КОРПОРАТИВНА ТЪРГОВСКА БАНКА
CORPORATE COMMERCIAL BANK

Corporate Commercial Bank AD

Financial Statements

For the year ended 31 December 2005

with independent auditor's report thereon

KPMG

REPORT
OF THE INDEPENDENT AUDITOR
TO THE SHAREHOLDERS OF CORPORATE COMMERCIAL BANK AD

Sofia, 31 January 2006

We have audited the accompanying balance sheet of Corporate Commercial Bank AD ("the Bank") as of 31 December 2005 and the related statements of income and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as of 31 December 2005, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Krassimir Hadjivinev
Partner
Authorized representative

KPMG Bulgaria EOOD
37 Fridtjof Nansen Str.
1142 Sofia
Bulgaria

София
Рег. №045
"КПМГ - България" ООД

Margarita Goleva
Registered auditor

0202 Маргарита Голева
Регистриран одитор

Income statement

For the year ended 31 December 2005

In thousands of BGN	**Note**	**2005**	**2004**
Interest and similar income		27,137	21,744
Interest expense and similar charges		(13,005)	(7,949)
Net interest income	3	14,132	13,795
Fee and commission income		5,345	4,190
Fee and commission expense		(337)	(218)
Net fee and commission income	4	5,008	3,972
Net trading income	5	3,964	1,436
Other operating income (net)	6	550	350
Total income from banking operations		23,654	19,553
General administrative expenses	7	(17,790)	(13,612)
Impairment losses	8	(653)	(677)
Profit/(loss) before tax		5,211	5,264
Income tax expense	9	(834)	(1,041)
Profit/(loss) after tax		4,377	4,223

The income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 31.

Iliyan Zafirov
Executive Director

Orlin Roussev
Executive Director

Lyubomir Vessov
Executive Director

KPMG Bulgaria OOD

Krassimir Hadjidinev
Partner
Authorized representative

Margarita Goleva
Registered auditor

Balance sheet

As at 31 December 2005
In thousands of BGN

	Note	2005	2004
ASSETS			
Cash and cash equivalents	10	210,127	158,288
Financial assets held for trading	11	28,709	24,438
Investments	12	2,991	837
Placements with and loans to banks and other financial institutions	13	1,547	-
Loans and advances to other customers	14	262,397	164,979
Property, plant and equipment	15	16,947	10,008
Intangible assets	16	458	435
Other assets	17	689	537
Total assets		523,865	359,522
LIABILITIES			
Deposits from banks and other financial institutions	18	26,951	22,075
Deposits from other customers	19	453,292	307,003
Other borrowings	20	205	320
Other liabilities	21	525	1,608
Total Liabilities		480,973	331,006
Shareholders' equity			
Issued share capital	22	30,000	20,000
Reserves	22	12,892	8,516
Total shareholders' equity		42,892	28,516
Total liabilities and shareholders' equity		523,865	359,522
Contingent liabilities and other commitments	23	44,417	48,448

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 31.

Iliyan Zafirov
Executive Director

Orlin Roussev
Executive Director

Luybomir Vessov
Executive Director

КОРПОРАТИВНА ТЪРГОВСКА БАНКА АД
СОФИЯ
CORPORATE COMMERCIAL BANK AD

KPMG Bulgaria OOD

Krassimir Hadjidinev
Partner
Authorized representative

Margarita Goleva
Registered auditor

0202 Маргарита Голева
Регистриран одитор

Statement of cash flows

For the year ended 31 December 2005 *In thousands of BGN*	**Note**	**2005**	**2004**
Operating activities			
Profit after taxation		4,377	4,223
Adjustments for non-cash items			
Increase in impairment allowances		653	677
Depreciation and amortisation		1,814	1,399
(Profit)/Loss on disposal of non-current assets		42	143
Unrealised (gains) from dealing securities		(423)	(253)
Tax expense		834	1,041
		7,297	7,230
Changes in operating assets			
(Increase)/decrease in financial instruments held for trading		(3,848)	27,478
(Increase)/decrease in placements with and loans to banks		(1,547)	15,739
(Increase) in loans to customers		(98,071)	(43,228)
(Increase)/decrease in other assets		(125)	(313)
		(103,591)	(324)
Changes in operating liabilities			
(Decrease) in deposits from banks		4,876	(8,828)
Increase in amounts owed to other depositors		146,289	61,327
Decrease in other liabilities		(1,059)	(538)
Income taxes paid		(829)	(532)
		149,277	51,429
Cash flows from operating activities		52,983	58,335
Investing activities			
Acquisition of non-current assets		(11,840)	(4,267)
Sale of non-current assets		3,079	141
Sale/(purchase) of investments		(2,154)	270
Cash flows from investing activities		(10,915)	(3,856)
Financing activities			
Proceeds from issuance of share capital		10,000	6,000
Payment of finance lease liabilities		(229)	(184)
Cash flows from financing activities		9,771	5,816

Statement of cash flows, continued

For the year ended 31 December 2005
In thousands of BGN

	Note	2005	2004
Net increase in cash and cash equivalents		51,839	60,295
Cash and cash equivalents at 1 January		158,288	97,993
Cash and cash equivalents at 31 December	10	210,127	158,288

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 7 to 31.

Iliyan Zafirov
Executive Director

Orlin Roussev
Executive Director

Luybomir Vessov
Executive Director

КОРПОРАТИВНА ТЪРГОВСКА БАНКА АД
СОФИЯ
CORPORATE COMMERCIAL BANK AD

KPMG Bulgaria OOD

Krassimir Hadjidinev
Authorized representative

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
София
Рег. №045
"КПМГ - България" ООД

Margarita Goleva
Registered auditor

0202 Маргарита Голева
Регистриран одитор

Statement of changes in equity

For the year ended 31 December 2005

In thousands of BGN	Share capital	Statutory reserves	Retained earnings	Other reserves	Total
Balance at 1 January 2004	14,000	1,441	2,716	135	18,292
Issue of share capital	6,000				6,000
Appropriations to statutory reserve	-	2,716	(2,716)	-	-
Net profit for the year ended 31 December 2004	-	-	4,223	-	4,223
Balance at 31 December 2004	20,000	4,157	4,223	135	28,515
Issue of share capital	10,000	-	-	-	10,000
Appropriations to statutory reserve	-	4,223	(4,223)	-	-
Net profit for the year ended 31 December 2005	-	-	4,377	-	4,377
Balance at 31 December 2005	30,000	8,380	4,377	135	42,892

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 7 to 31.

The financial statements have been approved by the Executive Directors on 31 January 2006.

Iliyan Zafirov
Executive Director

Orlin Roussev
Executive Director

Lyubomir Vessov
Executive Director

KPMG Bulgaria OOD

Krassimir Hadjidinev
Partner
Authorized representative

Margarita Goleva
Registered auditor

Notes to the financial statements

1. BASIS OF PREPARATION

(a) Statute

Corporate Commercial Bank AD (the Bank) is a bank domiciled in the Republic of Bulgaria and has its registered office in Sofia, 10 Graf Ignatiev Str.

The Bank has a full banking license issued by the Bulgarian National Bank (BNB) according to which it is allowed to conduct all banking transactions permitted by Bulgarian legislation both on the domestic and foreign markets.

(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.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2 (m).

(c) Basis of preparation

The financial statements are presented in Bulgarian Levs (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. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost convention.

2. 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 include 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 recognised 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. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(b) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the exchange rates at the balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items are reported as part of the fair value gain or loss or are included in the fair value reserve in equity.

(c) Financial assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivable.

(iii) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Were the Bank to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale.

Notes to the financial statements

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(c) Financial assets, continued

(iv) Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

(v) Recognition and subsequent measurement of financial assets

Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on the date of the actual delivery of the assets. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs for all financial assets. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or when the Bank has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

In 2005 the Bank changed its accounting policies regarding the gains and losses arising from a change in the fair value of available-for-sale financial assets. As a result of the new accounting policy the fair value changes of available-for-sale financial assets are recognised directly in equity and not in the income statement which policy was applied in prior financial years. The management of the Bank believes that change made in the recognition of the gains and losses arising from a change in the fair value of available-for-sale financial assets in equity results in a more appropriate disclosure in the financial statements and does not have a material impact on the financial result and the net assets of the Bank. The change in the accounting policy is applied retrospectively and the prior year adjustment has an insignificant impact on the net assets of the Bank.

Dividends on available-for-sale equity instruments are recognised in the income statement when the entity's right to receive payment is established.

Notes to the financial statements

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(vi) 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.

.(d) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, cash deposited with the central bank and short-term highly liquid investments with maturity of three months or less when purchased.

(e) 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. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(f) Borrowings

Borrowings are recognised initially at 'cost', being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognized in the income statement over the period of the borrowings using the effective yield method.

(g) 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.

(h) Impairment

The carrying amounts of the Bank's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(i) Loans and advances and assets held-to-maturity

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 impairment. 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 identified to be not recoverable, 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 an 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.

Notes to the financial statements

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(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 an 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.

(i) Property, plant and equipment

Items of property, plant and equipment are stated in the balance sheet at their acquisition cost less accumulated depreciation restated for the effects of hyperinflation.

Depreciation is calculated on a straight line basis at prescribed rates designed to decrease the cost or valuation of fixed assets over their expected useful lives. The following are approximations of the annual rates used:

Assets	%
▪ Buildings	4
▪ Equipment	30
▪ Computer equipment	50
▪ Vehicles	25
▪ Other	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. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(j) Intangible assets

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:

Assets	%
Computer software and Licences	50
Other	20

(k) 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.

(l) 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 utilised. 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

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(m) Critical accounting estimates and judgements in applying accounting policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(n) Standards, Interpretations and amendments to published Standards that are not yet effective and are relevant to the Bank's activities

IFRS 7 *Financial Instruments: Disclosures* (effective from 1 January 2007) The Standard will require increased disclosure in respect of the Group's financial instruments. It supersedes IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions and is applicable to all entities that prepare financial statements in accordance with IFRSs. This Group considers that the significant additional disclosures required will relate to its financial risk management objectives, policies and processes.

Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). As a complimentary amendment arising from IFRS 7 (see above), the Standard will require increased disclosure in respect of the Group's capital. This amendment will require significantly more disclosures regarding the capital structure of the company and group.

Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – The Fair Value Option* (effective from 1 January 2006). The amendment restricts the designation of financial instruments as "at fair value through profit or loss". The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit or loss.

Amendment to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts – Financial Guarantee Contracts (effective from 1 January 2006) The amendment requires guarantees that are not insurance contracts to be measured at fair value upon initial recognition. The

Notes to the financial statements

Group has not yet completed its analysis of the impact of the amendment.

3. NET INTEREST INCOME

In thousands of BGN	**2005**	**2004**
Interest and similar income		
Interest and similar income arise from:		
Placements with and loans to banks and other financial institutions	2,789	1,815
Loans and advances to other customers	23,068	17,759
Financial instruments held for trading	1,280	2,170
	27,137	21,744
Interest expense and similar charges		
Interest expense and similar charges arise from:		
Deposits from banks and other financial institutions	(6)	(380)
Deposits from other customers	(12,999)	(7,569)
	(13,005)	(7,949)
Net interest income	14,132	13,795

4. NET FEE AND COMMISSION INCOME

In thousands of BGN	**2005**	**2004**
Fee and commission income		
In Bulgarian Levs	2,206	1,763
In foreign currencies	3,139	2,427
	5,345	4,190
Fee and commission expense		
In Bulgarian Levs	(265)	(135)
In foreign currencies	(72)	(83)
	(337)	(218)
Net fee and commission income	5,008	3,972

Notes to the financial statements

5. NET TRADING INCOME

In thousands of BGN	**2005**	**2004**
Net trading income arising from:		
Dealing in debt instruments and related derivatives	1,247	567
Gain/(loss) on revaluation of debt instruments and related derivatives	423	253
	1,670	820
Net trading income arising from:		
Realised foreign exchange gains/(losses)	15	202
Unrealised foreign exchange gains	2,279	414
	2,294	616
Net trading income	3,964	1,436

6. OTHER OPERATING INCOME

In thousands of BGN	**2005**	**2004**
Gain/(loss) on sale of non-current assets	(42)	(143)
Other non-financial services sold	416	405
Other income (net)	176	88
Other operating income	550	350

7. GENERAL ADMINISTRATIVE EXPENSES

In thousands of BGN	**2005**	**2004**
General and administrative expenses arise from:		
Personnel cost	(5,704)	(4,861)
Materials, rent and hired services	(7,030)	(5,101)
Depreciation and amortization	(1,814)	(1,399)
Administration, marketing and other costs	(3,242)	(2,251)
General and administrative expenses	(17,790)	(13,612)

Personnel costs include salaries, social and health security under the provisions of the local legislation. As at 31 December 2005 the number of employees working in the Bank is 250.

Notes to the financial statements

8. IMPAIRMENT LOSSES

In thousands of BGN	**2005**	**2004**
Increase		
Loans and advances to customers	(2,407)	(1,688)
Reversals	1,754	1,011
Net impairment losses	(653)	(677)

9. TAXATION

In thousands of BGN	**2005**	**2004**
Current tax	(844)	(1,037)
Deferred tax expense	10	(4)
Income tax expense	(834)	(1,041)

Under Bulgarian Law company profits are subject to corporate tax of 15%.

The relationship between accounting profit before tax and tax expense is as follows:

In thousands of BGN	**2005**	**2004**
Accounting profit	5,211	5,264
Tax at applicable tax rates (15% - 2005; 19,5% - 2004)	782	1,026
Tax effect of expenses that are not deductible in determining taxable income	1,375	285
Tax effect of (income) that is not taxable	(1,323)	(273)
Tax effect from change in the tax rate		3
Income tax expense	834	1,041
Effective tax rate	16%	19.77%

Notes to the financial statements

9. TAXATION, CONTINUED

DEFERRED TAXATION

Recognised deferred tax assets and liabilities

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 15% for 2006, when differences may arise at earliest.

Deferred tax assets and liabilities are attributable to the following:

In thousands of BGN	Assets		Liabilities		Net	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**
Other liabilities	(27)	(17)		-	(27)	(17)
Net tax assets	(27)	(17)	-	-	(27)	(17)

Movement in temporary differences during the year

In thousands of BGN	**Balance 1 Jan 2005**	**Recognised in Income statement**	**Balance 31 Dec 2005**
Other liabilities	(17)	(10)	(27)
	(17)	(10)	(27)

Notes to the financial statements

10. CASH AND CASH EQUIVALENTS

In thousands of BGN	2005	2004
Cash on hand		
In Bulgarian Levs	9,662	5,012
In foreign currencies	11,446	2,942
Balances with the Central Bank	43,452	38,753
Current accounts and amounts with local banks with original maturity less than 3 months	125	11,939
Current accounts and amounts with foreign banks with original maturity less than 3 months	145,444	99,644
	210,129	158,290
Less allowance for uncollectability	(2)	(2)
	210,127	158,288

The current account with the Bulgarian National Bank is used for direct participation in the money and Treasury bill markets and for settlement purposes. It includes also the minimum required reserves maintained in the BNB.

For the purposes of Cash flow statement cash and cash equivalents include cash balances on hand, current account with the BNB, other current accounts and deposit accounts with maturity less than three months.

11. FINANCIAL ASSETS HELD FOR TRADING

In thousands of BGN	2005	2004
Government securities of Republic of Bulgaria		
middle-term denominated in Bulgarian Levs	15,070	15,623
long-term denominated in Bulgarian Levs	3,838	3,565
long-term denominated in foreign currencies	2,181	2,142
Foreign securities		
denominated in Bulgarian Levs	7,101	-
denominated in foreign currencies	519	3,108
	28,709	24,438

Government securities comprise Bulgarian securities denominated in BGN and EURO. The BGN denominated securities earn interest of 4.45% and the EURO denominated securities - 5.75%. The securities are stated at market prices quoted on the local market at year end.

Foreign securities held in the Bank's portfolio as at 31 December 2005 include securities, issued in BGN by a foreign financial institution and yield 8%.

Notes to the financial statements

12. INVESTMENTS

In thousands of BGN	**2005**	**2004**
Equity investments	128	39
Bonds	2,303	-
Municipality bonds	532	798
Compensatory notes	28	-
	2,991	837

Equity investments comprise shares in local and foreign companies and organizations related to the Bank's membership in bank transfer and settlement institutions. The investments classified as equity investments are stated at cost, as they do not have quoted market prices in an active market.

13. PLACEMENTS WITH AND LOANS TO BANKS AND OTHER FINANCIAL INSTITUTIONS

In thousands of BGN	**2005**	**2004**
Placements with and loans to domestic banks and other financial institutions	1,547	-
	1,547	-

14. LOANS AND ADVANCES TO OTHER CUSTOMERS

Analysis by type of borrower

In thousands of BGN	**2005**	**2004**
Individuals		
In Bulgarian Levs	1,763	2,316
In foreign currency	2,416	675
Private companies		
In Bulgarian Levs	125,998	62,853
In foreign currencies	126,066	93,023
State owned companies		
In Bulgarian Levs	8,911	8,216
In foreign currencies	-	-
Total loans and advances to customers	265,154	167,083
Less allowance for uncollectability	(2,757)	(2,104)
	262,397	164,979

Loans to customers earn an average effective interest at annual rate between 10% and 11%.

Notes to the financial statements

15. PROPERTY, PLANT AND EQUIPMENT

In thousands of BGN	Land and buildings	Equipment	Motor vehicles	Fixtures and fittings	Other assets	Assets in progress	Total
Cost							
At 1 January 2005	7,762	2,856	1,012	1,002	36	-	12,668
Additions	900	665	690	278	10	12,971	15,514
Transfers form/(to) assets in progress	6,953	144	-	161	1	(7,259)	-
Disposals	(6,938)	(4)	(195)	(24)	-	-	(7,161)
Balance at 31 December 2005	8,677	3,661	1,507	1,417	47	5,712	21,021
Depreciation							
At 1 January 2005	375	1,591	345	335	14	-	2,660
Charge for the year	336	789	340	164	7	-	1,636
Disposals	(76)	-	(137)	(7)	(2)	-	(222)
Balance at 31 December 2005	635	2,380	548	492	19	-	4,074
Carrying amount							
At 1 January 2005	7,387	1,265	667	667	22	-	10,008
At 31 December 2005	8,042	1,281	959	925	28	5,712	16,947

16. INTANGIBLE ASSETS

In thousands of BGN	
Cost	
At 1 January 2005	761
Additions	201
Transfers form/(to) assets in progress	-
Disposals	-
Balance at 31 December 2005	962
Depreciation	
At 1 January 2005	326
Charge for the year	178
Disposals	-
Balance at 31 December 2005	504
Carrying amount	
At 1 January 2005	435
At 31 December 2005	458

Notes to the financial statements

17. OTHER ASSETS

In thousands of BGN	**2005**	**2004**
Prepayments	53	61
Deferred expenses	511	258
Tax receivable	49	0
Other receivables	76	218
	689	537

18. DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

In thousands of BGN	**2005**	**2004**
In Bulgarian levs	12,275	9,001
In foreign currencies	14,676	13,074
	26,951	22,075

19. DEPOSITS FROM OTHER CUSTOMERS

In thousands of BGN	**2005**	**2004**
Individuals		
In Bulgarian Levs	76,410	47,268
In foreign currencies	65,627	32,455
Private companies		
In Bulgarian Levs	45,779	33,344
In foreign currencies	74,647	21,602
State companies		
In Bulgarian Levs	96,432	70,479
In foreign currencies	94,397	101,855
	453,292	307,003

Deposits from other customers bear interest between 2% and 3% for current accounts and between 4% and 5% for term placements.

Notes to the financial statements

20. OTHER BORROWINGS

In thousands of BGN	**2005**	**2004**
Finance lease liability	205	320
	205	320

21. OTHER LIABILITIES

In thousands of BGN	**2005**	**2004**
Tax liabilities	-	94
Advances received	37	58
Other creditors	346	242
Other liabilities	142	1,214
	525	1,608

22. CAPITAL AND RESERVES

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

In thousands of BGN	**Number of shares**	**Face value**
Ordinary registered voting shares	30,000,000	30,000
	30,000,000	30,000

As of 31 December 2005 the authorised share capital of the Bank is BGN 30,000 thousand, fully paid in. The capital of the Bank comprises 3,000 thousand ordinary shares with a face value of BGN 10 each. In 2005, as a result of Management board decision dated 5 April 2005, the share capital of Corporate Commercial Bank AD is increased by BGN 10,000 thousands.

(b) Reserves

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 banks' total assets and off-balance-sheet liabilities.

Notes to the financial statements

23. COMMITMENTS AND CONTINGENCIES

(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.

The contractual amounts of commitments and contingent liabilities are set out in the following table. 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 recognized at the balance sheet date if counterparties failed completely to perform as contracted.

In thousands of BGN	**2005**	**2004**
Bank guarantees and letters of credit		
In Bulgarian Levs	20,894	24,619
In foreign currencies	23,523	23,829
	44,417	48,448

Property, plant and equipment, cash deposits or other assets, pledged in favour of the Bank, secure the guarantees issued.

These commitments and contingent liabilities have off balance-sheet credit risk because only arrangement fees and accruals for probable losses are recognized 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.

24. RELATED PARTY TRANSACTIONS

In thousands of BGN

Related party	Type of relationship	Type of transaction	Outstanding balance 31 December 2005
Victoria ZAD	Common management	Bank guarantees	477
		Term deposits received	2,756
		Demand accounts	343
		Interests paid	115
Dar 02 OOD	Controlling interest	Demand accounts	41
KV Real OOD	Common management	Loans extended	464
Fina-C EOOD	Common management	Repurchase Agreement Receivable	1,547
		Demand accounts	81
Employees		Loans extended	500
		Overdraft facility	32
		Term deposits received	1,056
Administrators		Loans extended	417
		Overdraft facility	2
		Term deposits and demand accounts	486

Notes to the financial statements

Directors	Remuneration	697

25. RISK MANAGEMENT DISCLOSURES

A. Trading activities

The Bank maintains active trading positions in a limited number of derivatives, mainly short-term forward contracts 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 trading with other market makers. 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 maximize 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.

(i) Credit risk

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, and when appropriate, obtains collateral.

(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 recognized 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.

Notes to the financial statements

25. RISK MANAGEMENT DISCLOSURES, CONTINUED

B. Non-trading activities, continued

(i) Liquidity risk, continued

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 rankings based on the remaining periods to repayment.

Maturity table as at 31 December 2005

In thousands of BGN	**Up to 1 month**	**From 2 to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**Maturity not defined**	**Total**
Assets						
Cash and cash equivalents	210,127	-	-	-	-	210,127
Financial assets held for trading	28,709	-	-	-	-	28,709
Equity investments	-	-	2,863	-	128	2,991
Placements with and loans to banks	1,547	-	-	-	-	1,547
Loans and advances to other customers	15,176	19,224	119,704	105,538	2,755	262,397
Property, plant and equipment	-	-	-	9,362	7,585	16,947
Intangible assets	-	-	-	-	458	458
Other assets	178	-	511	-	-	689
	255,737	19,224	123,078	114,900	10,926	523,865
Liabilities						
Deposits from banks	7,025	2,940	8,652	7,534	800	26,951
Deposits from non-financial institutions	106,199	44,205	214,823	84,625	3,440	453,292
Other borrowings	12	25	89	79	-	205
Other liabilities	302	-	214	9	-	525
	113,538	47,170	223,778	92,247	4,240	480,973
Net liquidity gap	142,199	(27,946)	(100,700)	22,653	6,686	42,892

Notes to the financial statements

25. RISK MANAGEMENT DISCLOSURES, CONTINUED

B. Non-trading activities, continued

(i) Liquidity risk, continued

Maturity table as at 31 December 2004

In thousands of BGN	**Up to 1 month**	**From 2 to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**Maturity not defined**	**Total**
Assets						
Cash and cash equivalents	158,288	-	-	-	-	158,288
Financial assets held for trading	24,438	-	-	-	-	24,438
Equity investments		-	798	-	39	837
Placements with and loans to banks	-	-	-	-	-	-
Loans and advances to other customers	4,657	11,528	77,651	70,042	1,101	164,979
Property, plant and equipment	-	-	-	3,056	6,952	10,008
Intangible assets	-	-	-	-	435	435
Other assets	279	-	258	-	-	537
	187,662	11,528	78,707	73,098	8,527	359,522
Liabilities						
Deposits from banks	9,163	2,098	4,456	5,826	532	22,075
Deposits from non-financial institutions	245,398	18,169	34,277	7,247	1,912	307,003
Other borrowings	-	-	-	320	-	320
Other liabilities	1,472	-	136	-	-	1,608
	256,033	20,267	38,869	13,393	2,444	331,006
Net liquidity gap	(68,371)	(8,739)	39,838	59,705	6,083	28,516

Notes to the financial statements

25. 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 optimizing 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. The actual effect will depend on a number of factors, including the extent to which repayments are made earlier or later than the contracted dates and variations in interest rate sensitivity within repricing periods and among currencies.

Currency risk

The Bank is exposed to currency risk through transactions in foreign currencies. It does not make investments in foreign operations.

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 outside the Euro-zone and the lev.

The Bank's transactional exposures give rise to foreign currency gains and losses that are recognized 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:

Notes to the financial statements

25. RISK MANAGEMENT DISCLOSURES, CONTINUED

B. Non-trading activities, continued

(ii) Market risk, continued

Currency risk, continued

In thousands of BGN	**2005**	**2005**	**2005**
	BGN and EUR	Other foreign currencies	Total
Assets			
Cash and cash equivalents	53,179	156,948	210,127
Financial assets held for trading	19,427	9,282	28,709
Equity investments	686	2,305	2,991
Placements with and loans to banks and other financial institutions	-	1,547	1,547
Loans and advances to other customers	135,821	126,576	262,397
Property, plant and equipment	16,947	-	16,947
Intangible assets	458	-	458
Other assets	684	5	689
	227,202	296,663	523,865
Liabilities			
Deposits from banks and other financial institutions	12,275	14,676	26,951
Deposits from other customers	218,620	234,672	453,292
Other borrowings	205	-	205
Other liabilities	387	138	525
	231,487	249,486	480,973

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

25. RISK MANAGEMENT DISCLOSURES, CONTINUED

B. Non-trading activities, continued

(iii) Market risk, continued

Currency risk, continued

In thousands of BGN	**2004**	**2004**	**2004**
	BGN and EUR	Other foreign currencies	Total
Assets			
Cash and cash equivalents	40,020	118,268	158,288
Financial assets held for trading	22,296	2,142	24,438
Equity investments	834	3	837
Placements with and loans to banks and other financial institutions	-	-	-
Loans and advances to other customers	72,715	92,264	164,979
Property, plant and equipment	10,008	-	10,008
Intangible assets	435	-	435
Other assets	435	102	537
	146,743	212,779	359,522
Liabilities			
Deposits from banks and other financial institutions	9,001	13,074	22,075
Deposits from other customers	151,091	155,912	307,003
Other borrowings	320	-	320
Other liabilities	380	1,228	1,608
	160,792	170,214	331,006

Notes to the financial statements

25. 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.

Total on balance sheet economic sector credit risk concentrations are presented in the table below.

In thousands of BGN	**2005**	**2004**
Trade and services	128,117	64,318
Production	72,119	59,738
Construction	30,311	22,803
Agriculture	3,616	2,615
Transport and communications	4,147	2,987
Other industries	26,844	14,622
	265,154	167,083
Less allowance for uncollectability	(2,757)	(2,104)
	262,397	164,979

Notes to the financial statements

25. RISK MANAGEMENT DISCLOSURES, CONTINUED

B. Non-trading activities, continued

(iv) Credit risk, continued

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 certain customers prior to the disbursement of approved loans. All of the balance of outstanding loans is 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.

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

The table below shows a breakdown of total credit extended to customers, other than financial institutions, by the Bank by type of collateral:

In thousands of BGN	**2005**	**2004**
Secured by mortgages	67,291	17,403
Cash collateral	17,826	21,885
Other collateral	147,917	108,231
Without collateral	32,119	19,564
Less allowances for uncollectability	(2,757)	(2,104)
	262,396	164,979

C. Risk measurement and control

Interest rate, currency, equity price, credit, liquidity, and other risks are actively managed by independent risk control Banks to ensure compliance with the Bank's risk limits. The Bank's risk limits are assessed regularly to ensure their appropriateness given the Bank's objectives and strategies and current market conditions. The Bank when measuring the inherent risks with regard to it trading and non-trading positions (including both derivative and non-derivative instruments) uses a variety of techniques.

26. POST BALANCE SHEET EVENTS

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