

**RAIFFEISENBANK
(BULGARIA) AD**

**FINANCIAL STATEMENTS
AND AUDITORS' REPORT**

December 31, 2002 and 2001

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF RAIFFEISENBANK (BULGARIA) AD

We have audited the accompanying balance sheets of Raiffeisenbank (Bulgaria) AD (the "Bank") as of December 31, 2002 and 2001, and the related statements of income, cash flows and changes in shareholders' equity for the years 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 audits.

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2002 and 2001, the results of its operations, its cash flows and changes in shareholders' equity for the years then ended, in accordance with International Accounting Standards.

Deloitte & Touche, CPA OOD
Sofia
April 21, 2003

BALANCE SHEETS

As of December 31, 2002 and 2001

	Note	December 31, 2002 BGN'000	December 31, 2001 BGN'000
Assets			
Cash and amounts due from banks	4	31,793	26,667
Balances with the Central Bank	5	33,580	46,773
Placements with, and loans to banks	6	33,608	81,412
Receivables on repurchase agreements	7	9,417	15,555
Trading securities	8	36,843	38,564
Loans and advances to customers	9	428,674	227,509
Interest receivable and other assets	10	3,137	2,181
Fixed assets	11	<u>13,146</u>	<u>10,167</u>
Total assets		<u>590,198</u>	<u>448,828</u>
Liabilities			
Deposits from banks	12	83,921	123,004
Liabilities on repurchase agreements	13	6,255	5,515
Deposits from customers	14	404,729	261,555
Other liabilities	15	27,379	14,632
Deferred tax liabilities	24	702	1,285
Long-term borrowings	16	21,514	-
Subordinated debt	17	<u>11,735</u>	<u>11,735</u>
Total liabilities		<u>556,235</u>	<u>417,726</u>
Net assets		<u>33,963</u>	<u>31,102</u>
Shareholders' equity			
Share capital	18	16,700	16,700
Reserves		<u>17,263</u>	<u>14,402</u>
Total shareholders' funds		<u>33,963</u>	<u>31,102</u>
Commitments and contingencies	25	<u>144,409</u>	<u>69,679</u>

The accompanying notes are an integral part of these statements.

Signed on behalf of Raiffeisenbank (Bulgaria) AD on April 19, 2003:

Johan Jonach
Executive Director

Momchil Andreev
Executive Director

STATEMENTS OF INCOME

For the years ended December 31, 2002 and 2001

	Note	Year ended December 31, 2002 BGN'000	Year ended December 31, 2001 BGN'000
Interest and similar income	19	26,079	18,754
Interest expense and similar charges	19	<u>(6,670)</u>	<u>(7,049)</u>
Net interest margin		19,409	11,705
Fees and commission income, net	20	5,825	2,713
Net gain on trading securities		3,656	3,779
Net gain on dealing in foreign currencies	21	4,194	3,180
Other operating income		<u>125</u>	<u>(101)</u>
Total income		33,209	21,276
General and administrative expenses	22	(19,929)	(15,398)
Provisions for impairment and uncollectability	23	<u>(8,970)</u>	<u>(1,174)</u>
Profit before taxation		4,310	4,704
Tax expense	24	<u>(1,099)</u>	<u>(1,218)</u>
Net profit		<u>3,211</u>	<u>3,486</u>

The accompanying notes are an integral part of these statements.

STATEMENTS OF CASH FLOWS
For the years ended December 31, 2002 and 2001

	Year ended December 31, 2002 BGN '000	Year ended December 31, 2001 BGN '000
Cash flows from operations		
Profit before taxation	4,31	4,704
Adjustments to reconcile profit before tax to net cash provided by operating activities:		
Depreciation	2,796	2,284
Provisions for impairment and uncollectability	8,970	1,174
Income taxes paid	(1,914)	(3,162)
Deferred taxation	(583)	333
Unrealized losses / (gains) on foreign currency operations	<u>(478)</u>	<u>6,360</u>
	13,101	11,693
Change in operating assets		
Decrease / (increase) in trading securities	415	(6,696)
(Increase) in loans and advances to customers	(240,798)	(72,963)
Decrease / (increase) in receivable on repurchase agreements	1,094	(15,555)
Decrease / (increase) in interest receivable and other assets	(1,006)	25,759
Change in operating liabilities		
Increase / (decrease) in deposits from banks	(32,849)	62,465
Increase/(decrease) in funds obtained under repurchase agreements	740	(585)
Increase in deposits from customers	170,794	100,132
Increase in other liabilities	<u>15,401</u>	<u>7,312</u>
Net cash provided by operations	<u>(73,108)</u>	<u>111,562</u>
Cash flows from investing activities		
Purchases of investments, net	-	(44)
Purchases of fixed assets, net	<u>(5,775)</u>	<u>(3,032)</u>
Net cash used by investing activities	<u>(5,775)</u>	<u>(3,076)</u>
Cash flow provided by financing activities		
Proceeds from issuance of subordinated debt	-	11,735
Proceeds from long-term borrowings	21,514	
Dividends paid	<u>(350)</u>	<u> </u>
Net cash provided by financing activities	<u>21,164</u>	<u>11,735</u>
Unrealized gains on foreign currency cash holdings	<u>(3,196)</u>	<u>(3,537)</u>
Net increase/decrease in cash and cash equivalents	(60,915)	116,684
Cash and cash equivalents at beginning of year	<u>159,896</u>	<u>43,212</u>
Cash and cash equivalents at end of year (note 26)	<u>98,981</u>	<u>159,896</u>

The accompanying notes are an integral part of these statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended December 31, 2002 and 2001

	Share capital BGN'000	Reserves BGN'000	Total BGN'000
Balance at January 1, 2001	16,700	10,916	27,616
Net profit for the year ended December 31, 2001	<u>-</u>	<u>3,486</u>	<u>3,486</u>
Balance at December 31, 2001	16,700	14,402	31,102
Dividends paid	-	(350)	(350)
Net profit for the year ended December 31, 2002	<u>-</u>	<u>3,211</u>	<u>3,211</u>
Balance at December 31, 2002	<u>16,700</u>	<u>17,263</u>	<u>33,963</u>

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002 and December 31, 2001

1. NATURE OF BUSINESS

Raiffeisenbank (Bulgaria) AD, Sofia (the “Bank”) is a subsidiary of Raiffeisen Zentralbank AG, Vienna, established in 1994. Since its incorporation, the Bank was granted a banking licence by the Bulgarian National Bank (BNB), the Central Bank of Bulgaria, to accept deposits in local and foreign currencies, to grant loans in local and foreign currencies, to open and maintain “nostro” accounts in foreign currency abroad, to deal with securities, foreign currency and all other banking activities and dealings permitted by the Banking Law.

As of December 31, 2002, the Bank’s operations were conducted through a Head Office, located in Sofia and 30 branches, located throughout the country and has over 450 employees.

The financial statements have been prepared for the years ended December 31, 2002 and 2001.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTIONS

2.1. Accounting convention

The accompanying financial statements have been prepared, in all material respects, in accordance with International Accounting Standards (IAS).

The Bank maintains its accounting records and prepares its statutory accounts in accordance with commercial, banking and fiscal regulations prevailing in Bulgaria. Where these regulations differ from IAS, certain accounts have been reclassified, combined, and in some cases adjusted, in order to comply with IAS. As a result, in the conversion of the accounts from Bulgarian statutory requirements to IAS, certain adjustments have been made to the Bank’s statements of income, assets, liabilities and shareholders’ equity for the purposes of these financial statements.

The financial statements are denominated in thousands of Bulgarian Lev (BGN’000).

The presentation of financial statements in conformity with IAS requires management to make best estimates and reasonable assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements. These estimates and assumptions are based on the information available as of the date of the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Interest income and expense

Interest income and expense is recognized on a time proportion basis using effective interest rate method as amortization of any difference between the amount at initial recognition of the respective asset or liability and the amount at maturity.

The recognition of interest income ceases when payment of interest or principal is overdue for more than 90 days. Interest is included in income thereafter only when it is received. Loans are returned to the accrual basis only when doubt about collectability is removed and when the outstanding arrears of interest and principal are received.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002 and December 31, 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2. Fees and commissions

Fees and commissions consist mainly of fees for execution of payments, loan origination, and issuing letters of guarantee and letters of credit. Fees and commissions are accrued when earned or due.

3.3. Foreign exchange

Transactions denominated in foreign currencies have been translated into Bulgarian Lev at rates set by the Bulgarian National Bank on the dates of the transactions. Assets and liabilities denominated in foreign currencies are translated at the balance sheet date using rates of exchange on that date. Significant exchange rates as of December 31, 2001 and December 31, 2002 are:

December 31, 2002		December 31, 2001	
USD 1 equals to	BGN 1.88496	USD 1 equals to	BGN 2.21926
EUR 1 equals to	BGN 1.95583	EUR 1 equals to	BGN 1.95583

Effectively from January 1, 1999, the Bulgarian Lev was tied to Euro by law, at the rate of Euro 1 to BGN 1.95583.

Gains and losses resulting from foreign currency translation and dealing with foreign currency are included in the income statement in the period in which they arose.

3.4. Loans and advances

Loans and advances are stated in the balance sheet at amortized cost less any write-down for impairment and uncollectability. The amortization is calculated using the effective interest rate, which for most of the loans equals the contracted interest rate.

3.5. Allowances for impairment and uncollectability

Allowances for impairment or uncollectability are determined as the difference between the carrying amount of a financial asset and its estimated recoverable amount.

Allowances for impairment and uncollectability for loans to customers, banks and financial institutions, which are originated by the Bank and measured at amortized cost are determined as the difference between the carrying amount and the present value of the future cash flows discounted at the loan original effective interest rate, where appropriate. Cash flows relating to short term loans are not discounted. Management determines the expected future cash flows based upon reviews of individual borrowers and loan exposures and other relevant factors including the fair value of collateral, if any.

Any difference between the carrying amount and recoverable amount of the financial assets (loss on impairment and uncollectability) is charged to the income statement for the period it occurs. A reversal of any loss on impairment and uncollectability is taken to income for the period it occurs. Recoveries of amounts previously written off are treated as income by reducing the allowances for uncollectability for the year.

Loans and advances that cannot be recovered are written off and charged against the balance sheet allowances for impairment and uncollectability. Such loans are written-off after all necessary legal procedures have been completed and the amount of the loss has been determined.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002 and December 31, 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6. Trading securities

Trading securities are securities, which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists. Trading securities are initially recognized at cost and subsequently re-measured to fair value. The marketable securities are carried at fair value based on quoted bid prices. All related realised and unrealised gains and losses are included in net trading income.

Securities transactions are recorded in the balance sheet on a settlement date basis.

3.7. Repurchase agreements

Securities sold under repurchase agreements ('repos') are retained in the financial statements and the counterparty liability is included in the deposits from banks or customers as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers as appropriate. The difference between sale and repurchase prices are treated as interest and accrued evenly over the life of repurchase agreements.

3.8. Financial assets available for sale

Investments available for sale are those financial assets that are not classified as financial assets held for trading or held to maturity investments. Subsequently to the initial recognition, investments available for sale are re-measured at fair value based on quoted prices or amounts derived from applicable cash flow models. When quoted market prices are not readily available, the fair value is estimated using other applicable valuation models to reflect the specific circumstances of the issuer.

Impairment loss is recognized against income when objective evidence exists that the investment's carrying amount is greater than its estimated recoverable amount.

3.9. Fixed assets

Fixed assets are carried at cost less accumulated depreciation. Depreciation of fixed assets is calculated on a straight line basis designed to write off assets over their estimated useful lives. The annual rates of depreciation are generally as follows:

Buildings	4%	(25 years)
Furniture and fittings	15%	(6.6 years)
Motor vehicles	15%	(6.6 years)
Equipment, including computer hardware and software	20%	(5 years)
Other intangible	20%	(5 years)

Land and fixed assets under construction are not depreciated.

3.10. Taxation

Taxes currently due are calculated in accordance with the Bulgarian legislation. Income tax was computed on the basis of taxable profit, calculated by adjusting the statutory financial result for certain income and expenditure items as required under Bulgarian law.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002 and December 31, 2001**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.10. Taxation (continued)**

A deferred tax liability is recognized for all taxable temporary differences unless it arises from the initial recognition of an asset or liability in a transaction, which at the time of the transaction affects neither accounting profit nor taxable profit (tax loss). Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized, unless the deferred asset arises from the initial recognition of an asset or liability in a transaction, which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

Current and deferred taxes are recognized as income or expense and are included in the net profit for the period except in cases in which the tax arises from a transaction or event, which is recognized in the same or different period, directly in equity. Current and deferred taxes are charged or credited directly to equity when the tax relates to items that are credited or charged in the same or a different period, directly to equity.

3.11. Cash and cash equivalents

Cash and cash equivalents, for purposes of the statement of cash flows, include cash, nostro accounts and placements with other banks with a maturity of less than 3 months, as well as unrestricted account balances with the Central Bank.

3.12. Provisions for guarantees and other off-balance sheet credit related commitments

The amount of provisions for guarantees and other off-balance-sheet credit related commitments is recognized as an expense and a liability when the Bank has present legal or constructive obligations, which has occurred as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle that obligation and a reasonable estimate of the amount of the resulting loss can be made. Any loss resulting from recognition of provision for liabilities is recognized in the income statement for the period.

3.13. Derivatives

Derivatives are carried at fair value and recognized either as derivatives for trading or derivatives for hedging in the balance sheet. The fair value of derivatives is based on market prices or relevant valuation models. Derivative assets and liabilities are presented as part of other assets and other liabilities. Changes in fair value of derivatives are recognized as part of net trading income in the income statement and, in case of a hedging relationship, is reported in net profit or loss for the period together with the respective changes in the fair value of the hedged instrument, attributable to the hedged risk.

3.14. Fair value of financial assets and liabilities

In accordance with International Accounting Standards, the accompanying financial statements are prepared on a historical cost basis, including adjustments and provisions to reduce assets to their estimated recoverable amount.

International Accounting Standard 32 "Financial Instruments: Disclosure and Presentation", provides for the disclosure in the notes to financial statements of information about the fair value of financial assets and liabilities. Fair value for this purpose is defined as the amount for which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arms length transaction. It is the policy of the Bank to disclose the fair value information on those assets and liabilities for which published market information is readily available and whose fair value is materially different from their recorded amounts.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002 and December 31, 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.14. Fair value of financial assets and liabilities (continued)

Sufficient market experience, stability or liquidity does not currently exist for certain purchases and sales of loans and other financial assets or liabilities for which published market information is not readily available. However, in the opinion of management, their reported carrying amounts are the most valid and useful reporting value in the circumstances.

4. CASH AND AMOUNTS DUE FROM BANKS

	December 31, 2002 BGN '000	December 31, 2001 BGN '000
Cash in hand	21,979	23,252
Nostro accounts	<u>9,814</u>	<u>3,415</u>
Total	<u>31,793</u>	<u>26,667</u>

5. BALANCES WITH THE CENTRAL BANK

	December 31, 2002 BGN'000	December 31, 2001 BGN'000
Current account with BNB in Bulgarian Lev	24,114	19,399
Obligatory reserve with BNB in foreign currency	<u>9,466</u>	<u>27,374</u>
Total	<u>33,580</u>	<u>46,773</u>

The current account with the Central Bank is used for direct participation in the money and treasury bills markets and for settlement purposes.

As of December 31, 2002, the Bank has deposited an obligatory reserve in Swiss Francs (CHF) with the Central Bank, calculated as a percentage on the deposits in foreign currency. The minimum reserve for deposits in local currency is covered by the cash holdings in Bulgarian Lev and the current account with BNB.

6. PLACEMENTS WITH, AND LOANS TO BANKS

	December 31, 2002 BGN '000	December 31, 2001 BGN '000
A. Analysis by currency		
Bulgarian lev	15,000	25,450
Foreign currency	<u>18,608</u>	<u>55,962</u>
Total	<u>33,608</u>	<u>81,412</u>
B. Geographic analysis		
Domestic banks	26,530	35,243
Foreign banks	<u>7,078</u>	<u>46,169</u>
Total	<u>33,608</u>	<u>81,412</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002 and December 31, 2001

7. RECEIVABLES ON REPURCHASE AGREEMENTS

Receivables on repurchase agreements represent securities purchased under agreements with parent and other banks to sell them back on a future date at a contracted price to counterparty. The Bank has a pledge over government securities with a fair value of BGN 9,926 thousand as of December 31, 2002 under such agreements.

8. TRADING SECURITIES

	December 31, 2001 BGN'000	December 31, 2001 BGN'000
Bulgarian government securities		
Bulgarian leva	17,255	9,533
Foreign currency	<u>12,630</u>	<u>7,655</u>
	<u>29,885</u>	<u>17,188</u>
Other trading securities		
Foreign government securities	3,826	11,559
Bulgarian municipal bonds	1,843	4,077
Bulgarian corporate securities	<u>1,289</u>	<u>5,740</u>
	<u>6,958</u>	<u>21,376</u>
Total	<u>36,843</u>	<u>38,564</u>

All securities in the trading portfolio are debt instruments denominated in BGN, EUR and USD. Approximately 96% of the trading securities portfolio carries fixed interest coupons of between 5.75% and 9% for Bulgarian government securities denominated in BGN, between 4.30% and 9% for securities denominated in EUR and between 5% and 8.25% for securities denominated in USD. The remaining 4% of portfolio carry variable interest linked to the six months USD LIBOR and EURIBOR. Trading securities include short-term, medium-term and long-term securities without significant concentrations in terms of maturity and securities issues.

Bulgarian securities amounting to BGN 6,151 thousand were pledged with the Central Bank for the purpose of serving as a collateral against the state funds deposited at the Bank, which are at approximately the same carrying amount.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002 and December 31, 2001

9. LOANS AND ADVANCES TO CUSTOMERS

A. Analysis of loans by type of customer

	December 31, 2002 BGN'000	December 31, 2001 BGN'000
Individuals		
Bulgarian Lev	526	390
Foreign currency	<u>4,674</u>	<u>1,532</u>
	5,200	1,922
Private companies and sole traders		
Bulgarian Lev	82,878	69,483
Foreign currency	<u>321,957</u>	<u>153,070</u>
	404,835	222,553
State owned companies and enterprises		
Bulgarian Lev	5,847	6,030
Foreign currency	<u>26,384</u>	<u>1,633</u>
	32,231	7,663
	442,266	232,138
Allowances for impairment and uncollectability	<u>(13,592)</u>	<u>(4,629)</u>
Total	<u>428,674</u>	<u>227,509</u>

B. Analysis of loans by sectors

	December 31, 2002			December 31, 2001		
	Bulgarian Lev BGN'000	Foreign Currency BGN'000	Total BGN'000	Bulgarian Lev BGN'000	Foreign Currency BGN'000	Total BGN'000
Manufacturing	51,958	151,886	203,844	35,199	43,783	78,982
Construction	1,723	5,735	7,458	11,000	1,219	12,219
Transport	476	20,118	20,594	722	974	1,696
Trade	34,013	149,278	183,291	17,390	98,656	116,046
Other sectors	555	21,324	21,879	11,202	10,071	21,273
Individuals	<u>526</u>	<u>4,674</u>	<u>5,200</u>	<u>390</u>	<u>1,532</u>	<u>1,922</u>
	89,251	353,015	442,266	75,903	156,235	232,138
Allowances for impairment	<u>(4,186)</u>	<u>(9,406)</u>	<u>(13,592)</u>	<u>(575)</u>	<u>(4,054)</u>	<u>(4,629)</u>
Total	<u>85,065</u>	<u>343,609</u>	<u>428,674</u>	<u>75,328</u>	<u>152,181</u>	<u>227,509</u>

C. Interest sensitivity

Interest rates on loans are calculated at the the cost of funds plus a set margin. Cost of funds depend on the interest fixing period and of the respective currency of the loan. Loan margins vary and are based on the loan term and on the credit risk associated with the borrower.

In case of overdue loans penalty interest is applied.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002 and December 31, 2001
10. INTEREST RECEIVABLE AND OTHER ASSETS

	December 31, 2002 BGN '000	December 31, 2001 BGN '000
Mortgage bonds of local banks available for sale	1,513	-
Accrued interest receivable	756	510
Fair value of derivative financial instruments	283	150
Transfers in process	198	493
Prepaid taxes	-	767
Other	<u>387</u>	<u>261</u>
Total	<u>3,137</u>	<u>2,181</u>

The balance of transfers in process as of December 31, 2002 includes receivables from the Ministry of Finance connected with the principal and interest repayment of Bulgarian Government ZUNK's in the total amount of BGN 100 thousand.

Interest receivable includes accrued interest on placements with, and loans to banks and loans and advances to other customers, which mature after the balance sheet date.

Positive fair value of derivative financial instruments

As of December 31, 2002 the positive fair value of forward foreign exchange contracts amounts to BGN 283 thousand.

As of December 31, 2001 the Bank had open foreign currency swaps contracts with a positive fair value of BGN 100 thousand and interest rate swaps with a positive fair value of BGN 50 thousand.

11. FIXED ASSETS

	Total	Land and Buildings	Computer Equipment	Office Furniture	Motor Vehicles	Software	Other Intangible fixed assets	Construction in Progress
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Cost								
January 1, 2002	17,530	2,287	3,934	7,593	398	2,293	949	76
Additions/(disposals), net	<u>5,740</u>	<u>-</u>	<u>1,174</u>	<u>2,472</u>	<u>241</u>	<u>454</u>	<u>1,389</u>	<u>10</u>
December 31, 2002	<u>23,270</u>	<u>2,287</u>	<u>5,108</u>	<u>10,065</u>	<u>639</u>	<u>2,747</u>	<u>2,338</u>	<u>86</u>
Accumulated Depreciation								
January 1, 2002	7,363	166	2,285	3,413	132	1,044	323	-
Net charge for the period	2,796	91	730	1,230	78	435	232	-
Depreciation of disposals	<u>(35)</u>	<u>-</u>	<u>-</u>	<u>(35)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
December 31, 2002	<u>10,124</u>	<u>257</u>	<u>3,015</u>	<u>4,608</u>	<u>210</u>	<u>1,479</u>	<u>555</u>	<u>-</u>
Net Book Value								
December 31, 2001	<u>10,167</u>	<u>2,121</u>	<u>1,649</u>	<u>4,180</u>	<u>266</u>	<u>1,249</u>	<u>626</u>	<u>76</u>
December 31, 2002	<u>13,146</u>	<u>2,030</u>	<u>2,093</u>	<u>5,457</u>	<u>429</u>	<u>1,268</u>	<u>1,783</u>	<u>86</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002 and December 31, 2001

12. DEPOSITS FROM BANKS

	December 31, 2002 BGN '000	December 31, 2001 BGN '000
In Bulgarian Lev		
Local commercial banks	<u>15,068</u>	<u>17,760</u>
	15,068	17,760
In foreign currency		
Local commercial banks	56,955	55,016
Foreign commercial banks Money Market deposits	<u>11,898</u>	<u>50,228</u>
	68,853	105,244
Total	<u>83,921</u>	<u>123,004</u>

Included in the Money Market deposits in foreign currency from foreign banks as of December 31, 2002, are accounts in the amount of BGN 10,012 thousand with RZB, Vienna (2001: BGN 49,053).

13. LIABILITIES ON REPURCHASE AGREEMENTS

Repurchase agreements are short-term financing contracts with securities pledged as collateral by the debtor. Liabilities under repurchase agreements represent securities sold with a contract to buy them back on a future date at a contracted price from the creditor.

Liabilities under repurchase agreements as of December 31, 2002 and December 31, 2001 amount to BGN 6,255 thousand and BGN 5,515 thousand, respectively. The Bank had pledged as collateral government securities with a carrying value of BGN 6,151 thousand and BGN 5,515 thousand as of December 31, 2002 and December 31, 2001, respectively (see Note 7) under such agreements.

14. DEPOSITS FROM CUSTOMERS

A. Amounts owed to depositors by type of customer

	December 31, 2002 BGN '000	December 31, 2001 BGN '000
Individuals		
Bulgarian Lev	23,034	14,016
Foreign currency	<u>135,264</u>	<u>110,473</u>
	158,298	124,489
Private companies and sole traders		
Bulgarian Lev	117,750	71,940
Foreign currency	<u>107,205</u>	<u>59,636</u>
	224,955	131,576
State owned companies and enterprises		
Bulgarian Lev	16,472	667
Foreign currency	<u>5,004</u>	<u>4,823</u>
	21,476	5,490
Total	<u>404,729</u>	<u>261,555</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002 and December 31, 2001

14. DEPOSITS FROM CUSTOMERS (continued)

As of December 31, 2002, the Bank applied the following annual interest rates to the customer deposit accounts:

Deposits in Bulgarian lev	2002	2001
Term deposits (7 days to 12 months)	From 0.50% to 5.25%	From 2.75% to 5.25%
Current accounts	0.20%	0.50%
Debit card accounts	From 0.50% to 2%	From 2.50% to 3.25%

The Bank changes the above interest rates to reflect significant changes in market interest rates. Such changes are applied to the deposits according to the agreed terms of deposit contracts.

Deposits in foreign currency	2002	2001
USD		
Term deposits (1 week to 12 months)	0.60% to 1.15%	1.20% to 1.82%
Current accounts	0.10%	0.20%
EUR		
Term deposits (1 week to 12 months)	1.50% to 2.40%	1.50% to 2.40%
Current accounts	0.50%	0.50%

15. OTHER LIABILITIES

	December 31, 2002 BGN '000	December 31, 2001 BGN '000
Transfers in process	22,810	13,472
Accrued interest payable and others	2,485	528
Due to staff	1,366	632
Current tax payable	535	-
Negative fair value of derivative financial instruments	<u>183</u>	<u>-</u>
Total	<u>27,379</u>	<u>14,632</u>

The transfers in process represent the unprocessed Bank's and clients' money transfer orders as at the year-end.

Negative fair value of derivative financial instruments

As of December 31, 2002 the negative fair value of forward foreign exchange contracts amounts to BGN 101 thousand and the negative fair value of foreign currency swap contracts amounts to BGN 82.

16. LONG-TERM BORROWINGS

An international financial institution has made EUR 10,000 thousand available to the Bank to be used for small and medium-scale projects in the fields of environmental protection, energy savings, infrastructure, industry, services or tourism in Bulgaria. The facility was fully utilized as of December 31, 2002 and is to be repaid in 10 equal semi-annual installments from May 11, 2006 to November 11, 2010. Interest is charged at 4.52% per annum on the outstanding balance.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002 and December 31, 2001

16. LONG-TERM BORROWINGS (continued)

Another international financial institution has made available to the Bank a credit facility of EUR 10,000 thousand for financing small and medium enterprises, of which as of December 31, 2002 EUR 1,000 thousand were utilized. The utilized amount is repayable in 6 equal semi-annual installments between 2004 and 2007. Interest is charged at interbank rate applicable for six month deposits plus 1.5%.

17. SUBORDINATED DEBT

With the permission of the Bulgarian National Bank, in March 2001, the bank has entered into an agreement with its parent company, Raiffeisen Zentralbank Oesterreich AG, for a subordinated debt in the form of debt-capital hybrid instrument for the amount of EUR 6,000 thousand. These funds are a supplementary capital reserve and increase the capital base of Raiffeisenbank (Bulgaria) AD for regulatory purposes. The bank pays to its parent company an annual interest at the rate of EURIBOR increased by a margin of 1,875%. The repayment of the debt is not bound by any maturity.

18. SHARE CAPITAL

As of December 31, 2002, the issued, called up and fully paid in capital of the Bank comprises 50,000 registered shares all with a par value of BGN 334 each.

19. NET INTEREST MARGIN

	Year ended December 31, 2002 BGN '000	Year ended December 31, 2001 BGN '000
Interest and similar income		
Enterprises and individuals	24,499	15,207
Banks	1,497	3,387
Securities	<u>83</u>	<u>160</u>
Total	<u>26,079</u>	<u>18,754</u>
Interest expense and similar charges		
Enterprises and individuals	3,533	3,880
Banks	2,512	2,602
Subordinated debt	<u>625</u>	<u>567</u>
Total	<u>6,670</u>	<u>7,049</u>
Net interest margin	<u>19,409</u>	<u>11,705</u>

20. FEE AND COMMISSION INCOME, NET

	Year ended December 31, 2002 BGN '000	Year ended December 31, 2001 BGN '000
Fee and commission income	9,115	6,005
Fee and commission expense	<u>(3,290)</u>	<u>(3,292)</u>
Net fees and commissions	<u>5,825</u>	<u>2,713</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002 and December 31, 2001

21. NET GAINS ARISING FROM DEALING IN FOREIGN CURRENCIES

Net gains from currency-based transactions amounting to BGN 4,194 thousand (2001: BGN 3,180 thousand) represent the net result arising from purchases and sales of foreign currencies, as well as translation gains arising from the translation of assets and liabilities, denominated in foreign currencies into Bulgarian Lev.

22. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31, 2002 BGN '000	Year ended December 31, 2001 BGN '000
Personnel costs	7,059	4,728
Materials and services	8,412	6,796
Depreciation charge	2,796	2,284
Other expenses	<u>1,662</u>	<u>1,590</u>
Total	<u>19,929</u>	<u>15,398</u>

23. PROVISIONS FOR IMPAIRMENT AND UNCOLLECTABILITY

Movements in provisions for loan losses during 2002 were as follows:

	Year ended December 31, 2002 BGN'000	Year ended December 31, 2001 BGN'000
Balance as of January 1	4,629	3,455
Charge for the period	9,627	3,142
Recoveries	(657)	(1,968)
Written off receivables	<u>(7)</u>	<u>-</u>
Balance as of December 31	<u>13,592</u>	<u>4,629</u>

24. TAXATION

	Year ended December 31, 2002 BGN '000	Year ended December 31, 2001 BGN '000
Current tax expense	1,682	885
Deferred tax income/expense related to origination and reversal of temporary differences	(583)	579
Deferred tax income resulting from reduction in the tax rate	<u>-</u>	<u>(246)</u>
Total tax expense/(income)	<u>1,099</u>	<u>1,218</u>

Current income tax expense represents the amount of tax to be paid under Bulgarian law at statutory tax rates. Deferred tax income or expense results from the change in the carrying amounts of deferred tax assets and deferred tax liabilities.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002 and December 31, 2001
24. TAXATION (continued)

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

	Year ended December 31, 2002 BGN '000	Year ended December 31, 2001 BGN '000
Accounting profit	<u>4,310</u>	<u>4,704</u>
Tax at the applicable tax rate (23,5% for 2002, 28% for 2001)	1,013	1,317
Tax effect of expenses that are not deductible in determining the taxable profit	86	125
Tax effect from change in the tax rate	-	(246)
Other	<u>-</u>	<u>22</u>
Total tax expense	<u>1,099</u>	<u>1,218</u>
Effective tax rate	<u>25.5%</u>	<u>25.9%</u>

Reported deferred tax liabilities at December 31, 2002 and 2001 comprise the following:

	Year ended December 31, 2002 BGN '000	Year ended December 31, 2001 BGN '000
Temporary differences arise from:		
Allowances for impairment and uncollectability	368	788
Tax concession	334	487
Other liabilities	<u>-</u>	<u>10</u>
Deferred tax liabilities	<u>702</u>	<u>1,285</u>

25. COMMITMENTS AND CONTINGENCIES

	December 31, 2002 BGN '000	December 31, 2001 BGN '000
Letters of guarantee issued	24,143	9,329
Undrawn credit commitments	<u>120,266</u>	<u>60,350</u>
Total commitments and contingencies	<u>144,409</u>	<u>69,679</u>

26. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following balances:

	December 31, 2002 BGN '000	December 31, 2001 BGN '000
Cash and nostro accounts	31,793	26,667
Current account with the Central Bank	33,580	46,773
Placements with banks with a maturity of less than 3 months	33,608	81,412
Other highly liquid investments	<u>-</u>	<u>5,044</u>
Total	<u>98,981</u>	<u>159,896</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002 and December 31, 2001

27. RELATED PARTIES

Related party	Type of relation	Type of transaction	Balance as of December 31, 2001 BGN'000
Raiffeisen Zentral Bank AG ('RZB') – Austria	Parent-company	Nostro accounts	353
		Due to banks	10,500
		Accrued interest payable	110
		Subordinated debt	11,735
		Fees and commissions paid related to credit lines and guarantees	2,626
		Interest income	636
		Interest expense	660
		Operating expenses	919
		Negative fair value of derivative financial instruments	24
		RAISA	Subsidiary of parent company
Pro Invest DaVinci	Subsidiary of parent company	Operating expenses (Rent of the bank's premises)	2,145
Employees	Management and employees of the Bank	Loans and advances	971

28. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, and guarantees. The Bank does not maintain cash resources to meet all of these needs as experience shows that there is a minimum level of reinvestment of maturing funds that can be predicted with a high level of certainty.

The maturity of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

The diversification of deposits by number and type of depositors, and the past experience of the Bank provide management a basis to believe that deposits are a long-term and stable source of funding for the Bank.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002 and December 31, 2001
28. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The assets and liabilities of the Bank mature over the following periods from December 31, 2002, based on remaining contractual maturity:

	Demand	Up to 3 Months	3 months to 1 year	1 to 5 years	Over 5 years	Undefined Maturity	Total
	BGN'000	BGN '000	BGN'000	BGN '000	BGN '000	BGN '000	BGN '000
Assets							
Cash and amounts due from banks	31,793	-	-	-	-	-	31,793
Balances with the Central Bank	33,580	-	-	-	-	-	33,580
Placements with, and loans to banks	-	33,608	-	-	-	-	33,608
Receivables on repurchase agreements	-	9,417	-	-	-	-	9,417
Trading securities	-	3,203	4,206	15,535	13,899	-	36,843
Loans and advances to customers	-	114,732	149,232	100,660	64,050	-	428,674
Interest receivable and other assets	-	1,533	-	1,513	-	91	3,137
Fixed assets	-	-	-	-	-	13,146	13,146
Total assets	65,373	162,493	153,438	117,708	77,949	13,237	590,198
Liabilities							
Deposits from banks	2,212	78,709	3,000	-	-	-	83,921
Liabilities on repurchase agreements	-	6,255	-	-	-	-	6,255
Deposits from customers	255,878	134,005	14,846	-	-	-	404,729
Other liabilities	22,810	4,403	166	-	-	-	27,379
Deferred tax liabilities	-	-	-	702	-	-	702
Long-term borrowings	-	-	-	9,778	11,736	-	21,514
Subordinated debt	-	-	-	-	11,735	-	11,735
Total liabilities	280,900	223,372	18,012	10,480	23,471	-	556,235
Net position	(215,527)	(60,879)	135,426	107,228	54,478	13,237	33,963

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002 and December 31, 2001
28. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The assets and liabilities of the Bank mature over the following periods from December 31, 2001 based on remaining contractual maturity:

	Demand	Up to 3 Months	3 months to 1 year	1 to 5 years	Over 5 years	Undefined Maturity	Total
	BGN'000	BGN '000	BGN'000	BGN '000	BGN '000	BGN '000	BGN '000
Assets							
Cash and amounts due from banks	26,667	-	-	-	-	-	26,667
Balances with the Central Bank	46,773	-	-	-	-	-	46,773
Placements with, and loans to banks	-	81,412	-	-	-	-	81,412
Receivables on repurchase agreements	-	15,555	-	-	-	-	15,555
Trading securities	-	2,288	10,091	18,557	7,628	-	38,564
Loans and advances to customers	32,594	71,690	67,607	43,382	12,236	-	227,509
Interest receivable and other assets	-	2,091	-	-	-	90	2,181
Fixed assets	-	-	-	-	-	10,167	10,167
Total assets	106,034	173,036	77,698	61,939	19,864	10,257	448,828
Liabilities							
Deposits from banks	11,244	111,760	-	-	-	-	123,004
Liabilities on repurchase agreements	-	5,515	-	-	-	-	5,515
Deposits from customers	133,178	116,200	12,149	28	-	-	261,555
Other liabilities	13,472	1,160	-	-	-	-	14,632
Deferred tax liabilities	-	-	-	1,285	-	-	1,285
Subordinated debt	-	-	-	-	11,735	-	11,735
Total liabilities	157,894	234,635	12,149	1,313	11,735	-	417,726
Net position	(51,860)	(61,599)	65,549	60,626	8,129	10,257	31,102

29. FOREIGN CURRENCY EXPOSURES

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 Bank presents its financial statements is the Bulgarian lev, the Bank's financial statements are affected by movements in the exchange rates between the currencies outside the Euro-zone and the lev.

The Bank's transaction exposure gives rise to foreign currency gains and losses that are recognised in the income statement. These exposures comprise the monetary assets and monetary liabilities of Bank that are not denominated in the measurement currency of Bank.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002 and December 31, 2001

29. FOREIGN CURRENCY EXPOSURES (continued)

The following tables summarize the net foreign currency position of the Bank's monetary assets and liabilities as of:

December 31, 2002

	In Bulgarian Lev BGN '000	In foreign currency BGN '000	Total BGN '000
Assets			
Cash and amounts due from banks	11,653	20,140	31,793
Balances with the Central Bank	24,114	9,466	33,580
Placements with, and loans to banks	15,000	18,608	33,608
Receivables on repurchase agreements	3,993	5,424	9,417
Trading securities	11,617	25,226	36,843
Loans and advances to customers	85,065	343,609	428,674
Interest receivable and other assets	1,896	1,241	3,137
Fixed assets	<u>13,146</u>	<u>-</u>	<u>13,146</u>
Total assets	<u>166,484</u>	<u>423,714</u>	<u>590,198</u>
Liabilities			
Deposits from banks	15,068	68,853	83,921
Liabilities on repurchase agreements	6,255	-	6,255
Deposits from customers	157,256	247,473	404,729
Other liabilities	2,832	24,547	27,379
Deferred tax liabilities	702	-	702
Long-term borrowings	-	<u>21,514</u>	<u>21,514</u>
Subordinated debt	<u>-</u>	<u>11,735</u>	<u>11,735</u>
Total liabilities	<u>182,113</u>	<u>374,122</u>	<u>556,235</u>
Net position	<u>(15,629)</u>	<u>49,592</u>	<u>33,963</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002 and December 31, 2001

29. FOREIGN CURRENCY EXPOSURES (continued)

The following tables summarize the net foreign currency position of the Bank's monetary assets and liabilities as of:

December 31, 2001

	In Bulgarian Lev BGN '000	In foreign currency BGN '000	Total BGN '000
Assets			
Cash and amounts due from banks	5,430	21,237	26,667
Balances with the Central Bank	19,399	27,374	46,773
Placements with, and loans to banks	25,450	55,962	81,412
Receivables on repurchase agreements	5,044	10,511	15,555
Trading securities	9,533	29,031	38,564
Loans and advances to customers	75,328	152,181	227,509
Interest receivable and other assets	1,097	1,084	2,181
Fixed assets	<u>10,167</u>	<u>-</u>	<u>10,167</u>
Total assets	<u>151,448</u>	<u>297,380</u>	<u>448,828</u>
Liabilities			
Deposits from banks	17,760	105,244	123,004
Liabilities on repurchase agreements	5,515	-	5,515
Deposits from customers	86,623	174,932	261,555
Other liabilities	1,422	13,210	14,632
Deferred tax liabilities	1,285	-	1,285
Subordinated debt	<u>-</u>	<u>11,735</u>	<u>11,735</u>
Total liabilities	<u>112,605</u>	<u>305,121</u>	<u>417,726</u>
Net position	<u>38,843</u>	<u>(7,741)</u>	<u>31,102</u>

30. CREDIT RISK MANAGEMENT

The Bank's primary exposure to credit risk, the risk that counterparties might default on their contractual obligation, arises through its loans and advances. The Bank has a set of policies and procedures in relation to credit approval and credit exposures management. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet and is determined by a set of limits and internal rules approved by the Credit Committee and the Managing Board. In addition, the Bank is exposed to off balance sheet credit risk through commitments to extend credit and guarantees issued (see note 25).

Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for the Bank for 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 Bank's investments, loans and advances, commitments to extend credit and guarantees issued.

The Bank is subject to credit risk also through its trading and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties. Credit risk associated with trading and investing activities is managed through Bank's market risk management process.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002 and December 31, 2001**31. MARKET RISK MANAGEMENT**

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.

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.

32. INTEREST RATE RISK MANAGEMENT

The matching and controlled mismatching of the maturity and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Bank's interest rate exposures are monitored and managed by interest rate sensitivity reports. The majority of the Bank's interest bearing assets and liabilities are structured to match either short term assets and short term liabilities, or long term assets and liabilities with repricing opportunities within one year, or long term assets and corresponding liabilities where repricing is performed simultaneously. Most monetary assets and liabilities are capable of being repriced at relatively short notice and any interest rate sensitivity gaps are considered immaterial.