

**NATIONAL GUARANTEE FUND EAD**

**FINANCIAL STATEMENTS**

**31 DECEMBER 2008**

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**INCOME STATEMENT**

for the period from 22 August to 31 December 2008

	<i>Notes</i>	<b>2008</b> <i>BGN'00</i> <i>0</i>
Interest income and other similar income		19
<b>Net interest and other similar income</b>	<i>3</i>	<u><b>19</b></u>
General administrative expenses	<i>4</i>	(154)
<b>Profit from operations before taxes</b>		<u><b>(135)</b></u>
Income tax expense	<i>5</i>	<u>14</u>
<b>Net profit for the year</b>		<u><u><b>(121)</b></u></u>

The accompanying notes on pages 6 to 35 form an integral part of these financial statements.

Mihail Stoyanov  
Chairman of the Board of Directors

Svetlin Statkov  
Executive Director

Ivan Lichev  
Preparer

Audited by: BDO AKERO OOD

Stoyanka Apostolova, General Manager  
CPA, Registered Auditor

**BALANCE SHEET**

as at 31 December 2008	<i>Notes</i>	<b>31 December 2008</b>
		<i>BGN'000</i>
<b>Assets</b>		
Cash	6	2,328
Property and equipment	7	50
Intangible assets	8	1
Deferred tax assets	9	14
<b>Total assets</b>		<b>2,393</b>
<b>Liabilities</b>		
Other liabilities – Current liabilities	10	14
<b>Total liabilities</b>		<b>14</b>
<b>Equity</b>		
Subscribed capital	11	10,000
Non-paid-in capital	11	(7,500)
Current profit/(loss)		(121)
<b>Total equity</b>		<b>2,379</b>
<b>Total liabilities and equity</b>		<b>2,393</b>

The accompanying notes on pages 6 to 35 form an integral part of these financial statements.

The financial statements are approved for issue by the Board of Directors of NGF EAD on 30 March 2008 and signed on its behalf by:

Mihail Stoyanov  
Chairman of the Board of Directors

Svetlin Statkov  
Executive Director

Ivan Lichev  
Preparer

Audited by: BDO AKERO OOD  
Stoyanka Apostolova, General Manager  
CPA, Registered Auditor

**CASH FLOW STATEMENT**

for the period from 22 August to 31 December 2008

	<i>Notes</i>	<b>2008</b> <b>BGN'000</b>
<b>Cash flows from operating activities</b>		
Profit before taxes		(121)
Depreciation and amortisation	7,8	<u>1</u>
<i>Cash flows from operating activities before changes in working capital</i>		<u>(120)</u>
<i>Changes in assets and liabilities employed in operating activities:</i>		
Increase in other liabilities		14
Increase in other assets	9	(14)
Net cash flows (used in)/from operating activities before income taxes		<b>(120)</b>
<i>Income taxes paid</i>		<u>-</u>
<b>Net cash (used in)/from operating activities</b>		<b><u>(120)</u></b>
<b>Cash flows from investing activities</b>		
Purchase of equipment and software	7,8	<u>(52)</u>
<b>Net cash used in investing activities</b>		<b><u>(52)</u></b>
<b>Cash flows from financing activities</b>		
Issue of shares	11	<u>2,500</u>
<b>Net cash from financing activities</b>		<b><u>2,500</u></b>
<b>Net increase in cash and cash equivalents</b>		<b>2,328</b>
Cash and cash equivalents at the beginning of the period		<u>-</u>
<b>Cash and cash equivalents at the end of the period</b>	6	<b><u><u>2,328</u></u></b>

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Chairman of the Board of Directors

Svetlin Statkov  
Executive Director

Ivan Lichev  
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Stoyanka Apostolova, General Manager  
CPA, Registered Auditor

**STATEMENT OF CHANGES IN EQUITY**

for the period from 22 August to 31 December 2008

	<i>Notes</i>	<b>Share capital</b>	<b>Statutory reserves</b>	<b>Retained earnings</b>	<b>Total</b>
		<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
<b>Balance at 22 August 2008</b>		-	-	-	-
Issue of share capital		2,500	-	-	2,500
Distribution of 2007 profit for:		-	-	-	-
* <i>Reserves</i>		-	-	-	-
* <i>Dividends</i>		-	-	-	-
Unrealised gains from revaluation of available-for-sale investments, net		-	-	-	-
Effect of deferred taxes in items taken directly to equity		-	-	-	-
Net profit for the year		-	-	(121)	(121)
<b>Balance at 31 December 2008</b>	<i>11</i>	<b>2,500</b>	-	<b>(121)</b>	<b>2,379</b>

Mihail Stoyanov  
Chairman of the Board of Directors

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Executive Director

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Stoyanka Apostolova, General Manager  
CPA, Registered Auditor

## **1. CORPORATE INFORMATION ON THE FUND**

### **1.1. Establishment**

The National Guarantee Fund (the Fund) was established on 12 August 2008 as a sole owner joint-stock company with 100% participation of BDB.

The address of management of the Fund is at Sofia, 1 Diakon Ignatiy Str.

### **1.2. Ownership and management**

The issued share capital of the Fund comprised of 10,000 registered, non-cash shares of nominal value BGN 100 each is held by Bulgarian Development Bank AD.

The National Guarantee Fund is Managed by a Board of Directors (BD) with a mandate until 12 August 2011. The member of the Board as follows: Mihail Stoyanov – Chairman, Svetlin Statkov and Krassimir Hristov. Svetlin Statkov is Executive Director and represents the Fund jointly with the Chairman of the BD, while Krassimir Hristov is a Procurator and may represent the Fund jointly with the Executive Director.

### **1.3. Principal activities**

The scope of the principal activities of the Fund is defined by the Bulgarian Development Bank Act. It includes:

- (a) issue of guarantees to supplement the collaterals for SME loans;
- (b) providing to SME other products such as guarantee for tender participation; good performance guarantee; advance payment guarantee; guarantee for loan payment of an exporter and others;
- (c) issue of guarantees to supplement the collaterals for loans to SME performing research and development activities and for the implementation of such products and research developments in the industry;
- (d) other activities, which are not explicitly forbidden by law.

The guarantees cover up to 50% of the respective payables to which they refer. The maximum amount of guarantees issued by the Fund to a single trade company may not exceed 10% of the Fund capital.

In accordance with the Law on the Credit Institutions, the National Guarantee Fund EAD is a financial institution and is registered as such in BNB on 22 October 2008.

Nine employees work in the Fund as at 31 December 2008.

#### **1.4. Structure of the Fund**

At 31 December 2008, the National Guarantee Fund has representatives in the regions of the country located in nine main centres: Sofia, Montana, Lovech, Russe, Varna, Sliven, Plovdiv, Haskovo and Blegoevgrad.

#### **1.5. Main indicators of the economic environment**

The main economic indicators of the business environment that have affected the Fund activities throughout the period 2005 - 2008, are presented in the table below:

<b>Indicator</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
GDP in million levs <sup>1</sup>	42,797	49,091	56,520	66,096*
Actual growth of GDP	6.20%	6.3%	6.2%	6.0%*
Year-end inflation	6.5%	6.5%	12.50%	7.8%
Average exchange rate of USD for the year	1.57415	1.55010	1.41982	1.33683
Exchange rate of the USD at the year-end	1.65790	1.48506	1.33122	1.38731
Basic interest rate at the year-end	2.05%	3.26%	4.58%	5.77%
Unemployment rate at the year-end	10.73%	9.12%	6.91%	6.27%

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

### **2.1. Basis for the preparation of the financial statements**

The financial statements of the National Guarantee Fund EAD have been prepared in accordance with all International Financial Reporting Standards (IFRS), which comprise Financial Reporting Standards and the International Financial Reporting Interpretations Committee (IFRIC) interpretations, approved by the International Accounting Standards Board (IASB), as well as the International Accounting Standards (IAS) and the Standing Interpretations Committee (SIC) interpretations, approved by the International Accounting Standards Committee (IASC), which are effectively in force on 1 January 2008 and have been accepted by the Commission of the European Union.

The Fund applies this financial reporting framework for the first time in 2008 for the purposes of its statutory financial statements.

For the current financial year the Fund has adopted all new and/or revised standards and interpretations, issued by IASB and respectively, by IFRIC, which are relevant to its activities. The adoption of new or revised standards, which are relevant to the activities of the Fund, has not resulted in changes in its

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<sup>1</sup> New denominated BGN

Source: NSI, BNB

\* The data for year 2008 is preliminary.

accounting policies and has not lead to different classification or valuation of individual reporting items except for the introduction of new disclosures and the expanding of those already established.

At the date of issue of these financial statements for approval, there are several standards, amended standards and interpretations, issued but not yet in force, which have not been adopted for earlier application by the Fund. The management has judged that out of them the following are likely to have a potential effect in the future for changes in the accounting policies and the financial statements of the Fund:

- *IAS 1 (Revised) “Presentation of Financial Statements” (in force for annual periods beginning on or after 1 January 2009)*; This standard introduces a statement of comprehensive income by focusing on the separation of the changes in equity resulting from transactions with owners (capital transactions) and non-owner changes in equity. Total comprehensive income may be presented in either a single statement of comprehensive income (combining both the income statement and all non-owner changes in equity) or in two statements – an income statement and a separate statement of comprehensive income. Additionally, the name of the balance sheet is changed to a performance statement. The management of the Fund has considered the new requirements and amendments of IAS 1. It expects that they will result in a significant impact on the presentation of the financial statements for year 2009, especially with regard to the different components of income. With regard to presenting comprehensive income the management has chosen to apply the two separate statements;
- *IFRS 3 (revised) “Business Combinations” (in force for annual periods beginning on or after 1 January 2010)*. The changes in the standard are related to the following: the definition of a business has been broadened, which is likely to result in expanding the scope of acquisitions being treated as business combinations; the measurement of minority (non-controlling) interest and the presentation of the transactions therewith; the treatment of transaction costs; the measurement of contingent portion of acquisition cost and the impact of its subsequent changes; measurement of pre-existing interest in the acquiree on stepwise acquisition and treatment of the effects thereof. The management has decided not to adopt the changes in the standard in year 2008. At the same time, it has judged that there would not occur direct changes in the accounting policies applied for the financial statements as far as at this stage there is no minority interest in the group but they would rather be further developed;
- *IFRS improvements – improvements of IAS 1, 8, 10, 16, 19, 20, 27 (except those related to the changes in IFRS 3), 28 (except those related to the changes in IFRS 3 and the respective changes in IAS 27), 36, 38, 39 and 40; IAS 7 in relation to IAS 16 (in force for annual periods beginning on or after 1 January 2009)*. These improvements introduce partial amendments in the respective standards primarily with a view to remove existing inconsistency in the rules

- and requirements of individual standards and set up more precise terminology. The management has done research and has concluded that these amendments would not affect materially the accounting policies, or the assets, liabilities and performance of the Fund, except for refining the used terminology, expanding disclosures and/or including new ones;

Additionally, in regard of the stated below new standards, amended standards and accepted interpretations that have been issued but not yet in force as at 1 January 2008, the management has judged that they are unlikely to have potential impact resulting in changes in the accounting policies and the financial statements of the Fund:

- *IFRS 8 “Operating Segments”* (in force for *annual periods beginning on or after 1 January 2009*). This standard will replace IAS 14. The standard requires a ‘management approach’ in segment defining and presentation of segment information in the public financial statements analogous to that used for internal management reporting;
- *IAS 23 (amended) “Borrowing Costs”* (in force for *annual periods beginning on or after 1 January 2009*). The amended version of this standard requires an entity to capitalise borrowing costs, directly attributable to the acquisition, construction or production of a qualifying asset, as part of the cost of that asset for the period of construction/production.
- *IAS 32 (amended) “Financial Instruments: Presentation”* and *IAS 1 (amended) “Presentation of Financial Statements”* regarding *puttable financial instruments and obligations arising on liquidation* (in force for *annual periods beginning on or after 1 January 2009*). The amendments in these standards require puttable financial instruments and instruments, which impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity components provided that certain conditions are met;
- *IFRS 2 (amended) “Share-based Payment”* (in force for *annual periods beginning on or after 1 January 2009*) – *dealing with vesting conditions and cancellations*. These amendments clarify the definitions of vesting conditions, and introduce the concept of non-vesting conditions by requiring non-vesting conditions to be reflected in the fair value on the grant date. They also provide rules for the accounting treatment of non-vesting conditions and cancellations.

- *IFRIC 13 “Customer Loyalty Programs” (in force for annual periods beginning on or after 1 July 2008).* This interpretation clarifies that where goods and services are sold together with a customer loyalty incentive, these relations represent a multiple-component arrangement, and the consideration receivable from the customer is allocated between the components on fair value basis;
- *IFRIC 15 “Agreements for Construction of Real Estates” (in force for annual periods beginning on or after 1 January 2009 – still not accepted by EC).* This interpretation clarifies when and how revenue and costs to sell real estate shall be recognised if the agreement between the buyer and the builder has been concluded before the completion of the real estate, including the application of IAS 11 and IAS 18.
- This interpretation clarifies the hedging of a net investment in a foreign operation providing primarily guidance for the identification of currency risk for the qualification of net investment hedge accounting as well as how the entity shall determine the amount of profit and loss related to the net investment and with the hedge instrument for the purposes of its recognition on disposal of the investment;
- *IFRIC 17 “Distribution of Non-cash Assets to Owners” (in force for annual periods beginning on or after 1 January 2010 – still not accepted by EC).* This interpretation clarifies the recognition of a dividend payable and its measurement, especially where the distribution is to be made through non-cash assets; and
- *IFRIC 18 “Transfers of Assets from Customers” (in force for annual periods beginning on or after 1 January 2009 – still not accepted by EC).* This interpretation clarifies the accounting treatment of received assets from entities in the utility sector, from their customers or third parties, which provide access to and services related to supply of gas, water, electricity and other similar. These assets are being received in relation to the provision of an access or supply of such type of services/goods.

The management has judged that the above stated amended/new standards and/or interpretations would not affect the accounting policies of the Fund as far as its activities are not in these business sectors, do not include such deals, transactions and policies, and it has no such reporting items.

The financial statements of the Fund have been prepared on historical cost basis except for derivative instruments and available-for-sale financial instruments, which are measured at fair value at the balance sheet date.

The Fund maintains its accounting books in Bulgarian lev (BGN), which is accepted as being its presentation currency. The data in the financial statements and the notes thereto are presented in thousands of Bulgarian levs (BGN'000).

The presentation of the financial statements in accordance with International Financial Reporting Standards requires the management to make best estimates, accruals and reasonable assumptions that affect the reported values of assets and liabilities, and the disclosure of contingent receivables and payables as at the date of the financial statements, and respectively, on the amounts of income and expenses for the reporting year. These estimates, accruals and assumptions are based on the information, which is available at the date of the financial statements, and therefore, the future actual results might be different from them.

### **2.2. Comparatives**

The Fund presents in its financial statements comparative information for one prior period. No comparatives have been presented to the reporting period as far as this is the first year of Fund's operation. For the purposes of achieving a more reliable presentation of the reporting items and transactions, where necessary, changes are made in their classification and presentation in the individual components of the financial statements and then prior year comparatives are also reclassified to ensure the required comparability with the current period.

### **2.3. Reporting currency**

The functional and presentation currency of the Fund is the Bulgarian Lev. Starting from 1 July 1997 the Bulgarian Lev was pegged to the German Mark at the ratio of BGN 1 : DEM 1. With the introduction of the Euro as an official currency of the European Union, starting from 1 January 1999, the fixed ratio between both currencies is BGN 1.95583 : EUR 1.

The ratio BGN / USD is 1.387310 : 1 as at 31 December 2008 (22 August 2008: 1.32079:1).

Upon its initial recognition, a foreign currency transaction is recorded in the functional currency whereas the exchange rate to BGN at the date of the transaction or operation is applied to the foreign currency amount. Cash and cash equivalents, receivables, investments in securities, liabilities under loans and other payables, as monetary reporting items, denominated in foreign currency, are recorded in the functional currency by

applying the daily exchange rate as quoted by the Bulgarian National Bank (BNB). At the end of each working day, all monetary reporting items are revalued at the official rate of BNB.

The non-monetary items in the balance sheet, which are initially denominated in a foreign currency, are accounted for in the functional currency by applying the historical exchange rate at the date of the transaction and are not subsequently re-valued at the closing exchange rate.

Foreign exchange gains or losses arising on the settlement or recording of foreign currency transactions at rates different from those, at which they were converted on initial recognition, are recognised in the income statement in the period in which they arise and are treated as ‘Gains less losses from dealing in foreign currencies’ on net basis.

### **2.4. Interest income and expenses**

Interest income and expenses are recognised in the income statement on accrual basis for all interest-bearing instruments using the effective yield method based on the actual purchase price or the applicable floating rate. Interest income and expenses 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.

Interest income includes gained interest on debt securities available-for-sale, and interest on deposits with other banks.

Interest expense is recognised by applying the accrual concept and includes interest under loans and other borrowings received, charges and commissions under received loans, which are an integral part of the effective interest expense.

### **2.5. Fee and commission income and expenses**

Fees and commissions on issued guarantees are recognised on a systematic basis over the period of the exposure to match the cost of providing the service.

Fee and commission expenses related to servicing nostro accounts with banks are recognised at the time of provision of the underlying service.

### **2.6. Financial instruments**

#### **2.6.1. Financial assets**

The Fund classifies its financial assets in the following categories: ‘loans and receivables’, ‘assets available-for-sale’ and ‘assets held-to-maturity’. The classification depends on the nature and purpose of the financial assets at the time of their acquisition. The management determines the classification of the financial assets of the Fund at the time of their initial recognition on the balance sheet.

The Fund usually recognises its financial assets on the balance sheet on the trade date, being the date on which it commits (undertakes an ultimate engagement) to purchase the respective financial assets. All financial assets are initially measured at their fair value plus the directly attributable transaction costs.

Financial assets are derecognised from the Fund's balance sheet when the rights to receive cash (flows) from these assets have expired or have been transferred, and the Fund has transferred substantially all the risks and rewards of ownership of the asset to another person. If the Fund retains substantially all risks and rewards associated with the ownership of a particular transferred financial asset, it continues to recognise the transferred asset on its balance sheet but also recognises a secured liability (a loan) for the consideration received.

### Loans and receivables

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Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This group of financial assets includes: cash at current accounts and deposits with banks and other receivables. They are measured in the balance sheet at their amortised cost using the effective interest method less any allowance for impairment. Interest income under receivables is recognised on effective interest basis. It is presented in the income statement under 'Interest and other similar income'.

### Held-to-maturity financial assets

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Held-to-maturity financial assets are debt securities with fixed or determinable payments and fixed maturities on acquisition of which the Fund has the positive intention and ability to hold to maturity regardless of being tradable on a stock market. These assets are initially measured at acquisition cost and subsequently – at amortised cost using the effective interest method less allowance for impairment, if any. Income is recognised on effective yield basis in the income statement within 'Interest and other similar income'.

### Financial assets available-for-sale

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Available-for-sale financial assets are those non-derivative assets that are either designated as available-for-sale or are not classified in any other category.

The Fund classifies as available-for-sale financial assets debt securities and investments in other entity shares intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or material changes in their yields or prices.

Securities are initially recognised at cost, being the fair value of the consideration given including acquisition costs associated with the investment. They are subsequently measured at fair value based on quoted bid prices or amounts derived from the use of valuation models for discounting cash flows. When the financial instruments represent equity investments in closed-end entities for which it is difficult to find appropriate data for making sufficiently reasonable and grounded long-term assumptions for fair value calculation of their shares through other alternative valuation methods, they are subsequently measured at acquisition cost.

Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised directly in a separate component of equity through the statement for changes in equity – ‘Revaluation reserve – FA’ - until the financial asset is sold, collected or otherwise disposed of or until it is impaired, at which time the accumulated gains or losses recognised in prior periods in the equity, are recognised in the income statement for the reporting period.

During the period of holding debt instruments, classified as ‘available-for-sale’ the Fund recognises interest income by applying the effective interest method.

Dividends on shares, classified as available-for-sale financial assets, are recognised and accounted for in the income statement as ‘other income’ when the Fund’s right to receive the dividends is established.

### Agreements for purchase and resale of securities (reverse REPO deals)

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Securities purchased under agreements to resell are not recognised on the balance sheet but are recorded and presented as ‘due from banks’ or ‘loans and advances to customers’ secured with securities, as appropriate. The difference between purchase and resale prices is treated as interest and accrued over the period of the life of the agreement using the effective interest rate method.

### Impairment of financial assets

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All financial assets classified in the groups ‘receivables’, ‘financial assets held-to-maturity’, ‘financial assets available-for-sale’ are subject to review for impairment. The Fund assesses at each balance sheet date whether there is any objective evidence for a permanent and clearly manifested impairment of a financial asset or a group of financial assets.

### Receivables from banks and other customers

The Fund assesses at each balance sheet date whether there is any objective evidence that certain individual loans and amounts due or a group of loans and amounts due of similar characteristics have indications for being impaired. A loan is impaired when there is an objective evidence of impairment as a

result of one or more events (a ‘loss event’) that occurred after the initial recognition of the asset(s) and that the loss event(s) has an impact on the estimated future cash flows of the asset(s) and this impact can be reliably estimated. The criteria used by the Fund to determine that there is objective evidence of an impairment loss include: delinquency in contractual payments of principal and interest; cash flow difficulties experienced by the borrower; breach of key covenants and ratios (indicators) of the agreement; deterioration of the borrower’s financial, market and competitive condition; deterioration in the state and quality of collaterals; initiation of liquidation and/or bankruptcy proceedings and other similar indicators.

Allowances for receivable impairment are accrued in a special allowance account if there is objective evidence that the Fund will not be able to collect all amounts due by debtors.

Allowances are also made for other components of the receivables portfolio or credit risk exposures at each balance sheet date, estimated based on historical patterns of losses in each component, current economic conditions in which the debtors operate and other factors affecting the respective exposures.

The amounts of impairment are calculated on the basis of internal rules and techniques developed by the Bank in accordance with the requirements of IAS 39.

It is an accepted policy of the Fund that all impaired receivables are periodically reviewed and analyzed. Any subsequent changes in the amounts and timing of the expected future cash flows compared to the prior estimates would result in a change in the allowances for loan impairment losses and be charged or credited to loan impairment and uncollectability losses in the income statement. An allowance for impairment and uncollectability is reversed only when the quality of the receivable has improved so that reasonable assurance exists as to the timely collection of principal and interest in accordance with the original contractual terms of the agreement. Subsequent recoveries or decreases in the allowances due to an event occurring after the write-down are stated as a reversal (decrease) of impairment and uncollectability expenses (losses) in the income statement.

When a receivable is uncollectable, it is written-off against the related accumulated impairment losses in the allowance account. Such receivables are written-off after all necessary legal procedures have been completed and the amount of the final loss has been determined.

### Held-to-maturity financial assets

‘Held-to-maturity’ financial assets are being assessed individually provided that there is objective evidence for impairment. If such evidence exists, the amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows. The impairment loss is carried to an allowance account and the value of the financial asset is presented net in the balance sheet. The impairment loss amount is currently recognised in the income statement.

### Financial assets available-for-sale

Available-for-sale financial assets are impaired if there is objective evidence that shows a significant and prolonged decline in the fair value of the respective asset or group of assets or with regard to financial assets measured at acquisition cost – when there is evidence that the carrying amount is higher than the expected recoverable amount. Additionally, alternative valuation methods are applied – methods of discounted cash flows, methods for prices in analogous transactions, analyses of trends in the accounting values of net assets, in order to assess whether the price changes are permanent as well as to isolate the effects of the general downturn and the stagnation of stock markets from those, which are directly related to the individual particularities of the entity issuer of securities. If any such clear and specific evidence for impairment exists, the cumulative loss from revaluation representing the difference between the acquisition cost and the current fair value (recoverable amount), is transferred from equity to the income statement. The recoverable amount of a debt instrument is determined based on the present value of expected future cash flows, discounted at the current market interest rate for a similar financial asset.

### **2.6.2. Financial liabilities and equity instruments**

The Fund classifies its liabilities, debt and equity instruments either as financial liabilities or as equity in accordance with the substance of the contractual arrangements with the respective counterparty regarding these instruments. It determines the classification of the financial liabilities at the time of their origination. All financial liabilities, held by the Fund, are classified as other financial liabilities and are carried at amortised cost.

**The financial liabilities are initially recognised on the balance sheet at fair value net of the directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method. Interest expense is carried to the income statement on current basis.**

Financial liabilities are derecognised when the obligation under the liability is discharged or cancelled, or the counterpart loses its entitlement.

### **2.7. Leases**

#### **2.7.1. Finance lease**

##### *The Fund as a lessor*

Finance lease where a substantial portion of all risks and economic benefits incidental to the ownership of the leased asset is transferred outside the Fund, is written-off from the assets of the lessor and is presented in the balance sheet as a receivable at an amount equal to the net investment in the lease. The difference between

the carrying amount of the leased asset and the immediate (fair selling) value is recognised in the income statement in the beginning of the lease term (when the asset is delivered). Income from finance lease is allocated to accounting periods based on a pattern reflecting a constant periodic rate of return against the still outstanding portion of the net investment of the Fund related to the lease and is recorded as 'interest income'.

*The Fund as a lessee*

Finance leases, which transfer to the Fund substantially all the risks and benefits incidental to ownership of the leased item, are capitalised in the balance sheet of the lessee and are presented as leased item of property, plant and equipment at their immediate sale price or, if lower, at the present value of the minimum lease payments. The lease payments are apportioned between the finance cost (interest) and the attributable portion (reduction) of the lease liability (principal) so as to achieve a consistent interest rate on the remaining outstanding principal balance of the lease liability. Interest expenses are included in the income statement as 'Interest and other similar expenses'.

Assets acquired under finance lease are depreciated on the basis of their useful economic life and within the lease term.

**2.7.2 Operating lease**

Leases where the lessor keeps a substantial part of all risks and economic benefits incidental to the ownership of the specific asset are classified as operating leases.

The payments of the Fund as a lessee in relation to operating lease are recognised as expense in the income statement on straight-line basis over the lease term and are presented as 'rental expenses'.

The income of the Fund as a lessor under operating lease agreements is recognised on straight-line basis over the lease term and are presented as 'other operating income'.

**2.8. Property and equipment**

Property and equipment (tangible fixed assets) are presented in the financial statements at historical cost of acquisition (cost) less the accumulated depreciation and any impairment losses in value.

### Initial measurement

Upon their initial acquisition, property and equipment are valued at cost, which comprises the purchase price, including customs charges and any directly attributable costs of bringing the asset to working condition for its intended use. The directly attributable costs include the cost of site preparation, initial delivery and handling costs, installation costs, professional fees for people involved in the project, non-refundable taxes etc.

**The Fund has set a value threshold of BGN 150, below which the acquired assets, regardless of having the features of property, plant and equipment, are treated as current expense at the moment of their acquisition.**

### Subsequent measurement

The approach chosen by the Fund for subsequent measurement of property and equipment, is the cost model under IAS 16, i.e. cost less any accumulated depreciation and any accumulated impairment losses in value.

### Depreciation methods

The Fund applies the straight-line depreciation method for property and equipment. The useful life per group of assets has been determined considering: physical wear, the characteristic features of the equipment, the intentions for future use and the expected obsolescence, and is as follows:

- Buildings - 50 years;
- Office equipment and computers – 5 years;
- Motor vehicles – 5 years;
- Furniture and fixtures - 6.7 years.

The useful life of the individual groups of assets is determined by the management considering: their physical wear, the characteristic features of the equipment, the intentions for future use and the presumable obsolescence. The useful life, set for any equipment, is reviewed at each year-end and it is adjusted prospectively in case that any material deviations from future expectations concerning the terms of use are determined.

### Subsequent costs

Repair and maintenance costs are recognised as current expenses as incurred. Subsequent expenses incurred in relation to property and equipment having the nature of replacement of certain significant parts or improvements and restructuring, are capitalised in the carrying amount of the respective asset whereas its residual useful life is reviewed at the date of capitalisation. At the same time, the non-depreciated part of the replaced components is derecognised from the carrying amount of the assets and is recognised in the current expenses for the period of restructure.

### *Impairment of assets*

The carrying amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate that they might significantly differ from their recoverable amount. If any indications

exist that the estimated recoverable amount of an asset is lower than its carrying amount, the latter is adjusted to the recoverable amount of the asset. The recoverable amount of tangible fixed assets is the higher of the fair value less costs to sell or the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market conditions and assessments of the time value of money and the risks, specific to the particular asset. Impairment losses are recognised in the income statement.

### Gains and losses on sale

Tangible fixed assets are derecognised from the balance sheet when they are permanently disposed of and no future economic benefits are expected therefrom or on sale. The gains or losses arising from the sale of an item of property and equipment are determined as the difference between the consideration received and the carrying amount of the asset at the date of sale. They are stated net under 'other operating income/(losses)' on the face of the income statement.

### **2.9. Intangible assets**

Intangible assets are stated in the financial statements at acquisition cost (cost) less accumulated amortisation and any impairment losses in value. They include software and license for their use.

The straight-line amortisation method is applied for the intangible assets with determined useful life of 5 years.

The carrying amount of the intangible assets is subject to review for impairment when events or changes in the circumstances indicate that the carrying amount might exceed their recoverable amount. Impairment losses are included in the income statement.

Intangible assets are derecognised from the balance sheet when they are permanently disposed of and no future economic benefits are expected from their use or on sale. The gains or losses arising from the sale of an item of intangible assets are determined as the difference between the consideration received and the carrying amount of the asset at the date of sale. They are stated net under 'other operating income/(losses)' on the face of the income statement.

### **2.10. Provisions and contingent liabilities**

Provisions are recognised when the Fund has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources will be required to settle (repay) the obligation. The measurement of provisions is based on the best estimate, made by the management at the balance sheet date, concerning the expenses that will be incurred for the settlement of the particular obligation. The estimate is discounted if the obligation is long-term.

Contingent liabilities are obligations arising from past events, the existence of which can be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not entirely within the control of the Fund, or it is not probable that an outflow of resources will be required to settle the obligation. They are not recognised in the balance sheet but are subject to disclosure.

### **2.11. Pensions and other payables to personnel under the social security and labour legislation**

In accordance with the Bulgarian legislation, the Fund is obliged to pay contributions to social security health insurance funds. The amount of the contributions is defined by the Social Security Code and the Health Insurance Act based on the income for the period. The employment relations with the employees of the Fund in its capacity of an employer are based on the provisions of the Labour Code and the effective social security legislation.

The employer's major duty is to make the mandatory social security contributions for the hired employees to the Pensions Fund, the Supplementary Mandatory Pension Security Fund, to the General Diseases and Maternity Fund, the Unemployment Fund, the Labour Accident and Professional Diseases Fund, the Guaranteed Receivables of Workers and Employees Fund and for health insurance.

Social security and health insurance contributions are defined under the Law on the Budget of State Social Security and the Law on the Budget of National Health Insurance Fund for the respective year. The contributions are apportioned between the employer and the employee at a ratio, which is changed annually and is provided for in Social Security Code. The total contribution amount for the Pensions Fund; Supplementary Mandatory Pension Security Fund; General Diseases and Maternity Fund; Unemployment Fund, and health insurance for the period 2007 – 2008 is as follows:

- for the period 1 January 2007 – 30 September 2007

- 45.5% for those employed under the second category terms (employer:employee ratio being 65:35).
- 35.5% for those employed under the third category terms (employer:employee ratio being 65:35).

- for the period 1 October 2007 – 31 December 2007

- 42.5% for those employed under the second category terms (employer:employee ratio being 65:35).
- 32.5% for those employed under the third category terms (employer:employee ratio being 65:35).

- for the period 1 January 2008 – 31 December 2008

- 42.5% for those employed under the second category terms (employer:employee ratio being 60:40).
- 32.5% for those employed under the third category terms (employer:employee ratio being 60:40).

In addition, entirely at its own account, the employer pays a contribution to the Guaranteed Receivables of Workers and Employees Fund at the amount of 0.5% as well as a contribution to the Labour

Accident and Professional Diseases Fund, which is differentiated for the various entities from 0.4% to 1.1% depending on the business activities of the entity (in accordance with Appendix 2 to the Law on the Budget of State Social Security for 2007) and is 0.5% for the Fund.

The social security and pension plans, applied by the Fund in its capacity of an employer, are based on the Bulgarian legislation and are defined contributions plans. Under these plans, the employer pays monthly contributions to the government funds as follows: Pensions Fund, General Diseases and Maternity Fund, Unemployment Fund, Labour Accident and Professional Diseases Fund, Guaranteed Receivables of Workers and Employees Fund as well as for supplementary mandatory pension security (universal and professional pension funds) – on the basis of rates fixed by law (as stated above), and has no other legal or constructive obligation to pay any additional amounts to the funds in the future. The obligations referring to health insurance are analogous.

There is no established and functioning private voluntary social security scheme at the Fund.

### ***Short-term benefits***

Short-term employee benefits in the form of remunerations, bonuses and social payments and benefits (payable within 12 months after the end of the period when the employees have rendered the service or have met the required terms and requirements) are recognised as an expense in the income statement in the period when the service thereon has been rendered or the requirements for their receipt have been met and as a current liability (less any amounts already paid and deductions due) at their undiscounted amount. The Fund payables for social security and health insurance are recognised as a current expense and liability at their undiscounted amount together with the respective benefits they relate to and within the period of their accrual.

At each balance sheet date the Fund measures the expected costs on the accumulating compensated absences, which amount is expected to be paid as a result of the unused entitlement. The measurement includes the estimated expenses on the employee's remunerations and the statutory mandatory social security and health insurance contributions due by the employer thereon.

### ***Long-term retirement benefits***

In accordance with the requirements of the Labour Code, the employer is obliged to pay to its personnel upon retirement an indemnity, which depending on the length of service with a particular entity varies between two and six gross monthly salaries as at the termination date of the employment. In their nature these are defined benefit schemes.

The calculation of the amount of these liabilities necessitates the participation of qualified actuaries in order to determine their present value at the date of the financial statements, at which they are included in the balance sheet, adjusted with the amount of the unrecognised actuarial gains and losses, and respectively, the change in their value including the recognised actuarial gains and losses is included in the income statement.

Past service costs are recognised immediately in the income statement.

At the date of issue of each set of annual financial statements, the Fund assigns certified actuaries who provide their report with calculations regarding the long-term retirement benefit obligations. For this purpose, they apply the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows, which are expected to be paid within the maturity of this obligation, and using the interest rates of long-term government bonds, denominated in Bulgarian levs.

Actuarial gains and losses arise from changes in the actuarial assumptions and experience adjustments. Those exceeding the 10% corridor of the present value of the defined benefit obligations at the end of the prior year, are recognised immediately in the income statement. The changes in the amount of the liabilities to personnel for indemnities upon retirement, including the interest from unwinding of the present value and the recognised actuarial gains or losses, are recognised within personnel costs in the income statement.

### *Termination benefits*

In accordance with the provisions of the Labour Code, the employer is obliged, upon termination of the employment contracts prior to retirement, to pay indemnities as follows:

- for non-observed preliminary notice: at the amount of one gross monthly salary;
- due to closing down of the enterprise or part of it, staff cuts, reduction of the volume of work and work stoppage for more than 15 days, etc.: at the amount of one gross monthly salary;
- upon termination of the employment contract due to illness: at the amount of two gross monthly salaries;
- for unused annual paid leave: for the respective years of the time recognised as service period.

The Fund recognises employee benefit obligations on employment termination before the normal retirement date when it is demonstrably committed, based on announced plan, to terminating the employment contract with the respective individuals without possibility of withdrawal or in case of formal issuance of documents for voluntary redundancy. Termination benefits due more than 12 months are discounted and presented in the balance sheet at their present value.

## **2.12. Income taxes**

### Current income taxes

Current income taxes are determined in accordance with the requirements of the Bulgarian tax legislation – the Corporate Income Taxation Act (CITA). The nominal income tax rate for year 2008 is 10%.

### Deferred income taxes

Deferred income taxes are determined using the liability method on all temporary differences at the balance sheet date existing between the carrying amounts of the assets and liabilities and their tax bases.

Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences and the carry-forward of unused tax losses, to the extent that it is probable they will reverse and a taxable profit will be available or taxable temporary differences might occur, against which these deductible temporary differences can be utilised, with the exception of the differences arising from the initial recognition of an asset or liability, which has affected neither the accounting nor taxable profit (loss) as at the date of the transaction.

The carrying amount of all deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is probable that they will reverse and sufficient taxable profit will be generated or taxable temporary differences will occur in the same period, from which they can be deducted.

Deferred taxes, related to items directly credited or charged to equity or other balance sheet items, are also reported directly in the respective equity component or balance sheet item.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied in the period when the asset will be realised or the liability will be settled (paid), based on the tax laws that are enacted or to a great degree of probability will be enacted. As at 31 December 2008, the deferred income taxes are computed at a tax rate of 10%.

### **2.13. Cash and cash equivalents**

For the purposes of the cash flow statement, cash equivalents are comprised of cash in hand, cash at current bank accounts, deposits placed with banks – at sight and/or with original maturity of up to 3 months including under repo-deals with original term of up to 3 months.

They are presented in the balance at amortised cost.

### **2.14. Assets held for resale**

Assets are classified as held for resale if their carrying amount will be recovered through sale and not through continuous use in Fund's operations. These assets have commonly been accepted as collaterals by the Fund and subsequently acquired thereby as a result of 'debt to ownership' exchange from borrower that do not comply with their obligations under the contractual terms and conditions of the loan.

The assets, classified in this group, are available for immediate sale in their current state.

Assets, classified as held for sale, are presented separately in the balance sheet and are measured at the lower of the carrying amount (initially, acquisition cost) and the fair value less costs to sell (net selling price). The recognised impairment is presented in the income statement under 'other operating income/(losses)'.

The assets of this classification group are not depreciated.

### 2.15. Share capital and reserves

Being a joint-stock company, the Fund is obliged to register in the Commercial Register a certain amount of *share capital*, which should serve as a security for the receivables of the Fund's creditors. The shareholders are liable for the obligations of the Fund up to the amount of the share of the capital held by each of them and may claim returning of this share only in liquidation or bankruptcy proceedings.

The share capital represents the non-distributable capital of the Fund and is presented at the nominal value of the issued shares.

The Fund is obliged to set aside a *Reserve Fund* in accordance with the requirements of the Commercial Act on distribution of profit. The sources thereof can be as follows:

- at least 10% of the profit, which should be allocated until the amount of the fund reaches 10% of the share capital or any larger amount as may be decided by the General Meeting of Shareholders;
- any premium received in excess of the nominal value of shares upon their issue (share premium reserve);
- other sources as provided for by a decision of the General Meeting.

The amounts in the fund can only be used to cover annual loss or losses from previous years. When the amount of the Fund reaches the minimum value specified in the Articles of Incorporation, the excess may be used for increasing share capital.

*Revaluation reserve – financial assets* is set aside from the difference between the carrying amount of available-for-sale financial assets and their fair value at the revaluation date. The revaluation reserve is transferred to current profit and loss in the income statement when the financial assets are derecognised (sold) from the balance sheet or in case of permanent and lasting impairment.

**2.17. Critical accounting judgments on applying the accounting policies. Key estimates and assumptions of high uncertainty.**

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

*Measurement of financial instruments available-for-sale not quoted in the stock market*

The Fund classifies its investments as share participation in other non-public companies/entities (below 20% of their capital) as available-for-sale financial assets that have been acquired for the purpose of establishing and development of business relations of importance for the Fund. The management has judged and accepted that they should be measured at cost because sufficiently reliable sources and methods to determine their fair values are not available at present and due to the specific closed manner of their trading until the time when new circumstances occur that allow the formation of reasonable assumptions and a reliable valuation.

Analysis and assessment is performed at each balance sheet date as to whether indicators for impairment of investments are present. The significant and continuous decrease in the equity, including below the level of the registered share capital of the company/entity, subject to the investment, is regarded as a main indicator. In such cases impairment is determined with the assistance of a certified actuary but at least at the level of the difference between the acquisition cost (cost) and the assessment of participation under the equity method including with additional adjustments of net assets, if necessary. In the cases of partial sales of similar shares in the reporting period, those from the same issuer but remaining in the Fund's balance sheet are revalued at the cost of the sale.

*Measurement of financial instruments available-for-sale quoted in the stock market*

The management of the Fund has accepted that the shares and bonds of public companies, held thereby, quoted in the stock exchange are traded in a stock market in a sufficient amount of deals so that they could be subsequently measured at fair value, which to be determined based on average bid prices of realised stock exchange deals on the last work day in December of the financial year. Additionally, the used prices are analysed against the trend in stock exchange prices of the respective securities at least for the last three months of the year so that an assessment is made as to whether they are representative (based on realised volumes) and can be accepted as fair values. The effect of revaluation is stated directly in equity as positive or negative 'revaluation reserve – FA' except where there are clear indicators for permanent impairment.

*(d) Provisions under issued guarantees*

At each balance sheet date, the Fund reviews its contingent liabilities for the purpose of establishing whether any events have occurred that would confirm with a high probability outflow of resources might take place for the settlement of an obligation. If such events occur, the Fund provides its liability up to the amount of its future costs (losses), related to the outflows of economic benefits (payments). These costs (losses) are determined on the basis of the present value of the future net cash flows, representing the difference between the payment obligation and the possible inflows from subsequent recourses to third parties.

With regard to portfolio guarantees, related to the program 'Micro-credits Guarantee Fund' to the Ministry of Labour and Social Policy (under the BDB Act), a retrospective analysis is made of the actual losses of granted loans (for which the guarantees are issued) for a period of seven years – by partner bank. Average rates of loss are determined for the whole assessment period both by partner bank and in total for the whole portfolio of such loans. As a result of the analysis the management had determined the average rate of loss for the whole portfolio of 0.52% as the minimum level for calculating the provisions for loss by partner bank and where the average rate of the specific bank is higher than this minimum level – the respective percentage for it is applied. The achieved average rate of the provision against the whole guarantee portfolio under this project is 0.56%.

*(d) Actuarial calculations*

For assessing the present value of the long-term retirement benefit obligation the Fund uses actuarial methods and calculations based on assumptions for mortality rate, staff turnover rate, future level of salaries and a discount factor considered by the management as reasonable and adequate for the Fund.

3. NET INTEREST AND OTHER SIMILAR INCOME

	<b>2008</b> <b>BGN'000</b>
<b>Interest income and other similar income</b>	
Deposits with banks	19
<b>Net interest and other similar income</b>	<u><u>19</u></u>

4. GENERAL ADMINISTRATIVE EXPENSES

	<b>2008</b> <b>BGN'000</b>
Personnel costs	87
Remunerations to Managing Board members	22
Hired services	22
Legal and consulting services	9
Office and office equipment maintenance	6
Advertising and entertainment costs	3
Rentals	3
Depreciation and amortisation	1
Communications and IT services	1
	<u><u>154</u></u>
Personnel costs include:	
Salaries	74
Social security contributions	13
	<u><u>87</u></u>

The *personnel costs* include remunerations of the Executive Directors and the Procurator at the amount of BGN 22 thousand.

5. INCOME TAX EXPENSE

	<b>2008</b> <b>BGN'000</b>
Current income tax expense	-
Deferred income taxes related to:	
- temporary differences	14
<b>Income tax expense</b>	<u><u>14</u></u>

6. CASH

	<b>2008</b> <i>BGN'000</i>
<b>Current accounts and demand deposits</b>	
<i>Local banks</i>	
BGN	126
	<u>126</u>
<b>Term deposits within one month</b>	
<i>Local banks</i>	
BGN	2 202
	<u>2 202</u>
	<u><b>2 328</b></u>

At 31 December 2008, the Fund has receivables under term deposits denominated in BGN from one local bank. Term deposits are with original maturity of one month.

**Effective interest rates on amounts due from banks**

	<b>2008</b>		
The average interest rates applied to current accounts are:		from	to
	BGN	0.20%	0.20%
The average interest rates applied to term deposits are:			
	BGN	4.00%	4.50%

7. PROPERTY AND EQUIPMENT

	<b>Equipment and computers</b> <i>BGN'000</i>	<b>Total</b> <i>BGN'000</i>
<b>Book value</b>		
At 22 August 2008	-	-
Additions	51	51
Disposals	-	-
At 31 December 2008	<u>51</u>	<u>51</u>
<b>Accumulated depreciation</b>		
At 22 August 2008	-	-
Charge for the year	1	1
Written-off	-	-
At 31 December 2008	<u>1</u>	<u>1</u>
<b>Carrying amount</b>		
At 31 December 2008	<u><b>50</b></u>	<u><b>50</b></u>
At 22 August 2008	<u>-</u>	<u>-</u>

At 31 December 2008, there are no fully depreciated TFA, which are used in the operations of the Fund.

**8. INTANGIBLE ASSETS**

	<b>Software BGN'000</b>	<b>Total BGN'000</b>
<b>Book value</b>		
At 22 August 2008	-	-
Additions	1	1
Disposals	-	-
At 31 December 2008	1	1
<b>Accumulated amortisation</b>		
At 22 August 2008	-	-
Charge for the year	-	-
Written-off	-	-
At 31 December 2008	-	-
<b>Carrying amount</b>		
At 31 December 2008	<u>1</u>	<u>1</u>
At 22 August 2008	<u>-</u>	<u>-</u>

At 31 December 2008, there are no fully amortised intangible assets, which are used in the operations of the Fund.

**9. DEFERRED TAX ASSETS AND LIABILITIES**

			<b>2008 BGN'000</b>	
			<b>Tax</b>	
		<b>Temporary difference</b>		
<b>Deferred tax assets</b>				
Other liabilities		6		1
Tax loss		129		13
<b>Total deferred tax assets</b>		<u>135</u>		<u>14</u>
<b>Deferred tax assets /(liabilities)</b>	Balance at 22 August 2008 <b>BGN'000</b>	Recognised in the income statement – (benefit)/expense <b>BGN'000</b>	Recognised in equity – (benefit)/expense <b>BGN'000</b>	Balance at 31 December 2008 <b>BGN'000</b>
Accruals for personnel paid leaves and retirement benefits	-	1	-	1
Tax loss	-	13	-	13
<b>Total</b>	<u>-</u>	<u>(14)</u>	<u>-</u>	<u>14</u>

On recognising deferred tax assets, the probability of a reversal of the individual differences and the abilities for generating sufficient taxable profit in the future, have been taken into account.

**10. OTHER LIABILITIES**

	<b>2008</b> <b>BGN'000</b>
Payables to personnel and for social security	8
Accruals for expenses	<u>6</u>
	<b><u>14</u></b>

*Payables to personnel* include: accruals for compensated leaves and social security contributions thereon.

**11. SHARE CAPITAL**

	<b>2008</b> <b>BGN'000</b>
<b>Share (joint-stock) capital</b>	
100,000 ordinary registered voting shares with par value of BGN 100 each	
Subscribed capital	10 000
Called but not paid-in capital	<u>(7 500)</u>
	<b><u>2 500</u></b>
<b>Share capital movement</b>	
At 22 August	-
Subscribed shares	10 000
Unpaid shares	<u>(7 500)</u>
<b>At 31 December</b>	<b><u>2 500</u></b>

The registration of the share capital in 2008 was made on issue of 100,000 registered non-cash voting shares with issue value of BGN 100 each. It is subscribed in full by the Bulgarian Development Bank AD. At 31 December 2008, the amount of paid-in capital is BGN 2,500 thousand. Further BGN 7,500 thousand were additionally paid in February 2009.

The shares of the Fund may not be pledged and the rights thereon may not be subject to transfer deals.

**12. CONTINGENT LIABILITIES AND COMMITMENTS**

Based on the Bulgarian Development Bank Act, the transition of the activities under the Micro-credits Guarantee Fund Project from the Ministry of Labour and Social Policy (MLSP) to the National Guarantee Fund EAD - a subsidiary of the bank, started in the last quarter of 2008. Based on this law and Decision No. 309/3.05.2007 of the Council of Ministers, re-negotiation is envisaged within one year (until May 2009) with each of the partner banks under the Micro-credits Guarantee Fund Project at MLSP so that the security representing deposits of MLSP is replaced by bank guarantees of the Bulgarian Development Bank EAD. The capital of the Bulgarian Development Bank EAD and respectively, of the National Guarantee Fund EAD, shall be increased with the amount of the freed state funds under the Project.

At 31 December 2008, agreements were concluded with four partner banks and guarantees amounting to BGN 40,072 thousand were issued by Bulgarian Development Bank. For the remaining sum of BGN 31,350 thousand of the total Project amount, agreements were concluded with the other four partner banks and guarantees were issued by BDB AD in the first quarter of 2009.

**Nature of instruments and credit risk**

These commitments of contingent nature bear an off-balance sheet credit risk because only fees are recognised in the financial statements until the commitments are fulfilled or expire. Many of the contingent liabilities and commitments will expire without being advanced fully or partially. Therefore, the amounts do not represent expected future cash flows. The collaterals at the partner banks for the issue of common guarantees are over 100% and represent mainly mortgaged real estate and insurance policies issued in favour of the partner bank. When conditions for enforcement of an issued guarantee occur, the Fund judges the possibilities for recourse to the counterparty and eventual realisation of the provided securities.

The guarantees issued by the bank under the Micro-credits Guarantee Fund of the MLSP are not secured. If a component of a guarantee issued by the bank is activated, the payment thereof is not assessed as final loss because the partner bank is obliged to undertake all necessary measures to realise the received collaterals under the non-performing loan and to recover the respective amount to the Fund.

At the date of the financial statements and respectively, at the date of their signing there are no concluded guarantee agreements in which the Fund is a party.

**13. CASH AND CASH EQUIVALENTS**

	<b>2008</b>
<b>Cash and cash equivalents include:</b>	<b>BGN'000</b>
Cash in hand	-
Amounts due from other banks, with less than 90 days maturity	<u>2 328</u>
	<u><u>2 328</u></u>

#### **14. FINANCIAL RISK MANAGEMENT**

In the ordinary course of business, the Fund is exposed to a variety of financial risks. These risks are identified, measured and monitored through various control mechanisms in order to be managed and to prevent undue risk concentration. The process of risk management is significant for the profitability of the Fund and for its existence. The main risks to which the Fund is exposed are credit risk, market risk and liquidity risk as well as operational risk.

##### **Risk management structure**

The main units, which are directly responsible for risk management are as follows:

The *Board of Directors* performs overall oversight and is responsible for the general approach for the management of risks and approves the strategies, principles and specific methods, techniques and procedures for risk management;

*Executive Director* – performs current operating control on the maintenance and observance of the limits determined for the specific types of risk and the application of the developed procedures;

*Guarantees – Administration and Monitoring Department* – performs monitoring of guaranteed portfolios and loan collaterals; The department performs examination and monitoring of guaranteed loans following a schedule approved by the BD for selective inspection of guarantees, analysis of risk groups of the portfolios guaranteed by the Fund, and at least once in 12 months checks the observance of economic and social requirements by the SME that use guarantees from the National Guarantee Fund EAD.

##### **Measurement and management of major risks**

The management of the Fund has adopted internal rules and methods for measurement of various risks, which are mainly based on statistical methods, good international practices as well as the historical experience of BDB AD in its capacity of a sole owner of the capital of the Fund.

Control and management of risks is primarily structured on the base of limits. These limits affect the specific risk level, which can be assumed by commercial partner banks with guaranteed credit portfolio. A system for periodical preparation of reports on the specific types of risks has been adopted for the purposes of subsequent analysis and possible adjustment of already set limits.

The system for risk monitoring and management of the Fund includes:

1. Rules and methods for the activities of the Fund and management of its sensitivity to risks;
2. Parameters and limits for the execution of deals and transactions related to the credit and liquidity risks;

3. Reliable system for accounting and management information, which allows the identification and control of various types of risk;
4. Procedures for reporting, assessment, information and subsequent control of risks related to specific deals and transactions.

The risk management system has preventive functions for avoiding losses and for controlling the amount of incurred losses.

The assessment and the management of risk on the part of the National Guarantee Fund EAD is part of the overall system for measurement, control and management of risk of the Bulgarian Development Bank AD to the Group of which the Fund belongs.

### ***Liquidity risk***

Liquidity risk is the risk that the Fund is unable to meet its current and potential payment obligations as and when they fall due without unacceptable losses.

The operation of the Fund requires a sustainable cash flow, which to serve for payments under issued guarantees. In the course of liquidity management the Fund takes into account the level of all types of contingent commitments.

Liquidity requirements to support calls under guarantees are considerably less than the amount of the commitment because the Fund does not generally expect a third party to claim the total amounts under the agreement.

### ***Adverse implications of the global financial crisis (2008) and measures undertaken by the Fund for the overcoming thereof.***

Considering the development of the general economic and financial situation in year 2008, the Fund undertook and performed a series of measures directed to making more precise the policies and practices of financial risk management adequately to the new events, phenomena and trends.

As from its establishment in 2008, the Fund limited its capital market operations thus bringing to a minimum the level of assumed market risks.

### ***Capital management***

The primary objectives of Fund's capital management is to maintain its level at amounts sufficient for activities development and achieving the general objectives set at its foundation – support of the economic policy of the country and the development of small- and medium-sized businesses.

15. RELATED PARTY TRANSACTIONS

1. Related parties

<i>Company/person</i>	<i>Relation type</i>
Bulgarian Development Bank AD	Main owner of the Fund

2. Balances with related parties:  
at 31 December 2008:

		<b>2008</b> <b>BGN'000</b>
<b>Assets</b>	<i>Balance type</i>	
Bulgarian Development Bank AD	Deposits placed with banks	2 328
<b>Contingent receivables</b>		
Bulgarian Development Bank AD	Unpaid portion of subscribed capital shares	7 500

3. Related party transactions:  
for year 2008

		<b>2008</b> <b>BGN'000</b>
	<i>Type of income/expense</i>	
Bulgarian Development Bank AD	Rental expenses	(3)
	Interest income	19

16. RELATIONS WITH KEY MANAGING PERSONNEL

	<b>2008</b> <b>BGN'000</b>
Remunerations and social security contributions	41
	<u>41</u>

17. POST BALANCE SHEET DATE EVENTS

*New guarantee agreements with banks*

Based on the provisions of §2 of the Transient and Closing Provisions of the Bulgarian Development Bank Act and Decision No. 309 of the Council of Ministers of the Republic of Bulgaria dated 3 May 2007, the transition

of the activities under the Micro-credits Guarantee Fund Project of the Ministry of Labour and Social Policy (MLSP) to the National Guarantee Fund EAD (subsidiary of Bulgarian Development Bank) continued in January and February 2009.

Agreements with four banks were concluded in this period and the Bulgarian Development Bank issued guarantees for BGN 31,878 thousand.

### ***Capital contributions***

By Protocol 8 dated 18 February 2009 of the MB of BDB AD, a decision was taken for increasing the capital of the NGF by BGN 70,000 thousand. The amount of BGN 7,500 thousand, which had been stated as subscribed but not paid-in capital in the 2008 financial statements, and the amount of BGN 17,500 thousand, representing 25% of the capital increase, were paid on 26 February 2009. The remaining BGN 52,500 thousand will be paid within 2 years from the date of decision.

### **Concluded significant contracts**

In the end of 2008, a contract was prepared and signed (in force from January 2009) between BDB AD and NGF EAD on the functions of the Fund for the administration of the process for issuing and monitoring of the bank guarantees for micro-credits.

**ACTIVITY REPORT  
OF  
NATIONAL GUARANTEE FUND EAD**

**2008**

**CORPORATE INFORMATION**

The Strategy for the Establishment of Development Bank through Restructuring of Encouragement Bank AD, Establishment of National Guarantee Fund and Capital Investment Fund was adopted by virtue of Decision No. 309 of the Council of Ministers of the Republic of Bulgaria dated 3 May 2007. In April 2008, the National Assembly of the Republic of Bulgaria passed the Bulgarian Development Bank (BDB) Act, which was promulgated on 29 April 2008 and is in force as from 3 May 2008.

The National Guarantee Fund EAD was established on 12 August 2008 on the basis of the Bulgarian Development Bank Act and was registered in the Commercial Registry on 22 August 2008. The company is entirely owned by the Bulgarian Development Bank AD.

In accordance with the Law on the Credit Institutions, the National Guarantee Fund EAD is a financial institution and is registered as such in BNB on 22 October 2008.

The purpose of establishing a National Guarantee Fund is to ensure guarantees for SMEs. The implementation of the guarantee schemes of the Fund will facilitate the access of SME to funding through compensating the lack of sufficient collateral when applying for loans and will also decrease the risk assumed by commercial banks in the country that grant loans to SMEs.

In accordance with the Articles of Incorporation the principal activities of the Fund include:

- (a) issue of guarantees to supplement the collaterals for SME loans;
- (b) providing to SME other products such as guarantee for tender participation; good performance guarantee; advance payment guarantee; guarantee for loan repayment of an exporter and others;
- (c) issue of guarantees to supplement the collaterals for loans to SME performing research and development activities and for the implementation of such products and research developments in the industry;
- (d) other activities, which are not explicitly forbidden by law.

The guarantees issued by the Fund may cover up to 50% of the liability. The maximum amount of guarantees issued by the Fund to a single trade company may not exceed 10% of the Fund capital.

The Fund's seat and the address of management are at Sofia, Sredets Municipality, 1 Diakon Ignatij Str.

The National Guarantee Fund EAD has its representatives in the regions of the country located in nine main centres: Sofia, Montana, Lovech, Russe, Varna, Sliven, Plovdiv, Haskovo and Blegoevgrad.

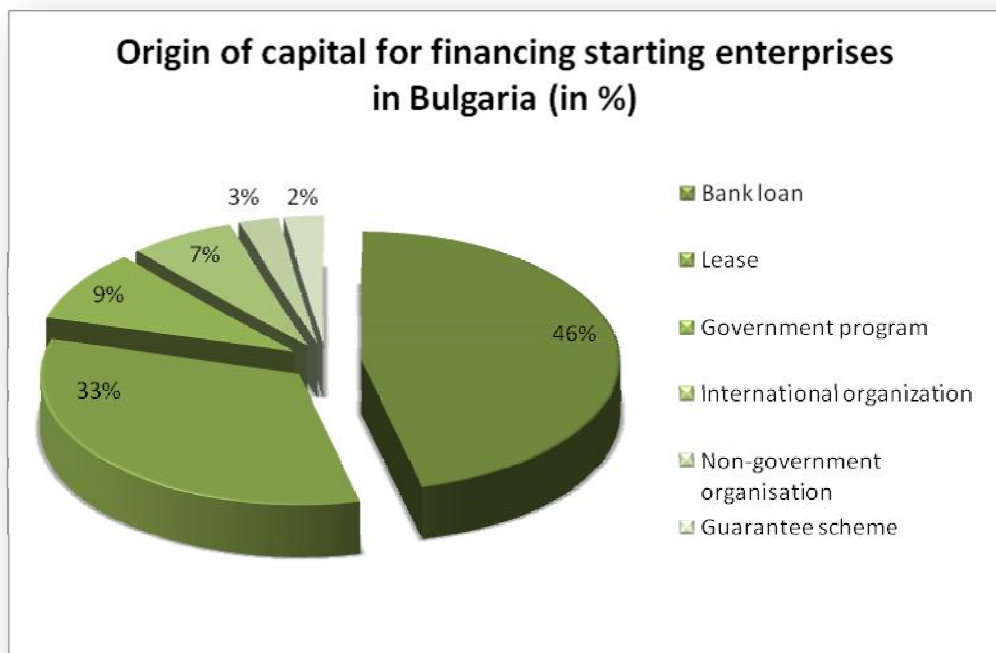
The staff of Fund is 9 officers as at 31 December 2008.

### **ENVIRONMENT CHARACTERISTICS**

SME financing is in the base of the successful development of economy in Bulgaria and the world as a whole. All studies of the SME sector in Bulgaria performed by international and Bulgarian organisations define financing as being the main element of critical importance for SME development. The refraining of the banking sector from assuming risks and the subsequent formation of loan margin combined with high collateral requirements leads to raising the cost of cash resources and represents a significant obstacle for the growth and development of SMEs in Bulgaria. The progress and the successful operation of SME sector is a priority for the Bulgarian government and has been reflected also in the general policy for sector growth encouraging.

### **Sources of funding**

Regardless of the expansion of crediting, the SMEs in Bulgaria are still equity funded to a significant degree – over 60 % and only about 20% use borrowed funds. The relative share of funding through grant schemes is also insignificant (about 2% of the starting entities). In addition to being expensive, the bank loan is also not easily accessible to SMEs. About 45% of the operating SMEs have access to loans but a large part of them are being funded through consumer loans of their owners due to the easy terms for their authorisation. About 40% of SMEs use trade loans (of limited amount – below BGN 100 thousand) while the share of investment loans is even lower – below 20%. The share of leases in investment funding is low – one of ten SMEs has used such funding. Practically, more that half of the SMEs are being funded through own capital.

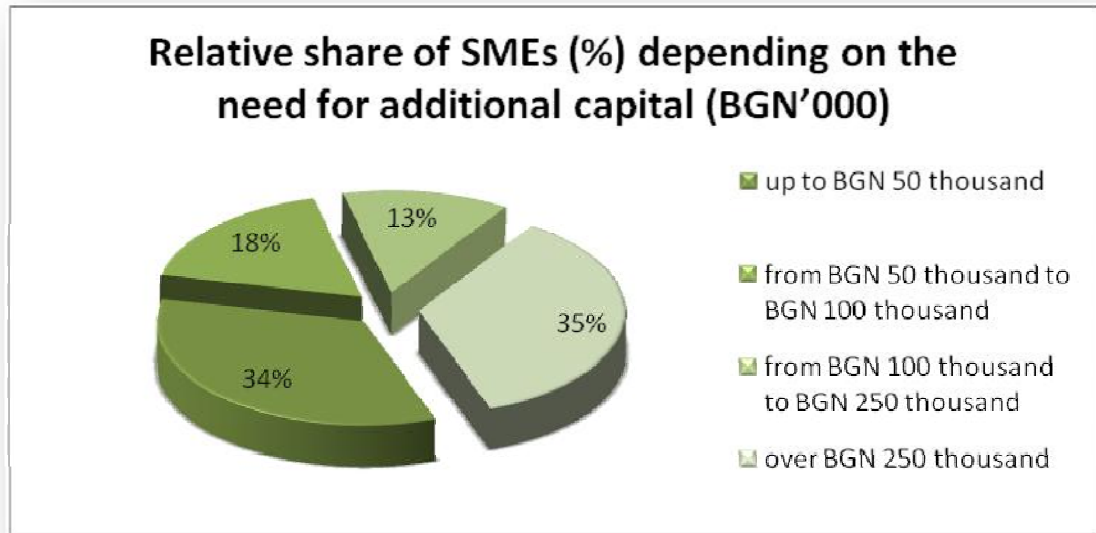


*Source: ESTAT Agency, population study, September-October 2006*

The conclusion, which can be made, is that SMEs in Bulgaria use to a low degree external financing (loans, leases, donor programs, project financing, etc.) and rely mainly on internal resources, which are more expensive as a rule but in return for it SMEs remain independent from financing institutions. This is especially true for starting SMEs – for these the share of internal sources of financing is a lot larger.

**Need in SME financing**

In parallel with the source of financing, the need in specific amount of necessary fund should be taken into account. In accordance with the performed studies, the following estimated data are established:



*Source: ESTAT Agency, business study*

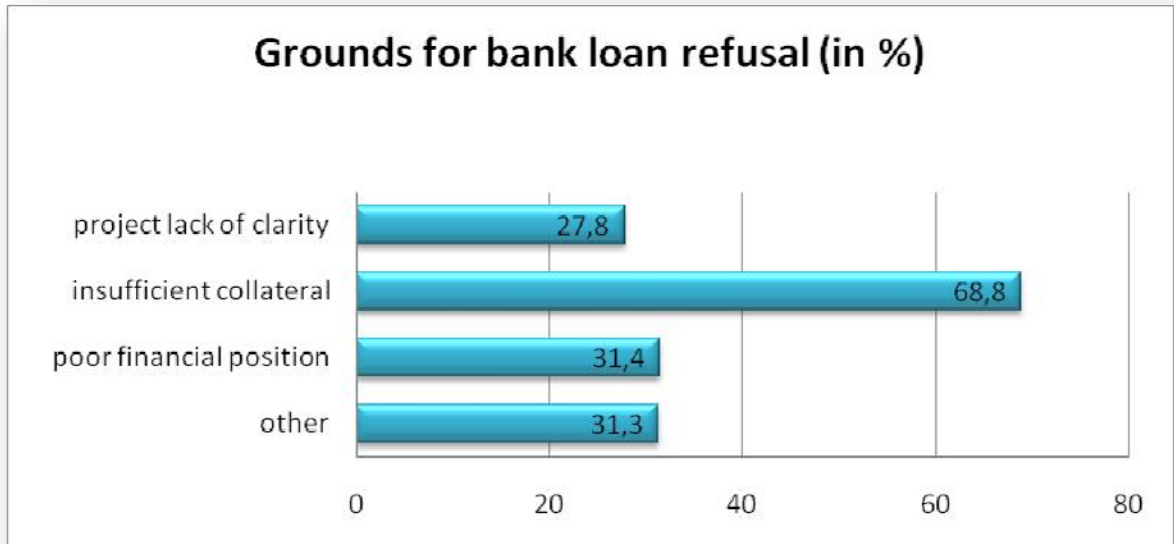
**Factors that determine the possibilities for SME funding**

The analysis of factors that affect the abilities of SME to attract additional capital leads to the following findings:

**With regard to bank funding**

- High interest rates of authorised loans are the main reason for not using bank loans;
- The amount and type of requested collaterals turn to be the second serious obstacle to SME. They often do not have the necessary real estate and their equipment is obsolete and physically worn to serve as collateral;
- Absence credit history especially for starting entities;
- Very often the loan authorisation is related to lack of clarity of conditions and a lot of hidden expenses, which make the loan unachievable for SME;

- The requirements for minimum equity and turnover;
- The circumstance that for some banks it is more profitable to work with and small number of large and solvent customers than with a lot of financially unstable and too risky SME;
- There is definite shortage of loans from BGN 10,000 to BGN 250,000, which would cover a lot of the needs of SMEs.



*Source: ESTAT Agency, business study*

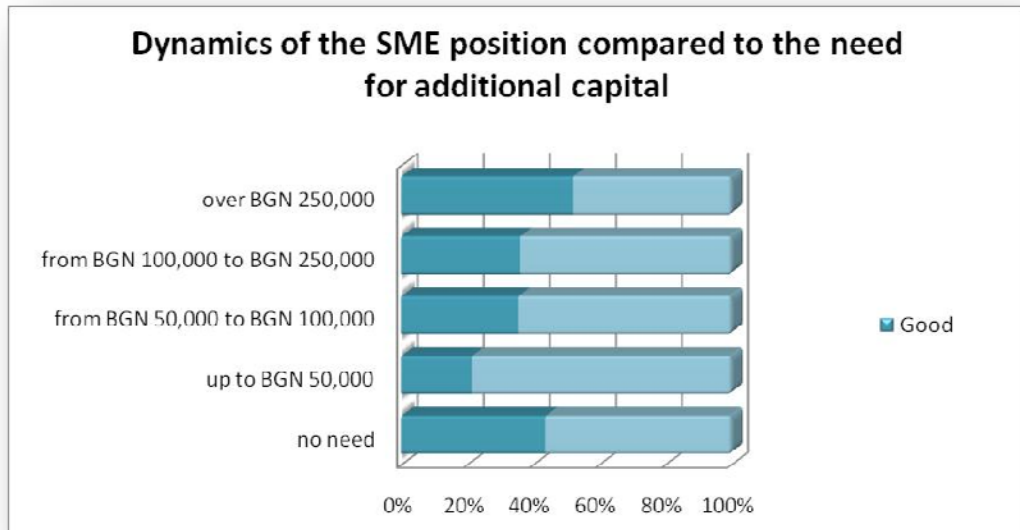
It is indicative for the prospect of a SME to be successful when applying for a loan that only 13% of the filed projects have been approved. The main reasons for the large share of rejections are insufficient collaterals, poor financial position, project ambiguity.

At this stage the alternative means for SME funding remain insufficiently developed.

**From SME perspective**

- The possibilities for own financing are limited. Since the banks require borrower’s participation from 20 to 30% of the project amount, this decreases entity’s available cash and working capital, which makes it more at risk;
- A lot of investment programs have not been realised, although being market-oriented and could be profitable, due to the lack of a financial instrument satisfying the requirements for complementing, which are critical for a number of projects;
- Entities with starting business should be encouraged and their business plan should be considered with understanding including in regard of the acquisition of equipment and working capital and support of marketing plans;
- Increase in entity competitiveness though equipment renewal;
- Developing entities should be encouraged to make safe investments;
- There is obvious need in additional support through business consultations and financial training for establishing better conditions for SME development, expansion and internationalisation.

To a large extent the financial position of the companies determines the need and possibilities for attracting additional capital. This is how the owners and managers of SME define the necessity in capital and their financial state:



Source: ESTAT Agency, business study in 2006

**From state perspective**

- There is need in creating added value through stable SMEs, operating in the market, including expansion of the existing activities and establishing new entities;
- More even distribution be region, focus on regions that fall behind the average level in the country;
- The efforts of the main market participants – credit, financial and small and medium-sized enterprises – should be united for the purpose of investment support and each party should contribute to the project. From the perspective of the EU membership of Bulgaria and its access to structural funds, the guarantee funds can serve as instrument for more efficient utilisation of EU financial aid;
- There are possibilities for using EU programs for counter-guarantees managed by EIF for which Bulgaria is ready but has not prepared national scheme.

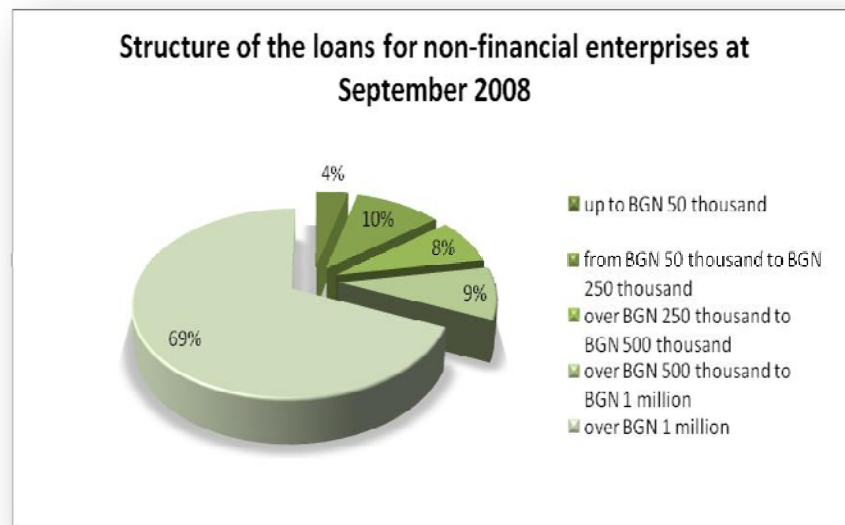
The new Strategy for Encouraging Small- and Medium-sized Enterprises for the period 2007-2012 envisages increasing the economic potential of Bulgarian companies. This should be achieved mainly through increasing the innovative capacity and competitiveness of SMEs on the base of efficient protection of intellectual property, cluster development, improvement of the access to European and international markets, better information to SMEs.

The policy of the Bulgarian government in regard of SMEs is compliant with the new directions drawn by EC. They envisage the implementation of modern policy on the basis of more active application of the ‘Think Small First’ principle. This principle is specified through a number of measures, which are performed at European and at national level and which are intended to facilitate economic growth including the establishment of a National guarantee Fund.

**Loans for non-financial enterprises and market potential**

According to BNB data at September 2008, the total amount of loans granted to non-financial enterprises is BGN 29.81 billion. Out of these loans at the amount of BGN 6.6 billion represent loans of up to BGN 500 thousand and BGN 9.4 billion – of up to BGN 1,000 thousand. This will be the main market segment to which the products of NGF are directed. If we analyse the information that only about 20% of SMEs use loans and take into account the needs of over 66% of them for additional capital, it is logical to summarise that the market potential for SMEs funding and respectively, realisation of NGF products, amount to tens of billions lev. Naturally, this possibility is directly dependent on the capacity of financing institutions to provide credit resources.

The following table shows the structure of authorised loans depending of their amount:



*Source: BNB statistic data on loans and deposits of non-financial enterprises*

**ACTIVITIES OVERVIEW**

**ACTIVITIES OF THE COMPANY IN 2008**

The company operates actively as from 15 September 2008 while by the end of 2008 the activities have been focused on three main directions:

- Transition of the activities of the Micro-credits Guarantee Fund at the Ministry of Labour and Social Policy to Bulgarian Development Bank Group;
- Preparation of guarantee schemes and programs of NGF EAD in support of SME and for facilitating their funding by commercial banks;
- Organisational, personnel and technical maintenance of operations.

**Transition of the Micro-credits Guarantee Fund Project from the Ministry of Labour and Social Policy to Bulgarian Development Bank AD Group** was made by virtue of §2 of the Transient and Closing Provisions of the Bulgarian Development Bank Act and Decision No. 309 of the Council of Ministers of the Republic of Bulgaria dated 3 May 2007.

Based on the stated decisions and provisions, the administration and the operation of the guarantee scheme for micro-credits passed to National Guarantee Fund EAD while the cash collaterals of the MLSP were replaced by bank guarantees from the Bulgarian Development Bank.

In order to fulfil this objective, NGF EAD performed work for the re-negotiation of the guarantee agreements between MLSP and the partner banks and they were replaced by tripartite guarantee agreement with the participation of BDB AD. The replacement of the cash deposit collateral under the Project with bank guarantees of BDB AD was prepared and made with the new agreements. The re-negotiation process was successfully completed with all eight partner banks by the end of year 2008 while with four of them the new agreements were signed still in December 2008 and with the remaining four – till the beginning of February 2009.

**Regarding the second main direction of activities: the parameters of the new guarantee programs of the Fund were developed and proposed for discussion with the commercial banks by the end of year 2008:**

**A/ Guarantee line in support of investment projects of micro-, small- and medium-sized enterprises:**

This line will follow as its priority the facilitation of the access of micro and SMEs to long-term resource for the realisation of investment projects in tangible or intangible assets for the establishment, expanding and modernisation of enterprises;

**A/ Guarantee line in support of export focused micro-, small- and medium-sized enterprises:**

This guarantee line will be directed to starting or existing enterprises with proven export potential the main weakness of them being the insufficient security in the form of TFA.

**The guarantee schemes of the National Guarantee Fund EAD at this stage of our activities will be entirely realised through commercial banks.**

**The activities for the organisational, personnel and technical maintenance of our work included:**

- A team of qualified specialists was formed, which included the members of the former work group for the management of the Micro-credits Guarantee Fund at MLSP and employees of BDB AD;
- Internal rules and procedures on the activities of the Fund were prepared – Rules on the work of the BD; Rules and procedures on the application of guarantee schemes; Rules on the internal work procedure; Rules on work salary and others while for part of them the discussions with BDB AD continue in 2009, too;
- Employees of the Fund participated in the preparation of rules in BDB AD for the issue of bank guarantees replacing the collaterals of the former Micro-credits Guarantee Fund Project at the MLSP;
- In the end of the year a contract between BDB AD and NGF EAD was prepared on the functions of the Fund for the administration of the process for issue and monitoring of bank guarantees for micro-credits;
- In accordance with the budget of the Fund for 2008, approved by the MB of BDB AD, suppliers of computers and other office equipment as well as of specialised accounting software were chosen on the basis of at least three proposals;
- The Fund uses furnished premises of BDB AD for its activities for which the respective contracts have been concluded.

### FINANCIAL RESULT

The financial result of the activities of the National Guarantee Fund EAD for year 2008 is loss at the amount of BGN 121 thousand. The preliminary approved plan was for loss at the amount of BGN 311 thousand. The main reason for this result is the fact that the envisaged activities in 2008 could not generate direct income to the Fund.

The main revenue in 2008 was gained from interest on deposit of the Fund in BDB AD amounting to BGN 19 thousand.

The expenses incurred by the Fund in 2008 were mainly on salaries, social security contributions for the personnel and the management as well as on hired services: civil contracts with external experts and the assigned in December regional representatives; rentals; communications etc. Expenses were also incurred on office consumables and equipment.

### MANAGEMENT OF THE COMPANY

The Fund has one-tier management structure – Board of Directors, which under the Articles of Association shall be comprised of three to five members.

At 31 December 2008, the composition of the Board of Directors (BD) includes Mihail Stoyanov (Chairman of the BD), Svetlin Statkov (BD member and Executive Director) and Krassimir Hristov (BD member and Procurator).

The remunerations received by the members of the Board of Directors in 2008 amount to BGN 22 thousand.

The members of the BD do not hold shares of the Fund and do not have special rights for the acquisition of such shares.

There are no concluded agreements within the meaning of Art. 240b of the Commercial Act between the BD members and related thereto persons on the one hand and the Fund on the other hand, which are beyond their ordinary activities or materially deviate from market conditions.

Within the meaning of Art. 247, par. 2 (4) of the Commercial Act, the participation of SB and MB members in commercial companies as shareholders with unlimited liabilities, holding of more than 25% of the capital of other companies as well as participation in the management of other commercial companies or co-operatives as Procurators, Managers or board members is as follows:

### Participation of BD members in the capital of other companies

Mihail Draganov Stoyanov, Chairman of BD, holds 100% of the capital of Best Flavours EOOD, Sofia, BULSTAT 130252093;

Svetlin Dimov Statkov, member of BD and Executive Director – no such participation;

Krassimir Evtimov Hristov, member of BD and Procurator – no such participation.

### Participation of SB members in the management of other companies

Mihail Draganov Stoyanov, Chairman of BD – General Manager of Best Flavours EOOD, Sofia, BULSTAT 130252093;

Svetlin Dimov Statkov, member of BD and Executive Director – no such participation;

Krassimir Evtimov Hristov, member of BD and Procurator – no such participation.

## **DEVELOPMENT OF THE NATIONAL GUARANTEE FUND EAD IN 2009**

### OBJECTIVES AND TASKS RELATED TO THE DIRECT ACTIVITIES

The main priority of Fund's activities in 2009 is to enforce and develop its guarantee programs in support of SMEs.

**The strategic objective of the National Guarantee Fund is to strengthen its position as a long-term reliable partner of SMEs and credit institutions.**

In order to achieve this objective the Fund has planned to perform:

- Joint analyses with representatives of SMEs, the state and the banks for finding market omissions in the funding of enterprises;
- Optimisation of NGF products based on the general policy of the BDB AD Group and taking into account the interests of the business and the partner banks;
- Development of clear and accurate rules on NGF products for partner bank customers;
- Defining of strictly regulated and convenient for partner banks procedure for guarantee approval;
- Periodic exchange of information between NGF and partner banks on the demands and the position of SMEs searching for guarantees.

**FINANCIAL OBJECTIVES AND TASKS**

By actively developing its activities, the Fund plans to achieve a positive financial result in 2009. In the first quarter of 2009, a capital increase of the Fund from BGN 10 million to BGN 80 million is envisaged.

**PROGNOSIS ON THE INCOME EXPENSES AND PROFIT OF  
NATIONAL GUARANTEE FUND EAD FOR YEAR 2009**

	<i>in BGN'000</i>
<b>FINANCIAL PARAMETERS</b>	<b>EXECUTION</b>
<b>REVENUE</b>	
Current account - interest	1
Deposit account - interest	678
Commissions for the administration of micro-credit guarantees	150
Commissions for the administration of NGF EAD guarantees for SMEs	750
Other income	
<b>TOTAL INCOME</b>	<b>1 579</b>
<b>EXPENSES</b>	
Expenses on salaries	592
Expenses on social security contributions and social costs	67
Hired services expense	156
Other expenses – business trips, training and entertainment costs	30
Expenses on materials – office consumables and equipment	76
Bank charges, commissions, interest	1
Depreciation and amortisation	18
<b>TOTAL EXPENSES</b>	<b>940</b>
Accounting profit	639
Tax	50
<b>PROFIT / LOSS</b>	<b>589</b>

*Commercial objectives and tasks*

Our objective is jointly with commercial banks to propose to SMEs performing guarantee schemes with:

- 1) Transparent procedure and clear criteria;
- 2) Short terms for processing of guarantees – up to 3 (three) business days;
- 3) Unified document turnover for all drawers and beneficiaries;
- 4) Electronic maintenance of data exchange;
- 5) Relation of the results with the amount of the guarantee limit – option for revision of agreed limits with beneficiaries;
- 6) Acceptable competitive price of guarantees compared to analogous European schemes.

The commissions, which the Fund plans to collect for the guarantees issued range from 0.5% to 1.5% p.a. of the guaranteed amount whereas the specific levels depend on the level of credit risk for the guaranteed project.

The commissions will be paid in the beginning of each 12-month period.

**INVESTMENTS**

During the planned period the Fund envisages to realise an investment program adequate to the objectives of the activities and the financial abilities.

The planned investments are for:

*BGN'000*

<b>Investment subject</b>	<b>Number</b>	<b>Total amount</b>
Accounting software	1	22
Motor vehicle	1	35
UPS	3	1
Printers (for regional representative offices)	10	2
Multimedia	1	2
Computer	1	1
Office equipment (for regional representative offices)	9	10
For repairs		6
Other		1
<b>TOTAL</b>		<b>80</b>

**TRANSACTIONS WITH SIGNIFICANT IMPACT ON PLAN EXECUTION**

The main objective in 2009 is the development of own guarantee schemes of NGF EAD, which will impact materially the planned revenue. These guarantee schemes will be realised through commercial partner banks and drawers thereunder will be also the SMEs using facilities for funding through guarantees of the Fund.

At the time for preparation of the report, there are discussions underway for guarantee agreements with more than 10 commercial banks in the country.

**STATEMENT OF THE MANAGEMENT**

The management of the National Guarantee Fund EAD states that the accompanying annual financial statements give a fair view of the financial position of the Fund at the end of year 2008 as well as of the determination of the financial result for the year in accordance with the effective legislation. Appropriate accounting policy has been used and it has been consistently applied. The necessary judgements have been made in accordance with the prudence principle in the preparation of the annual financial statements at the end of the year. The management uses the applicable accounting standards and the annual financial statements are prepared on going concern basis.

The management of the Fund makes efforts to maintain appropriate accounting system, which is compliant with the effective accounting standards. The annual financial statements reveal its position with a reasonable level of accuracy.

All measures for safeguarding the assets of the Fund, for preventing fraud and for avoiding the violation of the laws in the country, have been undertaken.

This Activity Report is approved on 30 March 2009 by the Board of Directors of the National Guarantee Fund EAD and is signed by:

CHAIRMAN OF THE  
BOARD OF DIRECTORS:

EXECUTIVE DIRECTOR:

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Mihail Stoyanov

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Svetlin Statkov