D COMMERCE BANK AD

(FORMERLY DEMIRBANK BULGARIA AD)

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004
WITH INDEPENDENT AUDITOR'S REPORT THEREON

Income statement

For the year ended 31 December 2004

In thousands of BGN	**Note**	**Year ended 31 December 2004**	**Year ended 31 December 2003**
Interest and similar income		3,380	2,946
Interest expense and similar charges		(624)	(784)
Net interest income	3	2,756	2,162
Fee and commission income		1,189	677
Fee and commission expense		(68)	(64)
Net fee and commission income	4	1,121	613
Net trading income	5	1,190	1,128
General administrative expenses	6	(4,920)	(4,194)
Impairment losses	7	372	379
Total income from banking operations		519	88
Profit before taxes		519	88
Income taxes	8	-	-
Profit after taxation		519	88

The income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 6 to 29.

Aksit Ozkural
Chief Executive Director

Sinan Kircali
Executive Director

Ognyan Yordanov
Executive Director

Krassimir Hadjidinev
Registered Auditor
Authorized Representative

Margarita Goleva
Registered Auditor

KPMG Bulgaria OOD

Balance sheet
As at 31 December 2004

In thousands of BGN	**Note**	**31 December 2004**	**31 December 2003**
ASSETS			
Cash and balances with Central Bank*	9	5,748	4,963
Loans and advances to banks*	10	1,559	17,184
Financial assets held for trading	11	14,748	14,331
Investments	12	4	4
Loans and advances to other customers	13	29,335	12,966
Property and equipment	15	1,321	1,835
Intangible assets	16	121	135
Other assets	17	77	105
Total Assets		52,913	51,523
LIABILITIES			
Due to banks and other financial instituions	18	11,912	11,885
Due to other customers	19	20,815	19,510
Other borrowed funds	20	-	1,001
Liabilities in trading portfolio	21	1,287	-
Other liabilities	22	491	1,238
Total Liabilities		34,505	33,634
Shareholders' equity			
Issued share capital	23	20,000	20,000
Reserves		(1,592)	(2,111)
Total shareholders' funds		18,408	17,889
Total liabilities and shareholders' equity		52,913	51,523

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 6 to 29.

The financial statements have been approved by the Chief Executive Director and the Executive Directors on 29 April 2005.

Aksit Ozkural	Sinan Kircali	Ognyan Yordanov
Chief Executive Director	*Executive Director*	*Executive Director*
Krassimir Hadjidinev		Margarita Goleva
Registered Auditor *Authrorized Representative* KPMG Bulgaria OOD		*Registered Auditor*

*In 2004 the presentation and classification of items and transactions included under these captions of the financial statements were amended to achieve more appropriate presentation. Comparative amounts have been reclassified to achieve comparability with the current period. In the Balance Sheet as of 31 December 2003 *Cash and Balances with banks* amounted to BGN 22,147 thousand which have been reclassiffied as follows: *Cash and balances with central bank*- BGN 4,963 thousand and Loans and advances to banks- BGN 17,184 thousand.

Cash flow statement
For the year ended 31 December 2004

In thousands of BGN	**Note**	**31 December 2004**	**31 December 2003**
Cash flow from operating activities			
Profit before tax		519	88
Impairment gains/(losses)	7	(372)	(379)
Depreciation and amortisation	6	648	634
		795	343
Change in operating assets			
(Increase)/decrease in assets held for trading		(417)	(3,544)
(Increase)/decrease in loans to customers		(15,997)	(944)
(Increase)/decrease in loans and advances to other financial institutions		-	4,751
(Increase)/decrease in loans and advances to banks (repayment beyond 3 months)		5,293	(5,303)
(Increase)/decrease in other assets		28	(17)
Change in operating liabilities			
Net increase/(decrease) in due to banks		27	(22,386)
Net increase/(decrease) in amounts owed to other depositors		1,305	(3,358)
Decrease in other borrowed funds		(1,001)	-
Increase in liabilities in trading portfolio		1,287	-
Net increase/ (decrease) in other liabilities		(747)	614
Net cash flow from operating activities		(9,427)	(29,844)
Cash flow from investing activities			
Purchase of property, plant and equipment		(120)	(690)
(Acquisition)/ disposal of investments		-	10,205
Net cash flow from investing activities		(120)	9,515
Net increase/(decrease) in cash and cash equivalents		(9,547)	(20,329)
Cash and cash equivalents at the beginning of period	25	16,854	37,183
Cash and cash equivalents at the end of period	25	7,307	16,854

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 6 to 29.

Aksit Ozkural	Sinan Kircali	Ognyan Yordanov
Chief Executive Director	*Executive Director*	*Executive Director*
Krassimir Hadjidinev		Margarita Goleva
Registered Auditor *Authorized Representative*		*Registered Auditor*

KPMG Bulgaria OOD

Statement of Changes in Equity
For the six months period ended 31 December 2004

In thousands of BGN	**Share capital**	**Statutory Reserves**	**Other Reserves**	**Total**
Balance at 1 January 2003	20,000	-	(2,199)	17,801
Net profit for the year	-	-	88	88
Balance at 31 December 2003	20,000	-	(2,111)	17,889
Net profit for the year 2004	-	-	519	519
Transfer to statutory reserves		88	(88)	-
Balance at 31 December 2004	20,000	88	(1,680)	18,408

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 6 to 29.

Aksit Ozkural	Sinan Kircali	Ognyan Yordanov
Chief Executive Director	*Executive Director*	*Executive Director*

Krassimir Hadjidinev	Margarita Goleva
Registered Auditor	*Registered Auditor*
Authorized Representative	
KPMG Bulgaria OOD	

1. BASIS OF PREPARATION

(a) Statute

D Commerce Bank AD (formerly Demirbank (Bulgaria) AD) (the Bank) is incorporated in the Republic of Bulgaria and has its registered office in Sofia, 8 Tzar Osvoboditel Blvd.

The Bank has a general banking license issued by the Bulgarian National Bank (BNB) according to which it is allowed to conduct all banking transactions permitted by the Bulgarian legislation.

(b) Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board ("IASB"), and interpretations issued by the Standing Interpretations Committee of the IASB.

(c) Basis of preparation

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Income recognition

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

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

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

(b) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the reporting currency at the foreign exchange rates ruling at the dates that the values were determined.

Notes to the financial statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(c) Financial instruments

(i) Classification

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

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

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

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

(ii) Recognition

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

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

(iii) Measurement

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

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

All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Notes to the financial statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(c) Financial instruments, continued

(iv) Fair value measurement principles

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

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

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

(v) Gains and losses on subsequent measurement

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

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

(d) Cash and cash equivalents

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

(e) Investments

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

(f) Loans and advances to banks and customers

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

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

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

Notes to the financial statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(g) Derecognition

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

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

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

(h) Securities borrowing and lending business and repurchase transactions

(i) Securities borrowing and lending

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

(ii) Repurchase agreements

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

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

(i) Offsetting

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

(j) Impairment

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

Notes to the financial statements

recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(j) Impairment, continued

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

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

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

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

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

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

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

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

(k) Property, plant and equipment

Property and equipment are stated at cost less accumulated depreciation.

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

Assets	**%**
■ Equipment,	20
■ Fixtures and fittings	15
■ Vehicles	20
■ Leasehold improvements	15

Notes to the financial statements

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

Notes to the financial statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(l) Intangible assets

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

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

Asset	%
■ Computer software	20
■ Licenses	15

(m) Provisions

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

(n) Taxation

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

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

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

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

Notes to the financial statements

3. NET INTEREST INCOME

In thousands of BGN	**31 December 2004**	**31 December 2003**
Interest and similar income arises from:		
- Loans and advances to banks	239	204
- Loans and advances to customers	2,143	1,498
- Trading instruments	998	1,244
	3,380	2,946
Interest expense and similar charges arises from:		
- Deposits from banks	(257)	(142)
- Deposits from other customers	(367)	(642)
	(624)	(784)
Net interest income	2,756	2,162

4. NET FEE AND COMMISSION INCOME

In thousands of BGN	**31 December 2004**	**31 December 2003**
Fee and commission income		
In Bulgarian Leva	399	223
In foreign currencies	790	454
	1,189	677
Fee and commission expense		
In Bulgarian Leva	(29)	(36)
In foreign currencies	(39)	(28)
	(68)	(64)
Net fee and commission income	1,121	613

Notes to the financial statements

5. NET TRADING INCOME

In thousands of BGN	**31 December 2004**	**31 December 2003**
Net trading income arises from:		
- Debt instruments and related derivatives	840	832
- Foreign exchange rate fluctuations	350	296
Net trading income	1,190	1,128

6. GENERAL ADMINISTRATIVE EXPENSES

In thousands of BGN	**31 December 2004**	**31 December 2003**
General and administrative expenses arise from:		
- Personnel cost	2,451	1,437
- Depreciation and amortization	648	634
- Administration, marketing and other costs	1,821	2,123
Total	4,920	4,194

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

7. IMPAIRMENT LOSSES

In thousands of BGN	**31 December 2004**	**31 December 2003**
Write downs		
Loans and advances to customers	(640)	(799)
	(640)	(799)
Reversals of write downs		
Loans and advances to customers	1,012	1,178
	1,012	1,178
Net increase/(decrease)	372	379

Notes to the financial statements

8. INCOME TAXES

The tax on the Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

In thousands of BGN	**31 December 2004**	**31 December 2003**
Profit before tax	519	88
Tax calculated at a tax rate of 19.5% (2003: 23.5%)	101	21
Expenses not deductible for tax purposes	14	10
Utilization of previously unrecognized tax losses	(115)	(31)
Income tax expense	-	-

Deferred tax assets are not recognized in respect of tax loss carried forward in the amount BGN 210 thousand.

9. CASH AND BALANCES WITH CENTRAL BANK

In thousands of BGN	**31 December 2004**	**31 December 2003**
Cash on hand		
- In Bulgarian Leva	1,116	1,088
- In foreign currencies	2,290	1,498
Balances with the Bulgarian National Bank	2,342	2,377
Total	5,748	4,963

The current account with the Bulgarian National Bank is used for direct participation in the money and Treasury bill markets and for settlement purposes.

10. LOANS AND ADVANCES TO BANKS

In thousands of BGN	**31 December 2004**	**31 December 2003**
Current accounts and amounts with banks with original maturity of less than 3 months		
- In foreign currencies	1,559	11,891
Total	1,559	11,891
Current accounts and amounts with banks with original maturity beyond 3 months		
- In foreign currencies	-	5,303
Less allowance for uncollectability	-	(10)
Total	1,559	17,184

Notes to the financial statements

11. FINANCIAL ASSETS HELD FOR TRADING

In thousands of BGN	**31 December 2004**	**31 December 2003**
Financial assets held for trading:		
Government securities – Republic of Bulgaria		
- Short- and medium-term denominated in BGN	8,315	6,400
- Long-term bonds denominated in EUR	6,433	7,931
Total	14,748	14,331

12. INVESTMENTS

As of 31 December 2004 investments amount to BGN 4 thousand (2003: BGN 4 thousand). These comprise 1,000 shares in Bulgarian Stock Exchange with face value BGN 1 each. These investments classified as equity investments are stated at cost, as they do not have quoted market prices in and active market.

Notes to the financial statements

13. LOANS AND ADVANCES TO OTHER CUSTOMERS

In thousands of BGN	**31 December 2004**	**31 December 2003**
Individuals		
- In Bulgarian Leva	469	989
- In foreign currencies	728	480
Private companies		
- In Bulgarian Leva	7,019	3,550
- In foreign currencies	21,439	8,888
Total loans and advances (principle)	29,655	13,907
Accrued income	78	151
Less allowance for uncollectability	(398)	(1,092)
Total	29,335	12,966

Loans to customers earn interest at the rate of 6%-12% (in foreign currency) and 8% - 15% (in local currency).

14. MOVEMENT IN IMPAIRMENT ALLOWANCE

In thousands of BGN	**31 December 2004**	**31 December 2003**
Opening balance at beginning of period	1,102	1,481
Net increase/ (decrease) recognized in income statement		
- Loans and advances to customers	(372)	(369)
- Loans and advances to banks	-	(10)
	(372)	(379)
Write offs	(332)	-
Closing balance at end of period	398	1,102

Notes to the financial statements

15. PROPERTY AND EQUIPMENT

In thousands of BGN	**Machines and Equipment**	**Fixtures and Fittings**	**Motor Vehicles**	**Leasehold improvements**	**Other Assets**	**Total**
Cost						
At 1 January 2004	1,059	1,132	389	1,090	202	3,872
Additions	50	14	3	-	18	85
Disposals	-	(2)	-	-	-	(2)
At 31 December 2004	1,109	1,144	392	1,090	220	3,955
Depreciation						
At 1 January 2004	687	644	171	513	22	2,037
Charge for the year	158	172	78	166	25	599
On disposals	-	(2)	-	-	-	(2)
At 31 December 2004	845	814	249	679	47	2,634
Net book value 31 December 2004	264	330	143	411	173	1,321
Net book value 31 December 2003	372	488	218	577	180	1,835

16. INTANGIBLE ASSETS

In thousands of BGN	**Licenses**	**Computer software**	**Total**
Cost			
At 1 January 2004	136	200	336
Additions	6	29	35
Disposals	-	-	-
At 31 December 2004	142	229	371
Depreciation			
At 1 January 2004	77	124	201
Charge for the year	21	28	49
Disposals	-	-	-
At 31 December 2004	98	152	250
Net book value 31 December 2004	44	77	121
Net book value 31 December 2003	59	76	135

Notes to the financial statements

17. OTHER ASSETS

In thousands of BGN	**31 December 2004**	**31 December 2003**
Deferred expense	49	39
Other assets	28	66
Total	77	105

18. DUE TO BANKS AND OTHER FINANCIAL INSTITUIONS

In thousands of BGN	**31 December 2004**	**31 December 2003**
Term deposits		
- In local currency	1,252	285
- In foreign currencies	10,660	11,600
Total	11,912	11,885

19. DUE TO OTHER CUSTOMERS

In thousands of BGN	**31 December 2004**	**31 December 2003**
Individuals		
- In Bulgarian Leva	1,512	1,129
- In foreign currencies	9,234	7,518
Private companies		
- In Bulgarian Leva	5,940	6,013
- in foreign currencies	4,129	4,850
Total	20,815	19,510

Notes to the financial statements

20. OTHER BORROWED FUNDS

The Bank raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest bearing assets, depending on the prevailing interest rates. As at 31 December 2004 there are no assets sold under repurchase agreements.

For the period ended 31 December 2004 the total interest expense on repurchase agreements was BGN 128 thousand.

As at 31 December 2003 assets sold under repurchase agreements were as follows:

In thousands of BGN	**Fair value of underlying assets**	**Carrying amount of corresponding liabilities**	**Repurchase dates**
Bank Deposit Insurance Fund	1,026	1,001	14/01/2004
	1,026	1,001	

For the year ended 31 December 2003 the total interest expense or repurchase agreements was BGN 115 thousand.

21. LIABILITIES IN TRADING PORTFOLIO \

Liaiblities in trading portfolio comprise Bulgarian Government Securities lent from a Bank’s client with face value EUR 500 thousand. These securities are stated at quoted market prices as of 31 December 2004. As at year end the liabilities in trading porfolio amount to EUR 658 thousand (including accrued interest amounting to EUR 36 thousand).

22. OTHER LIABILITIES

In thousands of BGN	**31 December 2004**	**31 December 2003**
Other payables	491	1,238
Total	491	1,238

Other payables, as at 31 December 2004, include BGN 332 thousand payments in progress.

Notes to the financial statements

23. CAPITAL AND RESERVES

(a) Number and face value of registered shares as at 31 December 2004

In thousands of BGN	**Number of shares**	**Face value**
Ordinary registered voting shares	20,000	20,000
Total	20,000	20,000

As at 31 December 2004 the registered share capital comprises of 20,000 ordinary shares with a par value of BGN 1,000.

As at 31 December 2004 the value of the Bank's net assets is lower than its registered capital. In accordance with the Commercial Act these should exceed the registered capital. However, the Bank is subject to regulation from the Bulgarian National Bank and, in the opinion of the Central Bank, the Bank is in compliance with its regulations in respect of capital and capital adequacy. The Central Bank deems that the banks in Bulgaria shall follow the rules of the Law on Banks and banking regulations as specific rules related to them with prevail over the general rules, in this meaning, settled in the Commercial Act.

(b) Reserves

Reserves comprise of undistributed profit/losses from prior periods and share premium. Statutory reserves comprise amounts appropriated for purposes defined by the local legislation. Under local statutory legislation, the Bank is required to set aside one fifth of its profit in a statutory reserve until it reaches 1.25% of the bank's total assets and off-balance-sheet liabilities.

24. CONTINGENT LIABILITIES

(a) Memorandum items

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

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

In thousands of BGN	**31 December 2004**	**31 December 2003**
Bank guarantees and letters of credit		
- In Bulgarian Leva	3,097	1,393
- In foreign currencies	6,081	2,693
Total	9,178	4,086

Notes to the financial statements

24. CONTINGENT LIABILITIES, CONTINUED

(b) Memorandum items, continued

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

At 31 December 2004 the extent of collateral held for guarantees and letters of credit is 100 percent.

25. CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents comprises the following balances:

In thousands of BGN	**31 December 2004**	**31 December 2003**
Cash on hand		
- In Bulgarian Leva	1,116	1,088
- In foreign currencies	2,290	1,498
Balances with the Bulgarian National Bank	2,342	2,377
Current accounts and amounts with banks with original maturity of less than 3 months		
- In Bulgarian Leva	-	-
- In foreign currencies	1,559	11,891
Cash and cash equivalents	7,307	16,854

26. TRUST ACTIVITIES

The Bank provides trust services to its customers whereby it holds and manages Bulgarian government securities at their direction. The Bank receives fee income for providing these services. Trust assets are not assets of the Bank and are not recognised in the Bank's balance sheet. The Bank is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

27. RISK MANAGEMENT DISCLOSURES

A. Trading activities

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

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

Notes to the financial statements

27. RISK MANAGEMENT DISCLOSURES, CONTINUED

A. Trading activities, continued

(i) Credit risk

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

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

(ii) Market risk

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

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

B. Non-trading activities

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

(i) Liquidity risk

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

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

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

Notes to the financial statements

27. RISK MANAGEMENT DISCLOSURES, CONTINUED

B. Non-trading activities, continued

(i) Liquidity risk, continued

31 December 2004

In thousands of BGN	Up to 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	Maturity not defined	Total
Assets						
Cash and balances with Central Bank	5,748	-	-	-	-	5,748
Loans and advances to banks	1,559	-	-	-	-	1,559
Financial assets held for trading	14,748	-	-	-	-	14,748
Investments	-	-	-	-	4	4
Loans and advances to other clients	1,580	5,315	18,046	4,394	-	29,335
Property and equipment	-	-	-	-	1,321	1,321
Intangible assets	-	-	-	-	121	121
Other assets	-	77	-	-	-	77
Total Assets	23,635	5,392	18,046	4,394	1,446	52,913
Liabiliteis						
Due to banks and other financial institutions	11,066	-	292	554	-	11,912
Due to other customers	16,922	769	2,979	145	-	20,815
Liablities in trading portfolio	-	-	1,287	-	-	1,287
Other liabilities	470	14	7	-	-	491
Total Liabiliteis	28,458	783	4,565	699	-	34,505
Net liquidity gap	(4,823)	4,609	13,481	3,695	1,446	18,408

Notes to the financial statements

27. RISK MANAGEMENT DISCLOSURES, CONTINUED

B. Non-trading activities, continued

(i) Liquidity risk, continued

31 December 2003

In thousands of BGN	Up to 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	Maturity not defined	Total
Assets						
Cash and balances with Central Bank	4,963	-	-	-	-	4,963
Loans and advances to banks	11,908	1,954	3,322	-	-	17,184
Financial assets held for trading	14,331	-	-	-	-	14,331
Investments	-	-	-	-	4	4
Loans and advances to other customers	1,137	482	10,660	687	-	12,966
Property and equipment	-	-	-	-	1,835	1,835
Intangible assets	-	-	-	-	135	135
Other assets	-	101	4	-	-	105
Total Assets	32,339	2,537	13,986	687	1,974	51,523
Liabiliteis						
Due to banks and other financial institutions	11,885	-	-	-	-	11,885
Due to other customers	15,835	415	3,247	13	-	19,510
Other borrowed funds	1,001	-	-	-	-	1,001
Other liabilities	1,153	16	69	-	-	1,238
Total Liabiliteis	29,874	431	3,316	13	-	33,634
Net liquidity gap	2,465	2,106	10,670	674	1,974	17,889

Notes to the financial statements

27. RISK MANAGEMENT DISCLOSURES, CONTINUED

B. Non-trading activities, continued

(ii) Market risk

Interest rate risk

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

Asset-liability risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes. This means that in rising interest rate environments, margins earned will narrow as liabilities reprice. At 31 December 2004 both interest-earning assets and interest–bearing liabilities are predominantly fixed interest and have similar maturities and repricing dates.

The table below summarises the sensitivity of the Bank's assets and liabilities as at the 31 December 2004

			Fixed rate instruments				
	Total	**Floating rate instruments**	**Less than 1 month**	**Between 1 month and 3 months**	**Between 3 months and 1 year**	**Between 1 and 5 years**	**More than 5 years**
Assets							
Loans and advances to banks	1,559	-	1,559	-	-	-	-
Financial assets held for trading	14,748	-	11,245	3,503	-	-	-
Loans and advances to other customers	29,335	10,411	846	3,799	8,752	5,527	-
Non-interest earning assets	7,271	-	-	-	-	-	-
Total assets	52,913	10,411	13,650	7,302	8,752	5,527	-
Liabilities							
Due to banks and other financial instituions	11,912	-	11,065	-	293	554	-
Due to other customers	20,815	-	16,717	768	3,330	-	-
Liabilities in trading portfolio	1,287	-	1,287	-	-	-	-
Non-interest bearing liabilities	491	-	-	-	-	-	-
Total liabilities	34,505	-	29,069	768	3,623	554	-

Notes to the financial statements

27. RISK MANAGEMENT DISCLOSURES, CONTINUED

B. Non-trading activities, continued

(ii) Market risk

Interest rate risk

The table below summarises the sensitivity of the Bank's assets and liabilities as at the 31 December 2003

			Fixed rate instruments				
	Total	**Floating rate instruments**	**Less than 1 month**	**Between 1 month and 3 months**	**Between 3 months and 1 year**	**Between 1 and 5 years**	**More than 5 years**
Assets							
Loans and advances to banks	17,184	-	11,903	1,956	3,325	-	-
Financial assets held for trading	14,331	-	9,037	81	-	4,816	397
Loans and advances to other customers	12,966	607	1,004	174	9,876	1,305	-
Non-interest earning assets	7,042	-	-	-	-	-	-
Total assets	51,523	607	21,944	2,211	13,201	6,121	397
Liabilities							
Deposits from banks and other financial institutions	11,885	-	11,885	-	-	-	-
Deposits from other customers	19,510	-	15,771	414	3,325	-	-
Other borrowed funds	1,001	-	1,001	-	-	-	-
Non-interest bearing liabilities	1,238	-	-	-	-	-	-
Total liabilities	33,634	-	28,657	414	3,325	-	-

Notes to the financial statements

27. RISK MANAGEMENT DISCLOSURES, CONTINUED

B. Non-trading activities, continued

(iii) Currency risk

As a result of the currency Board in place in Bulgaria, the Bulgarian currency is pegged to the Euro. As the currency in which the Bank presents it financial statements is the Bulgarian lev, the Bank's financial statements are effected by movements in the exchange rates between the currencies different to the Euro and the lev.

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

In thousands of BGN	**31 December 2004**	**31 December 2003**
Assets		
Bulgarian leva and euro	41,948	44,475
US dollars	10,574	6,851
Other	391	197
	52,913	51,523
Liabilities		
Bulgarian leva and euro	22,823	26,196
US dollars	11,117	7,432
Other	565	6
	34,505	33,634
Net position		
Bulgarian leva and euro	19,125	18,279
US dollars	(543)	(581)
Other	(174)	191

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

Notes to the financial statements

27. RISK MANAGEMENT DISCLOSURES, CONTINUED

B. Non-trading activities, continued

(iv) Credit risk

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

Credit risk associated with trading and investing activities is managed through the Bank's market risk management process. The risk that counterparties to both derivative and other instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Bank deals with counterparties of good credit standing.

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

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

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

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

The Bank's policy is to require suitable collateral to be provided by its customers prior to the disbursement of approved loans. It is the Bank's policy that the total amount of loans outstanding be collateralised. Guarantees and letters of credit are also subject to strict credit assessments before being provided. The agreements specify monetary limits to the Bank's obligations. The extent of collateral held for guarantees and letters of credit is usually at 100 percent.

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

Notes to the financial statements

28. RELATED PARTY TRANSACTIONS

In thousands of BGN

Related party	Nature of the related party relationship	Type of transaction	Outstanding balance
Demir Halk Bank, Nederland	Entity under common control	Deposit received	2,154
Demir Halk Bank, Nederland	Entity under common control	Current accounts	3
Disbank A.S.	Entity under common control	Current accounts	47
Disbank A.S.	Entity under common control	Deposit placed	288
C-Bank Turkey	Entity under common control	Deposit placed	131
Gingilli Holding	Entity under common control	Current accounts	3
C Yatirim Holding	Entity under common control	Current accounts	239
Employees	art. 47 of the Banking Law	Loans extended	84

29. POST BALANCE SHEET EVENTS

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