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DIRECTORS' REPORT FOR THE YEAR ENDED 31ST DECEMBER 2003

Bulgarian Post Bank is one of the top five banks in the country in terms of assets and has its Head Office in Sofia. Established on 2nd April 1991 as a joint stock company under Bulgarian Law, the Bank is a universal bank with a full banking licence. With a staff of 1,110 as at 31st December 2003, the Bank provides a full range of banking services to Bulgarian and International customers through its extensive network of 29 branches, 90 representative offices and close correspondent relationships with major banks throughout the world. Customer service desks are also provided at 2,728 Post Offices throughout the country.

As of the end of 2003 the Bank's major shareholder is ALICO/CEH Balkan Holdings Ltd, jointly owned by American Life Insurance Company (ALICO), a subsidiary of American International Group Inc., and EFG Eurobank Ergasias SA, the parent company of European Financial Group. Senior managers representing these financial institutions are resident in Bulgaria and hold executive positions in the Bank. On 15 July 2003 ALICO/CEH Balkan Holdings Ltd. acquired the DZI shares in Bulgarian Post Bank.

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

Business review

During the course of 2003 Bulgarian Post Bank confirmed its position as one of the most important players in all banking sectors in Bulgaria.

The Bank's operating income increased by 15.4% compared to 2002 and net profit increased by 65.1% resulting in a 13.5% return on capital.

Rapid progress has been achieved in most business areas. Notably, the multitude of tailor made lending products and solutions offered to the Bank's clients has led to a 32% increase of the loan portfolio. The interest income has increased by 17% respectively. This has been achieved with due attention to the improvement of risk control systems.

Retail banking continued to develop in order to meet growing consumer needs. In 2003 the Bank has introduced a number of new products in retail banking. As a result the loan portfolio in its mortgage loans and consumer loans has increased substantially, thus strengthening the Bank's position on this market segment. The growth rate of retail lending was recognized through the 'Financial Product of the Year' award for its new product "My home" granted at the International Financial Exhibition "Banks Investment Money". Corporate lending additionally diversified its products and services, thus responding to the ever growing customer requirements and resulting in increase of the corporate loan portfolio.

Treasury activities have been equally successful resulting in significant increase of the trading and investment securities' portfolio. The bank maintained its leading position on Bulgarian financial markets and gained strong presence on the East European markets. New treasury instruments and services were launched and a better funds utilization was achieved. There was a successful development of Treasury sales desk. The second mortgage bond was issued successfully in June 2003.

The number of awards and appraisals received in 2003 are indicative of the Bank's continuing growth and adherence to its core values and vision. Furthermore, the International Credit Agency Fitch IBCA assigned Bulgarian Post Bank long-term rating 'BB+', short-term rating 'B' and outlook - 'positive'. The Individual rating is a recognition of BPB's improving profitability and asset quality. In 2003 Bulgarian Post Bank was given a certificate for the successful internship programs which have already become a tradition and aim at the successful future realization of young people in Bulgaria.

The Bank continued to improve its structure and internal organization. Internal control systems and budget procedures were significantly strengthened. Further branch restructuring was pursued through the creation of front office sales units. Most important was the successful modernization and centralization of the Bank's soft-

ware platform. The several upgrades of CsoftBank++ have allowed the Bank to offer all its customers across the whole of Bulgaria a more sophisticated range of real time services.

In 2003 the bank's has initiated the project for ERP implementation. The new system will allow for improvement of financial reporting, management control and decision making process. Parallel to the project of the ERP system implementation, several new IT projects for treasury system, loan workflow process and operations system are running.

Directors' responsibilities

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

The Directors confirm that suitable accounting policies have been used and applied consistently, and reasonable and prudent judgments and estimates have been made in the preparation of the financial statements for the year ended 31st December 2003. The Directors also confirm that applicable accounting standards have been followed and believe that it is appropriate for the financial statements to be prepared on a going concern basis.

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

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

Share capital

As at 31st December 2003 the paid up share capital of the Bank was BGN 51,250,000.

Substantial shareholding

The share ownership as at 31st December 2003 was as follows:

Shareholders	%
ALICO/CEH Balkan Holdings Ltd.	91.71
Bank DSK	5.03
Bulgarian Posts EOOD	1.40
Bulgarian Telecommunication Company EAD	1.40
National Palace of Culture	0.46

Supervisory Board

The members of the Supervisory Board of the Bank as of 31.12.2003 were:

Mr. Andreas Vassiliou

Chairman
(Senior Vice President, ALICO
Chairman Middle East, Africa and South Asia, ALICO
President & CEO - Central and East Europe, ALICO)

Mr. George Gondicas

Vice Chairman
(Honorary Chairman of the Board of Directors
of EFG Eurobank Ergasias SA)

Mr. Bruce Dozier

Member
(Vice-President and General Counsel of ALICO)

Mr. David Watson

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

Managing Board

The members of the Management Board of the Bank as of the end of 2003 were:

Mr. Martin Zaimov

Chairman of the Management Board
and Executive Director of the Bank

Mr. Theodore Karakassis

Vice Chairman and Executive Director
(Deputy General Manager
EFG Eurobank Ergasias SA)

Mr. Panagiotis Varelas

Member and Chief Executive Officer
(Former Head of Retail Banking Division,
EFG Eurobank Ergasias SA)

Mr. Athanassios Petropoulos

Member and Executive Director
(Former Head of Corporate Banking Division,
Bank of Crete, EFG Group)

Mr. Anastassios Omiridis

Member and Regional Chief Financial Officer, ALICO
(Former PricewaterhouseCoopers Manager)

Mrs. Daniella Houbeva-Chesnovska

Member and Chief Financial officer
(former ALICO Executive)

Mr. Assen Yagodin

Member and Head of Treasury Division
(Former Head of Money and
Capital Market Division, Chief Expert Dealer)

Mr. Borislav Moyanov

Member and Head of Retail Banking Division

Directors' interests

None of the Directors have any interest in the shares of the Bank as at 31st December 2003.

By order of the Management Board



Panagiotis Varelas
Chief Executive Officer and
Member of the Management Board
Sofia, 12th March 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 31st December 2003 and the related statements of income, changes in shareholders' equity, and cash flow for the year then ended. These financial statements set out on pages 7 to 34 are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31st December 2003 and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.



Stefan Nenov



Andrew Simonds
PricewaterhouseCoopers Audit OOD

15th March 2004
Sofia, Bulgaria

Income statement

	Notes	in BGN 000s	
		Year ended 31 st December	
		2003	2002
Interest income	1	50,119	42,865
Interest expense	1	(12,551)	(9,673)
Net interest income		37,568	33,192
Fee and commission income	2	17,958	15,792
Fee and commission expense	2	(811)	(816)
Net fee and commission income		17,147	14,976
Net foreign exchange gains less losses	3	2,114	2,866
Net gains less losses from trading securities		3,530	1,517
Net (loss)/gains from investment securities		(351)	11
Other operating income		1,610	812
Operating income		61,618	53,374
Other operating expenses	4	(42,740)	(38,918)
Provision for impairment	6	(3,463)	(4,896)
Profit before tax		15,415	9,560
Income tax	7	(3,827)	(2,540)
Profit after tax		11,588	7,020



Athanassios Petropoulos
Executive Officer and
Member of the Management Board

12 March 2004



Stefan Nenov
15 March 2004




Panagiotis Varelas
Chief Executive Officer and
Member of the Management Board

The following notes set out on pages 12 to 34 form an integral part of these financial statements.

Balance sheet

	Notes	in BGN 000s	
		As at 31 st December	
		2003	2002
Assets			
Cash and balances with the Central Bank	8	68,831	68,079
Due from other banks	9	126,164	123,705
Trading securities	10	82,261	75,539
Loans and advances to customers	11	529,470	394,988
Investment securities, available-for-sale	12	65,540	38,409
Investment securities, held-to-maturity	12	7,715	9,570
Derivative financial instruments	16	666	-
Other assets	13	4,149	2,844
Property and equipment	14	20,168	12,633
Total assets		904,964	725,767
Liabilities			
Due to other banks	15	78,090	44,860
Derivative financial instruments	16	4,086	1,420
Due to customers	17	658,146	583,959
Debt securities in issue	18	31,560	12,000
Other borrowed funds	19	23,282	-
Current taxes		963	1,879
Deferred income tax liabilities	21	1,139	315
Other liabilities	20	21,663	5,706
Total liabilities		818,929	650,139
Shareholders' equity			
Share capital	23	51,250	51,250
Reserves		34,785	24,378
Total shareholders' equity		86,035	75,628
Total shareholders' equity and liabilities		904,964	725,767



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12 March 2004

Stefan Nenov
15 March 2004





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Statement of changes in shareholders' equity

					in BGN 000s
	Share capital	Property and equipment revaluation reserve	Available-for-sale investments revaluation reserve	Retained earnings and other reserves	Total
Balance at 1st January 2002	51,250	5,325	-	15,920	72,495
Dividend paid	-	-	-	(4,505)	(4,505)
Net profit	-	-	-	7,020	7,020
Available-for-sale investments - net fair value gains, net of tax	-	-	629	-	629
Transfer to net profit of gain - arising on investment securities available-for-sale, net of tax	-	-	(11)	-	(11)
Transfer of depreciation on revalued property	-	(72)	-	72	-
Balance at 31st December 2002/ 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 31st December 2003	51,250	6,077	2,169	26,539	86,035



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12 March 2004



Stefan Nenov
15 March 2004



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Cash flow statement	in BGN 000s	
	Year ended 31st December	
	2003	2002
Cash used in operating activities		
Interest received	50,065	39,029
Interest paid	(11,377)	(9,748)
Fees and commission received	17,958	15,792
Fees and commission paid	(811)	(816)
Amounts paid to and on behalf of employees	(16,641)	(13,771)
Other income received	1,610	4,127
Other expenses paid	(21,537)	(21,727)
Tax paid	(4,829)	(2,303)
Cash from operating activities before changes in operating assets and liabilities	14,438	10,583
Changes in operating assets and liabilities		
Net (increase) /decrease in reserve with the Central Bank	(5,292)	6,183
Net (increase) in trading securities	(3,698)	(16,498)
Net (increase) in due from other banks	(5,559)	(1,028)
Net (increase) in loans and advances to customers	(138,473)	(101,638)
Net (increase) / decrease in other assets	(1,190)	870
Net increase / (decrease) in derivatives	2,000	-
Net increase in due to other banks	33,457	667
Net increase in amounts due to customers	73,993	68,524
Net increase in other liabilities	15,957	366
Net cash used in operating activities	(14,367)	(31,971)
Cash flows from investing activities		
Purchase of property and equipment (Note 14)	(10,893)	(8,950)
Purchase of investment securities	(24,382)	(45,381)
Proceeds on disposal of property and equipment	563	1,724
Proceeds on disposal of investment securities	2,650	694
Net cash used in investing activities	(32,062)	(51,913)

Statement of cash flows (continued)	in BGN 000s	
	Year ended 31st December	
	2003	2002
Cash flows (used in) from financing activities		
Issue of debt securities (Note 18)	19,484	12,000
Long-term financing received (Note 19)	23,216	-
Dividends paid	(3,808)	(4,505)
Net cash from financing activities	38,892	7,495
Net change in cash and cash equivalents	(7,537)	(76,389)
Cash and cash equivalents at beginning of year	156,001	232,390
Cash and cash equivalents at end of year (Note 24)	148,464	156,001



Athanassios Petropoulos
Executive Officer and
Member of the Management Board

12 March 2004



Panagiotis Varelas
Chief Executive Officer and
Member of the Management Board



Stefan Nenov
15 March 2004

The following notes set out on pages 12 to 34 form an integral part of these financial statements.

Notes to the financial statements

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 31st December 2003, monetary assets and liabilities are translated at the reference Central Bank exchange rate - BGN 1 for EUR 0.5113 (2002: BGN 1 for EUR 0.5113) and BGN 1 for USD 0.64576 (2002: BGN 1 for USD 0.5305).

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

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

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

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.

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.

K. 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 50% per annum on computer equipment and fixtures and fittings.

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

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

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

L. 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.

M. 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.

N. Operating leases

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

O. 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.

P. Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated annual leave as a result of services rendered by employees up to balance sheet date.

Q. Dividends

Current year dividends are distributed based on a decision of the Annual General Meeting of Shareholders. The dividends for 2003 will be approved at the Annual General Meeting of Shareholders and therefore, no accrual for dividends has been included in these financial statements.

R. Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

S. 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.

Expenditure when 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.

T. 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 lim-

its 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.

GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES AND OFF BALANCE SHEET ITEMS

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

The Bank is exposed to many sectors of the Bulgarian economy. 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 31st of December 2003 and 31st of December 2002, the Bank has the exposures disclosed in the table below. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency. The off-balance sheet gap represents the difference between the notional amounts of foreign currency derivative financial instruments, which are principally used to reduce the Bank's exposure to currency movements, and their fair values.

At 31 st December 2003	in BGN 000s				
	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
Derivative financial instruments	11	655	-	-	666
Loans to customers	280,436	39,971	209,063	-	529,470

Currency risk (continued)				in BGN 000s	
At 31 st December 2003					
	BGN	USD	EUR	Other	Total
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	31,995	15,426	30,669	-	78,090
Derivative financial instruments	8	3,388	-	690	4,086
Due to customers	345,209	164,235	141,132	7,570	658,146
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
Total assets	340,484	158,721	217,990	8,572	725,767
Total liabilities	296,691	220,929	125,481	7,038	650,139
Net on-balance sheet position	43,793	(62,208)	92,509	1,534	75,628
Off-balance sheet net notional position	-	59,211	(60,631)	-	(1,420)
Credit commitments	64,199	10,899	5,271	-	80,369

INTEREST RATE RISK

Sensitivity of assets and liabilities to interest rate

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 st December 2003	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and BNB balances	-	-	-	-	-	68,831	68,831
Due from other 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	97,337	904,964
Liabilities							
Due to other banks	66,854	3,877	-	7,104	-	255	78,090
Derivative instruments	-	-	-	-	-	4,086	4,086
Due to customers	524,462	42,942	73,049	4,396	-	13,297	658,146
Debt securities in issue				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	100,177	(38,601)	(68,591)	34,803	62,818	(4,571)	86,035

Interest rate risk (continued)	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
As at 31st December 2002							
Assets							
Cash and BNB balances	-	-	-	-	-	68,079	68,079
Due from other banks	103,445	15,437	4,776	47	-	-	123,705
Trading securities	13,931	1,000	8,052	16,597	35,959	-	75,539
Loans to customers	367,773	13,316	10,707	3,192	-	-	394,988
Investment securities							
- available-for-sale	10,183	66	5,480	11,159	10,646	875	38,409
- held-to-maturity	295	1,050	2,396	5,829	-	-	9,570
Other assets	-	-	-	-	-	15,477	15,477
Total assets	495,627	30,869	31,411	36,824	46,605	84,431	725,767
Liabilities							
Due to other banks	23,731	2,052	2,073	17,004	-	-	44,860
Derivative instruments	-	-	-	-	-	1,420	1,420
Due to customers	505,384	31,546	44,187	-	-	2,842	583,959
Debt securities in issue	-	-	-	12,000	-	-	12,000
Other liabilities	-	-	-	-	-	7,900	7,900
Total liabilities	529,115	33,598	46,260	29,004	-	12,162	650,139
Interest sensitivity gap	(33,488)	(2,729)	(14,849)	7,820	46,605	72,269	75,628

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.

As at 31st 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

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

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.

Liquidity risk	in BGN 000s					
31st December 2003	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
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
- 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

Liquidity risk (continued)	in BGN 000s					
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
31st December 2003						
Liabilities						
Due to other banks	67,185	3,793	7,112	-	-	78,090
Derivative financial instruments	2,184	1,262	640	-	-	4,086
Due to customers	395,444	57,018	149,433	56,251	-	658,146
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
31st December 2002	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Total assets	243,325	69,877	164,622	234,214	13,729	725,767
Total liabilities	549,342	36,245	47,063	17,489	-	650,139
Net liquidity gap	(306,017)	33,632	117,559	216,725	13,729	75,628

U. Fair values of financial assets and liabilities

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

The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. While Management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

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

1. Net interest income		in BGN 000s
	2003	2002
Interest income		
Loans and advances to customers	39,637	33,886
Due from other banks	3,053	4,790
Trading securities	4,116	2,532
Investment securities	3,313	1,657
	50,119	42,865
Interest expense		
Customers	10,077	8,122
Banks and other financial institutions	1,004	997
Debt securities	1,470	554
	12,551	9,673

2. Net fee and commission income		in BGN 000s
	2003	2002
Fee and commission income		
Loans and advances to customers	6,182	4,429
Fund transfers	4,027	3,544
Cash operations	2,623	2,754
Money transfers	2,267	2,299
Account maintenance	2,059	1,760
Others	800	1,006
	17,958	15,792
Fee and commission expense		
Visa cards, cheques and other fees	189	342
Cash transactions and correspondent accounts fees	247	298
Commissions to insurers for services	205	-
Others	170	176
	811	816

3. Net foreign exchange gains less losses		in BGN 000s
	2003	2002
Foreign exchange translation gains less losses	308	717
Foreign exchange transaction gains less losses	1,806	2,149
	2,114	2,866

4. Other operating expenses		in BGN 000s
	2003	2002
Staff costs (Note 5)	16,641	13,771
External services	4,227	5,730
Operating lease rentals	3,522	4,014
Communication	2,301	2,266
Depreciation (Note 14)	4,315	2,154
Post Office commissions	2,279	2,128
Security	1,439	2,090
Software costs	1,700	1,794
Materials and utilities	1,216	1,552
Advertising and marketing	1,812	757
Repairs and maintenance	811	754
Insurance	623	554
Levies and taxes	380	416
Travel and accommodation	477	496
Other operating costs	997	442
	42,740	38,918

Post Office commissions represent amounts paid to the Bulgarian Posts for services performed on behalf and for the account of the Bank in connection with the Bank's network of service desks throughout the country.

5. Staff costs		in BGN 000s
	2003	2002
Wages and salaries	12,107	9,052
Social security costs	4,115	4,323
Other	419	396
	16,641	13,771

The number of persons employed by the Bank as at 31 December 2003 was 1,110 (2002: 1,078).

6. Provision (expense) write back		in BGN 000s
	2003	2002
Loans and advances to customers (Note 11)	(3,578)	(4,601)
Amounts due from other banks	-	4
Provisions for court litigations (Notes 20 and 22)	-	(240)
Other assets (Note 13)	115	(59)
	(3,463)	(4,896)

7. Income tax expense / (credit)		in BGN 000s
	2003	2002
Current tax	3,913	2,722
Deferred tax (Note 21)	(86)	(182)
Income tax expense	3,827	2,540

Tax is payable at an effective rate of 23.5% (2002: 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:

		in BGN 000s
	2003	2002
Profit before tax	15,415	9,560
Tax calculated at a tax rate of 23.5% (2002: 23.5%)	3,623	2,247
Effect of change in tax rate	(54)	-
Tax effect of expenses not deductible for tax purposes	258	293
Income tax expense	3,827	2,540

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.

8. Cash and balances with Central Bank		in BGN 000s
	2003	2002
Cash in hand (Note 24)	32,831	37,371
Mandatory reserve with Central Bank (Note 22)	36,000	30,708
	68,831	68,079

9. Due from other banks	in BGN 000s	
	2003	2002
Deposits in other banks	83,559	90,691
Repurchase agreements	32,448	28,597
Less impairment provision	(374)	(658)
Included in cash and cash equivalents (Note 24)	115,633	118,630
Loans and advances to other financial institutions	467	-
Deposits in other banks (maturity more than 3 months)	9,923	4,831
Interest receivable	141	244
	126,164	123,705

Deposits in other banks include BGN 2,217 thousand (2002: BGN 2,744 thousand) which amounts are restricted to cover letters of credit and guarantees.

Approximately 29% (2002: 38%) of the amounts due from other banks represent funds placed in banks domiciled in OECD countries, with the remainder held with banks in Bulgaria.

In 2003 due from banks in the amount of BGN 284 thousand were written off against the provision made in previous years.

10. Trading securities	in BGN 000s	
	2003	2002
Government bonds as follows:		
Bulgarian government bonds	76,277	54,879
Romanian government bonds	5,984	19,146
Mortgage and municipality bonds	-	1,514
	82,261	75,539

Included in the amount of government bonds is accrued interest in the amount of BGN 1,957 thousand (2002: BGN 2,463 thousand). Government bonds include securities pledged under repurchase agreements amounting to BGN 1,000 thousand (2002: BGN 5,145 thousand).

11. Loans and advances to customers	in BGN 000s	
	2003	2002
Corporate loans	433,178	339,592
Loans to individuals	115,900	72,651
Gross loans and advances	549,078	412,243
Less allowance for loan losses on loans and advances	(19,608)	(17,255)
	529,470	394,988

Movement in allowance for losses on loans and advances as follows:	2003	2002
Balance at 1 st January	17,255	13,122
Increase in provision for loan impairment (Note 6)	3,578	4,601
Bad debts written off	(1,225)	(468)
Balance at 31 st December	19,608	17,255

Included within loans and advances to customers is related accrued interest receivable of BGN 1,507 thousand (2002: BGN 1,920 thousand).

As at 31st December 2003 loans in the amount of BGN 36,247 thousand (2002: BGN 13,607 thousand) are pledged as security for the mortgage bonds issued by the Bank in 2003 (Notes 22).

Industrial segmentation of loan portfolio were as follows

	2003		2002	
		%		%
Commerce and service	275,979	50.3	207,360	50.3
Private individuals	115,900	21.1	72,651	17.6
Manufacturing	80,887	14.7	72,242	17.6
Vegetable oil manufacturing	57,436	10.5	29,800	7.2
Transportation and communication	7,490	1.3	21,280	5.1
Agriculture	8,130	1.5	5,427	1.3
Construction	2,739	0.5	2,685	0.7
Other	517	0.1	798	0.2
	549,078		412,243	

11. Loans and advances to customers (continued)

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

	2003	2002
The ten largest loans and advances to customers	132,327	147,080
Percentage of gross loans	24%	36%

12. Investment securities		
	2003	2002
Investment securities available-for-sale		
Debt securities including:		
Government bonds		
Bulgarian government bonds	41,087	35,022
Romanian government bonds	12,109	-
Mortgage bonds issued by banks	9,107	2,512
Corporate bonds issued by companies	2,725	-
Unlisted equity investments	512	875
	65,540	38,409

Included in the amount of the investment securities is accrued interest in the amount of BGN 2,442 thousand (2002: BGN 1,527 thousand)

INVESTMENT SECURITIES HELD-TO-MATURITY

Securities held-to-maturity consist of middle-term debt securities issued by Gazprom for the amount of BGN 4,712 thousand (2002: BGN 5,742 thousand) and mortgage bonds issued by Bulgarian-American Credit Bank in the amount of BGN 3,003 thousand (2002: BGN 3,000 thousand).

Included in the amount of the investment securities is accrued interest in the amount of BGN 137 thousand (2002: BGN 168 thousand)

13. Other assets		in BGN 000s
	2003	2002
Amounts in transit	491	1,275
Prepayments	1,370	1,072
Deferred expenses	1,013	537
Materials	118	128
Assets for resale	853	-
Other assets	1,100	743
Less provisions on other assets (Note 6)	(796)	(911)
	4,149	2,844

14. Property and equipment			in BGN 000s
At 31st December 2002	Land, premises and expenses for improvement of assets leased	Equipment and other fixed assets	Total
Gross amount	4,934	18,867	23,801
Accumulated depreciation	(1,062)	(10,106)	(11,168)
Net book amount	3,872	8,761	12,633
Year ended 31st December 2003			
Opening net book amount	3,872	8,761	12,633
Additions	1,137	9,756	10,893
Disposals	(167)	(419)	(586)
Decrease in value of revalued fixed assets	(229)	-	(229)
Revaluation of property	1,772	-	1,772
Depreciation charge	(373)	(3,942)	(4,315)
Closing net book amount	6,012	14,156	20,168

The Bank's property was revalued as at 31 December 2003 by independent valuers. Valuations were made on the basis of open market value. The revaluation surplus net of applicable deferred income taxes was credited to property revaluation reserve in shareholders' equity. The revaluation deficit was debited to the previously created revaluation reserve for those particular assets.

15. Due to other banks	2003	2002
Current accounts	2,080	4,498
Deposits from other banks	76,010	40,362
	78,090	44,860

Included within due to other banks is related accrued interest payable of BGN 102 thousand (2002: BGN 329 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 commitment 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.

Year ended 31st December 2003	Contractual/ notional amount	Assets	Liabilities
Derivatives held for trading (OTC)			
Foreign exchange derivatives			
Currency swaps	105,917	654	(4,077)
Currency forwards	4,660	12	(9)
Total OTC derivative assets/(liabilities)		666	(4,086)
Year ended 31st December 2002			
Derivatives held for trading			
Foreign exchange derivatives			
Currency swaps	59,211	-	(1,420)
Total OTC derivative assets/(liabilities)		-	(1,420)

17. Due to customers	in BGN 000s	
	2003	2002
Demand deposits		
- individuals	24,039	164,925
- corporate clients	176,793	213,646
Term deposits		
- individuals	407,616	199,639
- corporate clients	49,698	5,749
	658,146	583,959

Term deposits from corporate clients include deposits of BGN 3,037 thousand (2002: BGN 2,843 thousand) held as collateral for irrevocable commitments under letters of credit and guarantee arrangements. Included within due to customers is related accrued interest payable of BGN 2,120 thousand (2002: BGN 900 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 the year end related to the debt securities issued in 2002 is BGN 103 (2002: BGN 98).

A second emission of mortgage bonds was issued at the end of June 2003 in the nominal amount of EUR 10 million. The proceeds, net of issue costs were BGN 19,484 thousand. The new mortgage bonds mature in three years and carry coupon rate of 5.625% paid half yearly.

19. Other borrowed funds

As of 31 December 2003 and 2002, other borrowed funds consisted of the following:

19. Other borrowed funds (continued)	2003	2002
European Bank for Reconstruction and Development (EBRD)	3,919	-
First International Merchant Bank, Malta (FIMB)	19,363	-
	23,282	

Included in the amount of other borrowed funds is accrued interest in the amount of BGN 66 thousand. Other borrowed funds are received net of fees and commissions paid to the lender in the amount of BGN 254 thousand.

Other borrowed funds as of 31 December 2003 is repayable according to remaining maturity as follows:

	EBRD	FIMB
		-
2006	2,793	19,363
2007	1,126	-
Total	3,919	19,363

Loan from European Bank for Reconstruction and Development (EBRD)

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-annually installments starting on 19 January 2006 with last installment due on 16 October 2015. As of 31 December 2003 the outstanding balance was EUR 2 million.

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 tenor of the loan is 3 years.

20. Other liabilities	2003	2002
Due to customers	11,494	-
Creditors	9,750	4,387
Provisions for court claims (Notes 6 and 22)	240	240
Unused paid leave accrual	179	171
Deferred income and other liabilities	-	908
	21,663	5,706

The timing of the expected cash outflow of the provided for court cases could not be defined for certain. Based on the management estimation it is expected that in three years time the outflow may be realised.

21. Deferred income taxes

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 19.5%, which is the tax rate effective from 1 January 2004 (2002: 23.5%). The movement on the deferred income tax account is as follows:

	2003	2002
Deferred tax liability at beginning of year	315	497
Income statement credit (Note 7)	(86)	(182)
Debit to revaluation reserves in equity	910	-
Deferred tax liability at end of year	1,139	315

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

	2003	2002
Deferred income tax liabilities		
Provision for losses	-	192
Equity securities	-	123
Accelerated tax depreciation	261	-
Property revaluation	388	-
Available-for-sale revaluation	522	-
	1,171	315
Deferred income tax assets		
Unused holidays	32	-
Net deferred tax liability	1,139	315

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

	2003	2002
Provision for losses	192	235
Equity investments	123	-
Depreciation	(261)	(53)
Unused holidays	32	-
Net deferred tax credit	86	182

22. Contingent liabilities and commitments

Legal proceedings

There are a number of legal proceedings outstanding against the Bank at 31st December 2003. The provision for probable losses (Notes 6 and 20) booked in relation to these legal cases is in the amount of BGN 240 thousand (2002: 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 minimal.

	2003	2002
Guarantees	18,871	11,932
Letters of credit	2,056	3,764
Undrawn loan commitments	46,521	64,673
	67,448	80,369

Assets pledged

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

	Asset		Related liability	
	2003	2002	2003	2002
Mandatory reserves with BNB (Note 8)	36,000	30,708	-	-
Due from other banks (Note 9)	2,217	2,744	2,217	2,744
Loans to customers (Note 11)	36,247	13,607	31,558	12,000
Trading securities (Note 10)	1,000	5,145	1,070	4,930
	75,464	52,204	34,845	19,674

Operating lease commitments.

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

	2003	2002
Less than 1 year	128	582
Over 1 year and less than 5 years	-	-
Over 5 years	-	-
	128	582

23. Share capital

The total authorised number of ordinary shares at year-end was 10,250,000 shares (2002: 10,250,000 shares) with a par value of BGN 5 per share (2002: BGN 5 per share). All shares rank equally and carry one vote. The hyperinflated amount of the Bank's share capital is BGN 107,969 thousand.

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:

	2003	2002
Cash in hand (Note 8)	32,831	37,371
Due from other banks (Note 9)	115,633	118,630
	148,464	156,001

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. As at 31st December 2003 ALICO/CEH Balkan Holdings Limited owns 91.71% of the share capital of the Bank (2002: 86.24%). American Life Insurance Company (ALICO), incorporated in USA, and EFG Eurobank Ergasias SA (EFG), incorporated in Greece each owns 50% of ALICO/CEH Balkan Holdings Limited. ALICO is a subsidiary of American International Group, Inc., and EFG is the parent company of European Financial Group. Related party transactions were carried out on commercial terms and at market rates.

Type of related party	Related companies	
	2003	2002
Loans and bank placements		
At beginning of year	578	549
Net change during the year	40,691	29
As at end of year	41,269	578
Interest income earned	797	6
Fees and commissions earned	74	-

No provisions have been recognised in respect of loans and placements made to related parties (2002: nil).

25. Related party transactions (continued)	in BGN 000s	
	Related companies	
	2003	2002
Deposits and borrowings		
At beginning of year	2,576	2,890
Received during the year	25,914	5,880
Repaid during the year	(1,235)	(6,194)
As at end of year	27,255	2,576
Interest expense incurred	130	30
Insurance prepaid	329	272

Derivatives - currency swaps asset/(liability)	Notional amount	55,235	(3,300)	(1,162)
Derivatives - currency forward asset/(liability)	Notional amount	3,238	12	-
Interest expense incurred in relation to swap deals			201	-
Costs for services and technical assistance			920	3,139
Guarantees issued by the Bank			-	-
Guarantees received by the Bank			29,216	36,572

MISSION, VISION, VALUES

Our Mission

Our mission is to meet the constantly evolving expectations of our customers, to create value for them and our shareholders, and to promote an internal operating environment where individual skills are stimulated, knowledge is efficiently applied and 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.

Our Vision

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

Our Core Values

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.

SOCIAL CONTRIBUTION OF POSTBANK

The social contribution policy of Postbank is closely related to its mission, vision and values, and targets various aspects of social life - education, art and culture, sports and other social responsibility projects.

Education

Internal

To create conditions for the professional development of the personnel is a priority for Postbank. Numerous internal and external trainings are financed and organized by the bank, including English courses at five different levels, BA and MBAs in Bulgarian and foreign universities, distance-learning trainings, internal and external programs, organized depending on the specific needs of our employees.

External

Postbank received a national recognition with the award, given by the Minister of Economy for its continuous efforts in supporting the realization of young people in Bulgaria and the successful internship programs, organized regularly throughout the year. The most significant initiatives in this area of our bank are:

- Internship programs
- Scholarships for best essay on topic "Banking sector in Bulgaria"
- "Manager for one day" - partner of Junior Achievement Bulgaria
- AIESEC - participation in seminars and lectures with our specialists

Culture and art

Culture, art and sports are amongst the priority spheres of Postbank, which has developed long-term cooperation agreements with important and various institutions from different fields. Some of them are:

- Satirical theatre
- Cycles of classical music concerts
- National exhibition "Horizons in paintings" - the Bank undertook its own project, related to art, with which was officially announced the launch of its new corporate identity. The national exhibition aimed at supporting students from the National Art Academy and at the same time exhibiting the works of some their teachers - Bulgarian artists with international recognition.
- New year grand musical festival, organized by the National Palace of Culture
- CD with pieces, directed by the most famous Bulgarian conductor Dobrin Petkov

Sports

Being a dynamic and modern institution, Postbank has been naturally supporting the sports sphere. Among the most significant ones are the World climbing championship, where Bulgaria received an international recognition with its first places as well as national tournaments in sports and Latin - American dances.

Charities

Postbank has developed considerable social activities in the country through programs in support of various causes:

- Providing computers and technical equipment to Bulgarian schools
- SOS Kinderdorf - contributing to the completion of a new residence complex for orphans
- Orphanages - collecting funds for two orphanages by involving all employees of Postbank.
- Generous Heart foundation - collection of funds for the building of a rehabilitation center for people, suffering from multiple sclerosis.

AWARDS AND RECOGNITION

"My Home" house loan program of Postbank was given the special award "Financial Product of 2003" at "Banks, Investments, Money" exposition. Postbank competed with SG Expressbank, Promotion Bank, TBI Credit and Elana Investment in the category of "Credit Products and Financing". The Bank was also awarded for the "Best stand" at the exhibition.

Postbank is "The most dynamic bank for 2002".

The prize was given to PANAGIOTIS VARELAS, Chief Executive Officer of Postbank by BANKER daily.

Postbank was awarded for "Best investment intermediary" with highest turnover at the Sofia Stock Exchange in 2002.

Two consecutive years Postbank is one of the main partners of "Generous heart" foundation. It contributed to the successful establishment of the new rehabilitation centre in Sofia for people, suffering from multiple sclerosis.

In April 2003 Nikolay Vassilev, Minister of Economics and program "Bulgarian dream" gave a certificate to Postbank for the successful internship programs every year. The internship program has already become a tradition and aims at the successful future realization of young people in Bulgaria.