



**D COMMERCE BANK AD**

**(FORMERLY DEMIRBANK BULGARIA AD)**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2005  
WITH INDEPENDENT AUDITOR'S REPORT THEREON**

**Income statement**  
**For the year ended 31 December 2005**

<i>In thousands of BGN</i>	<b>Note</b>	<b>Year ended 31 December 2005</b>	<b>Year ended 31 December 2004</b>
Interest and similar income		4,344	3,380
Interest expense and similar charges		(933)	(624)
<b>Net interest income</b>	3	3,411	2,756
Fee and commission income		1,765	1,189
Fee and commission expense		(112)	(68)
<b>Net fee and commission income</b>	4	1,653	1,121
Net trading income	5	644	1,190
<b>Total income from banking operations</b>		5,708	5,067
General administrative expenses	6	(4,873)	(4,920)
Impairment losses	7	(5)	372
Other Income, net		17	-
<b>Total income from banking operations</b>		847	519
Litigation settlement expense		-	-
<b>Profit before taxes</b>		847	519
Deferred Tax Income	8	43	-
<b>Profit after taxation</b>		<u>890</u>	<u>519</u>

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 33.

Aksit Ozkural  
*Chief Executive Director*

Sinan Kircali  
*Executive Director*

Ognyan Yordanov  
*Executive Director*

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

Margarita Goleva  
*Registered Auditor*

<b>Balance sheet</b>		<b>31 December 2005</b>	<b>31 December 2004</b>
<b>As at 31 December 2005</b>			
<i>In thousands of BGN</i>	<b>Note</b>		
<b>ASSETS</b>			
Cash and balances with Central Bank	9	9,333	5,748
Loans and advances to banks	10	18,350	1,559
Financial assets held for trading	11	12,724	14,748
Investments	12	5,145	4
Loans and advances to other customers	13	36,457	29,335
Receivables under repurchase agreements	26	1,958	-
Property and equipment	15	957	1,321
Intangible assets	16	86	121
Other assets	17	154	77
Deferred Tax Asset	22	43	-
<b>Total Assets</b>		<b>85,207</b>	<b>52,913</b>
<b>LIABILITIES</b>			
Due to banks and other financial institutions	18	2,822	11,912
Due to other customers	19	59,238	20,815
Liabilities in trading portfolio	20	1,285	1,287
Other liabilities	21	2,537	491
<b>Total Liabilities</b>		<b>65,882</b>	<b>34,505</b>
<b>Shareholders' equity</b>			
Issued share capital	23	20,000	20,000
Reserves		(675)	(1,592)
<b>Total shareholders' funds</b>		<b>19,325</b>	<b>18,408</b>
<b>Total liabilities and shareholders' equity</b>		<b>85,207</b>	<b>52,913</b>

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 33.

The financial statements have been approved by the Chief Executive Director and the Executive Directors on 28 February 2006.

Aksit Ozkural

Sinan Kircali

Ognyan Yordanov

*Chief Executive Director*

*Executive Director*

*Executive Director*

Krassimir Hadjidinev

Margarita Goleva

*Registered Auditor*  
*Authorized Representative*  
KPMG Bulgaria OOD

*Registered Auditor*

**Cash flow statement**  
**For the year ended 31 December 2005**

<i>In thousands of BGN</i>	<b>Note</b>	<b>31 December 2005</b>	<b>31 December 2004</b>
<b>Cash flow from operating activities</b>			
Profit before tax		890	519
Impairment gains/(losses)	7	5	(372)
Depreciation and amortisation	6	573	648
Deferred Tax Income		(43)	-
		<u>1,425</u>	<u>795</u>
<b>Change in operating assets</b>			
(Increase)/decrease in assets held for trading		2,024	(417)
(Increase)/decrease in loans to customers		(7,127)	(15,997)
(Increase)/decrease in receivables under repurchase agreements		(1,958)	-
(Increase)/decrease in loans and advances to banks (repayment beyond 3 months)		-	5,293
(Increase)/decrease in blocked LC cover deposits with banks		(3,092)	-
(Increase)/decrease in other assets		(77)	28
<b>Change in operating liabilities</b>			
Net increase/(decrease) in due to banks		(9,090)	27
Net increase/(decrease) in amounts owed to other depositors		38,423	1,305
Decrease in other borrowed funds		-	(1,001)
Increase in liabilities in trading portfolio		(2)	1,287
Net increase/ (decrease) in other liabilities		<u>2,046</u>	<u>(747)</u>
<b>Net cash flow from operating activities</b>		<u>22,572</u>	<u>(9,427)</u>
<b>Cash flow from investing activities</b>			
Purchase of property, plant and equipment	15,16	(174)	(120)
(Acquisition)/ disposal of investments		<u>(5,114)</u>	<u>-</u>
<b>Net cash flow from investing activities</b>		<u>(5,288)</u>	<u>(120)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u>17,284</u>	<u>(9,547)</u>
<b>Cash and cash equivalents at the beginning of period</b>		<u>7,307</u>	<u>16,854</u>
<b>Cash and cash equivalents at the end of period</b>	26	<u>24,591</u>	<u>7,307</u>

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 33.

Aksit Ozkural	Sinan Kircali	Ognyan Yordanov
<i>Chief Executive Director</i>	<i>Executive Director</i>	<i>Executive Director</i>
Krassimir Hadjidinev		Margarita Goleva
<i>Registered Auditor</i>		<i>Registered Auditor</i>
<i>Authorized Representative</i>		
KPMG Bulgaria OOD		

**Statement of Changes in Equity**  
**For the six months period ended 31 December 2005**

<i>In thousands of BGN</i>	<b>Share capital</b>	<b>Statutory Reserves</b>	<b>Other Reserves</b>	<b>Revaluation Reserves on available for sale investments</b>	<b>Total</b>
<b>Balance at 1 January 2004</b>	20,000		(2,111)	-	17,889
Net profit for the year	-	-	519	-	519
Transfer to statutory reserves		88	(88)		
<b>Balance at 31 December 2004</b>	20,000	88	(1,680)	-	18,408
Net profit for the year	-	-	890	-	890
Revaluation of available for sale investments	-	-	-	27	27
<b>Balance at 31 December 2005</b>	20,000	88	(790)	27	19,325

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 33.

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 national accounting legislation, applicable to banks in Bulgaria. According to the Bulgarian Accounting Act, effective 1 January 2005, the standards applicable on the territory of Bulgaria are the International Financial Reporting Standards (IFRS), adopted by the EU Commission. They must be officially translated, approved by the Council of Ministers of the Republic of Bulgaria and published in State Gazette. As at the date of issue of these financial statements, the IFRS adopted by the EU commission, were not translated in Bulgarian, approved by the Council of Ministers of the Republic of Bulgaria and published in State Gazette. Despite of this, these financial statements are prepared in compliance with International Accounting Standards (IAS), adopted in Bulgaria through Ordinance of the Council of Ministers №21/4.02.2003 and published in the State Gazette, issue 13/2003. List of applicable standards is given in note 31.

In addition, the Banking Act requires banks to assess periodically the credit exposures, other risk assets, including their off balance sheet liabilities, and to book impairment losses for covering risks of losses in accordance with Bulgarian National Bank (BNB) criteria. According to the Banking Act, these impairment losses are recognised as expenses and allowance to the book value of the assets. Therefore, these financial statements include allowances for impairment losses of the assets formed in accordance with Regulation 9 of BNB for valuation and classification of risk exposures and allowance for impairment losses.

**(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.

**Notes to the financial statements**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**(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.

Bulgarian National Bank closing exchange rates of most common currencies as of December 31, 2005 and December 31, 2004 are as follows

Currencya	Exchange rate as of 31 December 2005 (end day)	Exchange rate as of 31 December 2004 (end day) BGN
EUR, 1	1.95583	1.95583
USD, 1	1.65790	1.43589
CHF, 1	1.25769	1.26763
GBP, 1	2.85398	2.77403

## 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. Bank has adopted equity revaluation method of its assets classified in available for sale category.

Any positive or negative revaluation (except any impairment loss) has been credited or debited directly in equity and presented as revaluation reserve, net of deferred tax and foreign revaluation gains/losses.

##### (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.

With respect to remeasuring the participation in companies where the Bank does not exercise control, following the original recognition it is classified as financial assets available-for-sale. Fair value of those investments cannot be reliably measured; therefore they are accounted at acquisition cost after impairment loss.

#### **(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) Disclosure of fair value

According to IAS 32 the Bank disclose fair value information on assets or liabilities for which published market information is readily available and where the fair value is materially different from their recorded amounts.

The fair value of cash and cash equivalents, deposits, loans and other current receivables and liabilities is approximately equal to the book value given, because of their short-term maturity.

For transaction with loans, there is no sufficient market experience, stability and liquidity and therefore their fair value cannot be reliably determined. According to the management, given the existing circumstances, the fair value of loans is not significantly different from the reported carrying amounts.

#### (h) 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.

#### (i) 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.

## **Notes to the financial statements**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

#### **(j) 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.

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.

#### **(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

#### *(i) Originated loans and advances*

The Bank evaluates and classifies its risk exposures, i.e. credits and receivables, when there is objective evidence of deterioration. Loans are evaluated and classified based on the credit risk, delayed payments, evaluation of the debtor's financial standing and sources for repayment in accordance with the requirements of BNB Regulation No 9. When the bank has more than one credit exposition to third parties, who could be regarded as common risk bearers, these expositions are classified in the group of the party bearing the highest risk. The bank forms specific allowance for impairment losses, which are set up for particular expositions as well as on a portfolio-basis.

The bank allocates specific allowance for impairment losses for particular expositions for the difference between the book value of the exposition from the previous accounting period and its recoverable amount for the reporting period. The recoverable amount of the risk exposition is determined by reducing the contracted cash flows with risk loss percentage according to the classification group and the expected cash flows are then discounted by applying the respective effective interest rate. The amount of the specific allowance for impairment losses on a risk exposition, secured with high liquid collateral, equals the difference between the carrying amount and the recoverable amount of the risk exposition for the reporting period, which remains uncovered by the net realizable value of the collateral.

The Bank's credit expositions are classified according to the requirements of BNB Regulation No 9 in four groups, as follows:

Classification group	% of impairment loss
• Standard	Up to 10%
• Watch	min 10%, for individuals min 20%
• Substandard	min 50%, for individuals min 75%
• Non-performing	100%

## Notes to the financial statements

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### (j) Impairment, continued

##### (i) *Originated loans and advances, continued*

According to the requirements of Regulation No 9, reclassification of a credit exposure to a lower risk group is possible, if the credit exposure meets the requirements of that lower risk group for at least six months.

Specific allowance for impairment losses on a portfolio basis are formed for exposures classified as standard for covering considerable impairment losses, which cannot be attributed to individual credit exposures, in accordance with the credit policy of the bank.

The Bank's policy for specific allowance for impairment losses on a portfolio basis determines the rules for reducing the carrying amount of a portfolio of identical credits to their recoverable amount 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.

Loans and advances to customers are presented net of specific and general allowances, so that the carrying amount is reduced by the impairment expenses. Increases in the allowance account are recognised in the income statement. The Bank reverses impairment losses through the income statement, due to partial or entire repayment of the credit exposure, as well as due to reclassification of the credit exposure in a lower risk group.

##### (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.

#### (l) 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

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

#### (m) 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

#### (n) 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.

#### (o) 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**

<i>In thousands of BGN</i>	<b>31 December 2005</b>	<b>31 December 2004</b>
Interest and similar income arises from:		
- Loans and advances to banks	171	239
- Loans and advances to customers	3,352	2,143
- Trading instruments	805	998
- Repurchase agreements	16	-
	<u>4,344</u>	<u>3,380</u>
Interest expense and similar charges arises from:		
- Deposits from banks	(123)	(257)
- Deposits from other customers	(810)	(367)
	<u>(933)</u>	<u>(624)</u>
<b>Net interest income</b>	<u><u>3,411</u></u>	<u><u>2,756</u></u>

**4. NET FEE AND COMMISSION INCOME BY TYPE**

<i>In thousands of BGN</i>	<b>31 December 2005</b>	<b>31 December 2004</b>
<b>Fee and commission income</b>		
- Cash and money transfers	1,232	762
- Documentary business	225	216
- Other	308	211
	<u>1,765</u>	<u>1,189</u>
<b>Fee and commission expense</b>		
- Accounts maintenance	(32)	(14)
- Other	(80)	(54)
	<u>(112)</u>	<u>(68)</u>
<b>Net fee and commission income</b>	<u><u>1,653</u></u>	<u><u>1,121</u></u>

**5. NET TRADING INCOME**

<i>In thousands of BGN</i>	<b>31 December 2005</b>	<b>31 December 2004</b>
Net trading income arises from:		
- Debt instruments and related derivatives	236	840
- Foreign exchange rate fluctuations	408	350
	<u>644</u>	<u>1,190</u>
<b>Net trading income</b>	<u><u>644</u></u>	<u><u>1,190</u></u>

**Notes to the financial statements**

**6. GENERAL ADMINISTRATIVE EXPENSES**

<i>In thousands of BGN</i>	<b>31 December 2005</b>	<b>31 December 2004</b>
General and administrative expenses arise from:		
- Personnel cost	(2,320)	(2,451)
- Depreciation and amortization	(573)	(648)
- Administration, marketing and other costs	(1,873)	(1,709)
- Deposits guarantee fund annual contribution	(107)	(112)
<b>Total</b>	<u>(4,873)</u>	<u>(4,920)</u>

Personnel costs include salaries, social and health security contributions under the provisions of the local legislation. The number of employee in the Bank is 83 for 2005 (2004:87).

According to Deposit Guarantee Act all Bulgarian banks should make annual instalments of 0.5% of the total deposit base from the previous year, determined on an average daily basis from non-financial institutions

**7. IMPAIRMENT LOSSES**

<i>In thousands of BGN</i>	<b>31 December 2005</b>	<b>31 December 2004</b>
<i>Write downs</i>		
Loans and advances to customers	<u>(329)</u>	<u>(640)</u>
	(329)	(640)
<i>Reversals of write downs</i>		
Loans and advances to customers	<u>324</u>	<u>1,012</u>
	324	1,012
<b>Net increase/(decrease)</b>	<u>(5)</u>	<u>372</u>

**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:

<i>In thousands of BGN</i>	<b>31 December 2005</b>	<b>31 December 2004</b>
Profit before tax	847	519
Tax calculated at a tax rate of 15% (2004: 19.5%)	127	101
Expenses not deductible for tax purposes	15	14
Utilization of previously unrecognized tax losses	(142)	(115)
Income tax expense	-	-
Current tax expense	-	-
Deferred tax income	43	-
<b>Total</b>	<b>43</b>	<b>-</b>

**9. CASH AND BALANCES WITH CENTRAL BANK**

<i>In thousands of BGN</i>	<b>31 December 2005</b>	<b>31 December 2004</b>
Cash on hand		
- In Bulgarian Leva	1,807	1,116
- In foreign currencies	2,999	2,290
Balances with the Bulgarian National Bank	4,527	2,342
<b>Total</b>	<b>9,333</b>	<b>5,748</b>

The current account with the Bulgarian National Bank is used for direct participation in the money and Treasury bill markets and for settlement purposes. They include the Bank's minimum required reserves



**Notes to the financial statements**

**10. LOANS AND ADVANCES TO BANKS**

*In thousands of BGN*

	<b>31 December 2005</b>	<b>31 December 2004</b>
Current accounts and amounts with banks with original maturity of less than 3 months		
- In Bulgarian leva	4,001	-
- In foreign currencies	11,257	1,559
<b>Total</b>	15,258	1,559
Current accounts and amounts with banks with original maturity beyond 3 months		
- In Bulgarian Leva	-	-
- In foreign currencies	-	-
Blocked LC cover deposits with foreign banks		
- In foreign currencies	3,092	-
Less allowance for uncollectability	-	-
<b>Total</b>	18,350	1,559

**11. FINANCIAL ASSETS HELD FOR TRADING**

*In thousands of BGN*

	<b>31 December 2005</b>	<b>31 December 2004</b>
<b>Financial assets held for trading:</b>		
Government securities – Republic of Bulgaria		
- Short- and medium-term denominated in BGN	6,287	8,315
- Long-term bonds denominated in EUR	6,437	6,433
<b>Total</b>	12,724	14,748

**12. INVESTMENTS**

*In thousands of BGN*

	<b>31 December 2005</b>	<b>31 December 2004</b>
Government securities – Republic of Bulgaria		
- Mid-Term denominated in BGN	3,995	-
Government securities – Republic of Turkey		
- Mid-Term denominated in EUR	1,146	-
Equity Investments denominated in BGN	4	4
<b>Total</b>	5,145	4

Equity investments represent 1,000 shares in the Bulgarian Stock Exchange with BGN 1 per value each, amounting at BGN 4 thousand. This investment is stated at cost, as their fair value cannot be reliably determined.

**Notes to the financial statements**

**13. LOANS AND ADVANCES TO OTHER CUSTOMERS BY TYPE**

<i>In thousands of BGN</i>	<b>31 December 2005</b>	<b>31 December 2004</b>
Individuals		
- Consumer loans	384	750
- Mortgage backed consumer loans	585	363
- Others	88	84
Private companies		
- Trading loans	35,735	28,458
- Others	-	-
Total loans and advances (principle)	36,792	29,655
Accrued income	68	78
Less allowance for uncollectability	(403)	(398)
<b>Total</b>	<u><u>36,457</u></u>	<u><u>29,335</u></u>

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**

<i>In thousands of BGN</i>	<b>31 December 2005</b>	<b>31 December 2004</b>
Opening balance at beginning of period	<u>398</u>	<u>1,102</u>
Net increase recognized in income statement	5	(372)
Write offs	<u>-</u>	<u>(332)</u>
Closing balance at end of period	<u><u>403</u></u>	<u><u>398</u></u>

**Notes to the financial statements**

**15. PROPERTY AND EQUIPMENT**

*In thousands of BGN*

	<b>Machines and Equipment</b>	<b>Fixtures and Fittings</b>	<b>Motor Vehicles</b>	<b>Leasehold improve- ments</b>	<b>Other Assets</b>	<b>Total</b>
<b>Cost</b>						
At 1 January 2005	1,109	1,144	392	1,090	220	3,955
Additions	53	25	84	-	6	168
Disposals	-	-	134	-	-	134
At 31 December 2005	1,162	1,169	342	1,090	226	3,989
<b>Depreciation</b>						
At 1 January 2005	845	814	249	679	47	2,634
Charge for the year	94	174	68	166	26	528
On disposals	-	-	130	-	-	130
At 31 December 2005	939	988	187	845	73	3,032
Net book value 31 December 2005	223	181	155	245	153	957
Net book value 31 December 2004	264	330	143	411	173	1,321

**16. INTANGIBLE ASSETS**

*In thousands of BGN*

	<b>Licenses</b>	<b>Computer software</b>	<b>Total</b>
<b>Cost</b>			
At 1 January 2005	142	229	371
Additions	-	10	10
Disposals	-	-	-
At 31 December 2005	142	239	381
<b>Depreciation</b>			
At 1 January 2005	98	152	250
Charge for the year	21	24	45
Disposals	-	-	-
At 31 December 2005	119	176	295
Net book value 31 December 2005	23	63	86
Net book value 31 December 2004	44	77	121

**Notes to the financial statements**

**17. OTHER ASSETS**

<i>In thousands of BGN</i>	<b>31 December 2005</b>	<b>31 December 2004</b>
Deferred expense	47	49
Other assets	107	28
	<hr/>	<hr/>
<b>Total</b>	<b>154</b>	<b>77</b>
	<hr/> <hr/>	<hr/> <hr/>

**18. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS**

<i>In thousands of BGN</i>	<b>31 December 2005</b>	<b>31 December 2004</b>
Demand deposits of other financial institutions	639	
Term deposits		
- In local currency	1,226	1,252
- In foreign currencies	957	10,660
	<hr/>	<hr/>
<b>Total</b>	<b>2,822</b>	<b>11,912</b>
	<hr/> <hr/>	<hr/> <hr/>

**19. DUE TO OTHER CUSTOMERS**

<i>In thousands of BGN</i>	<b>31 December 2005</b>	<b>31 December 2004</b>
Individuals		
- Time deposits	6,604	4,319
- Current accounts	96	129
- Saving accounts	1,349	1,436
Private companies		
- Time deposits	4,614	4,836
- Current accounts	46,575	10,095
	<hr/>	<hr/>
<b>Total</b>	<b>59,238</b>	<b>20,815</b>
	<hr/> <hr/>	<hr/> <hr/>

**Notes to the financial statements**

**20. LIABILITIES IN TRADING PORTFOLIO**

Liabilities 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 2005. As at year end the liabilities in trading portfolio amount to EUR 657 thousand (including accrued interest amounting to EUR 36 thousand).

**21. OTHER LIABILITIES**

<i>In thousands of BGN</i>	<b>31 December 2005</b>	<b>31 December 2004</b>
Payments in progress	2,349	332
Other payables	188	159
<b>Total</b>	<b>2,537</b>	<b>491</b>

**22. DEFERRED TAX (ASSETS)/LIABILITIES**

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 15% for 2005 and same tax rate 15% for 2006 when the first possible reversal of the differences might occur.

Deferred income tax balances are attributable to the following items

<i>В хиляди лева</i>	<b>31 December 2005</b>	<b>31 December 2004</b>
Deferred tax assets:		
Other liabilities (unused holiday pay leave)	(9)	-
Loss carried forward from previous years	(34)	-
Deferred tax asset	(43)	-
Deferred tax liabilities:		
Depreciation of tangible assets	-	-
Deferred tax liabilities	-	-
<b>Deferred Tax (Assets)/Liabilities</b>	<b>(43)</b>	<b>-</b>

**Notes to the financial statements**

**23. CAPITAL AND RESERVES**

**(a) Number and face value of registered shares as at 31 December 2005**

<i>In thousands of BGN</i>	<b>Number of shares</b>	<b>Face value</b>
Ordinary registered voting shares	20,000	20,000
<b>Total</b>	20,000	20,000

As at 31 December 2005 the registered share capital comprises of 20,000 ordinary shares with a par value of BGN 1,000.

**(b) Number and face value of registered shares as at 31 December 2005, continued**

<i>Shareholder's name</i>	Shares hold at 31.12.2005	Percent	Shares hold at 31.12.2004	Percent
Mrs. Isil Dogan	10,000	50.00	10,000	50.00
Mr. Halit Cingillioglu	8,000	40.00	8,000	40.00
Mrs. Arzuhan Yalcindag	500	2.50	500	2.50
Mrs. Vuslat Sabanci	500	2.50	500	2.50
Ms. Hanzade Vasfiye Dogan	500	2.50	500	2.50
Ms. Yasar Begumhan Dogan Faralyali	500	2.50	500	2.50
<b>Total</b>	<b>20,000</b>	<b>100</b>	<b>20,000</b>	<b>100</b>

**(c) 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.

## Notes to the financial statements

### 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.

<i>In thousands of BGN</i>	<b>31 December 2005</b>	<b>31 December 2004</b>
Bank guarantees and letters of credit		
- In Bulgarian Leva	2,804	2,475
- In foreign currencies	6,812	3,545
	9,616	6,020
Credit commitments		
- In Bulgarian Leva	4,365	623
- In foreign currencies	1,748	2,535
	6,113	3,158
<b>Total</b>	15,729	9,178

#### (b) Memorandum items

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 2005 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:

<i>In thousands of BGN</i>	<b>31 December 2005</b>	<b>31 December 2004</b>
Cash on hand	4,806	3,406
- In Bulgarian Leva	1,807	1,116
- In foreign currencies	2,999	2,290
Balances with the Bulgarian National Bank	4,527	2,342
Current accounts and amounts with banks with original maturity of less than 3 months		
- In Bulgarian Leva	-	-
- In foreign currencies	15,258	1,559
	15,258	1,559
<b>Cash and cash equivalents</b>	24,591	7,307

## Notes to the financial statements

### 26. RECEIVABLES UNDER REPURCHASE AGREEMENTS

As of December 31, 2005 the Bank has the following liabilities under repurchase agreements of Bulgarian government securities:

Face value BGN	Fair value of securities as of December 31, 2005 (BGN)	Amount of borrowings (BGN)	Interest rate	Transaction date	Maturity date
1,955,830	2,428,926	1,955,830	2.76%	14/12/2005	13/01/2006

### 27. 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.

### 28. 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**

### **28. 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**

**28. RISK MANAGEMENT DISCLOSURES, CONTINUED**

**B. Non-trading activities, continued**

(i) *Liquidity risk, continued*

**31 December 2005**

<i>In thousands of BGN</i>	Up to 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	Over 5 years	Maturity not defined	Total
<b>Assets</b>							
Cash and balances with Central Bank	9,333	-	-	-	-	-	9,333
Loans and advances to banks	18,350	-	-	-	-	-	18,350
Financial assets held for trading	12,724	-	-	-	-	-	12,724
Investments	-	132	-	5009	-	4	5,145
Loans and advances to other clients	1,868	5,075	18,161	9,749	1,604	-	36,457
Receivables under repurchase agreements	1,958	-	-	-	-	-	1,958
Property and equipment	-	-	-	-	-	957	957
Intangible assets	-	-	-	-	-	86	86
Other assets	83	47	24	-	-	-	154
Deferred Tax Asset	-	-	43	-	-	-	43
<b>Total Assets</b>	<u>44,316</u>	<u>5,254</u>	<u>18,228</u>	<u>14,758</u>	<u>1,604</u>	<u>1,047</u>	<u>85,207</u>
<b>Liabiliteis</b>							
Due to banks and other financial institutions	2,243	-	-	579	-	-	2,822
Due to other customers	56,320	1,122	1,549	247	-	-	59,238
Liabilities in trading portfolio	-	-	1,285	-	-	-	1,285
Other liabilities	2,537	-	-	-	-	-	2,537
<b>Total Liabiliteis</b>	<u>61,100</u>	<u>1,122</u>	<u>2,834</u>	<u>826</u>	<u>-</u>	<u>-</u>	<u>65,882</u>
<b>Net liquidity gap</b>	<u>(16,784)</u>	<u>4,132</u>	<u>15,394</u>	<u>13,932</u>	<u>1,604</u>	<u>1,047</u>	<u>19,325</u>

**Notes to the financial statements**

**28. RISK MANAGEMENT DISCLOSURES, CONTINUED**

**B. Non-trading activities, continued**

(i) *Liquidity risk, continued*

**31 December 2004**

<i>In thousands of BGN</i>	Up to 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	Maturity not defined	Total
<b>Assets</b>						
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 customers	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
<b>Total Assets</b>	<u>23,635</u>	<u>5,392</u>	<u>18,046</u>	<u>4,394</u>	<u>1,446</u>	<u>52,913</u>
<b>Liabiliteis</b>						
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
Liabilities in trading portfolio	-	-	1,287	-	-	1,287
Other liabilities	470	14	7	-	-	491
<b>Total Liabiliteis</b>	<u>28,458</u>	<u>783</u>	<u>4,565</u>	<u>699</u>	<u>-</u>	<u>34,505</u>
<b>Net liquidity gap</b>	<u>(4,823)</u>	<u>4,609</u>	<u>13,481</u>	<u>3,695</u>	<u>1,446</u>	<u>18,408</u>

**Notes to the financial statements**

**28. 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 2005

	Total	Floating rate instruments	Less than 1 month	Fixed rate instruments			
				Between 1 month and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
<b>Assets</b>							
Loans and advances to banks	16,481	-	16,481	-	-	-	-
Financial assets held for trading	12,724	2,437	10,287	-	-	-	-
Investments	5,141	-	5,141	-	-	-	-
Loans and advances to other customers	36,457	11,630	242	3,267	11,370	9,174	774
Receivables under repurchase agreements	1,958	-	1,958	-	-	-	-
Non-interest earning assets	12,446	-	-	-	-	-	-
<b>Total assets</b>	<b>85,207</b>	<b>14,067</b>	<b>34,109</b>	<b>3,267</b>	<b>11,370</b>	<b>9,174</b>	<b>774</b>
<b>Liabilities</b>							
Due to banks and other financial institutions	2,816	-	2,238	-	-	578	-
Due to other customers	58,945	-	56,256	1,202	1,487	-	-
Liabilities in trading portfolio	1,285	-	1,285	-	-	-	-
Non-interest bearing liabilities	2,836	-	-	-	-	-	-
<b>Total liabilities</b>	<b>65,882</b>	<b>-</b>	<b>59,779</b>	<b>1,202</b>	<b>1,487</b>	<b>578</b>	<b>-</b>

**Notes to the financial statements**

**28. 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 2004

	Total	Floating rate instruments	Fixed rate instruments				More than 5 years
			Less than 1 month	Between 1 month and 3 months	Between 3 months and 1 year	Between 1 and 5 years	
<b>Assets</b>							
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	-	-	-	-	-	-
<b>Total assets</b>	<b>52,913</b>	<b>10,411</b>	<b>13,650</b>	<b>7,302</b>	<b>8,752</b>	<b>5,527</b>	<b>-</b>
<b>Liabilities</b>							
Deposits from banks and other financial institutions	11,912	-	11,065	-	293	554	-
Deposits from other customers	20,815	-	16,717	768	3,330	-	-
Liabilities in trading portfolio	1,287	-	1,287	-	-	-	-
Non-interest bearing liabilities	491	-	-	-	-	-	-
<b>Total liabilities</b>	<b>34,505</b>	<b>-</b>	<b>29,069</b>	<b>768</b>	<b>3,623</b>	<b>554</b>	<b>-</b>

**Notes to the financial statements**

**28. 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 its 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:

<i>In thousands of BGN</i>	<b>31 December 2005</b>	<b>31 December 2004</b>
<b>Assets</b>		
Bulgarian leva and euro	65,577	41,948
US dollars	19,437	10,574
Other	193	391
	85,207	52,913
 <b>Liabilities</b>		
Bulgarian leva and euro	34,872	22,823
US dollars	30,864	11,117
Other	146	565
	65,882	34,505
 <b>Net position</b>		
Bulgarian leva and euro	30,705	19,125
US dollars	(11,427)	(543)
Other	47	(174)
	19,325	18,408

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**

**28. 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.

Concentrations of credit risk in the balance, by economic sectors, are as follows:

<i>In thousands of BGN</i>	<b>2005</b>	<b>2004</b>
Manufacturing	7,758	4,304
Insurance, lease activities	5,649	5,234
Trade and services	19,856	15,782
Transport and communication	480	759
Construction	1,803	2,511
Agriculture and forestry	252	-
Public loans	1,062	1,143
	<hr/>	<hr/>
Impairment loss	(403)	(398)
	<hr/>	<hr/>
	<u>36,457</u>	<u>29,335</u>

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.

## Notes to the financial statements

### 28. RISK MANAGEMENT DISCLOSURES, CONTINUED

#### B. Non-trading activities, continued

##### (v) *Credit risk, continued*

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.

The table below presents the total amount of loans granted to non-financial institutions and other clients, as well as the type of collateral.

<i>In thousands of BGN</i>	<b>2005</b>	<b>2004</b>
Collateral with mortgage	13,662	10,349
Cash collateral	777	757
Other collateral	22,018	18,229
	36,457	29,335

Other collateral include pledge on movable property and promissory notes.

### 29. RELATED PARTY TRANSACTIONS

*In thousands of BGN*

<b>Related party</b>	<b>Nature of the related party relationship</b>	<b>Type of transaction</b>	<b>Outstanding balance</b>
Demir Halk Bank, Nederland	Entity under common control	Current accounts	22
Demir Halk Bank, Nederland	Entity under common control	Deposit received	589
Demir Kazakhstan Bank	Entity under common control	Deposit received	-
Fortis Bank	Entity under common control	Current accounts	30
C Bank Turkey (C Kredi ve Kalkinima Bankasi)	Entity under common control	Deposit received	-
C Bank Turkey (C Kredi ve Kalkinima Bankasi)	Entity under common control	Deposit placed	5,307
C Bank Turkey (C Kredi ve Kalkinima Bankasi)	Entity under common control	Current accounts	1
Gingilli Holding	Entity under common control	Current accounts	3
C Yatirim Holding	Entity under common control	Current accounts	1
Isil Dogan	Shareholder	Current accounts	-
Halit Cingillioglu	Shareholder	Current accounts	-
Hasan Akcakayalioglu	Member of controlling body	Current accounts	-
Celik Halat Ve Tel Sanayii Anonim Sirket	Entity under common control	Loan granted	1,324
Employees	art. 47 of the Banking Law	Loans extended	88

### 30. 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.



**Notes to the financial statements**

**31. LIST OF THE APPLICABLE ACCOUNTING STANDARDS**

- IAS 1 – Presentation of Financial Statements (revised 1997)
- IAS 2 - Inventories (revised 1993)
- IAS 7 – Cash Flow Statements (revised 1992)
- IAS 8 – Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies (revised 1993)
- IAS 10 – Events after the Balance Sheet Date (revised 1999)
- IAS 11 – Construction Contracts (revised 1993)
- IAS 12 – Income Taxes (revised 2000)
- IAS 14 – Segment Reporting (revised 1997)
- IAS 15 – Information Reflecting the Effects of Changing Prices (reformatted 1994)
- IAS 16 – Property, Plant and Equipment (revised 1998)
- IAS 17 – Leases (revised 1997)
- IAS 18 – Revenue (revised 1993)
- IAS 19 – Employee Benefits (reviewed 2000)
- IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance (reformatted 1994)
- IAS 21 – The Effects in Changes of Foreign Exchange Rates
- IAS 22 – Business Combinations (revised 1998)
- IAS 23 – Borrowing Costs (revised 1993)
- IAS 24 – Related Party Disclosures (reviewed 1994)
- IAS 26 – Accounting and Reporting by Defined Benefit Plans (reformatted 1994)
- IAS 27 – Consolidated Financial Statements and Accounting for Investments in Subsidiaries (reformatted 1994)
- IAS 28 – Accounting for Investments in Associates (reformatted 2000)
- IAS 29 – Financial Reporting in Hyperinflationary Economies (reformatted 1994)
- IAS 30 – Disclosures in Financial Statements of Banks and Similar Financial Institutions (reformatted 1994)
- IAS 31 – Interests in Joint Ventures (revised 2000)
- IAS 32 – Financial Instruments: Disclosure and Presentation(revised 1998)
- IAS 33 – Earning per Share
- IAS 34 – Interim Financial Reporting
- IAS 35 – Discontinuing Operations
- IAS 36 – Impairment of Assets
- IAS 37 – Provisions, Contingent Liabilities and Contingent Assts
- IAS 38 – Intangible Assets
- IAS 39 – Financial Instruments: Recognition and Measurement(revised 2000)
- IAS 40 – Investment Property
- IAS 41 – Agriculture