

annual report 2005



CONTENTS

FINANCIAL HIGHLIGHTS (Consolidated)	3
LETTER TO SHAREHOLDERS	4
SUPERVISORY BOARD AND MANAGEMENT BOARD	6
ORGANISATIONAL CHART	6
STANDARD & POOR'S CREDIT RATING	6
BULGARIAN ECONOMY	7
WORLD ECONOMY	10
BULBANK ACTIVITY REVIEW	12
Financial results	12
Balance sheet	13
Risk management	14
Commercial banking	15
Leasing	19
Money market and capital market operations	19
Development	20
Human resources	20
Corporate social responsibility	21
Outlook	21
CONSOLIDATED FINANCIAL STATEMENT	23
Report of independent auditor	24
Consolidated income statement	25
Consolidated balance sheet	26
Consolidated statement of changes in shareholders' equity	27
Consolidated cash flow statement	28
Notes of the consolidated financial statement for the ended 31 december 2005	29
UNCONSOLIDATED FINANCIAL STATEMENT	53
Report of independent auditor	54
Income statement	55
Balance sheet	56
Statement of changes in shareholders' equity	57
Cash flow statement	58
GENERAL INFORMATION	59
Basic information for Bulbank	59
Financial highlights for the period 2001 – 2005	60
UniCredit Group	61
Network addresses	62

LETTER TO SHAREHOLDERS

Ladies and Gentlemen,

It is our pleasure to present our 2005 annual accounts and development plans.



We proudly report a very successful year with earnings per share reaching a five-year-high of BGN 0.58, up 11.4% compared to 2004. Even more important, all the focused efforts and investments over the past few years have delivered solid risk-adjusted revenue generation capacity, thus creating sustainable value to the shareholders.

The Bulgarian economy expanded in 2005 by an estimated 5.5% in real terms. The banking sector experienced another year of rapid growth, reporting some 30% increase in volumes. Aiming at limiting the current account deficit, the Central Bank introduced a series of lending restrictions, which had a tangible negative effect on most banks but a marginal impact on Bulbank. The risks inherent to the booming lending activity over the last 5 years

started to materialize, reflected in the increase of the non-performing loan ratio of the sector, particularly in loans to individuals. Personal loans grew by 63% in nominal terms during the year. Overall the banking system remained stable, despite the effects of the fierce competition leading to another significant drop in spreads. USD appreciated by 11.2% versus EUR and all major base interest rates went up, which influenced the banks and the market.

Bulbank posted a net profit of BGN 96.1 million on a consolidated basis, up 11.4% compared to last year. Gross operating income went up 15.2%, including 46.1% in retail and 15.5% in corporate banking. Average loans grew by 49.4%, including 109% growth in retail and 39% in corporate. Average deposits increased by 5.5% only, due to the withdrawal of large tickets of institutional customers. Bulbank sustained its unique mix of high profitability, financial strength and superb efficiency. ROE grew to 16.3% from 15.7%; ROA to 2.9% from 2.8%; tier 1 capital adequacy remained solid with 18.8%; NPL ratio went down to 1.6% from 2.4%; Cost/Income ratio improved even further from 42.4% to 39.3%.

Bulbank had a busy business development programme during the year. The branch network expanded by 11 new outlets, including 3 specialised credit centres. The first small business centre opened its doors as a special vehicle to promote and sell services to small businesses. UniCredit Leasing Bulgaria almost tripled its revenues and net profit during the year. The leasing company leveraged powerfully with the bank's branch network as its main delivery channel. It opened 3 outlets of its own in order to foster car leasing operations in the country. ATM and POS networks substantially expanded. Mortgage loans, a strategic product, grew 2.2 times and reached 13% market share. Small business banking was another focal point, where revenues increased by 36% compared to the previous year, boosted by 74% growth in loans and 33% growth in deposits. The product spectrum of assets under management became broader and volumes more than doubled. New credit card products were launched, including Gold and Platinum cards for VIP customers. Bulbank was the first bank in Bulgaria to launch factoring operations. Two brand-new to the market cash management products were offered to support large and mid-size corporations. The bank made another significant step in developing its credit underwriting and risk management system. A work-out unit was established to take charge of bad loan collection and repossession of collateral, as a proactive response to the fast growing loan portfolio and the increasing credit risk in the banking system. The automated credit underwriting applications specialised by segment were modified in line with the evolving market, business and credit risk management requirements. Significant investments were made in infrastructure and system development. Activespecialist training was delivered with the focus on sales and management skills. A two-year leadership training programme was initiated for first-line managers, based on the concept of emotional intelligence.



2005 was marked by the business combination of UniCredit Group and HVB Group, giving birth to a stronger pan-European financial group, holding a leading position in Central and Eastern Europe. As a result, it is planned to merge Bulbank with HVB Biochim and Hebros Bank, two other important players on the local market. This will create a banking institution with more than 20% market share in all main financial and commercial indicators and more than 1.1 million customers. The preliminary studies of the integration process began in 2006. The process will gain momentum over the course of the current year and the legal merger into a single entity is envisaged to be complete in 2007. The main objectives are to consolidate the leading position in all strategic segments and to reach excellence in business model, service quality, risk management and processes. This will be achieved by leveraging the unique positioning of the three institutions and the pool of expertise available in Bulgaria, Italy, Austria and Germany. The merger process will be the prevailing context of the bank's business development, as it steadily continues. New mortgage centres will be opened, spreading the success of those in Sofia, Burgas, Varna and Plovdiv. A specialised consumer lending company will be established as a joint venture with Clarima, the UniCredit consumer lending vehicle. Another wave of growth in ATM and POS networks will follow. New products, brand reinforcement and active infrastructure development is planned to sustain our growth. As a responsible corporate citizen, the bank will continue to pursue its long-term charity programme.

We would like to thank our customers, partners and shareholders for their trust. We want to express our excitement at experiencing our joint development journey with our colleagues, who have demonstrated high commitment to our corporate values and goals. Finally, we would like to express our heartfelt gratitude to Mr. Alessandro Decio, who was promoted to a new position in the Holding Company, for his contribution to the development and the continuous success of Bulbank.

Andrea Moneta
Chairman of the Supervisory Board

Levon Hampartzoumian
Chairman of the Management Board and CEO

23 February 2006
Sofia

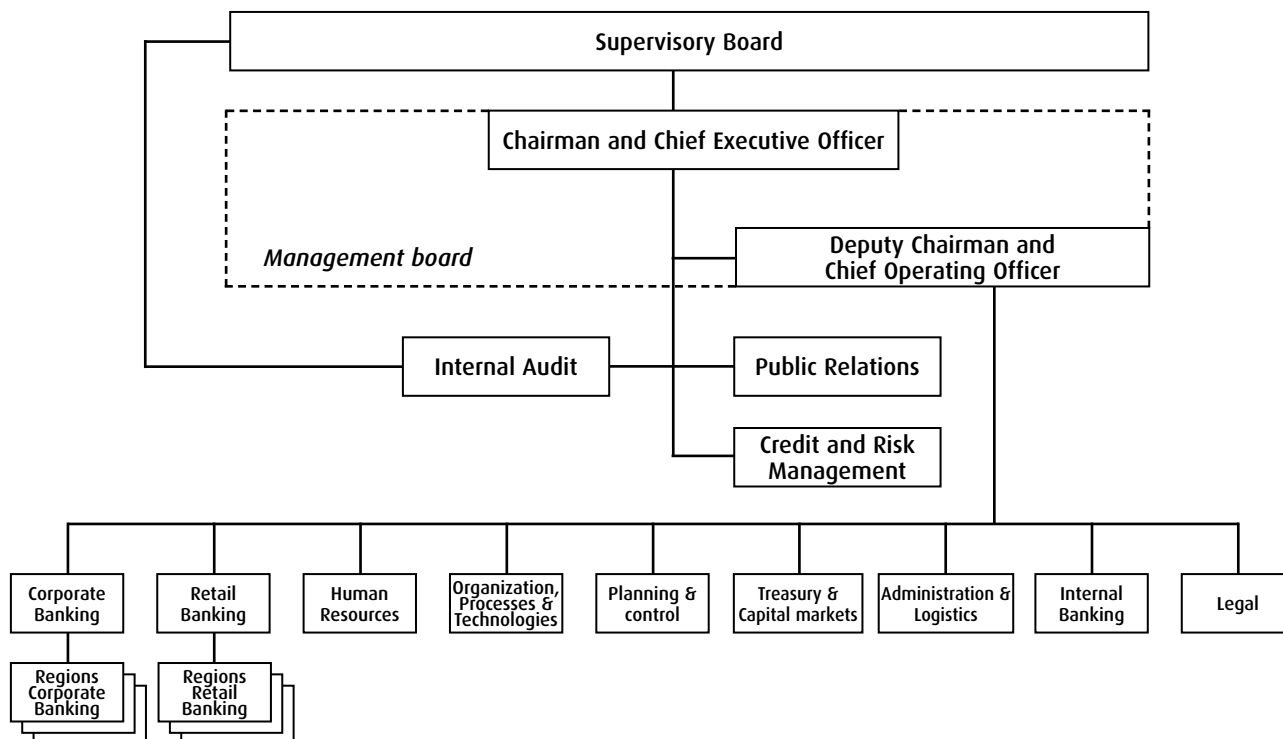
SUPERVISORY BOARD AND MANAGEMENT BOARD¹

Supervisory Board		Starting date of mandate
Andrea Moneta	Chairman	3 November 2004
Fausto Alberto Galmarini	Deputy Chairman	3 October 2000
Dimitar Zhelev	Member	3 October 2000
Ivan Stancioff	Member	19 October 2001
Jan Beliecki	Member	25 September 2003
Marcello Arlotto	Member	19 May 2004
Massimiliano Moi	Member	8 January 2003

Management Board		Starting date of mandate
Levon Hampartoumian	Chairman and Chief Executive Officer	31 August 2001
Alessandro Decio	Deputy Chairman and Chief Operating Officer	22 October 2003
Ljubomir Punchev	Member	7 January 2005
Kalinka Kirova	Member	4 February 2003
Stanislav Georgiev	Member	3 October 2000

Changes in the management bodies that took place between 1 January 2006 and the publication date of this annual report:

- In the Supervisory Board, Mr. Alessandro Decio replaced Mr. Marcello Arlotto.
- In the Management Board, Mr. Andrea Casini replaced Mr. Alessandro Decio.

ORGANISATIONAL CHART²**STANDARD & POOR'S CREDIT RATING**

Counterparty credit rating **BBB/Positive/A-2³**, upgraded on 19 December 2005 from BBB/Stable/A-2
 Certificate of deposit rating **BBB/A-2**

¹ As of 31 December 2005.

² As of 31 December 2005.

³ Equal to the S&P sovereign rating of Bulgaria in foreign currency.



33% of total, mainly due to newly opened business lines and credit risk management units, described above.

Compensation policy was actively enhanced, driven by performance, market dynamics watch and group principles. The variable part of compensation, strictly linked to contribution, was developed further. The principles of personal target allocation, performance related bonus range, pre-advice and team solidarity factors, ruling for the MBO covered positions, were cascaded to the whole bank. The MBO system (Management by Objectives), applying previously mainly to managers, was enhanced by enlarging the scope of eligible staff. For the first time, sales force positions were assigned semi-annual targets, thus qualifying for a semi-annual MBO too.

As a result of the employee satisfaction survey done at the end of 2004, an intensive action plan was done for development targeting enhancement in the following areas: leadership, client focus, training and development and pay.

People development was a main priority in 2005. More than 150 newcomers visited induction training. Specialist training in sales skills and products continued with great intensity aligned with the business plans of retail and corporate divisions. Special Corporate and Small business events were organised, where the bank's strategy and plans for development were presented along with discussion panels and training. IT specialist training continued aimed at introducing new technologies in support of business and services, increased processing capacity and upgrade of infrastructure. Soft skills and management workshops were organised for a focused group of managers and experts, including presentation skills, negotiation skills, process management and time management. A two-year leadership development programme was initiated for first line managers based on the emotional Intelligence concept. A fourth consecutive group of young people with high potential joined the "Young Talents" managerial programme, a joint venture of UniCredit Group and Bocconi University.

The assessment centre of the bank supported the active recruitment process and was involved in evaluation of employees' potential. This supported the career planning process. A new initiative named "Know Your People" was launched, bringing together people from various areas and locations in the bank and the top executives in an atmosphere of informal discussion, aiming at improvement of internal communication and ideas generation.

Corporate social responsibility

Being a member of UniCredit Group and Global Compact initiative of the United Nations, Bulbank places a special emphasis on corporate social responsibility. The total amount given to charity in 2005 grew by 35% compared to the previous year.

In 2005, the joint project with Unidea, UniCredit Foundation, for repair and renovation of premises and dormitory of the School for Visually Impaired Children in Sofia was completed. The bank started its biggest and best structured joint bank-employee donation campaign targeting fund raising for the reconstruction of the orphanage house in the town of Roman, which suffered badly from the summer floods.

One of the first joint initiatives of Bulbank, HVB Bank Biochim and Hebros Bank after the announced merger between UniCredit and HVB was the support to the municipality authorities in creating a friendly and safe urban environment in one of the central public parks in Sofia. The bank supported the construction of a new cathedral in Sofia. A number of other carefully selected, projects was also backed.

Outlook

2006 will be marked by the process of integration of Bulbank, HVB-Biochim and Hebros Bank. The integration project planned to start in the first quarter of 2006 aims to ensure sustainable growth building upon the strengths of the three banks in a timely and well-organised manner. The main objectives will be to reinforce the combined entity's market positioning and provide for excellence in services and processes to the best interest of customers, shareholders, employees and other stakeholders. The potential to make this happen is great, given the limited overlapping of business and branches and the strong franchise in virtually all segments of the market. The direct connection to markets in Italy, Germany and Austria, one of the main trade partners of Bulgaria, is an unparalleled advantage for business customers, and which will be leveraged. In the fast growing retail segment, the combined entity will have access to a large customer base of more than one million customers, which will be exploited through shared product proliferation and marketing. In order to make use of this enormous potential and reach the goals, the integration project plans legal merger of all three banks in 2007 with a joint sales force and back office supported by a state-of-the-art centralised banking IT system.

Apart from integration, Bulbank will continue its development programme on a selective basis. The factoring business



will be split into a stand-alone company, aimed at creating and capturing an optimum stake in this new market within Bulgaria. Clarima Bulgaria, a specialised consumer lending company in a joint-venture with Clarima Italy, will be registered and will open doors in the first half of the year, targeting POS consumer lending with a well-designed business and processing model. The distribution network will be developed selectively only through opening new specialised credit centres and leasing offices outside Sofia. The ATM and POS networks will be further expanded to support the fast-growing card business. Electronic banking development will continue. The bank is already well advanced in the most important regulatory-related projects for 2006, including IBAN standards implementation and Basel II. People development, targeting high performance and excellence, will be a central aspect of HR policy for the year.