credit Administration Department coordinates and supervises the activity of credit administrators at branch level with regard to the administration of the Corporate and SBB loan portfolio of the Bank.

The Department is also responsible for reporting on loan portfolio part of the Bank's activity (reports to the Central Bank, to internal and external auditors, etc.). In 2004, the Department managed to maximize the reliability of the information in the prepared reports, as well as to improve its monitoring function over the branches loan administration.

### Credit Control Department

Credit Control Department is responsible for control and analysis of the Bank's credit portfolio; for updating the credit rules and procedures in compliance with the Group's requirements, and for the supervision of their proper implementation.

In 2004, in coordination with EFG Eurobank Credit Control Division, Credit Control Department developed and implemented the second, internal system for credit rating and provisioning of the Bank's credit exposures, in compliance with the EFG Eurobank wholesale and retail credit rating systems. The Department also started the implementation of field reviews and on-site check-ups at branch level.

### Recoveries

The activity on the non-performing loans (with delays above 90 days) is covered by two departments: Recoveries – Companies and Recoveries – Individuals. They are responsible for the management of recovery actions on all non-performing loans. The decision making process on the recovery actions is fully centralized. The implementation of the decisions can be partially realized through the branches under Risk Recovery Departments supervision.

In 2004 both Recovery Departments collected an amount of over BGN 7 200 000 on non-performing loans, both to companies and individuals.

### Market Risk Department

Market Risk Department is responsible for the Bank's reporting with regard to market risk in compliance with the Group's guidelines, as well as for monitoring the observance of the approved limits by Treasury and of the overall market risk limits.

## COMPLIANCE

Compliance Division ensures that the Bank meets the legal and regulatory requirements and upholds its internal regulations. It assists and supports the Bank's management in the process of corporate governance. The Division develops a culture of compliance within the Bank through regular communication actions, aimed at making the staff aware of the obligations to observe the specific legal regulations and the professional ethics standards.

Compliance Division is responsible for the prevention and control of money laundering. It has developed procedures for implementation of anti - money laundering, know-your-customer rules and ensures personnel training on them. The Division supervises the implementation of the relevant legislation, regulations and deontological values, and communicates with the authorities involved.

## INTERNAL CONTROLS AND AUDIT

Postbank operates a robust system of internal controls, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Achievement of strategic goals through effective and efficient operations;
- Safeguarding of the Bank's assets;
- Reliability of financial reporting;
- Compliance with applicable laws and regulations.

The key principles underlying the Bank's system of internal controls are:

### Control environment

This is the foundation for all other components of internal control, providing discipline and structure, and influencing the control awareness of employees. Integrity and high ethical values stem from management's philosophy and operating style, and appropriate recruitment and training policies ensure the competence of the Bank's employees.

### Risk Assessment

Postbank acknowledges that taking risks is an integral part of its business and has set mechanisms to identify those risks and to assess their potential impact on the achievement of the Bank's objectives, as well as to manage them effectively.

### Control Activities

Control activities are the policies and procedures, helping to ensure that management directives are carried out. They occur throughout the organization, at all levels and in all functions. One of the prime control means of Postbank is the segregation of duties.

### Information and communication

The Bank has set effective channels to ensure that information is communicated down, across and up within the organization. Mechanisms are also in place to communicate effectively with outside parties including regulators, shareholders and customers.

### Monitoring

Postbank has established a mechanism for the ongoing monitoring of activities as part of the normal course of operations, as well as for setting up separate control functions which role is to carry out independent evaluations.

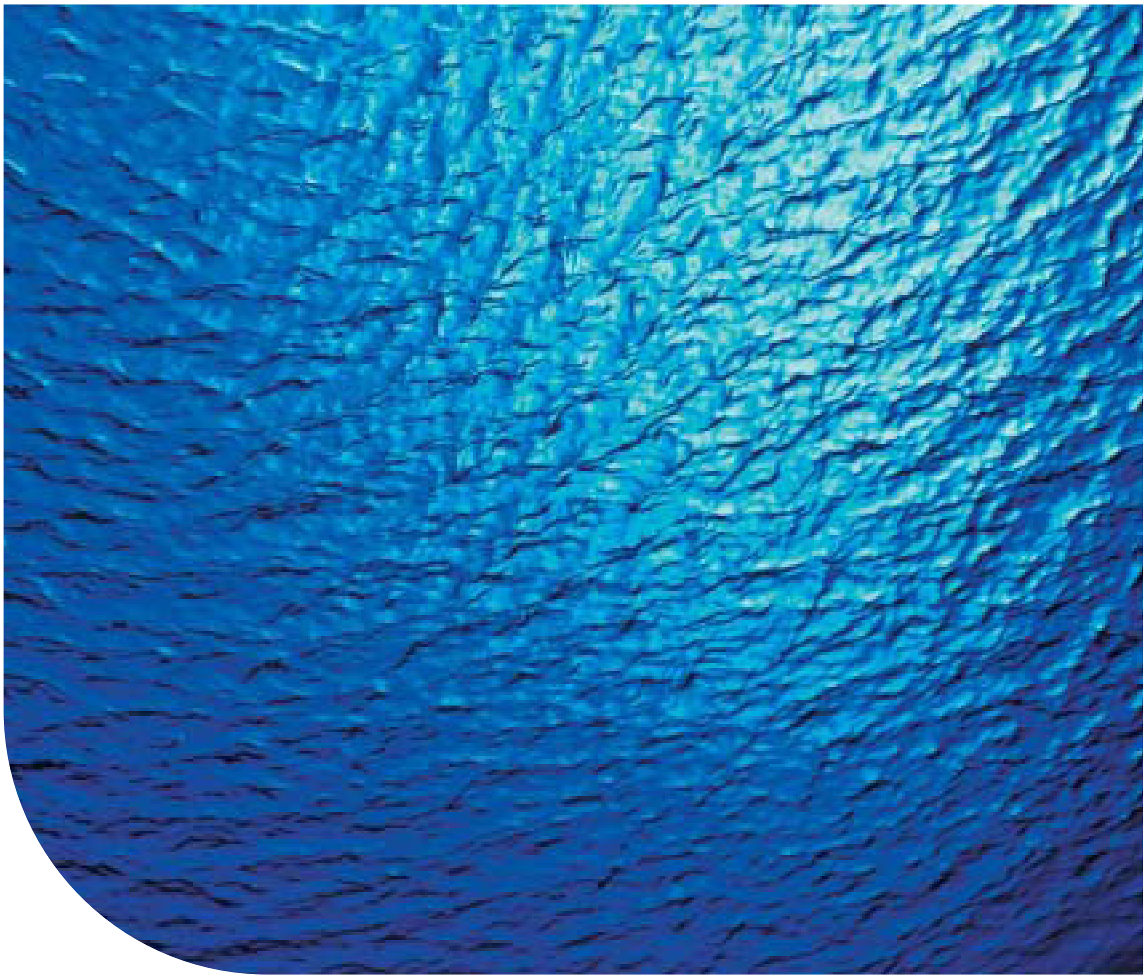
The Bank's Management is responsible for establishing and maintaining an appropriate system of internal controls. The Management Board has overall responsibility for ensuring that the internal controls system is effective and adequate for the size and complexity of the Bank's operations. The Management and the Board are assisted in carrying out their responsibilities by the Audit Committee and the Internal Audit function.

The primary objective of the Audit Committee is to assist the Management Board in fulfilling its oversight responsibilities by:

- Reviewing the financial information, which will be provided to the shareholders;
- Assuring the efficiency and effectiveness of the Internal Control Framework, established by the Management and the Board of Directors;
- Monitoring the audit process.

The primary role of the Internal Audit function is to assist the Management Board and the Audit Committee by providing independent and systematic appraisals of the adequacy, efficiency and effectiveness of the internal control systems in the Bank. The Division makes recommendations to contribute to the establishment of a system of sound internal controls, which can ensure that the goals and objectives of the Bank will be met. A direct reporting line to the Audit Committee empowers the function and safeguards its independence. In 2004 the Bank has further developed its internal audit function that now follows the best professional practices.

# CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABILITY



# Our vision and values

Being a well established, dynamically growing, customer driven universal bank, which belongs to a strong International Financial Group, Postbank aims to achieve a leading position within the Bulgarian market.

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 the development of our personnel is systematically encouraged. Through this effort we strive to be the frontrunners, in providing the most innovative and best quality products and services.

## TRUST

We believe in the mutual confidence among our shareholders, employees and customers.

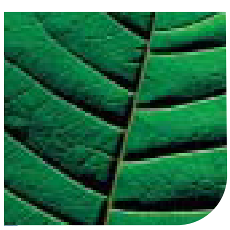
## People-centrism

Human being 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 the human resources as the most important asset and invest in our personnel, offering the necessary motivation and adding value to our servicing.

## Flexibility

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

## HUMAN RESOURCES

Postbank constantly aspires to create an employment environment, fostering the 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.

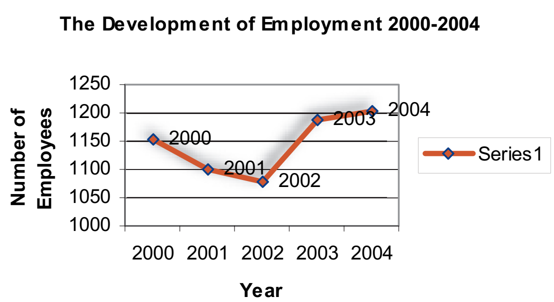
Postbank is committed to the staff's professional development and promotes an internal organizational climate where individual skills are stimulated and knowledge is efficiently applied.

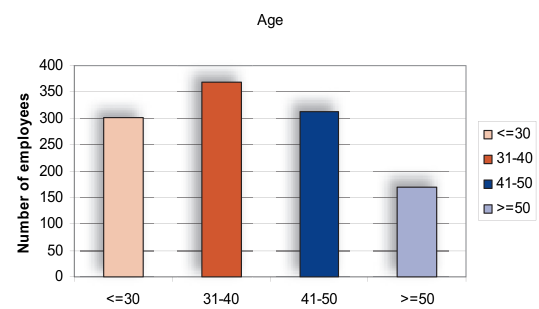
### New Hires

At the end of 2004 the total number of Bank employees amounted to 1152 people, at an average age of 38 years. The recruitment process is based on the principle of impartial and objective selection. During the last year 217 new employees became part of Postbank's team. The Human Resource Division also supports the ongoing process of Branch Network and Head Office restructuring.

**Total number of recruited employees in 2004:**

- Head Office: 111
- Branch Network: 106




The Bank invests in recruiting young people, offering prospects for career development. In addition, Postbank continues the successful tradition in organizing internship programs. In 2004, five internship programs were carried out, with 80 participating students (Head Office and Branch Network). 37% of them have been recruited as Postbank's employees. The last internship program, organized in November 2004 for the new branches of the Bank in Sofia were extremely successful - 80% of the internees were hired at Postbank.

### Training

In 2004, the Bank conducted 146 training programs, with a total of 66 922 training hours, covering 3090 people. The priority was the customer service training. An induction training for the new employees was implemented for the first time, aimed at enhancing employee's adaptation, work effectiveness, quality customer service and teamwork.

| | Participants | Employees | Total Training Hours | Total Training Hours per employee |
|---|---|---|---|---|
| **2004** | 3184 | 1152 | 67107 | 58,25 |
| **2003** | 1653 | 1064 | 50141 | 47,13 |
| **2002** | 1433 | 1124 | 46486 | 41,35 |
| **2001** | 819 | 1160 | 15860 | 13,67 |

For a third year Postbank Human Resources Division gives a special priority to staff performance evaluation and has been working on implementing an objective, production-based assessment system. The main goal is to achieve impartiality and transparency of the appraisal process.

## Policy of Allowances and Incentives

In 2004 Postbank continiued its policy for additional allowances, additional voluntary life insurance scheme, voluntary Medical Services Plan and voluntary pension insurance. All Postbank team members benefit from the possibility to use the Bank's products at preferential interest rates.

# OUR CONTRIBUTION TO SOCIETY

## ARTCONTACT

In 2004 Postbank launched its own, unique for Bulgaria, cultural program ARTCONTACT. The aim of this innovative initiative was to promote contemporary Bulgarian culture and to give people the opportunity to come across a number of different valuable experiences.

The idea to "break" the classical way of making sponsorships was not only to make a single financial gesture to an artist or an institution, but to create an integral project that unifies the masterpieces of the contemporary Bulgarian arts. ARTCONTACT was a challenge both for Postbank to get a pro-active position and for our clients, partners and friends to encounter the unique creative power of some of the most prominent Bulgarian artists.

In Postbank we believe that the field of culture is an important herald of common values, an investment in our future, a challenge that concerns us all. With ARTCONTACT we are looking for a response to this challenge.

In its first year, ARTCONTACT was presented as a combination of more than 14 different events with a national coverage. The Program reached wide audiences, from clients and business partners, through media to the general public. More than 48 000 people have attended the Program's cultural events and shared their emotions provoked by art.

## CULTURE

### Bulgarian Artists Union Annual Award IKAR, Ivan Vazov National Theatre

Sponsorship of the Award Ceremony of the Bulgarian Artists Union was the first event of ARTCONTACT. The World Day of the Theatre gathered the Elite of Bulgarian Culture and was attended by more than 1000 people. The award for dramaturgy was bestowed on behalf of Postbank to the famous Bulgarian writer Georgi Gospodinov.

### Teodosii Spassov and Friends Concerts

Postbank is proud to sponsor a number of significant events, as well as to be pro-active and organise a significant part of them. This serious step would not have been accomplished without the help of the prominent musician Teodosii Spassov and his friends – talented musicians. They gathered for a series of four concerts, which took place in four major Bulgarian cities. A total of more than 2500 people attended those unique events.

### Tribute to Nikolay Binev

Postbank supported the production and promotion of a CD with songs of the famous Bulgarian actor Nikolay Binev. The CD, produced 10 months after the actor's decease, was promoted at the Theatre of Youth among many colleagues, friends and fans.

### Comedy Theatre Aleko Konstantinov

The sponsorship of the Comedy Theatre is an example of the long-term cooperation with important cultural institutions. The Comedy Theatre, named after the great Bulgarian writer Aleko Konstantinov, is the only theatre in Bulgaria specialized in the promotion of comedy plays. More than 40 000 people attended the performances of the theatre in 2004.

### SFUMATO Theatre Laboratory

In May 2004, Postbank supported the long-expected opening of SFUMATO Theatre Laboratory's new building. The Bank helped the connoisseurs to gather at a centre where all kinds of art were promoted and presented. The new season of SFUMATO started with a Dostoevski program that was attended by more than 1200 people.

### National Art Contest

Postbank traditionally supports art and young people. In 2004 the Bank organized a National Art Contest in cooperation with Interspace Media Art Centre. The idea of the initiative was to support the realization of Bulgarian artists' projects. The best 10 works, selected by a jury of prominent art critiques and curators, were arranged in an exhibition, called "The Man and the Global". The visitors had the opportunity to see art installations, video art, net art, prints as well as traditional oil painting.

## SPORTS

### Ivet Lalova

It is the careful set of goals and pursuit of their achievement that is among the key characteristics of Postbank. This naturally led us to the decision to support the young athlete Ivet Lalova. At the time when the Bank gave a hand to the young sprinter, Ivet already was a double Youth European Champion. The year 2004 was one of the most important moments of her career. Not only she entered the professional women sport, but she also set herself a very high goal – to participate in the Olympic Games in Athens. She showed us and the whole world that it is possible to exceed your personal limits in order to continue developing and proving yourself, finally reaching excellence.

### The Balkans Invite for Peace Festival

In May 2004 we supported the third Open Balkan Labor Sport Festival "Balkans Invite for Peace" under the patronage of the Minister of Sports and Youth and the Chairman of Bulgarian Olympic Committee. Preceding the Olympic Games in Athens, this event hosted more than 25 countries from different continents and gathered more than 1500 participants.

### Latin American and Standard Dances

This attractive sport is gaining more and more popularity all over Bulgaria. Postbank has been supporting different activities in this field for more than three years. In 2004 the Bank was the main sponsor of the International Competition for Latin and Standard Dances in Albena, the National Competition "The Cup of Sofia" under the patronage of the Sofia's Mayor, as well as the already traditional tournament "For the Cup of Postbank", one of the most popular competitions in October giving a start to the active season.

## DONATIONS AND PARTNERSHIPS

Postbank has proved its socially active image by supporting a number of significant initiatives in different areas.
The cooperation of the Bank with public welfare institutions, such as the Generous Heart Foundation is an example of a long-term commitment. In 2004, Postbank has completed its third year of partnership with the organization. The Bank was one of the main partners of the nationally important initiative called "Let's Raise the Flag in School".
Among the other projects and activities, supported by the Bank in 2004 were: Interior of the Year Competition, the 5th International Piano Competition "Albert Roussel", and The First Bulgarian – Greek Business Forum under the auspices of the Bulgarian and Greek Chambers of Commerce, Donation to the Pirogov National Hospital for reconstruction of the First Surgical Clinic.

We believe it is of great importance for every company to care for the welfare of the society it belongs to. Over the years, Postbank has set a number of guiding principles that govern its social activities. As a financial institution dedicated to community, Postbank is going to follow its consistent policy of contribution to the society in various areas in the following years.

# FINANCIAL STATEMENTS 2004

## 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 31 December 2004 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 33 to 66 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 31 December 2004 and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Stefan Nenov

Jean-Pierre Vigroux

PricewaterhouseCoopers Audit OOD

1 March 2005
Sofia, Bulgaria

## Income statement

| | Notes | Year ended 31 December 2004 | 2003 |
|---|---|---|---|
| | | *in BGN 000* | |
| Interest income | 1 | 70,180 | 56,061 |
| Interest expense | 1 | (18,459) | (12,551) |
| **Net interest income** | | **51,721** | **43,510** |
| Fee and commission income | 2 | 13,692 | 12,016 |
| Fee and commission expense | 2 | (941) | (811) |
| **Net fee and commission income** | | **12,751** | **11,205** |
| Net foreign exchange gains less losses | 3 | 2,249 | 2,114 |
| Net gains less losses from trading securities | | 2,561 | 3,530 |
| Net gains/(loss) from investment securities | | 867 | (351) |
| Other operating income | | 1,107 | 1,610 |
| **Operating income** | | **71,256** | **61,618** |
| Other operating expenses | 4 | (50,451) | (42,740) |
| Provision for impairment | 6 | 458 | (3,463) |
| **Profit before tax** | | **21,263** | **15,415** |
| Income tax | 7 | (4,197) | (3,827) |
| **Profit after tax** | | **17,066** | **11,588** |

Anthony C. Hassiotis
Chief Executive Officer and
Chairman of the Management Board

Petia Dimitrova
Chief Financial Officer

28 February 2005

Stefan Nenov
Certified Accountant
28 February 2005

The following notes set out on pages 39 to 66 form an integral part of these financial statements.

## Balance sheet

| | Notes | 2004 | 2003 |
|---|---|---|---|
| | | in BGN 000 | |
| | | As at 31 December | |
| **Assets** | | | |
| Cash and balances with the Central Bank | 8 | 117,696 | 68,831 |
| Due from other banks | 9 | 113,487 | 126,164 |
| Trading securities | 10 | 73,552 | 82,261 |
| Loans and advances to customers | 11 | 735,513 | 529,470 |
| Investment securities, available-for-sale | 12 | 81,122 | 65,540 |
| Investment securities, held-to-maturity | 12 | 1,986 | 7,715 |
| Derivative financial instruments | 16 | 7,257 | 666 |
| Other assets | 13 | 8,339 | 4,149 |
| Property and equipment | 14 | 28,688 | 20,168 |
| **Total assets** | | **1,167,640** | **904,964** |
| **Liabilities** | | | |
| Due to other banks | 15 | 147,532 | 79,161 |
| Derivative financial instruments | 16 | 8,804 | 4,086 |
| Due to customers | 17 | 716,498 | 657,075 |
| Debt securities in issue | 18 | 31,603 | 31,560 |
| Other borrowed funds | 19 | 149,239 | 23,282 |
| Current taxes | | 1,133 | 963 |
| Deferred income tax liabilities | 21 | 1,453 | 1,139 |
| Other liabilities | 20 | 11,036 | 21,663 |
| **Total liabilities** | | **1,067,298** | **818,929** |
| **Shareholders' equity** | | | |
| Share capital | 23 | 51,250 | 51,250 |
| Reserves | | 49,092 | 34,785 |
| **Total shareholders' equity** | | **100,342** | **86,035** |
| **Total shareholders' equity and liabilities** | | **1,167,640** | **904,964** |

Anthony C. Hassiotis
Chief Executive Officer and
Chairman of the Management Board

Petia Dimitrova
Chief Financial Officer

28 February 2005

Stefan Nenov
Certified Accountant
28 February 2005.

The following notes set out on pages 39 to 66 form an integral part of these financial statements.

## Statement of changes in shareholders' equity

in BGN 000

| | Share capital | Property and equipment revaluation reserve | Available-for-sale investments revaluation reserve | Retained earnings and other reserves | Total |
|---|---|---|---|---|---|
| **Balance at 1 January 2003** | **51,250** | **5,253** | **618** | **18,507** | **75,628** |
| Dividend paid | - | - | - | (3,808) | (3,808) |
| Net profit | - | - | - | 11,588 | 11,588 |
| Revaluation of property, net of tax | - | 1,375 | - | - | 1,375 |
| Impairment of previously revalued fixed assets | - | (229) | - | - | (229) |
| Available-for-sale investments - net fair value gains, net of tax | - | - | 1,282 | - | 1,282 |
| Transfer to net profit of loss arising on investment securities available for sale, net of tax | - | - | 269 | - | 269 |
| Transfer of depreciation on revalued property | - | (322) | - | 322 | - |
| Other movement | - | - | - | (70) | (70) |
| **Balance at 31 December 2003/ 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 of loss arising on investment securities available for sale, net of tax | - | - | (461) | - | (461) |
| Transfer of depreciation on revalued property | - | (4) | - | 4 | - |
| Other movement | - | 91 | - | - | 91 |
| **Balance at 31 December 2004** | **51,250** | **6,164** | **3,956** | **38,972** | **100,342** |

Anthony C. Hassiotis
Chief Executive Officer and
Chairman of the Management Board

Petia Dimitrova
Chief Financial Officer

28 February 2005

Stefan Nenov
Certified Accountant
28 February 2005

The following notes set out on pages 39 to 66 form an integral part of these financial statements.

| Cash flow statement | in BGN 000 | |
|---|---|---|
| | Year ended 31 December | |
| | 2004 | 2003 |
| **Cash used in operating activities** | | |
| Interest received | 69,801 | 56,247 |
| Interest paid | (16,986) | (11,377) |
| Fees and commission received | 13,692 | 11,776 |
| Fees and commission paid | (944) | (811) |
| Amounts paid to and on behalf of employees | (17,744) | (16,641) |
| Other income received | 1,107 | 1,610 |
| Other expenses paid | (28,411) | (21,537) |
| Tax paid | (3,798) | (4,829) |
| **Cash from operating activities before changes in operating assets and liabilities** | **16,717** | **14,438** |
| **Changes in operating assets and liabilities** | | |
| Net (increase) in reserve with the Central Bank | (36,780) | (5,292) |
| Net decrease/(increase) in trading securities | 2,375 | (387) |
| Net decrease/(increase) in due from other banks | 12,602 | (5,559) |
| Net (increase) in loans and advances to customers | (203,541) | (130,320) |
| Net (increase) in other assets | (4,190) | (920) |
| Net (decrease)/increase in derivatives | (1,871) | 2,000 |
| Net increase in due to other banks | 69,288 | 30,106 |
| Net increase in amounts due to customers | 53,915 | 55,914 |
| Net (decrease)/increase in other liabilities | (12,939) | 13,161 |
| **Net cash used in operating activities** | **(104,424)** | **(26,859)** |
| **Cash used in investing activities** | | |
| Purchase of property and equipment (Note 14) | (14,432) | (10,893) |
| Purchase of investment securities | (25,471) | (24,382) |
| Proceeds on disposal of property and equipment | 881 | 563 |
| Proceeds on disposal of investment securities | 17,842 | 2,650 |
| **Net cash used in investing activities** | **(21,180)** | **(32,062)** |

The following notes set out on pages 39 to 66 form an integral part of these financial statements.

**Cash flow statement (continued)**

in BGN 000

| | Year ended 31 December | |
| --- | --- | --- |
| | **2004** | **2003** |
| **Cash flows (used in) from financing activities** | | |
| Issue of debt securities (Note 18) | - | 19,484 |
| Long-term financing received (Note 19) | 124,914 | 23,216 |
| Dividends paid | (4,637) | (3,808) |
| **Net cash from financing activities** | **120,277** | **38,892** |
| Effect of exchange rate changes on cash and cash equivalent | 2,237 | 12,492 |
| **Net change in cash and cash equivalents** | (3,090) | (7,537) |
| Cash and cash equivalents at beginning of year | 148,464 | 156,001 |
| **Cash and cash equivalents at end of year** (Note 24) | **145,374** | **148,464** |

Anthony C. Hassiotis
Chief Executive Officer and
Chairman of the Management Board

Petia Dimitrova
Chief Financial Officer

28 February 2005

Stefan Nenov
Certified Accountant
28 February 2005

The following notes set out on pages 39 to 66 form an integral part of these financial statements.

(in all notes all amounts are shown in BGN thousands unless otherwise stated)

## 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 30 branches, 93 representative offices and 2,760 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 are prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements are presented in the national currency of Bulgaria, the Leva (BGN). The financial statements are 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 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.

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

#### B. 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 31 December 2004, monetary assets and liabilities are translated at the reference Central Bank exchange rate – BGN 1 for EUR 0.5113 (2003: BGN 1 for EUR 0.5113) and BGN 1 for USD 0.69643 (2003: BGN 1 for USD 0.64576).

#### C. 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.

#### 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 recognised on an accrual basis when the service has been provided.

**Notes to the financial statements (continued)**

Fees and commission expense relates to fees incurred by the Bank, except for those, which form part of the effective interest rate of the instrument, are recognized at the date of the transaction.

### E. 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.

All purchases and sales of trading securities that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recognized at settlement date.

### F. Sale and repurchase agreements

Securities sold subject to a linked repurchase agreement ('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.

### G. Derivative financial instruments

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

### H. 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). Available-for-sale securities 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 shareholders' equity. 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.
All regular way purchases and sales of investment securities are recognized at settlement date, which is the date the Bank actually trades the relevant assets.

**Notes to the financial statements (continued)**

### I. Loans and 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 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 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.

### J. Property and equipment

All property and equipment is stated at historical cost less depreciation except land and buildings which are carried at fair value. The last revaluation of land and buildings has been made at the end of 2003 and the appraisal has been performed by a qualified independent valuer. In accordance with IAS 16 “Property, plant and equipment” 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.
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 30% per annum on computer equipment and fixtures and fittings.
Property and equipment is 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.

### K. Borrowings, including debt securities in issue

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.

**Notes to the financial statements (continued)**

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

### M. Operating leases

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

### N. 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.

### O. 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.

### P. Dividends

Current year dividends are distributed based on a decision of the Annual General Meeting of Shareholders. On June 22, 2004 the Regular Annual General Meeting of shareholders of Bulgarian Post Bank AD, adopted a provisional decision not to distribute any dividends for the financial year 2004 neither from the net profit of the Bank for 2004, nor from the profit retained from the previous years.

### Q. 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.

### R. Computer software development costs

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Bank and will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

**Notes to the financial statements (continued)**

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recognised as a capital improvement and added to the original costs of the software. Computer software development costs recognised as assets are amortised using the straight-line method over useful life, not exceeding 4 years.

### S. 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 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.

### 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 collateralised.

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.

(in all notes all amounts are shown in BGN thousands unless otherwise stated)

**Notes to the financial statements (continued)**

## Geographical concentration of assets, liabilities and off balance sheet items

| | Total assets | Total liabilities | Credit commitments |
|---|---|---|---|
| **At 31 December 2004** | | | |
| Bulgaria | 1,117,562 | 932,899 | 107,198 |
| Other European countries | 36,418 | 234,705 | - |
| Canada and US | 13,660 | 36 | - |
| **Total** | 1,167,640 | 1,167,640 | 107,198 |
| | | | |
| **As at 31 December 2003** | | | |
| Bulgaria | 866,757 | 836,362 | 67,448 |
| Other European countries | 37,551 | 67,759 | - |
| Canada and US | 656 | 843 | - |
| | 904,964 | 904,964 | 67,448 |

The Bank's operations are concentrated primarily in Bulgaria. There are no exposures to other countries, which in total exceed 10% of the Bank's total assets, liabilities or off-balance sheet commitments as of 31 December 2004 and 31 December 2003.

The loan customers of the Bank are only in 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 2004 and 31 December 2003, 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.

(in all notes all amounts are shown in BGN thousands unless otherwise stated)

**Notes to the financial statements (continued)**

| 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 |
| Derivative financial instruments | - | | 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 |
| Derivative financial instruments | - | 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 |

(in all notes all amounts are shown in BGN thousands unless otherwise stated)

**Notes to the financial statements (continued)**

| At 31 December 2003 | BGN | USD | EUR | Other | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and balances with BNB | 34,394 | 8,256 | 7,719 | 18,462 | 68,831 |
| Due from other banks | 55,397 | 42,079 | 23,137 | 5,551 | 126,164 |
| Trading securities | 41,704 | 15,242 | 25,315 | - | 82,261 |
| Derivatives | 11 | 655 | - | - | 666 |
| Loans to customers | 280,436 | 39,971 | 209,063 | - | 529,470 |
| Investment securities | | | | | |
| - available-for-sale | 7,411 | 9,004 | 49,125 | - | 65,540 |
| - held-to-maturity | - | 4,716 | 2,999 | - | 7,715 |
| Other assets | 2,193 | 1,242 | 714 | - | 4,149 |
| Property and equipment | 20,168 | - | - | - | 20,168 |
| **Total assets** | 441,714 | 121,165 | 318,072 | 24,013 | 904,964 |
| **Liabilities** | | | | | |
| Due to other banks | 33,066 | 15,426 | 30,669 | - | 79,161 |
| Derivatives | 8 | 3,388 | - | 690 | 4,086 |
| Due to customers | 344,138 | 164,235 | 141,132 | 7,570 | 657,075 |
| Other borrowed funds | - | - | 23,282 | - | 23,282 |
| Debt securities in issue | 12,077 | - | 19,483 | - | 31,560 |
| Current taxes | 963 | - | - | - | 963 |
| Deferred tax liability | 1,139 | - | - | - | 1,139 |
| Other liabilities | 3,255 | 12,871 | 5,537 | - | 21,663 |
| **Total liabilities** | 394,646 | 195,920 | 220,103 | 8,260 | 818,929 |
| **Net on-balance sheet position** | **47,068** | **(74,755)** | **97,969** | **15,753** | **86,035** |
| Off-balance sheet net notional position | 3 | 105,917 | (109,340) | - | (3,420) |
| Credit commitments | 34,810 | 6,635 | 25,646 | 357 | 67,448 |

(in all notes all amounts are shown in BGN thousands unless otherwise stated)

**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 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** |

(in all notes all amounts are shown in BGN thousands unless otherwise stated)

**Notes to the financial statements (continued)**

| As at 31December 2003 | Up to 1 month | 1-3 months | 3-12 months | 1–5 years | Over5 years | Non-interest bearing | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and BNB | - | - | - | - | - | 68,831 | 68,831 |
| Due from banks | 107,966 | 8,218 | 9,675 | 295 | - | 10 | 126,164 |
| Trading securities | 15,691 | - | - | 23,390 | 43,180 | - | 82,261 |
| Derivatives | - | - | - | - | - | 666 | 666 |
| Loans to customers | 507,648 | - | - | 21,822 | - | - | 529,470 |
| Investment securities | | | | | | | |
| - available-for-sale | 10,661 | - | 547 | 30,269 | 23,550 | 513 | 65,540 |
| - held-to-maturity | - | - | 5,730 | 1,985 | - | - | 7,715 |
| Other assets | - | - | - | - | - | 24,317 | 24,317 |
| **Total assets** | **641,966** | **8,218** | **15,952** | **77,761** | **66,730** | **94,337** | **904,964** |
| **Liabilities** | | | | | | | |
| Due to other banks | 67,925 | 3,877 | - | 7,104 | - | 255 | 79,161 |
| Derivatives | - | - | - | - | - | 4,086 | 4,086 |
| Due to customers | 523,391 | 42,942 | 73,049 | 4,396 | - | 13,297 | 657,075 |
| Issued debt securities | - | - | - | 31,458 | - | 102 | 31,560 |
| Other borrowed funds | 19,304 | - | - | - | 3,912 | 66 | 23,282 |
| Other liabilities | - | - | 11,494 | - | - | 12,271 | 23,765 |
| **Total liabilities** | **610,620** | **46,819** | **84,543** | **42,958** | **3,912** | **30,077** | **818,929** |
| **Interest sensitivity gap** | **31,346** | **(38,601)** | **(68,591)** | **34,803** | **62,818** | **64,260** | **86,035** |

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 monetary financial instruments.

(in all notes all amounts are shown in BGN thousands unless otherwise stated)

**Notes to the financial statements (continued)**

| As at 31 December 2004 | % | BGN | USD | EUR |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and balances with Central Bank | | 0.00 | 0.00 | 0.00 |
| Due from other banks | | 2.86 | 3.44 | 3.10 |
| Trading securities | | 5.55 | 2.79 | 5.58 |
| Loans and advances to customers | | 7.87 | 5.93 | 6.59 |
| Investment securities | | 7.78 | 3.28 | 6.55 |
| **Liabilities** | | | | |
| Debt securities in issue | | 7.63 | 0.00 | 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 |

| As at 31 December 2003 | % | BGN | USD | EUR |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and balances with Central Bank | | 0.00 | 0.00 | 0.00 |
| Due from other banks | | 2.58 | 1.28 | 2.25 |
| Trading securities | | 6.50 | 1.94 | 5.13 |
| Loans and advances to customers | | 10.02 | 6.24 | 6.60 |
| Investment securities | | 8.62 | 3.80 | 9.80 |
| **Liabilities** | | | | |
| Debt securities in issue | | 7.63 | 0.00 | 5.63 |
| Due to other banks | | 1.82 | 1.01 | 3.79 |
| Due to customers | | 3.75 | 1.10 | 1.91 |
| Other borrowed funds | | - | - | 4.84 |

### 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.

(in all notes all amounts are shown in BGN thousands unless otherwise stated)

**Notes to the financial statements (continued)**

| 31 December 2004<br>Assets | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| Cash and BNB 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 |
| Derivatives | - | - | 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 |
| Derivatives | - | - | 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** | **-** |

| 31 December 2003<br>Assets | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| Cash balances | 68,831 | - | - | - | - | 68,831 |
| Due from other banks | 107,966 | 8,218 | 9,675 | 305 | - | 126,164 |
| Trading securities | 15,691 | - | - | 23,390 | 43,180 | 82,261 |
| Derivative financial instruments | - | 22 | 644 | - | - | 666 |
| Loans to customers | 62,923 | 37,501 | 207,467 | 221,579 | - | 529,470 |
| Investment securities | | | | | | |
| - available-for-sale | - | - | 547 | 64,993 | - | 65,540 |

(in all notes all amounts are shown in BGN thousands unless otherwise stated)

| | | | | | | |
|---|---|---|---|---|---|---|
| - held-to-maturity | - | - | 5,740 | 1,975 | - | 7,715 |
| Other assets | 1,887 | - | 2,256 | 14,162 | 6,012 | 24,317 |
| **Total assets** | **257,298** | **45,741** | **226,329** | **326,404** | **49,192** | **904,964** |
| **Liabilities** | | | | | | |
| Due to other banks | 68,256 | 3,793 | 7,112 | - | - | 79,161 |
| Derivative financial instruments | 2,184 | 1,262 | 640 | - | - | 4,086 |
| Due to customers | 394,373 | 57,018 | 149,433 | 56,251 | - | 657,075 |
| Other borrowed funds | - | - | - | 23,282 | - | 23,282 |
| Debt securities in issue | - | - | - | 31,560 | - | 31,560 |
| Deferred tax liability | - | - | - | 1,139 | - | 1,139 |
| Current tax | 963 | - | - | - | - | 963 |
| Other liabilities | 6,737 | 3,056 | 10,686 | 1,184 | - | 21,663 |
| **Total liabilities** | **472,513** | **65,129** | **167,871** | **113,416** | **-** | **818,929** |
| **Net liquidity gap** | **(215,215)** | **(19,388)** | **58,458** | **212,988** | **49,192** | **86,035** |
| **Cumulative maturity gap** | **(215,215)** | **(234,603)** | **(176,145)** | **36,843** | **86,035** | **-** |

### T. 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 summarises 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.

(in all notes all amounts are shown in BGN thousands unless otherwise stated)

**Notes to the financial statements (continued)**

| | Carrying value | | Fair value | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| **Financial assets** | | | | |
| Due from other banks | 113,487 | 126,164 | 113,487 | 126,164 |
| Loans to customers | 735,513 | 529,470 | 735,513 | 529,470 |
| Investment securities (held-to-maturity) | 1,986 | 7,715 | 2,007 | 7,895 |
| **Financial liabilities** | | | | |
| Due to other banks | 147,532 | 79,161 | 147,532 | 79,161 |
| Due to customers | 716,498 | 657,075 | 716,498 | 657,075 |
| Debt securities in issue | 31,603 | 31,560 | 32,752 | 32,206 |
| Other borrowed funds | 149,239 | 23,282 | 149,239 | 23,282 |

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 amortised 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.

c) *Investment securities – held to maturity*
Fair value for held to maturity securities is based on quoted market prices.

d) *Deposits and borrowings*
The fair value of deposits and other borrowings approximates their carrying amount. Very substantial part of these funds is short term. Borrowed funds carry predominantly floating rates and due to the interest rate repricing carrying value is not materially different from their fair value.

e) *Debt securities in issue*
The fair value of mortgage bonds issued by the Bank is based on recent over the counter transactions.

(in all notes all amounts are shown in BGN thousands unless otherwise stated)

## Notes to the financial statements (continued)

| 1 | Net interest income | 2004 | 2003 |
|---|---|---|---|
| | **Interest income** | | |
| | Loans and advances to customers | 59,436 | 45,579 |
| | Due from other banks | 3,251 | 3,053 |
| | Trading securities | 2,751 | 4,116 |
| | Investment securities | 4,742 | 3,313 |
| | | **70,180** | **56,061** |
| | **Interest expense** | | |
| | Customers | 9,163 | 10,077 |
| | Banks and other financial institutions | 4,172 | 1,004 |
| | Debt securities | 2,007 | 1,470 |
| | Other borrowed funds | 3,117 | - |
| | | **18,459** | **12,551** |

| 2 | Net fee and commission income | 2004 | 2003 |
|---|---|---|---|
| | **Fees and commission income** | | |
| | Fund transfers | 4,731 | 4,027 |
| | Cash operations | 2,797 | 2,623 |
| | Money transfers | 2,389 | 2,267 |
| | Account maintenance | 1,884 | 2,059 |
| | Others | 1,670 | 800 |
| | Fee income on off-balance commitments | 221 | 240 |
| | | **13,692** | **12,016** |
| | **Fee and commission expense** | | |
| | Visa cards, cheques and other fees | 233 | 189 |
| | Cash transactions and correspondent accounts fees | 263 | 247 |
| | Commissions to insurers for services | - | 205 |
| | Others | 445 | 170 |
| | | **941** | **811** |

(in all notes all amounts are shown in BGN thousands unless otherwise stated)

**Notes to the financial statements (continued)**

| 3 | Net foreign exchange gains less losses | 2004 | 2003 |
|---|---|---|---|
| | Foreign exchange translation gains less losses | 1,302 | 1,806 |
| | Foreign exchange transaction gains less losses | 947 | 308 |
| | | **2,249** | **2,114** |

**Notes to the financial statements (continued)**

| 4 | Other operating expenses | 2004 | 2003 |
|---|---|---|---|
| | Staff costs (Note 5) | 19,382 | 16,641 |
| | External services | 4,534 | 4,227 |
| | Operating lease rentals | 4,588 | 3,522 |
| | Communication | 2,462 | 2,301 |
| | Depreciation (Note 14) | 5,857 | 4,315 |
| | Post Office commissions | 2,299 | 2,279 |
| | Security | 1,833 | 1,439 |
| | Software costs | 1,945 | 1,700 |
| | Materials and utilities | 1,244 | 1,216 |
| | Advertising and marketing | 2,793 | 1,812 |
| | Repairs and maintenance | 815 | 811 |
| | Insurance | 451 | 623 |
| | Levies and taxes | 596 | 380 |
| | Travel and accommodation | 512 | 477 |
| | Other operating costs | 1,140 | 997 |
| | | **50,451** | **42,740** |

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 | 2004 | 2003 |
|---|---|---|---|
| | Wages and salaries | 14,844 | 12,107 |
| | Social security costs | 4,100 | 4,115 |
| | Other | 438 | 419 |
| | | **19,382** | **16,641** |

The number of persons employed by the Bank as at 31 December 2004 was 1,152 (2003: 1,110).

(in all notes all amounts are shown in BGN thousands unless otherwise stated)

**Notes to the financial statements (continued)**

| 6 | Provision (expense) write back | 2004 | 2003 |
|---|---|---|---|
| | Loans and advances to customers (Note 11) | 386 | (3,578) |
| | Provisions for court litigations (Notes 20 and 22) | 69 | - |
| | Other assets (Note 13) | 3 | 115 |
| | | **458** | **(3,463)** |

| 7 | Income tax expense / (credit) | 2004 | 2003 |
|---|---|---|---|
| | Current tax | 3,968 | 3,913 |
| | Deferred tax (Note 21) | 229 | (86) |
| | | **4,197** | **3,827** |

Tax is payable at an effective rate of 19.5% (2003: 23.5%) 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:

| | 2004 | 2003 |
|---|---|---|
| **Profit before tax** | **21,263** | **15,415** |
| Tax calculated at a tax rate of 19.5% (2003: 23.5%) | 4,146 | 3,623 |
| Effect of change in tax rate | (33) | (54) |
| Tax effect of expenses not deductible for tax purposes | 84 | 258 |
| **Income tax expense** | **4,197** | **3,827** |

Further information about deferred tax is presented in Note 21.

The last full-scope tax audit of the Bank has been carried out in April 2000, covering the period of 1996 – 1999.

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 assessments and penalties. The Bank's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

(in all notes all amounts are shown in BGN thousands unless otherwise stated)

**Notes to the financial statements (continued)**

| 8 | Cash and balances with the Central Bank | 2004 | 2003 |
|---|---|---|---|
| | Cash in hand | 31,868 | 32,831 |
| | Balances with Central bank other than mandatory reserve | 13,667 | - |
| | Included in cash and cash equivalents (Note 24) | 45,535 | 32,831 |
| | Mandatory reserve with Central Bank (Note 22) | 72,161 | 36,000 |
| | | **117,696** | **68,831** |

| 9 | Due from other banks | 2004 | 2003 |
|---|---|---|---|
| | Deposits in other banks | 80,186 | 83,559 |
| | Repurchase agreements | 20,027 | 32,448 |
| | Less impairment provision | (374) | (374) |
| | Included in cash and cash equivalents (Note 24) | 99,839 | 115,633 |
| | Loans and advances to other financial institutions | 319 | 467 |
| | Deposits in other banks | 13,260 | 9,923 |
| | Interest receivable | 69 | 141 |
| | | **113,487** | **126,164** |

Deposits in other banks include BGN 561 thousand (2003: BGN 2,217 thousand) which is restricted to cover letters of credit and guarantees (Note 22).

Approximately 32% (2003: 29%) 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 | 2004 | 2003 |
|---|---|---|---|
| | Government bonds as follows: | | |
| | Bulgarian government bonds | 67,489 | 76,277 |
| | Romanian government bonds | 4,031 | 5,984 |
| | Mortgage and corporate bonds issued by banks | 2,032 | - |
| | | **73,552** | **82,261** |

Included in the amount of the bonds is accrued interest in the amount of BGN 1,446 thousand (2003: BGN 1,957 thousand). Government bonds include securities pledged for state funds deposited in the Bank (Note 22) amounting to BGN 2,000 thousand (2003: BGN 1,000 thousand pledged under repurchase agreement).

(in all notes all amounts are shown in BGN thousands unless otherwise stated)

**Notes to the financial statements (continued)**

| 11 | Loans and advances to customers | 2004 | 2003 |
|---|---|---|---|
| | Corporate loans | 586,960 | 433,178 |
| | Loans to individuals | 166,966 | 115,900 |
| | Gross loans and advances | **753,926** | **549,078** |
| | Less allowance for loan losses on loans and advances | (18,413) | (19,608) |
| | | **735,513** | **529,470** |

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

| | 2004 | 2003 |
|---|---|---|
| Balance at 1st January | 19,608 | 17,255 |
| (Decrease)/increase in provision for loan impairment (Note 6) | (386) | 3,578 |
| Bad debts written off | (809) | (1,225) |
| Balance at 31 December | **18,413** | **19,608** |

Included within loans and advances to customers is related accrued interest receivable of BGN 2,638 thousand (2003: BGN 1,507 thousand).

As at 31 December 2004 of BGN 36,638 thousand (2003: BGN 36,247 thousand) are pledged as security for the mortgage bonds issued by the Bank (Notes 22).

Industry segmentation of loan portfolio were as follows:

| | 2004 | % | 2003 | % |
|---|---|---|---|---|
| Commerce and services | 315,250 | 41.8 | 275,979 | 50.3 |
| Private individuals | 166,969 | 22.1 | 115,900 | 21.1 |
| Manufacturing | 137,999 | 18.3 | 80,887 | 14.7 |
| Vegetable oil manufacturing | 48,163 | 6.4 | 57,436 | 10.5 |
| Transportation and communication | 42,187 | 5.6 | 7,490 | 1.3 |
| Agricultural | 10,974 | 1.5 | 8,130 | 1.5 |
| Construction | 20,408 | 2.7 | 2,739 | 0.5 |
| Other | 11,976 | 1.6 | 517 | 0.1 |
| | **753,926** | | **549,078** | |

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

| | 2004 | 2003 |
|---|---|---|
| The ten largest loans and advances to customers | 187,616 | 132,327 |
| Percentage of gross loans | 25% | 24% |

(in all notes all amounts are shown in BGN thousands unless otherwise stated)

**Notes to the financial statements (continued)**

| 12 | Investment securities | 2004 | 2003 |
|---|---|---|---|
| | **Investment securities available-for-sale** | | |
| | Debt securities, including: | | |
| | Government bonds | | |
| | Bulgarian government bonds | 38,194 | 41,087 |
| | Romanian government bonds | 12,859 | 12,109 |
| | Mortgage and corporatebonds issued by banks | 28,444 | 9,107 |
| | Corporate bonds issued by companies | 1,191 | 2,725 |
| | Unlisted equity investments | 434 | 512 |
| | | **81,122** | **65,540** |

Included in the amount of the investment securities is accrued interest in the amount of BGN 2,304 thousand (2003: BGN 2,442 thousand)

**Investment securities held-to-maturity**

Securities held-to-maturity consist of mortgage bonds issued by Bulgarian-American Credit Bank of BGN 1,986 thousand (2003: BGN 3,003 thousand).

Included in the amount of the investment securities is accrued interest of BGN 36 thousand (2003: BGN 137 thousand).

| 13 | Other assets | 2004 | 2003 |
|---|---|---|---|
| | Amounts in transit | 3,563 | 491 |
| | Prepayments | 1,392 | 1,370 |
| | Deferred expenses | 713 | 1,013 |
| | Materials | 58 | 118 |
| | Assets for resale | 904 | 853 |
| | Other assets | 2,502 | 1,100 |
| | Less provision on other assets (Note 6) | (793) | (796) |
| | | **8,339** | **4,149** |

(in all notes all amounts are shown in BGN thousands unless otherwise stated)

**Notes to the financial statements (continued)**

## 14 Property and equipment

| | Property | Equipment and other fixed assets | Total |
|---|---|---|---|
| **At 31 December 2003** | | | |
| 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** |

## 15 Due to other banks

| | 2004 | 2003 |
|---|---|---|
| Current accounts | 13,213 | 3,151 |
| Deposits from other banks | 134,319 | 76,010 |
| | **147,532** | **79,161** |

Included within due to other banks is related accrued interest payable of BGN 761 thousand (2003: BGN 102 thousand).

## 16 Derivative financial instruments and trading liabilities

The Bank utilises currency swaps and currency forwards, which are negotiated between the Bank and counterparties (OTC) 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 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.

(in all notes all amounts are shown in BGN thousands unless otherwise stated)

## Notes to the financial statements (continued)

| Year ended 31 December 2004 | Contract / notional amount | Assets | Liabilities |
|---|---|---|---|
| **Derivatives held for trading (OTC)** | | | |
| **Foreign exchange derivatives** | | | |
| Currency swaps | 214,565 | 7,257 | (8,804) |
| **Total OTC derivative assets/(liabilities)** | **214,565** | **7,257** | **(8,804)** |

| Year ended 31 December 2003 | | | |
|---|---|---|---|
| **Derivatives held for trading (OTC)** | | | |
| **Foreign exchange derivatives** | | | |
| Currency swaps | 105,917 | 654 | (4,077) |
| Currency forward | 4,660 | 12 | (9) |
| **Total OTC derivative assets/(liabilities)** | **110,577** | **666** | **(4,086)** |

| 17 | Due to customers | 2004 | 2003 |
|---|---|---|---|
| | Demand deposits | 231,213 | 177,689 |
| | - individuals | 176,333 | 175,722 |
| | - corporate clients | | |
| | Term deposits | | |
| | - individuals | 281,203 | 253,966 |
| | - corporate clients | 27,749 | 49,698 |
| | | **716,498** | **657,075** |

Deposits from clients include BGN 3,022 thousand (2003: BGN 3,037 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 1,279 thousand (2003: BGN 2,120 thousand).

## 18 Debt securities in issue

In 2002 the Bank issued 3-year mortgage bonds in the nominal amount of BGN 12,000 thousand denominated in local currency. They carry fixed interest rate of 7.625 %. The accrued interest as at 31 December 2004 related to the debt securities issued in 2002 is BGN 97 (2003: BGN 103).

A second emission of mortgage bonds was issued at the end of June 2003 in the nominal amount of EUR 10 million (BGN 19,558 thousand). The proceeds, net of issue costs were BGN 19,512 thousand. The new mortgage bonds mature in three years and carry coupon rate of 5.625% paid half yearly.

(in all notes all amounts are shown in BGN thousands unless otherwise stated)

**Notes to the financial statements (continued)**

## 19 Other borrowed funds

As of 31 December 2004 other borrowed funds consisted of the following:

| | 2004 | 2003 |
|---|---|---|
| European Bank for Reconstruction and Development (EBRD) | 29,594 | 3,919 |
| European Bank for Reconstruction and Development (EBRD) | 1,747 | - |
| First International Merchant Bank, Malta (FIMB) | 19,440 | 19,363 |
| Syndicated Term Loan Facility | 59,199 | - |
| EFG PRIVATE BANK –Luxembourg S.A | 39,259 | - |
| | **149,239** | **23,282** |

Included in other borrowed funds is accrued interest of BGN 1,702 thousand. Other borrowed funds are received net of fees and commissions paid to the lender of BGN 967 thousand.

Other borrowed funds as of 31 December 2004 is repayable according to remaining maturity as follows:

| | EBRD Loan 1 | EBRD Loan 2 | FIMB | Syndicated Loan Facilities | EFG PRIVATE BANK Luxembourg S.A |
|---|---|---|---|---|---|
| 2005 | - | - | 6,480 | - | - |
| 2006 | 2,819 | 1,015 | 12,960 | - | - |
| 2007 | 2,819 | 732 | - | 59,199 | 39,259 |
| 2008 | 2,819 | - | - | - | - |
| 2009 | 2,819 | - | - | - | - |
| 2010 | 2,819 | - | - | - | - |
| 2011 | 2,819 | - | - | - | - |
| 2012 | 2,819 | - | - | - | - |
| 2013 | 2,819 | - | - | - | - |
| 2014 | 2,819 | - | - | - | - |
| 2015 | 4,223 | - | - | - | - |
| **Total** | **29,594** | **1,747** | **19,440** | **59,199** | **39,259** |

### 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 is fully utilized as at 31 December 2004.

(in all notes all amounts are shown in BGN thousands unless otherwise stated)

**Notes to the financial statements (continued)**

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

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 2004 the utilization of the loan is EUR 932 thousand (BGN 1,823 thousand).

**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-annually installments, starting 24 months after Disbursement date. The last installment is due on 10 December 2006. The loan is fully utilized as at 31 December 2004.

**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 is fully utilized as at 31 December 2004.

**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 2004.

| **20** | **Other liabilities** | **2004** | **2003** |
|---|---|---|---|
| | Due to customers | 10,011 | 11,494 |
| | Creditors | 669 | 9,750 |
| | Provision for court claims (Notes 6 and 22) | 171 | 240 |
| | Unused paid leave accrual | 185 | 179 |
| | | **11,036** | **21,663** |

The timing of the expected cash outflow of the provided for court cases could not be reliably estimated. Based on management’s estimation it is expected that in two years time the outflow may be realised.

(in all notes all amounts are shown in BGN thousands unless otherwise stated)

**Notes to the financial statements (continued)**

## 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 2005 (2003: 19.5%). The movement on the deferred income tax account is as follows:

| | 2004 | 2003 |
|---|---|---|
| Deferred tax liability at beginning of year | 1,139 | 315 |
| Income statement credit (Note 7) | 229 | (86) |
| Debit to revaluation reserves in equity | 85 | 910 |
| **Deferred tax liability at end of year** | **1,453** | **1,139** |

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

| | 2004 | 2003 |
|---|---|---|
| **Deferred income tax liabilities** | | |
| Accelerated tax depreciation | 483 | 261 |
| Property revaluation | 298 | 388 |
| Available-for-sale revaluation | 697 | 522 |
| | 1,478 | 1,171 |
| **Deferred income tax assets** | | |
| Unused holidays | 25 | 32 |
| **Net deferred tax liability** | **1,453** | **1,139** |

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

| | 2004 | 2003 |
|---|---|---|
| Provision for losses | - | 192 |
| Equity investments | - | 123 |
| Depreciation | (222) | (261) |
| Unused holidays | (7) | 32 |
| **Net deferred tax (charge)/credit** | **(229)** | **86** |

(in all notes all amounts are shown in BGN thousands unless otherwise stated)

## 22 Contingent liabilities and commitments

### Legal proceedings

There are a number of legal proceedings outstanding against the Bank at 31 December 2004. The provision for probable losses (Notes 6 and 20) booked in relation to these legal cases is of BGN 171 thousand (2003: BGN 240 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.

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 smaller than on balance sheet credit exposures.

| | 2004 | 2003 |
|---|---|---|
| Guarantees | 11,389 | 18,871 |
| Letters of credit | 1,854 | 2,056 |
| Undrawn loan commitments | 93,955 | 46,521 |
| | **107,198** | **67,448** |

### Assets pledged

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

| | Asset | | Related liability | |
|---|---|---|---|---|
| | **2004** | **2003** | **2004** | **2003** |
| Mandatory reserves with BNB (Note 8) | 72,161 | 36,000 | - | - |
| Due from banks (Note 9) | 561 | 2,217 | 561 | 2,217 |
| Trading securities (Note 10) | 2,000 | 1,000 | 655 | 1,070 |
| Loans to customers (Note 11) | 36,638 | 36,247 | 31,603 | 31,558 |
| | **111,360** | **75,464** | **32,819** | **34,845** |

(in all notes all amounts are shown in BGN thousands unless otherwise stated)

**Notes to the financial statements (continued)**

**Operating lease commitments**

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

| | 2004 | 2003 |
|---|---|---|
| Less than 1 year | 2,485 | 128 |
| Over 1 year and less than 5 years | - | - |
| Over 5 years | - | - |
| | **2,485** | **128** |

## 23 Share capital

The total authorised number of ordinary shares at year-end was 10,250,000 shares (2003: 10,250,000 shares) with a par value of BGN 5 per share (2003: 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:

| | 2004 | 2003 |
|---|---|---|
| Cash in hand (Note 8) | 31,868 | 32,831 |
| Balances with Central bank (Note 8) | 13,667 | - |
| Due from other banks (Note 9) | 99,839 | 115,633 |
| | **145,374** | **148,464** |

## 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. In July 2004 ALICO/CEH Balkan Holdings Limited acquired shares held by DSK Bank amounting to 5.03%. Thus as of 31 December 2004 ALICO/CEH Balkan Holdings Limited owns 96.74 % of the Bank's share capital. (2003: ALICO/CEH Balkan Holdings Limited owned 91.71% of the Bank's share capital). On 7 July 2004 EFG Eurobank Ergasias acquired from American Life Insurance Company (ALICO) 50% of the share capital of ALICO/CEH Balkan Holdings Limited. Thus as at 31 December 2004 EFG Eurobank Ergasias owns indirectly through ALICO/CEH Balkan Holdings Limited 96.74% of the share capital of the Bank.

| | Related companies 2004 | 2003 |
|---|---|---|
| **Loans and bank placements** | | |
| At beginning of year | 41,269 | 578 |
| Net change during the year | 44,680 | 40,691 |
| As at end of year | 85,949 | 41,269 |
| Interest income earned | 4,057 | 797 |
| Fees and commissions earned | 284 | 74 |

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

| | Related companies 2004 | 2003 |
|---|---|---|
| **Deposits and borrowings** | | |
| At beginning of year | 27,255 | 2,576 |
| Received during the year | 97,752 | 25,914 |
| Repaid during the year | (1,704) | (1,235) |
| As at end of year | 123,303 | 27,255 |
| Interest expense incurred | 2,261 | 130 |

| | Notional amount | 2004 | 2003 |
|---|---|---|---|
| **Derivatives – currency swaps asset / (liability)** | 89,463 | 4,444 | (3,300) |
| **Derivatives – currency forward asset / (liability)** | - | - | 12 |
| **Costs for services and technical assistance** | | 63 | 920 |
| **Guarantees issued by the Bank** | | - | - |
| **Guarantees received by the Bank** | | 29,344 | 29,216 |
| **Director's remuneration** | | 894 | 1,486 |

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