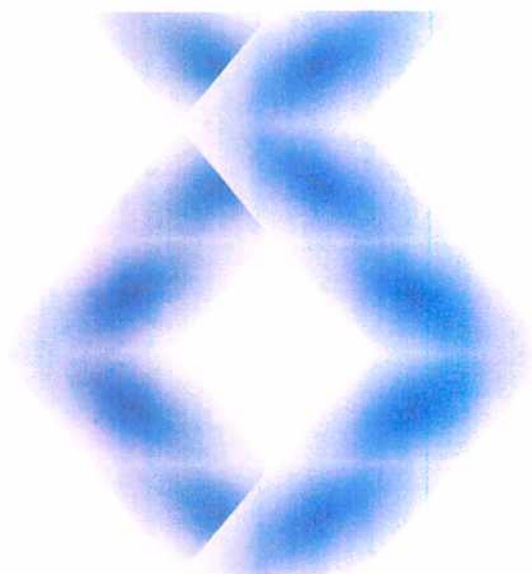




2009 Annual Financial Statements
of **Bulgarian Development Bank AD**



BULGARIAN DEVELOPMENT BANK AD

SUPERVISORY BOARD:

Chairman: Roumen Porodzanov

Members: Francis Adam Wakefield Carpenter
Garabed Ardashes Minasian

MANAGING BOARD:

Chairman: Dimitar Dimitrov

Deputy Chairman: Sasho Chakalski

Members: Dimana Rankova
Angel Gekov

Auditors: AFA OOD
38, Oborishte Str.
1504 Sofia, Bulgaria

Address of Management: 1, Dyakon Ignatiy Str.
Sofia 1000
Bulgaria



AUDIT
FINANCE
ACCOUNTING
TAX
LAW

INDEPENDENT AUDITOR'S REPORT

**TO
THE SHAREHOLDERS
OF BULGARIAN DEVELOPMENT BANK AD**

Report on the Separate Financial Statements

We have audited the accompanying separate financial statements of Bulgarian Development Bank AD (the Bank), which comprise the separate statement of financial position as at 31 December 2009, separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with the International Financial Reporting Standards, accepted by the Commission of the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with the Independent Financial Audit Law and the professional requirements of International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the separate financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards, accepted by the Commission of the European Union.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2.1 disclosing that at the date of issuance of these separate financial statements of the Bank for the year 2009, its consolidated financial statements for the same period have not been issued yet. The management plans to issue the consolidated financial statements not later than 10 April 2010.



Report on Other Legal and Regulatory Requirements

Annual Report on the activities of the Bank under the Bulgarian Accountancy Act (Art. 33)

Pursuant to the requirements of the Bulgarian Accountancy Act (Art. 38, para 4), we have read the Annual Report of the management on Bank's activities for the reporting year 2009. This Report is not a part of the annual separate financial statements for the same period. The management of the Bank is responsible for the preparation of this Annual Report on the activities dated 29 March 2010. The historical financial information presented in the Annual Report on the activities is consistent, in all material respects, with the information disclosed in the Bank's separate financial statements as at 31 December 2009, prepared in accordance with the International Financial Reporting Standards, accepted by the Commission of the European Union.


AFA OOD

Registered Specialised Audit Firm

Renny Georgieva Iordanova

Registered CPA in charge of the audit




Valia Iordanova Iordanova

Registered CPA in charge of the audit

1 April 2010

38, Oborishte Street
1504-Sofia, Bulgaria

This is a translation from Bulgarian of the Independent Auditor's Report on the separate Financial Statements of Bulgarian Development Bank AD for the year ended 31 December 2009.

BULGARIAN DEVELOPMENT BANK AD

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BULGARIAN DEVELOPMENT BANK AD
STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2009

	<i>Notes</i>	2009 <i>BGN'000</i>	2008 <i>BGN'000</i>
Interest and other similar income		44 281	20 385
Interest and other similar expenses		(6 308)	(8 210)
Net interest and other similar income	3	<u>37 973</u>	<u>12 175</u>
Fee and commission income		1 872	1 126
Fee and commission expenses		(210)	(30)
Net fee and commission income	4	<u>1 662</u>	<u>1 096</u>
Net gains from dealing in foreign currencies	5	200	267
Net losses from available-for-sale securities	6	(30)	(23)
Other operating income	7	79	167
Total operating income		<u>39 884</u>	<u>13 682</u>
Loan and guarantee impairment and uncollectability losses	8	(16 209)	(2 020)
General and administrative expenses	9	(6 387)	(5 652)
Profit from operations before taxes		<u>17 288</u>	<u>6 010</u>
Income tax expense	10	(1 742)	(615)
Net profit for the year		<u>15 546</u>	<u>5 395</u>
Other components of comprehensive income:			
Net change in fair value of available-for-sale financial assets	11	(339)	(572)
Income tax relating to components of other comprehensive income	10	79	2
Other components comprehensive income for the year, net of tax		<u>(260)</u>	<u>(570)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>15 286</u>	<u>4 825</u>

The accompanying notes on pages 5 to 89 form an integral part of these financial statements.

Dimitar Dimitrov
Executive Director

Angel Gekov
Executive Director

Sasho Chakalski
Executive Director

Ivan Lichev
Chief Accountant



AUDITED BY AFA
01/04/2010

BULGARIAN DEVELOPMENT BANK AD
STATEMENT OF FINANCIAL POSITION

as at 31 December 2009

	<i>Notes</i>	31 December 2009 <i>BGN'000</i>	31 December 2008 <i>BGN'000</i>
Assets			
Cash and balances with the Central Bank	12	17 971	10 696
Due from other banks	13	559 715	200 101
Loans and advances to customers	14	278 265	190 842
Available-for-sale securities	15	14 190	21 207
Held-to-maturity securities	16	-	66
Investments in subsidiaries	17	27 500	2 500
Property and equipment	18	1 899	2 024
Intangible assets	19	53	39
Assets held for sale	20	1 803	1 659
Deferred tax assets	21	111	-
Other assets	22	102	495
Total assets		901 609	429 629
Liabilities			
Due to other banks	23	28 800	7 966
Due to customers	24	69 132	39 137
Borrowed funds from international institutions	25	157 453	126 495
Other borrowed funds	26	20 628	16 390
Debenture loans	27	-	5 029
Deferred tax liabilities	21	-	7
Other liabilities	28	4 084	3 379
Total liabilities		280 097	198 403
Shareholders' equity			
Share capital	29	589 574	214 574
Reserves	30	31 938	16 652
Total shareholders' equity		621 512	231 226
Total shareholders' equity and liabilities		901 609	429 629

The accompanying notes on pages 5 to 89 form an integral part of these financial statements.

The financial statements on pages 1 to 89 are approved for issue by the Managing Board of Bulgarian Development Bank AD on 29 March 2010 and signed on its behalf by:

Dimitar Dimitrov

Executive Director

Angel Gekov

Executive Director

Sasho Chakalski

Executive Director

Ivan Lichev

Chief Accountant (Preparer)



AUDITED BY AFA
01/04/2010

BULGARIAN DEVELOPMENT BANK AD
STATEMENT OF CASH FLOWS

for the year ended 31 December 2009

	Notes	2009 BGN'000	2008 BGN'000
Cash flows from operating activities			
Profit before taxes		17 288	6 010
Loans and guarantees impairment losses	8	16 209	2 020
Available-for-sale securities impairment losses	6	306	-
Depreciation and amortisation	9	240	274
Net book value of assets written-off	18	-	7
<i>Cash flows from operating activities before changes in working capital</i>		<u>34 043</u>	<u>8 311</u>
<i>Changes in assets and liabilities participating in operating activities:</i>			
Decrease in mandatory reserve deposit at the Central Bank	12	5 999	19 070
Increase in amounts due from other banks	13	(400 716)	(67 539)
Increase in loans and advances to customers	14	(100 914)	(62 392)
Decrease/(increase) in available-for-sale securities	15	6 372	(1 030)
Increase in assets held for sale	20	-	(32)
Increase in interest and fee receivables		(791)	(426)
Decrease/(increase) in other assets	22	393	(405)
Increase/(decrease) in amounts due to banks and other financial institutions	23	20 824	(1 889)
Increase/(decrease) in amounts due to customers	24	29 380	(10 154)
Decrease in other borrowed funds	26	(141)	(1 825)
Increase/(decrease) in interest and fee payables		362	(528)
(Decrease)/ increase in other liabilities	28	(3 277)	1 573
<i>Net cash used in operating activities before income taxes</i>		<u>(408 466)</u>	<u>(117 266)</u>
Income taxes paid		(649)	(663)
Net cash used in operating activities		<u>(409 115)</u>	<u>(117 929)</u>
Cash flows from investing activities			
Purchase of equipment and computer software	18,19	(129)	(150)
Repayments of held-to-maturity investments	16	66	65
Acquisition of shares in subsidiary	17	(25 000)	(2 500)
Net cash used in investing activities		<u>(25 063)</u>	<u>(2 585)</u>
Cash flows from financing activities			
Issue of shares	29	375 000	175 000
Payments on debenture loan	27	(5 000)	-
Proceeds from long-term borrowed funds	25,26	63 680	35 220
Payments on long-term borrowed funds	25,26	(28 109)	(3 426)
Dividends paid	30	-	(2 251)
Net cash from financing activities		<u>405 571</u>	<u>204 543</u>
Net (decrease)/increase in cash and cash equivalents		<u>(28 607)</u>	<u>84 029</u>
Cash and cash equivalents at the beginning of the year	32	125 366	41 337
Cash and cash equivalents at the end of the year		<u>96 759</u>	<u>125 366</u>

The accompanying notes on pages 5 to 89 form an integral part of these financial statements.

Dimitar Dimitrov
Executive Director

Angel Gekov
Executive Director

Sasho Chakalski
Executive Director

Ivan Lichev
Chief Accountant (Preparer)



AUDITED BY AEA
04/04/2010

BULGARIAN DEVELOPMENT BANK AD
STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2009

	Notes	Share capital	Statutory reserves	Other reserves	Available-for-sale financial assets reserve	Retained earnings	Total
		BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
Balance at 1 January 2008	29,30	<u>39 574</u>	<u>5 000</u>	<u>3 937</u>	<u>637</u>	<u>4 504</u>	<u>53 652</u>
<i>Changes in the equity for 2008</i>							
Issue of share capital		175 000	-	-	-	-	175 000
Distribution of profit for year 2007:		-	-	2 253	-	(4 504)	(2 251)
* Reserves		-	-	2 253	-	(2 253)	-
* Dividends		-	-	-	-	(2 251)	(2 251)
Total comprehensive income for the year		-	-	-	(570)	5 395	4 825
Balance at 31 December 2008	29,30	<u>214 574</u>	<u>5 000</u>	<u>6 190</u>	<u>67</u>	<u>5 395</u>	<u>231 226</u>
<i>Changes in the equity for 2009</i>							
Issue of share capital		375 000	-	-	-	-	375 000
Distribution of profit for year 2008:		-	5 395	-	-	(5 395)	-
* Reserves		-	5 395	-	-	(5 395)	-
Total comprehensive income for the year		-	-	-	(260)	15 546	15 286
Balance at 31 December 2009	29,30	<u>589 574</u>	<u>10 395</u>	<u>6 190</u>	<u>(193)</u>	<u>15 546</u>	<u>621 512</u>

The accompanying notes on pages 5 to 89 form an integral part of these financial statements.

Dimitar Dimitrov
Executive Director

Angel Gekov
Executive Director

Sasho Chankalski
Executive Director

Ivan Lichev
Chief Accountant (Preparer)



AUDITED BY AEA
01/04/2010

1. BACKGROUND CORPORATE INFORMATION ON THE BANK

1.1. Incorporation

Bulgarian Development Bank AD (BDB/the Bank) was initially established on 11 March 1999 as a joint-stock company in Bulgaria under the name Encouragement Bank AD.

The Bulgarian Development Bank Act was adopted on 23 April 2008 (SG 43/29.04.2008) and the structure and the scope of Bank's activities including those for its envisaged subsidiaries were provided for therein. By virtue of that law all rights and obligations were applied to Encouragement Bank AD. Following a requirement of the law, a General Meeting of the Shareholders was held (26 June 2008) at which the name of the Bank was changed to Bulgarian Development Bank and its Articles of Incorporation were amended in line with the new legal requirements thereto.

The registered address of the Bank is at Sofia, 1, Dyakon Ignatiy Street.

1.2. Ownership and management

The issued share capital of the Bank, comprised of 5 895 735 registered, non-cash shares of par value BGN 100 each, is being held by the Republic of Bulgaria represented by the Ministry of Finance ó 99.999% and DSK Bank AD ó 0.0001% (Note 28).

Changes were made in the Supervisory Board (SB) of the Bank in 2009 in relation to its new position in the banking sector of the country. At the extraordinary General Meeting, held on 08 September 2009 new members of the SB were elected - Roumen Andonov Porodzanov and Garabed Ardashes Minasian.

As at 31 December 2009 the members of the Supervisory Board (SB) and the Managing Board (MB) of the Bank are as follows:

Supervisory Board:

Roumen Andonov Porodzanov ó Chairman;
Francis Adam Wakefield Carpenter ó Member;
Garabed Ardashes Miansian ó Member.

Managing Board:

Dimitar Dimitrov ó Chairman;
Sasho Chakalski ó Deputy Chairman;
Dimana Rankova ó Member;
Angel Gekov ó Member.

BULGARIAN DEVELOPMENT BANK AD

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

Executive Directors of the Bank at 31 December 2009 are Dimitar Dimitrov, Sasho Chakalski and Angel Gekov. As at 31 December 2009 as well as at 31 December 2008, the Bank has two assigned Procurators ó Krasimirka Velinova ó Saeva and Todor Vanev. The Bank is managed and represented jointly by each two of the three Executive Directors or by a Procurator with one of the three Executive Directors.

1.3. Scope of activities

The Bank holds a general banking licence, issued by the Central Bank of Bulgaria (BNB) on 25 February 1999 with latest update of 16 November 2009 . (due to the new Credit Institutions Act) and may perform all banking operations permitted by Bulgarian law. Nevertheless, the Articles of Incorporation of the Bank prohibit the following types of operations: accepting deposits from individuals (except for deposits from the employees), transactions with precious metals, issuance and management of bank cards, and provision of safe-deposit boxes. The Bank is also a licensed financial intermediary and a broker.

From the very beginning the Bank was established with a special purpose ó to support the implementation of the economic policies of the State by financing the business development of small and medium-sized enterprises (SME), including by maintaining their investment and export abilities and initiatives. With the adoption of the Bulgarian Development Bank Act in 2008 this objective was additionally developed in the purposes, principles and scope of Bank's activities as set by law. These include: (a) pre-export and export financing of SME; (b) SME financing by participating in their capital through its subsidiary the Capital Investment Fund (still not established); (c) financing SME operations and projects through local intermediary banks or directly; (d) guarantees issuance in favor of SME before local and foreign banks, directly or through its subsidiary the National Guarantee Fund (already established - 2008); (e) refinancing of banks that grant loans to SME; (f) financing SME investments abroad; (g) EU financial resources management and support of activities under state, municipal and international projects directed towards the development of the economy of the country, including with regard to the utilisation of funds/subsidies for such projects; and (h) other activities relevant to this scope and state objectives.

The principal activities of the Bank in 2009 were related to the provision of commercial banking services, including loans granting to private companies (with a priority for long terms and for investment purposes), special purpose lending to banks (on-lending), dealing in government securities, performing deposit and REPO deals on the interbank market, attracting long-term credit facilities and loans from international financial institutions, issuance of bank guarantees ó directly to companies and through creditor banks (under the transferred to BDB Micro-credits Guarantee Fund Project of the Ministry of Labour and Social Policy) and other financial services in Bulgaria (Note 30).

At 31 December 2009, the Bank has 94 employees (31 December 2008: 87).

BULGARIAN DEVELOPMENT BANK AD

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

1.4. Structure of the Bank

The Bulgarian Development Bank Act (2008) envisages the establishment of two Bank subsidiaries - the Capital Investment Fund and the National Guarantee Fund.

The Capital Investment Fund is at project level and has not been established as at 31 December 2009.

The National Guarantee Fund (the NGF) was established on 12 August 2008 as a sole owner joint-stock company with 100% participation of BDB. The registered office of the Fund is at 1, Dyakon Ignat'y Str., Sofia. The registered share capital consists of 800 000 registered nominal shares with par value of BGN 100 each

(31 December 2008: 100 000 registered nominal shares with par value of BGN 100 each), the paid-in capital of which amounts to BGN 27,500,000 as at 31 December 2009 (31 December 2008 it is BGN 2,500,000) (Note 16).

The scope of NGF's principal activities is defined by the Bulgarian Development Bank Act. It includes: (a) issuance of guarantees to supplement the collaterals for SME loans, (b) provision of other guarantee products to serve as security for participation in tenders, for good performance, (c) guarantees for advance payments and for payment of loans to exporters, and (d) other similar services. The guarantees shall cover up to 50% of the respective liability to which they refer.

The National Guarantee Fund is managed by a Board of Directors (BD) with a mandate until 12 August 2011.

The members of the BD are: Todor Vanev - Chairman, Svetlin Statkov and Mihail Stoyanov. Svetlin Statkov is Executive Director and represents the NGF jointly with the Chairman of BD while Mihail Stoyanov is a Procurator and may represent the NGF jointly with the Executive Director.

At 31 December 2009, the NGF has 10 employees (31 December 2008: 9).

As at 31 December 2009, the Bulgarian Development Bank AD has established a representation office in Plovdiv.

BULGARIAN DEVELOPMENT BANK AD**NOTES TO THE FINANCIAL STATEMENTS****for the year ended 31 December 2009****1.5. Main indicators of the economic environment**

The main economic indicators of the business environment that have affected the Bank's activities throughout the period 2007 -2009, are presented in the table below:

Indicator	2007	2008	2009
GDP in million levs ¹	56,520	66,728	66,256
Actual growth of GDP	6.20%	6.00%	-5.00%
Year-end inflation	12.50%	7.80%	0.6%
Average exchange rate of USD for the year	1.42	1.34	1.41
Exchange rate of the USD at the year-end	1.33	1.39	1.36
Unemployment rate at the year-end	6.91%	6.27%	9.13%
Basic interest rate at the year-end	4.58%	5.77%	0.55%

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**2.1. Basis for the preparation of the financial statements**

The financial statements of Bulgarian Development Bank AD 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 as of 1 January 2009 and have been accepted by the Commission of the European Union.

The Bank applies this financial reporting framework for the first time in 2007 for the purposes of its statutory financial statements.

For the current financial year the Bank has adopted all new and/or revised standards and interpretations, issued by IASB and respectively, by IFRIC, which are relevant to its activities.

For the current financial year the Company has adopted all new and/or revised standards and interpretations,

¹ New denominated BGN
Source: BNB

BULGARIAN DEVELOPMENT BANK AD

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

issued by the International Accounting Standards Board (IASB) and respectively, by the International Financial Reporting Interpretations Committee (IFRIC), which have been relevant to its activities. The adoption of these standards and/or interpretations, effective as from 1 January 2009, has not resulted in changes in Bank's accounting policies, except for the introduction of the new statement of comprehensive income replacing the former income statement as well as new disclosures and expanding of those already established, however, without leading to other changes in the classification or valuation of individual reporting items and operations.

These standards and interpretations include:

- 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 statement of financial position, and the format of statement of changes in equity is changed to a more condensed form. The Bank's management has chosen to apply a single statement for presenting comprehensive income.
- *IFRS improvements (May 2008)* – improvements of IAS 1, 8, 10, 16, 19, 20, 23, 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), 29, 31 (except those related to the changes in IFRS 3 and the respective changes in IAS 27), 34, 36, 38, 39, 40 and 41; IAS 7 in relation to IAS 16; IFRS 7 and IAS 32 in relation to IAS 28 and 31 (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 as well as to set up more precise terminology; and
- *IFRS 7 (amended) "Financial Instruments: Disclosures"* (in force for annual periods beginning on or after 1 January 2009). The standard amendments require additional disclosures about fair value measurement using value hierarchy levels and about liquidity risk with respect to derivative transactions and assets used for liquidity management.

The management has done research and has concluded that stated below amendments to standards and interpretations, or the new standards and interpretation for the year 2009, would not affect Bank's accounting policies and the accounting for of assets, liabilities and performance results of the Bank as far as the Bank has no practice and/or status for similar type of items, deals and transactions, and respectively, no reporting obligations:

BULGARIAN DEVELOPMENT BANK AD

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

- *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 8 “Operating Segments” (in force for annual periods beginning on or after 1 January 2009).* This standard has replaced IAS 14. The standard requires a management approach in segment defining and presentation of segment information in the public financial statements on the same basis as that used for internal management reporting purposes.
- *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 12 “Service Concession Arrangements” (in force for annual periods beginning on or after 1 January 2008 – endorsed by EC for year 2009/2010).* This interpretation applies to contracts in which a company or a private sector operator or participates in the construction, financing, operation and maintenance of the infrastructure intended for services in the public sector.
- *IFRIC 13 “Customer Loyalty Programs” (in force for annual periods beginning on or after 1 July 2008 – endorsed by EC for year 2009).* 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.

BULGARIAN DEVELOPMENT BANK AD

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

- *IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction” (in force for annual periods beginning on or after 1 January 2008 – endorsed by EC for year 2009).* This interpretation provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by contractual or statutory minimum funding requirements.
- *IFRIC 15 “Agreements for Construction of Real Estates” (in force for annual periods beginning on or after 1 January 2009 – endorsed by EC for year 2010).* 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 various cases and schemes for the application of IAS 11 and IAS 18.
- *IFRIC 16 “Hedges of a Net Investment in Foreign Operation” (in force for annual periods beginning on or after 1 October 2008 – endorsed by EC as from 1 July 2009).* 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.

At the date when these financial statements have been issued for approval, there are several new standards, amended/revised standards and interpretations issued but not yet in force for annual periods beginning on or after 1 January 2009, which have not been adopted by the Bank. Some of them are accepted as effective for 2009 but for annual periods starting after 1 January 2009 while others are for annual periods beginning on or after 1 January 2010. For these the management has judged that they are likely to have potential impact resulting in changes in the accounting policies and the financial statements of the Bank for the following accounting periods.

A. Endorsed for periods beginning after 1 January 2009

- *IFRS 3 (revised) “Business Combinations” and the related thereto changes in IAS 27, IAS 28, IAS 31, IAS 21 and IFRS 7 (in force for annual periods beginning on or after 1 July 2009).* 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 main changes in IAS 27 are

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related to the new treatment of transactions for changes in a parent's ownership interest in a subsidiary that do not result in acquisition or loss of control – these shall be treated as capital transactions between owners (shareholders) in their capacity as owners (shareholders). Therefore, these transactions will not give rise to goodwill or respectively, to gains or losses.

B. Endorsed for periods beginning at least after 1 January 2010

- *IFRS Improvements (April 2009)* – improvements in IAS 1, 7, 17, 18, 36, 38 and 39 as well as IFRS 2, 5 and 8 and IFRIC 9 and 16 (mainly in force for annual periods beginning on or after 1 January 2010 – not endorsed by EC). 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 as well as to set up more precise terminology.
- *IAS 24 (amended) “Related Party Disclosures”* (in force for annual periods beginning on or after 1 January 2011 – not endorsed by EC). The amendments are focused on improvement of the definition for the scope and types of related parties and introduce a specific rule for a partial exemption from full disclosure regarding related parties – government bodies at international, national and local level and other entities – owned thereby;
- *IFRS 9 “Financial Instruments”* (in force for annual periods beginning on or after 1 January 2013 – not endorsed by EC). The new standard replaces parts of IAS 39 by establishing principles, rules and criteria for classifying and measuring financial assets, including hybrid contracts. It introduces a requirement that financial assets are to be classified based on entity's business model for managing financial assets and the contractual cash flow characteristics of the respective assets by dividing them into two main groups and respectively, types of measurement – those measured at amortised cost and those measured at fair value.

Additionally, for the standards, amended standards and accepted interpretations specified below which have been issued, but are still not in force for annual periods starting at 1 January 2009, 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 Bank because the latter has no practice and/or status for such a type of items, deals and transactions.

A. Endorsed for periods beginning after 1 January 2009

- *IFRS 39 (amended) “Financial Instruments: Recognition and Measurement” (in force for annual periods beginning on or after 1 July 2009 – endorsed by EC as from 1 November 2009)* regarding eligible hedged items. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The Company has no hedged items.
- *IFRIC 9 (amended) “Reassessment of Embedded Derivatives” and IAS 39 (amended) “Financial Instruments: Recognition and Measurement” (in force for annual periods beginning on or after 30 June 2009 – endorsed by EC for year 2009).* The amendment requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment should be based on the circumstances existing on the later date of the date when an entity first became a party to the contract and the date when a change was made in the terms of the contract that significantly modified the cash flows under the contract. If the derivative could not be reliably measured, the entire hybrid instrument should remain classified as at fair value through profit or loss.
- *IFRIC 17 “Distribution of Non-cash Assets to Owners” (in force for annual periods beginning on or after 1 July 2009 – endorsed by EC as from 1 July 2009).* 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 July 2009 – endorsed by EC as from 1 November 2009).* This interpretation provides clarifications for 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 to or supply of such type of services/goods.

B. Endorsed for periods beginning at least at 1 January 2010

- *IFRS 2 (amended) “Share-based Payment” (in force for annual periods beginning on or after 1 January 2010 – not endorsed by EC).* The amendment is related to specifying the scope and the group cash-settled share-based payment transactions;

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- *IFRS 32 (amended) “Financial Instruments: Presentation”* (in force for annual periods beginning on or after 1 February 2010 – endorsed by EC as from 1 February 2010) ó regarding the classification of issued rights. The amendment is aimed as a clarification of the treatment of rights, options and warrants for acquisition of a fixed number of entity’s equity instruments for a fixed amount of any currency as equity instruments if they are offered on pro rata basis to all existing owners of the same class non-derivative equity instruments;
- *IFRIC 14 “Prepayments of a Minimum Funding Requirement under IAS 19”* (in force for annual periods beginning on or after 1 January 2011 – not endorsed by EC). The amendment provides clarifications on defining the economic benefit available as a reduction in future contributions in the two cases of existence or non-existence of a minimum funding requirement for contributions relating to future service;
- *IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”* (in force for annual periods beginning on or after 1 July 2010 – not endorsed by EC). This interpretation provides for explanation on the accounting treatment of transactions related to settlement, in full or in part, of financial liabilities to creditors through the issue of equity instruments by debtor ó measurement of the equity instruments as a consideration paid and treatment of the resulting differences between the measurement of the equity instruments and that of the financial liability, certain limitations of application;

The financial statements of the Bank have been prepared on historical cost basis except for derivative instruments and financial instruments available-for-sale, which are measured at fair value at the end of the reporting period.

The Bank maintains its accounting books in Bulgarian lev (BGN), which is accepted as being its functional currency for reporting and presentation purposes. The data in the financial statements and the notes thereto are presented in thousands of Bulgarian levs (BGNø000).

The presentation of the financial statements in accordance with IFRS requires the management to make best estimates, accruals and reasonable assumptions that affect the reported values of assets and liabilities, of income and expenses and the disclosure of contingent receivables and payables as at the date of the financial statements, and respectively, on the reported 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 (as in case of financial crisis the uncertainties are more sustainable). The items presuming a higher level of subjective judgment or complexity or where the assumptions and accounting estimates are material for the financial statements, are disclosed in Note 2.17.

The Bank has prepared separate financial statements for the year ended 31 December 2009, dated 29 March 2010, prepared under IFRS, issued by IASB and in force for annual periods beginning on 1 January 2009.

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Consolidated financial statements of the bank

The bank has started the preparation of its consolidated financial statements for 2009 in compliance with IFRS, effective for 2009, where the present individual financial statements will be included. According to the planned dates, the management expects the consolidated financial statements to be approved for issue by the Managing Board not later than 10 April 2010, and after that date the financial statements will be publicly available to third parties.

2.2. Comparatives

The Bank presents in its financial statements comparative information for one prior period.

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.

In 2009, the form the Income statement of the Bank was changed ó a new statement of comprehensive income was introduced, which includes the financial indicators from the previous Income Statement, and the changes of other components of equity is included ó revaluation reserve of available-for-sale financial asset, which in the previous periods usually were presented as direct movements of the reserves. In this way a new summary indicator was introduced - òcomprehensive income for the yearö. The change in format is made retrospectively.

2.3. Functional and presentation currency

The functional and presentation currency of the Bank 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 1.36409 : 1 as at 31 December 2008 (31 December 2007: 1.38731:1).

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, loans and receivables, investments in securities, liabilities under placements, 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 statement of financial position, 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.

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The non-monetary items in the statement of financial position, 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.

2.4. Interest income and expenses

Interest income and expenses are recognised in the statement of comprehensive income (within the profit or loss for the year) 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 coupons earned on available-for-sale debt securities, interest on deposits with other banks, interest on loans and advances to customers, and fees and commissions on loans and advances to customers, which are an integral part of the effective yield of the financial instrument.

Interest expense is recognised on accrual basis and includes the interest accrued on the deposits of customers and banks as well as on the other borrowed funds, fees and commissions under loans received, which represent an integral part of the effective interest expense.

2.5. Fee and commission income and expenses

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

Trust management fees are recognised on accrual basis throughout the period of providing the service.

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

2.6. Financial instruments

2.6.1. Financial assets

The Bank 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 Bank at the time of their initial recognition in the statement of financial position.

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

Loans and receivables

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 the Central Bank; due from other banks; loans granted to other banks; loans and advances to customers; and other receivables. They are measured in the statement of financial position at their amortised cost using the effective interest method less any allowance for impairment. Interest income on loans and receivables is recognised on effective interest basis. It is presented in the statement of comprehensive income (within the profit or loss for the year) under "Interest and other similar income".

Loans and advances that have initially originated in the Bank are recognised in the statement of financial position when cash is actually advanced to borrowers or another financial or non-financial asset is provided to borrowers and are initially measured at fair value or at the provided funds value or/and other assets, incl. direct cost of the transaction.

Acquired loans and advances are recognised when a significant part of benefits and risks incidental to ownership are received by the Bank and are initially measured at the value of the amount paid or at the determined fair value of the transferred asset.

Held-to-maturity financial assets

Held-to-maturity financial assets are debt securities with fixed or determinable payments and fixed maturities on acquisition of which the Bank 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 or at amortised cost using the effective interest method less allowance for impairment, if any. Income is recognised on effective yield basis in the statement of comprehensive income (within the profit or loss for the year) within

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-Interest and other similar incomeø

Financial assets available-for-sale

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 Bank 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 usually based on öaverage pricesö of quoted bid average bid prices of realised stock deals in the last month of the year, unless the traded package of capital traded of this companies is insignificant and/or the volume of transactions with them is very limited ó in this case, the quoted prices are derived from the use of other valuation models and prices of similar instruments, including on other capital markets. 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 initially as öother component of comprehensive incomeö on the statement of comprehensive income for the year and respectively in a separate component -Revaluation Reserve ó FAø equity through the statement for changes in equity - until the financial asset is sold, collected or otherwise disposed of or until it is impaired, at which time the accumulated gains or losses, included as other component on the statement of comprehensive income and respectively on equity, are recognised (recycled) on the statement of comprehensive income, but within the current profit or loss for the year.

During the period of holding debt instruments, classified as -available-for-saleø the Bank recognises interest income by applying the effective interest method.

Dividends on shares, classified as -available-for-saleø financial assets, are recognised and carried to the statement of comprehensive income as -Other incomeø when the Bankø entitlement to these dividends is established.

Purchase and resale agreements (reverse REPO deals)

Securities purchased under agreements to resell are not recognised on the statement of financial position but are recorded and presented as -due from banksø or -loans and advances to customersø 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.

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Impairment of financial assets

All financial assets classified as *loans and receivables*, *held-to-maturity financial assets* and *held for sale financial assets* are subject to review for impairment. The Bank assesses at the end of each reporting period whether there is any objective evidence for permanent and clearly shown impairment of a financial asset or a group of financial assets.

Loans and amounts due from banks and other customers

The Bank assesses at each end of reporting period 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 impaired. A loan or a group of loans 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 Bank 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 loan 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 loan impairment are accrued in a special allowance account if there is objective evidence that the Bank will not be able to collect all amounts due by borrowers (debtors).

The Bank first assesses whether objective evidence of impairment exists at individual level regarding specific loan exposures that are individually significant. Subsequently, the loans for which no impairment is identified at individual level (whether individually significant or not) are included in groups with similar characteristics and are collectively assessed for impairment on portfolio basis. A particular loan is classified in the relevant risk group and is assessed as non-performing depending on the above criteria, mainly the occurrence of delay in contractual payments of principal and/or interest and on the basis of analysis of the financial position of the borrower and the sources for settlement of its debts to the Bank. The amount of the specific allowances for loan impairment is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collaterals, discounted on the basis of the agreed-upon effective interest rate. If there are indications of probable losses in the loan portfolio that have not been specifically identified and crystallised, allowances for coverage of the general credit risk are also provided for on a portfolio basis. They are determined based of historical experience, statistical data and techniques and the judgment of the management on the grounds of its experience and knowledge.

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Allowances are also made for other components of the loan portfolio or credit risk exposures at the end of reporting period, estimated based on historical patterns of losses in each component, current economic conditions in which the borrowers operate and other relevant factors affecting the loan portfolio and respectively, the 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 Bank that all impaired loans and amounts receivable are reviewed and analyzed on monthly basis. 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 statement of comprehensive income (within the profit or loss for the year. An allowance for impairment and uncollectability is reversed only when the quality of the loan or the amount 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 loan agreement. Subsequent recoveries or decreases in the allowances due to an event occurring after the write-down are credited to the loan impairment and uncollectability losses in the statement of comprehensive income (within the profit or loss for the year).

When a loan is uncollectable, it is written-off against the related allowance for impairment losses. Such loans 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

For held-to-maturity financial assets the Bank assesses individually whether 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 statement of financial position. The impairment loss amount is currently recognised in the statement of comprehensive income (within the profit or loss for the year).

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Available-for-sale financial assets

Available-for-sale financial assets are impaired if there is objective evidence that show 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 ó when there is evidence that the carrying amount is higher than the expected recoverable amount. Additionally, alternative valuation methods are applied ó discounted cash flows methods, analogous transaction price methods, analyses of trends in the accounting values of net assets, in order to judge the stability of price changes as well as to isolate the effects of the general downturn and stagnation of stock markets from those that are directly related to the individual particular features of the entity ó security issuer.

The recoverable amount of a debt instrument is determined on the basis of the present value of expected future cash flows, discounted at the current market interest rate for a similar financial asset. If any such clear and specific evidence for impairment exists, the cumulative revaluation loss, representing the difference between the acquisition cost and the current fair value (recoverable amount), is transferred from other components of comprehensive income, respectively equity (Revaluation Reserve ó available-for-sale securities) to the profit or loss for the year on the statement of comprehensive income.

2.6.2. Financial liabilities and equity instruments

The Bank 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. Financial liabilities are classified at the time of their origination. All financial liabilities, held by the Bank, are classified as other financial liabilities and are carried at amortised cost.

Financial liabilities include: amounts due to banks under deposits; amounts due to customers under deposits; borrowed funds from financial institutions under loan and other agreements; issued debenture loans and other current liabilities. They are initially recognised on the statement of financial position 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 statement of comprehensive income (within the profit or loss for the year) 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

Bank 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 Bank, is written-off from the assets of the lessor and is presented in the statement of financial position as a receivable at an amount equal to the net investment in the lease.

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The difference between the carrying amount of the leased asset and the immediate (fair selling) value is recognised in the statement of comprehensive income 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 Bank related to the lease and is recorded as interest income from loans and advances to customers.

Bank as a lessee

Finance leases, which transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased item, are capitalised in the statement of financial position 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 statement of comprehensive income (within the profit or loss for the year) as interest expense on other borrowings.

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 Bank as a lessee in relation to operating lease are recognised as expense in the statement of comprehensive income (within the profit or loss for the year) on straight-line basis over the lease term and are presented as rental expenses.

The income of the Bank as a lessor under operating lease agreements is recognised on straight-line basis over the lease term and are presented as other operating income in the statement of comprehensive income (within the profit or loss for the year).

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.

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The Bank has set a value threshold of BGN 150, below which any asset acquired, regardless of its nature of a fixed asset, is treated as current expense at the acquisition date.

Subsequent measurement

The approach chosen by the Bank 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 Bank 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;
- Bank equipment and computers ó 5 years;
 - Motor vehicles ó 5 years;
 - Furniture and fixtures - 6.7 years.

The useful life of the individual group of assets is determined by the management considering: their physical wear, the characteristic features of the equipment, the intentions for future use and the expected 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 costs 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 property, plant and equipment 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 statement of comprehensive income (within the profit or loss for the year).

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Gains and losses on disposal (sale)

Tangible fixed assets are derecognised from the statement of financial position 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 statement of comprehensive income (within the profit or loss for the year).

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 Bank applies the straight-line amortisation method 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 statement of comprehensive income (within the profit or loss for the year).

Intangible assets are derecognised from the statement of financial position 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 disposal proceeds 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 statement of comprehensive income (in profit or loss from the year).

2.10. Investments in subsidiaries

Long-term investments representing shares in subsidiaries are presented in the financial statements at acquisition cost (cost) being the fair value of the consideration paid for the investment including any directly attributable costs incurred on the acquisition. These investments are not traded in a stock exchange.

Long-term investments in subsidiaries, owned by the Bank, are subject to review for impairment. Where conditions for impairment are identified, the impairment is recognised in the statement of comprehensive income (within the profit or loss for the year).

In purchases and sales of investments in subsidiaries the *date of concluding* the deal is applied.

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Investments are derecognised when the rights related thereto are transferred to third parties as a result of occurrence of legal rights for that and thus the control over the economic benefits from the investments is being lost. Sales income is presented as \pm other operating income/(losses) in the statement of comprehensive income (within the profit or loss for the year).

2.11. Provisions and contingent liabilities

Provisions are recognised when the Bank 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 end of reporting period, concerning the expenses that will be incurred for the settlement of the particular obligation. The estimate is discounted if the obligation is long-term. Statistical methods, based on historical experience and data for behaviour and events on guarantee commitments are used in the measurement of the portfolio provisions.

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 Bank, or it is not probable that an outflow of resources will be required to settle the obligation. They are not recognised in the statement of financial position but are subject to disclosure (Note 29).

2.12. Pensions and other payables to personnel under the social security and labour legislation

In accordance with the Bulgarian legislation, the Bank is obliged to pay contributions to social security health insurance funds. The employment relations of the employees with the Bank, in its capacity of an employer, are based on the provisions of the Labour Code (LC).

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 (SMPS) to an Universal Pensions Fund (UPF) (for persons born after 31 December 1959), to the General Diseases and Maternity (GDM) Fund, the Unemployment Fund, the Labour Accident and Professional Diseases (LAPD) Fund, the Guaranteed Receivables of Workers and Employees (GRWE) Fund and for health insurance.

Social security and health insurance contributions and the ratio of contributions apportionment between the employer and the employee are defined by the Social Security Code. In addition, the State Social Security Budget Act for the respective year regulates the levels of minimum and maximum monthly insurance income, the contribution rate for GRWE and the differentiated rates of the contribution of LAPD. The rate of the mandatory health insurance contribution is provided for by the National Health Insurance Fund Budget Act for the respective year while the ratio at which it shall be apportioned between an employer and an employee is defined in the Health Insurance Act (HIA). The total amount of the contribution to the Pensions Fund, SMPS to
This is a translation from Bulgarian of the financial statements of Bulgarian Development Bank AD for year 2009.

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UPF/PPF, GDM Fund, Unemployment Fund and for health insurance in 2008 and 2009 for the individuals working under the terms of the third category of employment, to which the Company's employees belong, is as follows:

- for the period 1 January 2008 to 31 December 2008:
 - 32.5% for those employed under the third category terms (from which 19.5% at the expense of the employer);
- for the period 1 January 2009 to 31 December 2009:
 - 30.5% for those employed under the third category terms (from which 17.5% at the expense of the employer);
- for the period 1 January 2010 to 31 December 2010:
 - 28.5% for those employed under the third category terms (from which 16.4% at the expense of the employer).

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 0.1% (for 2009 and 2010) 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 to the State Social Security Budget Act for the respective year) and is 0.5% for the Bank in 2009.

The social security and pension plans, applied by the Bank 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 Disease 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 Bank.

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 has met the required terms and requirements) are recognised as an expense in the statement of comprehensive income (within the profit or loss for the year) 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 Bank's payables for social security and health insurance are

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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 end of reporting period the Bank measures and recognises 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 employees' remunerations and the statutory 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 an 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 statement of financial position, 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 statement of comprehensive income (within profit or loss for the year).

Past service costs are recognised immediately in the statement of comprehensive income (within profit or loss for the year).

At the date of issue of each set of annual financial statements, the Bank 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 against the present value of the defined benefit obligations at the end of the prior year, are recognised immediately in the statement of comprehensive income (within the profit or loss for the year). 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 as expenses on personnel in the statement of comprehensive income (within the profit or loss for the year).

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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: 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 Bank 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 statement of financial position at their present value.

2.13. Income taxes

Current income taxes

Current income taxes are determined in accordance with the requirements of the Bulgarian tax legislation ó the Corporate Income Taxation Act (CITA). The nominal income tax rate for year 2009 is 10% (2008: 10%).

Deferred income taxes

Deferred income taxes are determined using the liability method on all temporary differences, existing at end of reporting period, 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 the end of each reporting period 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.

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for the year ended 31 December 2009

Deferred taxes, related to items directly credited or charged to equity or other items of statement of financial position or other component of comprehensive income, are also reported directly in the respective equity component or item of statement of financial position or other component of comprehensive income.

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 2009, the deferred income taxes are computed at a tax rate of 10% (31 December 2008: 10%).

2.14. Cash and cash equivalents

For the purposes of the statement of cash flows, cash equivalents comprise cash on hand, cash at current accounts with other banks, demand deposits and placements with other banks ó payable at sight and/or with original maturity up to 3 months, including repo deals with original maturity up to 3 months, as well as unrestricted (not blocked) balances with the Central Bank of Bulgaria (BNB).

They are presented in the statement of financial position at amortised cost.

2.15. Assets held for sale

Assets are being classified as held for sale if their carrying amount will be recovered through a sale and not through a continuing use in the operations of the Bank. Usually, these assets have been initially accepted by the Bank as collaterals and subsequently acquired thereby as a result of debt against property exchange by debtors that do not perform their obligations as per the agreed terms of loans.

Assets classified in this group are available for immediate sale in their present condition. The management is engaged actively and performs events to realise a sale within at least one year after the date on which the asset has been classified in this group.

Assets classified as held for sale are presented in the statement of financial position separately and are measured at the lower of their carrying amount (initially, acquisition cost) and their fair value less the costs to sell (net selling price). The recognised impairment is presented in the statement of comprehensive income (in profit or loss for the year) under *other operating income/(losses)*

The assets within this classification group are not depreciated.

2.16. Share capital and reserves

Being a joint-stock company, the Bank 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 Bank's creditors. The shareholders are liable for the obligations of the Bank only up to the amount of the share capital held by them and may claim refunding of this participation only in liquidation or bankruptcy proceedings.

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

The Bank is obliged to set aside a *Reserve Fund* in accordance with the requirements of the Bulgarian Development Bank Act (Note 29). The following may be sources for the fund:

- at least a half of the profit, which should be allocated to the fund until its amount reaches 50% 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 of Shareholders.

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 Statutes, the excess may be used for increasing share capital.

The *Revaluation Reserve – Financial Assets* is being set aside from the difference between the carrying amount of the 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 statement of comprehensive income when the financial assets are derecognised (sold) from the statement of financial position or in case of stable and lasting impairment.

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

The Bank 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.

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a) Impairment losses on loans and advances

At each end of reporting period, the Bank reviews its loan portfolios to assess the presence of impairment losses and to calculate their amount. In determining whether an impairment loss should be recorded in the statement of comprehensive income (within the profit or loss for the year), the management of the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows of a portfolio of loans before the decrease can be identified for an individual loan/component in that portfolio. An evidence for this may include observable data indicating that there has been an adverse change in the payment status of a group of borrowers or of a concrete borrower, or the availability of national, economic or other conditions that relate to a certain risk for a specific group of borrowers /type of loans. The analysis of the impairment and uncollectability loss risk includes classification of loans into four (2008: in four) risk classification groups: *performing*, *watch*, *non-performing* and *loss*. The main criteria for assigning risk groups are: financial position, problems in servicing, including interest and matured principal in arrears, sources for repayment and provided collateral in terms of type and possibility for realisation. In addition, for loans, approved for guarantee by EIF, impairment loss is recognised after deduction of the portion covered by the fund (Note 34.1).

In determining the future cash flows pattern, the management uses estimates, judgments and assumptions based on its historical loss experience for assets with similar credit risk characteristics, as well as on objective evidence for impairment of the portfolio from non-crystallised loss in a particular component thereof. Analogous approach is used also for assessments at individual loan level taking into account the quality of collaterals as well. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly so as to minimise the discrepancies between loss estimates and actual loss experienced (Notes 2.6, 8 and 14).

In 2007, the management of the Bank analyzed retrospectively the actual losses on loans for a period of five years (2001-2006 inclusive) for the purpose of updating the applied rates for loan impairment on portfolio basis. As a result of this analysis, the applied rate of impairment on portfolio basis has been decreased from 3% to 1.83%. In 2008 and 2009 the applied rate of 1.83% was preserved (Note 2.6, 8 and 14).

b) Measurement of available-for-sale financial instruments not quoted in an active stock market

The Bank 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 Bank. 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

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NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

circumstances occur that allow the formation of reasonable assumptions and a reliable valuation.

Analysis and assessment is performed at each end of reporting period as to whether indicators for impairment of Bank's 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 appraiser 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 Bank's statement of financial position are revalued at the price of the sale (Note 2.6, 6 and 15).

c) Impairment of available-for-sale financial instruments quoted in a stock market

As at 31 December 2009, the Bank made a detailed comparative analysis of the changes and movements in the stock market prices of public company shares held by the Bank on the national stock exchange market.

With regard to investments in companies, whose shares are listed for trading in the Bulgarian Stock Exchange, the management has performed research and analysis and is of the position that they can be subsequently measured at fair value, determined directly on the basis of average bid prices of realised stock deals in the last month of the financial year (Level 1). Additionally, the applied prices are analysed against the behavioural trend in stock exchange prices of the respective securities at least for the three last months of the year and respectively against for the date of issuing of the financial statements. (Note 6, 11 and 15). The management has also obligatorily used alternative valuation methods as an additional confirmation of the fair value applied for the two reporting years.

The Bank has performed a special analysis of monitored behavior graphics of the stock exchange prices and fair values of all the investment in available-for-sale securities, held by the Bank for more than one year, defined by alternative valuation methods for a period of 18 months to 31 December, in order to define if there are conditions for permanent and material impairment. As a result of this analysis it has been established that as at 31 December 2009, for the shares of Monbat AD, Sinergon Holding AD, Sparky Eltos AD and Chimimport AD there is a substantive and permanent drop of the stock exchange prices for the monitored period including for the previous period, as well as lack of tendency for stabilizing of the level of share prices. These results from the analysis are the reason for the position of the management of the Bank to transfer the total accumulated negative value of the revaluation reserve of available-for-sale financial assets for the mentioned shares, amounting to BGN 306 thousand, to the current profit and loss for the year in the statement of comprehensive income (Notes 6 and 15). For the rest of the other quoted shares held by the Bank (Sopharma AD, Devin AD, Enemona AD, Corporate CB AD) the results of the analysis performed as at 31 December 2009 show the following: a) fluctuations of the stock exchange prices of the shares held for the period monitored; b) lack of a trend of persistent and substantial decrease in comparison with the previous period; c) trend for stabilization of the level of share prices and even a certain level of increase for some of the shares in

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the end of the year; d) prices of analogous companies and/or existence of other values of shares-investments made through alternative valuation methods (for example method of discounted cash flows, market analogues), greater than the quoted stock prices in the end of the year. The results of the analysis are the reason for the position of the management of the Bank to continue to present the changes in fair value of these available-for-sale investments, amounting to BGN 38 thousand, as other components of comprehensive income and respectively as a separate component of equity ó Revaluation Reserve ó FAø (Notes 11 and 15).

d) Provisions for issued bank guarantees

At each end of reporting period, the Bank 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 Bank 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 (Notes 2.11, 8 and 31).

With regard to portfolio guarantees related to the implementation of the Micro-credits Guarantee Fund Project of the Ministry of Labour and Social Policy (as per the BDB Act) a retrospective analysis was made of the actual losses from loans granted (for which guarantees had been issued) for a seven-year period by partner-bank. Average percent of losses was determined for the whole period under assessment by partner-bank and in general for the whole portfolio of such type of loans, using appropriate statistical instruments. As a result of the analysis the management has determined the average percent of loss for the whole portfolio to be 1.64% (2008: 0.52 %) as minimum level for calculation of provisions for losses by partner-bank and when the average rate for a particular bank is higher than that minimum level, the respective percent for that is applied. The obtained average percent of the provision against the whole guarantee portfolio under this project is 1.71 % (2008: 0.56%).

e) Actuarial calculations

For assessing the present value of the long-term retirement benefit obligation the Bank 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 relevant to the Bank (Note 2.12 and 28).

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for the year ended 31 December 2009

3. NET INTEREST AND OTHER SIMILAR INCOME

	2009	2008
	<i>BGN'000</i>	<i>BGN'000</i>
Interest income and other similar income		
Loans and advances to customers	20,690	16,157
Loans to banks	15,495	507
Placements with other banks	7,019	2,405
Securities available-for-sale and held-to-maturity	1,077	1,316
	<u>44,281</u>	<u>20,385</u>
Interest expense and other similar expenses		
Borrowed funds from international institutions	3,690	6,568
Deposits due to customers	1,873	717
Other borrowed funds	322	653
Deposits from banks	214	25
Debenture loans	209	247
	<u>6,308</u>	<u>8,210</u>
Net interest and other similar income	<u>37,973</u>	<u>12,175</u>

4. NET FEE AND COMMISSION INCOME

	2009	2008
	<i>BGN'000</i>	<i>BGN'000</i>
Fee and commission income		
Guarantees and letters of credit	1,035	290
Customers' accounts, bank transfers, cash operations	457	461
Servicing of debenture loans	301	297
Trust management of borrowed funds	79	78
	<u>1,872</u>	<u>1,126</u>
Fee and commission expenses		
Agency fees paid	180	-
Bank transfers and cash operations with other banks	18	21
Current accounts due from other banks	12	9
	<u>210</u>	<u>30</u>
Net fee and commission income	<u>1,662</u>	<u>1,096</u>

5. GAINS LESS LOSSES FROM DEALING IN FOREIGN CURRENCIES

	2009	2008
	<i>BGN'000</i>	<i>BGN'000</i>
Net gain from dealing in foreign currencies	199	67
Net gain/(loss) from foreign currency translation of assets and liabilities	1	200
	<u>200</u>	<u>267</u>

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for the year ended 31 December 2009

6. GAINS LESS LOSSES FROM AVAILABLE-FOR-SALE SECURITIES

	2009	2008
	<i>BGN'000</i>	<i>BGN'000</i>
Net (loss)/gain on transactions in available-for-sale securities, incl. revaluation reserve	276	(23)
Allowance for impairment on available-for-sale securities	(306)	-
	<u>(30)</u>	<u>(23)</u>

7. OTHER OPERATING INCOME

	2009	2008
	<i>BGN'000</i>	<i>BGN'000</i>
Rentals	47	22
Recovered litigation costs	46	162
Dividends received	29	55
<i>Gains from sales of assets</i>	-	720
<i>Carrying amount of sold assets</i>	-	(706)
Profit from sales of assets, net	-	14
Other profits/(losses), net	(43)	(86)
	<u>79</u>	<u>167</u>

Other profits/losses include mainly expenses on maintenance and servicing of assets acquired by the Bank from borrowers against debt for the purpose of resale.

8. LOSSES FROM IMPAIRMENT OF LOANS AND GUARANTEES

	2009	2008
	<i>BGN'000</i>	<i>BGN'000</i>
Specific allowances for loan impairment, net	11,845	(221)
General allowances for loan impairment on portfolio basis	1,514	2,018
Guarantee provisions, net	2,850	223
	<u>16,209</u>	<u>2,020</u>

BULGARIAN DEVELOPMENT BANK AD**NOTES TO THE FINANCIAL STATEMENTS****for the year ended 31 December 2009****9. GENERAL ADMINISTRATIVE COSTS**

	2009	2008
	BGN'000	BGN'000
Personnel costs and social security contributions	3,306	2,810
Remuneration of Managing Board and Supervisory Board members	713	685
Communications and IT services	401	381
Office and office equipment maintenance	373	350
Government taxes and charges	296	278
Legal and consulting services	280	247
Advertising and entertainment expenses	262	247
Depreciation and amortisation	240	274
Contribution to the Statutory Fund for Guaranteeing Deposits	158	154
Expenses on enforced collection of guarantee portfolio	150	-
Hired services	73	68
Business trips	68	94
Rentals	67	64
	<u>6,387</u>	<u>5,652</u>
<i>Personnel costs and social security contributions include:</i>		
Salaries	2,867	2,401
Social security contributions	351	329
Social benefits	66	59
Accruals for indemnities upon retirement	22	21
	<u>3,306</u>	<u>2,810</u>

The *personnel costs* include remunerations of the Executive Directors at the amount of BGN 567 thousand (2008: BGN 534 thousand).

Taxes include: non-refundable VAT, one-off taxes, local taxes and charges, government and litigation charges.

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for the year ended 31 December 2009

10. INCOME TAX EXPENSE

	2009	2008
	<i>BGN'000</i>	<i>BGN'000</i>
<i>Statement of comprehensive income (profit or loss for the year)</i>		
Taxable profit for the year as per tax return	17,809	5,679
Current income tax expense as per tax return	1,781	568
Current income tax expense on revaluation reserve of available-for-sale financial assets for the year	(4)	58
Current income tax expense for the year	1,777	626
Deferred income tax related to:		
- temporary differences	(35)	(11)
Total income tax expense carried to the statement of comprehensive income (within the profit or loss for the year)	<u>1,742</u>	<u>615</u>

Reconciliation of income tax expense applicable to the accounting profit or loss

Accounting profit for the year	17,289	6,010
Income tax, calculated on standard tax rate of 10% (2008: 10%)	1,729	601
Tax effects from:		
- expenses not deductible for tax purposes	13	15
- recognised deductions for tax purposes	-	(1)
Total income tax expense carried to the statement of comprehensive income (within the profit or loss for the year)	<u>1,742</u>	<u>615</u>

Tax effects relating to other components of comprehensive income:

	2009			2008		
	<i>BGN'000</i>			<i>BGN'000</i>		
	Amount before income tax	Tax Benefit from / (Tax expense for)	Amount net of tax	Amount before income tax	Tax Benefit from / (Tax expense for)	Amount net of tax
Change in fair value of available-for-sale financial assets	(339)	79	(260)	(572)	2	(570)
Other comprehensive income for the year	<u>(339)</u>	<u>79</u>	<u>(260)</u>	<u>(572)</u>	<u>2</u>	<u>(570)</u>

BULGARIAN DEVELOPMENT BANK AD**NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2009

11. OTHER COMPONENTS OF COMPREHENSIVE INCOME – INCOME RECYCLING*Other components of comprehensive income include:*

	2009	2008
	BGN'000	BGN'000
Change in fair value of available-for-sale financial assets		
Profit/(loss) for the year	41	(580)
Less: Correction from reclassification of profit/(loss), included in current year profit and loss	(380)	8
Income tax, related to components of other comprehensive income	79	2
Other comprehensive income for the year, net of tax	<u>(260)</u>	<u>(570)</u>

12. CASH AND BALANCES WITH THE CENTRAL BANK

	2009	2008
	BGN'000	BGN'000
Cash on hand	782	106
<i>Balances with the Central bank:</i>		
Current account in BGN	13,196	598
Minimum mandatory reserve deposit in EUR	3,912	9,779
Security fund in BGN	81	213
Total cash and balances with the Central bank	<u>17,189</u>	<u>10,590</u>
	<u>17,971</u>	<u>10,696</u>

The deposits with the Central Bank are not interest-bearing.

BULGARIAN DEVELOPMENT BANK AD**NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2009

13. DUE FROM OTHER BANKS

	2009	2008
	BGN'000	BGN'000
Current accounts and demand deposits		
<i>Local banks</i>		
Foreign currency	732	312
BGN	243	51
<i>Foreign banks</i>		
Foreign currency	1,388	123
	<u>2,363</u>	<u>486</u>
Term deposits within one month		
<i>(by remaining maturity)</i>		
<i>Local banks</i>		
Foreign currency	30,323	6,260
BGN	22,019	110,077
<i>Foreign banks</i>		
Foreign currency	-	7,839
	<u>52,342</u>	<u>124,176</u>
Term deposits within six months		
<i>(by remaining maturity)</i>		
<i>Local banks</i>		
BGN	42,125	-
	<u>42,125</u>	<u>-</u>
Loans granted to banks		
<i>Local banks</i>		
BGN	455,989	65,009
Foreign currency	6,896	10,430
	<u>462,885</u>	<u>75,439</u>
	<u>559,715</u>	<u>200,101</u>

As at 31 December 2009, loans to banks in foreign currency are of nominal value EUR 3,499 thousand and BGN equivalent 6,843 thousand (31 December 2008: EUR 5,199 thousand equivalent to BGN 10,168 thousand) with original maturity of three years and repayment in bullet at the end of the loans period. These are special-purpose loans and are granted to banks for direct crediting of customers with the objective of SME development under funding from the Ministry of Finance with KfW funds. Loans are charged with interest equal to 3-month or 6-month EURIBOR plus 0.8% payable every 3 or 6 months. Loans are secured up to 50% of their nominal amount through a pledge of government securities.

BULGARIAN DEVELOPMENT BANK AD**NOTES TO THE FINANCIAL STATEMENTS****for the year ended 31 December 2009**

As at 31 December 2009, under two programs, there are loans granted to banks in BGN with nominal value of BGN 455,000 thousand (31 December 2008: BGN 65,000 thousand). Under the first program (BGN 375,000 thousand of nominal value) the loans are granted to banks with the objective of direct lending of clients for the purpose of SME development, with original maturity from 5 to 10 years and repayment in bullet at the end of the loan period or according to repayment schedule with 5 years grace period. Under the second program (BGN 80,000 thousand of nominal value) the loans are granted to banks with the objective of direct lending to agricultural producers with original maturity of 5 years and repayment in bullet to maturity or according to repayment schedule with 3 or 4 year grace period. Loans are charged with fixed interest rate equal to 5% payable every 6 months. Loans are secured up to 100% of their nominal amount through a pledge of government securities or through a pledge on receivables.

As at 31 December 2009 the bank has term deposits receivables denominated in BGN or EUR from eight local banks, representing 16,88% of the carrying value of the deposits due from banks. (31 December 2008 : ten local banks and one foreign bank - with 58.14% and 3.92% of the deposits due from banks). The term deposits are with original maturity of : five, seven, fourteen days and one, four and six months respectively (31 December 2008: six, seven, eighteen days and one month).

As at 31 December 2009 the bank has a REPO deal receivable denominated in BGN with amortised amount of BGN 3,001 thousand, maturity 28 January 2010 and contracted interest rate of 4 % (31 December 2008: none).

The average interest rates applied to current accounts are:

	2009		2008	
	from	to	from	to
USD	0.20%	3.75%	0.20%	3.75%
EUR	0.20%	1.00%	0.20%	1.00%
BGN	0.20%	5.00%	0.20%	5.00%

The average interest rates applied to term deposits are:

	2009		2008	
	from	to	from	to
BGN	0.23%	7.20%	3.50%	7.00%
EUR	0.60%	2.80%	2.05%	4.80%
USD	1.00%	1.00%	0.10%	6.00%

The loans to banks in foreign currency are charged with interest rate equal to 3-month or 6-month EURIBOR plus from 0.5% to 0.8% and the loans in BGN of with 5%.

BULGARIAN DEVELOPMENT BANK AD**NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2009

14. LOANS AND ADVANCES TO CUSTOMERS

	2009	2008
	BGN'000	BGN'000
Loans	299,759	199,406
Allowances for loan impairment and uncollectability	(21,494)	(8,564)
	<u>278,265</u>	<u>190,842</u>
	2009	2008
	BGN'000	BGN'000
A. Analysis by customer type		
<i>Private entities and sole traders</i>		
BGN	86,092	81,359
Foreign currency	<u>212,613</u>	<u>116,533</u>
	<u>298,705</u>	<u>197,892</u>
<i>Individuals</i>		
BGN	1,054	439
Foreign currency	<u>-</u>	<u>1,075</u>
	<u>1,054</u>	<u>1,514</u>
	<u>299,759</u>	<u>199,406</u>
	2009	2008
	BGN'000	BGN'000
B. Analysis of loans by sector of economy		
Manufacturing	74,486	45,292
Construction	64,872	30,979
Trade	48,475	41,324
Tourist services	25,416	23,522
Agriculture	25,007	20,304
Operations with real estate	18,063	15,278
Transport	12,912	3,902
Other industry sectors	<u>30,528</u>	<u>18,805</u>
	<u>299,759</u>	<u>199,406</u>

The Banks provides funds mainly for financing the activity of small and medium-sized enterprises as well as investment projects with 5 to 10 years return on investment.

BULGARIAN DEVELOPMENT BANK AD**NOTES TO THE FINANCIAL STATEMENTS****for the year ended 31 December 2009****C. Concentration by individual customers**

The statement of financial position exposures of the five largest debtors of the Bank at the respective date, calculated as percentage of the total amount of loans and advances to customers as per the statement of financial position, are as follows:

At 31 December 2009	Percentage
Company 1	11.66%
Company 2	6.25%
Company 3	3.53%
Company 4	3.43%
Company 5	2.87%
	<u>27.74%</u>

At 31 December 2009	Percentage
Company 1 and related parties thereto	11.66%
Company 2 and related parties thereto	6.25%
Company 3 and related parties thereto	6.06%
Company 4 and related parties thereto	4.96%
Company 5 and related parties thereto	4.90%
	<u>33.83%</u>

At 31 December 2008	Percentage
Company 1	9.91%
Company 2	6.21%
Company 3	5.55%
Company 4	4.02%
Company 5	3.19%
	<u>28.88%</u>

At 31 December 2008	Percentage
Company 1 and related parties thereto	12.33%
Company 2 and related parties thereto	9.53%
Company 3 and related parties thereto	6.21%
Company 4 and related parties thereto	5.80%
Company 5 and related parties thereto	4.02%
	<u>37.89%</u>

BULGARIAN DEVELOPMENT BANK AD**NOTES TO THE FINANCIAL STATEMENTS****for the year ended 31 December 2009****D. Maturity structure analysis**

	2009	2008
<i>(by remaining maturity)</i>	<i>BGN'000</i>	<i>BGN'000</i>
Up to 1 month	9,597	6,929
From 1 to 3 months	12,795	3,377
From 3 months to 1 year	73,265	41,389
From 1 to 3 years	104,091	54,698
From 3 to 5 years	60,484	55,061
Over 5 years	39,527	37,952
	<u>299,759</u>	<u>199,406</u>

The largest relative share by original maturity belongs to loans granted for a period from five to ten years inclusive of 52,66% (31 December 2008: 55.96 %).

The loans denominated in BGN are with floating interest rates, calculated by applying the basic interest rate (BIR) quoted by the Central Bank or the basic interest rate of the Bank itself, fixed periodically based on market alternations, plus margin defined for each individual customer. The agreed-upon margins for loans with basic interest rate quoted by the Central Bank range from 2.75 % to 11% annually (2008: from 2.75% to 11%). The agreed-upon margins for loans with basic interest rate of the Bank itself range from 1.36% to 4.0% (2008: from 1.36% to 4.0%). The average BIR for year 2009 is 8.63% (2008: 8.50%).

The loans denominated in foreign currency (EUR) are with interest, calculated by applying the basis interest rate of the Bank itself determined on the grounds of the cost of funds and a margin set individually for each customer. For 2009 it is 8.63% (2008 - 8.50%). For loans in EUR, based on the basis interest rate of the Bank itself the agreed margins vary from -0% to 2.0%. The Bank has maintained the right to reconsider the basic interest rate in accordance with change in the cost of its attracted funds.

At 31 December 2009, the interest rates under the valid loans range from 3.22 % to 14.00% (2008: from 5.29% to 15,70%).

BULGARIAN DEVELOPMENT BANK AD
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2009

E. Movement in the allowances for loan impairment and uncollectability

	2009			2008		
	Individually impaired	Collectively impaired	Total	Individually impaired	Collectively impaired	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
At 1 January	5,380	3,184	8,564	5,629	1,166	6,795
Net increase/(decrease) for the year	11,845	1,514	13,359	(221)	2,018	1,797
Written-off against impairment	(429)	-	(429)	(28)	-	(28)
At 31 December	16,796	4,698	21,494	5,380	3,184	8,564

15. SECURITIES AVAILABLE-FOR-SALE

	2009	2008
	BGN'000	BGN'000
Corporate bonds	12,099	13,146
Non-public companies shares	1,815	1,815
Public companies shares	276	227
Government bonds in EUR (ZUNK bonds)	-	6,019
	14,190	21,207

Movement in securities available-for-sale

	2009	2008
	BGN'000	BGN'000
At 1 January	21,207	20,749
Additions (purchases)	1,600	4,223
Disposals (sale and/or redemption)	(8,155)	(3,193)
Net decrease from revaluation to fair value of securities available-for-sale	(462)	(572)
At 31 December	14,190	21,207

BULGARIAN DEVELOPMENT BANK AD
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2009

Fair value of bonds

(based on stock-exchange prices)

	Par value	Fair value	Accrued interest (coupon) at 31 Dec.	Interest rate (coupon)	Maturity
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>		
2009					
Medium-term bank bonds in BGN	5,000	5,000	9	3-month. SOFIBOR + 0.7-0.8	2010 6 2012
Medium-term corporate bonds in BGN	3,400	3,380	86	3-month SOFIBOR +1 / 8.75 fix	2011
Medium-term corporate bonds in EUR	3,661	3,608	16	6-month EURIBOR + 2.95 / 9.5 fix	2012
	12,061	11,988	111		
2008					
	Par value	Fair value (based on stock- exchange prices)	Accrued interest (coupon) at 31 Dec.	Interest rate (coupon)	Maturity
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>		
Medium-term bank bonds in BGN	7,000	6,995	38	3 . SOFIBOR + 0.5%-0.8%	2009 6 2012
Medium-term corporate bonds in BGN	3,400	3,400	86	3 . SOFIBOR + 1%-8.75%	2011
Medium-term corporate bonds in EUR	2,684	2,616	11	6 . EURIBOR + 2.95%	2012
Government bonds in EUR (ZUNK bonds)	5,938	5,879	140	6 . EURIBOR	2019.
	19,022	18,890	275		

BULGARIAN DEVELOPMENT BANK AD**NOTES TO THE FINANCIAL STATEMENTS****for the year ended 31 December 2009****Fair value of corporate shares**

	Number of shares	Par value <i>BGN'000</i>	Percentage in share capital	Capital paid <i>BGN'000</i>	Fair value <i>BGN'000</i>
<i>Non-public companies shares</i>					
Shares denominated in EUR	3	5,867	0.10%	1,173	1,765
Shares denominated in BGN	1,444	14	0.26%	14	38
Shares denominated in BGN	6	6	0.12%	6	12
<i>Public companies shares</i>					
					<i>at stock</i>
Shares denominated in BGN	5,210	5	0.04%	5	49
Shares denominated in BGN	13,128	13	0.11%	13	40
Shares denominated in BGN	9,600	10	0.01%	10	38
Shares denominated in BGN	650	65	0.01%	65	37
Shares denominated in BGN	9,942	10	0.06%	10	32
Shares denominated in BGN	4,800	5	0.01%	5	32
Shares denominated in BGN	6,020	6	0.01%	6	16
Shares denominated in BGN	5,140	5	0.03%	5	11
Shares denominated in BGN	5,220	5	0.03%	5	11
Shares denominated in BGN	3,612	4	0.01%	4	10

The Bank owns shares in EUR in the European Investment Fund (EIF). The portion of the nominal value of the acquired shares of EIF, which has not been paid, is due after decision to be taken by the General Meeting of EIF Shareholders (Note 31).

The shares in non-public companies, denominated in BGN, represent shares in two companies licensed as payment system operators under the Bulgarian law - Bankservice AD and BORICA AD. Only banks can be shareholders in these companies and they acquire their shares following a specific procedure whereas the value per share is determined using a formula stated in the company's statute. The shares are presented at cost (acquisition price) due to their specific closed way of trading (except where sufficiently reliable information is available on a particular company so that the actual fair value could be determined).

The shares in public companies in BGN have been acquired mainly for the purpose of investments in companies in which the Bank is interested. They are presented at average stock exchange prices at the end of the financial year.

The revaluation reserve formed of the available-for-sale financial assets is at the amount of BGN 193 thousand ó negative value as at 31 December 2009 (31 December 2008: BGN 67 thousand ó positive value) (Notes 2.17 and 30).

BULGARIAN DEVELOPMENT BANK AD**NOTES TO THE FINANCIAL STATEMENTS****for the year ended 31 December 2009**

In 2009 impairment allowance of available-for-sale securities is transferred and reported on the statement of comprehensive income (as part of the current profit or loss for the year) amounting to BGN 306 thousand (Note 6) (2008: none).

16. HELD-TO-MATURITY SECURITIES

As at 31 December 2009 the Bank does not hold held-to-maturity securities.

The available held-to-maturity securities as at 31 December 2008 are as follows:

	Number of bonds	Par value <i>in EUR</i>	Amortised cost <i>in BGN'000</i>	Fair value <i>in BGN'000</i>
Bonds denominated in EUR	100	1,000	66	66

In 2004 the Bank purchased 100 non-cash, interest-bearing, unsecured bonds of the first issue of bonds of Doverie ó United Holding AD, denominated in EUR. The amount of the debenture loan is EUR 1,360 thousand. The par value of the bonds is EUR 1,000. Principal is paid in three equal portions on: 30 November 2007 (paid), 30 November 2008 (paid) and 30 November 2009 (paid). The bonds are with fixed interest rate of 6.75% p.a. The six-month interest coupons are payable in May and November. The bonds are presented at amortised cost.

17. INVESTMENTS IN SUBSIDIARIES

The Bank is a sole owner of the capital of the National Guarantee Fund EAD registered in TR on 22 August 2008. The total amount of the registered share capital as at 31 December 2009 is 800,000 of BGN 100 each (31 December 2008 : 100,000 shares of BGN 100 each). As at 31 December 2009 the amount of the pair-in share capital is BGN 27,500 thousand (31 December 2008: BGN 2,500 thousand) (Note 1.4 and 31) .

As at 31 December 2009 the amount of the investment in the subsidiary is BGN 27,500 thousand (31 December 2008: BGN 2,500 thousand), measured at historical cost of acquisition (cost).

BULGARIAN DEVELOPMENT BANK AD**NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2009

18. PROPERTY AND EQUIPMENT

	Buildings	Bank equipment and computers	Furniture and fixtures	Motor vehicles	Total
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Book value					
At 1 January 2008	1,926	816	223	388	3,353
Additions	-	41	80	-	121
Disposals	-	(85)	(24)	-	(109)
At 31 December 2008	1,926	772	279	388	3,365
Additions	-	37	3	38	78
At 31 December 2009	1,926	809	282	426	3,443
Accumulated depreciation					
At 1 January 2008	247	591	147	221	1,206
Charge for the year	38	100	25	74	237
Disposals	-	(85)	(17)	-	(102)
At 31 December 2008	285	606	155	295	1,341
Charge for the year	38	65	29	71	203
At 31 December 2009	323	671	184	366	1,544
Carrying amount					
At 31 December 2009	1,603	138	98	60	1,899
At 31 December 2008	1,641	166	124	93	2,024

At 31 December 2009, the book value of fully depreciated TFA, which are still in use by the Bank amounts to BGN 824 thousand (31 December 2008: BGN 450 thousand).

The Bank has provided for use premises from the building owned thereby under three rental agreements (operating lease). The term of two of the agreements is not determined ó they have a clause for one-month preliminary notification for termination by any of the parties, without subsequent penalties. The third rental contract is with residual term to December 2009 with a clause for automatic renewal of the term. The amount of annual rental income for year 2008 is BGN 47 thousand (2008: BGN 22 thousand).

BULGARIAN DEVELOPMENT BANK AD**NOTES TO THE FINANCIAL STATEMENTS****for the year ended 31 December 2009****19. INTANGIBLE ASSETS**

	Licence	Software	Total
	BGN'000	BGN'000	BGN'000
Book value			
At 1 January 2008	38	220	258
Additions	-	29	29
Disposals	-	(10)	(10)
At 31 December 2008	38	239	277
Additions	-	51	51
At 31 December 2009	38	290	328
Accumulated amortisation			
At 1 January 2008	38	173	211
Charge for the year	-	37	37
Disposals	-	(10)	(10)
At 31 December 2008	38	200	238
Charge for the year	-	37	37
At 31 December 2009	38	237	275
Carrying amount			
At 31 December 2009	-	<u>53</u>	<u>53</u>
At 31 December 2008	-	<u>39</u>	<u>39</u>

The license represents the right for identification and participation in the system for international settlement - SWIFT.

At 31 December 2009 the book value of fully amortised intangible assets, which are still in use by the Bank amounts to BGN 170 thousand (31 December 2008: BGN 92 thousand).

20. ASSETS HELD FOR SALE

The available assets held for sale as at 31 December 2009 include property (lands and buildings) at the amount of BGN 1,034 thousand (31 December 2008: BGN 909 thousand) and machinery and equipment at the amount of BGN 769 thousand (31 December 2008: BGN 750 thousand), acquired by the Bank mainly in 2008 against a settlement of the liabilities under problematic loans of its borrowers.

The assets are not used and are not intended to be used in the activities of the Bank. The management searches actively buyers for them with the aim to sell them by June 2010.

BULGARIAN DEVELOPMENT BANK AD**NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2009

21. DEFERRED TAX ASSETS AND LIABILITIES

Deferred income taxes as at 31 December are related to the following items in the statement of financial position:

	2009	2008
	<i>Temporary</i>	<i>Temporary</i>
	<i>difference</i>	<i>difference</i>
	<i>BGN'000</i>	<i>BGN'000</i>
	<i>Tax</i>	<i>Tax</i>
Deferred tax assets		
Property and equipment	38	47
Provisions on guarantees	988	996
Other liabilities	271	320
Total deferred tax assets	<u>1,297</u>	<u>1,363</u>
Deferred tax liabilities		
Available-for-sale securities ó retained earnings from revaluations	-	(791)
Available-for-sale securities ó accumulated losses from revaluations	(193)	(645)
Total deferred tax liabilities	<u>(193)</u>	<u>(1,436)</u>
Deferred tax assets/(liabilities), net	<u><u>1,104</u></u>	<u><u>(73)</u></u>

The movements within deferred tax assets/(liabilities) for the year are presented below:

<i>Deferred tax assets/</i>	<i>Balance at</i>	<i>Benefit/(expen</i>	<i>Benefit/(expense)</i>	<i>Recognised in</i>	<i>Balance at</i>
<i>(liabilities)</i>	<i>1 January</i>	<i>se) recognised</i>	<i>recognised in the</i>	<i>the statement</i>	<i>31 December</i>
	<i>2009</i>	<i>within profit or</i>	<i>other</i>	<i>changes of</i>	<i>2009</i>
		<i>loss for the</i>	<i>comprehensive</i>	<i>equity and in</i>	
		<i>year</i>	<i>income</i>	<i>the current tax</i>	
				<i>return</i>	
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Property and equipment	5	(1)	-	-	4
Provisions for guarantees	99	-	-	-	99
Accruals for paid leaves and personnel retirement benefits	32	(5)	-	-	27
Securities available-for-sale ó unrealized earnings	(79)	-	79	-	-
Securities available-for-sale ó unrealized losses	(64)	41	-	4	(19)
Total	<u>(7)</u>	<u>35</u>	<u>79</u>	<u>4</u>	<u>111</u>

BULGARIAN DEVELOPMENT BANK AD**NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2009

<i>Deferred tax assets/(liabilities)</i>	<i>Balance at 1 January 2008</i>	<i>Benefit/(expense) recognised within profit or loss for the year</i>	<i>Benefit/(expense) recognised in the other comprehensive income</i>	<i>Recognised in the statement changes of equity and in the current tax return</i>	<i>Balance at 31 December 2008</i>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Property and equipment	4	1	-	-	5
Provisions for guarantees	77	22	-	-	99
Accruals for paid leaves and personnel retirement benefits	29	3	-	-	32
Accruals for expenses	18	(18)	-	-	-
Securities available-for-sale ó unrealized earnings	(81)	-	2	-	(79)
Securities available-for-sale ó unrealized losses	(9)	3	-	(58)	(64)
Total	38	11	2	(58)	(7)

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

22. OTHER ASSETS

As at 31 December, the Other assets include:

	2009	2008
	<i>BGN'000</i>	<i>BGN'000</i>
Prepayments and advances	90	89
Other receivables	12	12
VAT refundable	-	299
Corporate tax paid in excess	-	95
	102	495

23. DUE TO BANKS

	2009	2008
	<i>BGN'000</i>	<i>BGN'000</i>
Placements from local banks		
BGN	13,089	40
Foreign currency	5,916	89
	19,005	129
Due to foreign banks		
Foreign currency	9,795	7,837
	28,800	7,966

BULGARIAN DEVELOPMENT BANK AD**NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2009

	2009	2008
Terms of deposits <i>by original maturity</i>	BGN'000	BGN'000
Term deposits ó up to one month	8,868	7,837
Term deposits ó up to three months	19,803	-
Current accounts	129	129
	<u>28,800</u>	<u>7,966</u>

The average interest rates on term deposits are:	2009		2008	
	from	to	from	to
BGN	0.23%	3.20%	4.82%	5.00%
EUR	0.30%	1.25%	3.10%	4.15%

The current accounts of local banks are denominated in BGN and EUR.

24. DUE TO CUSTOMERS**A. Analysis by customer type**

	2009	2008
	BGN'000	BGN'000
Individuals		
BGN	449	331
Foreign currency	604	586
	<u>1,053</u>	<u>917</u>
Companies and sole traders		
BGN	29,275	11,382
Foreign currency	38,804	26,838
	<u>68,079</u>	<u>38,220</u>
	<u>69,132</u>	<u>39,137</u>

The amounts due to individuals represent deposits of the Bank's employees.

BULGARIAN DEVELOPMENT BANK AD**NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2009

B. Maturity structure of deposits

	2009	2008
<i>(by remaining maturity)</i>	<i>BGN'000</i>	<i>BGN'000</i>
Demand deposits		
BGN	6,945	5,201
Foreign currency	6,356	12,503
	<u>13,301</u>	<u>17,704</u>
Term deposits		
Up to 1 month:		
BGN	2,733	6,462
Foreign currency	1,177	4,607
	<u>3,910</u>	<u>11,069</u>
From 1 month to 3 months:		
BGN	19,896	10
Foreign currency	2,819	-
	<u>22,715</u>	<u>10</u>
From 3 months to 1 year:		
Foreign currency	12,775	10,255
BGN	150	39
	<u>12,925</u>	<u>10,294</u>
Over 1 year		
Foreign currency	<u>16,281</u>	<u>60</u>
	<u><u>69,132</u></u>	<u><u>39,137</u></u>

The largest relative share by original maturity belongs to deposits for a period of 3 months ó 40.67 % (31 December 2008: deposits received for a period of 1 month - 51.58%).

The deposits include customer blocked accounts mainly for collaterals to loans at the amount of BGN 7,216 thousand (2008: BGN 11,470 thousand).

C. Interest rates

Interest rates applied to funds attracted from customers
in 2009 are:

	USD	EUR	BGN	GBP
Current accounts:	0.00%	0.20%	0.20%	0.00%
Term deposits:				
up to 1 month	0.30%	0.90%	2.50%	0.60%
up to 3 months	0.40%	1.20%	3.00%	1.00%
up to 6 months	0.50%	1.50%	3.30%	1.20%
up to 1 year	0.80%	2.00%	3.80%	1.50%
up to 2 years	1.20%	2.40%	4.30%	1.80%

This is a translation from Bulgarian of the financial statements of Bulgarian Development Bank AD for year 2009.

BULGARIAN DEVELOPMENT BANK AD**NOTES TO THE FINANCIAL STATEMENTS****for the year ended 31 December 2009**

Interest rates on funds applied on funds attracted from customers in 2008 are:

	USD	EUR	BGN	GBP
Current accounts:	0.0%-0.2%	0.20%	0.20%	0.00%
Term deposits:				
up to 1 month	0.3%-4.6%	2%-3%	3%-3.5%	1.5%-3.6%
up to 3 months	0.4%-4.65%	2.2%-3.05%	3.05%-3.7%	1.6%-3.7%
up to 6 months	0.5%-4.7%	2.3%-3.15%	3.15%-3.9%	1.7%-3.75%
up to 1 year	0.8%-4.8%	2.5%-3.2%	3.2%-4%	1.85%-3.85%
up to 2 years	1.2%-2.3%	2.80%	4.50%	2.00%

25. BORROWED FUNDS FORM INTERNATIONAL INSTITUTIONS

	2009	2008
	BGN'000	BGN'000
Long-term Framework Loan Agreement with the <i>Council of Europe Development Bank</i>	44,065	29,590
Long-term loan from <i>DEPFA Investment Bank</i>	25,229	29,117
Loan from <i>DEXIA Kommunalkredit, including:</i>	19,473	39,218
<i>Long-term loan</i>	19,473	19,593
<i>Short-term loan</i>	-	19,625
Long-term loan from <i>Japan Bank for International cooperation</i>	19,030	-
Long-term loan from the <i>Nordic Investment Bank</i>	16,911	19,097
Long-term loan from <i>Black Sea Trade and Development Bank</i>	15,590	-
Long-term loan from <i>China Development bank</i>	9,830	-
Long-term Global Loan from the <i>European Investment Bank</i>	7,325	9,473
	157,453	126,495
<i>including:</i>		
<i>non-current portion</i>	137,088	98,024
<i>current portion</i>	20,365	28,471

The interest rates on borrowed funds from international institutions as at 31 December 2009 are in the range from 0.964 % to 4.747% (31 December 2008: from 3.469 % to 5.928 %)

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Council of Europe Development Bank (CEB)

Framework Loan Agreements for EUR 10,000 thousand and EUR 5,000 thousand, for the purpose of financing of investments of micro, small and medium-sized companies in Bulgaria, were signed on 2 January 2003 between the Council of Europe Development Bank (CEB), the Republic of Bulgaria represented by the Minister of Finance and Encouragement Bank AD (being at present Bulgarian Development Bank AD).

The loans are drawn and utilised in full at 31 December 2009. The maturity of the loans is 10 years from the date of utilisation of the respective tranche. The principal amount is due bullet, at maturity. The loan agreement for EUR 10,000 thousand is guaranteed by the Republic of Bulgaria.

As at 31 December 2009 the loan amount is EUR 15,000 thousand equivalent to BGN 29,337 thousand (31 December 2008: EUR 15,000 thousand equivalent to BGN 29,337 thousand). The interest under the Loan Agreements is payable on quarterly basis. The interest rate is floating, based on 3-month EURIBOR plus margin.

A new loan agreement was signed on 18 November 2009 between Bulgarian Development Bank AD and Council of Europe Development Bank (CEB), amounting to EUR 15,000 thousand. The shall be used for financing of investments of micro, small and medium-sized companies in Bulgaria, leading to the creation and preservation of jobs as well as for working capital financing, connected with the respective investment project.

As at 31 December 2009 the amount drawn down totals EUR 7,500 thousand. The maturity of the loan is 10 years and the principal is payable on 8 equal annual installments from 22 January 2013 to 16 December 2019. The interest rate is floating, based on 3-month EURIBOR plus margin. The loan is unsecured.

DEPFA Investment Bank

On 18 May 2007 the bank signed a loan agreement with DEPFA Investment Bank for EUR 15,000 thousand for general corporate purposes.

The loan is drawn and utilised in full at 31 December 2009. The loan is repaid in 6-month instalments as follows: 10 instalments of EUR 1,000 thousand and 7 instalments of EUR 714 thousand. The first instalment is payable on the twenty-fourth month from the date of signing of the agreement. The loan is not secured.

As at 31 December 2009 the outstanding loan amount is EUR 13,000 thousand equivalent to BGN 25,426 thousand (31 December 2008: EUR 15,000 thousand equivalent to BGN 29,337 thousand). The interest on the loan is due in 6-month periods. The interest rate is floating, based on 6-month EURIBOR plus margin.

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Nordic Investment Bank

On 16 November 2004 the Bank signed a Loan Agreement with the Nordic Investment Bank for a credit facility amounting to EUR 10,000 thousand. The repayment term for the credit facility is 10 years for each of the tranche received with a grace period of up to 2 years. The purpose of the loan is up to 50% funding of investment projects of small- and medium-sized enterprises, which are of mutual interest for Bulgaria and the Nordic Investment Bank member states. The Government of the Republic of Bulgaria has issued a Letter of Comfort accepted as a collateral for the credit facility.

As at 31 December 2009, the Bank has utilised one tranche of EUR 1,000 thousand with a repayment schedule from July 2007 till July 2015 at 17 equal instalments, a second tranche of EUR 5,000 thousand with a repayment schedule from July 2008 till July 2016 at 17 equal instalments and a third tranche of EUR 4,000 thousand with a repayment schedule from July 2009 till July 2017.

As at 31 December 2009 the outstanding loan amount is EUR 8,588 thousand equivalent to BGN 16,797 thousand (31 December 2008: EUR 9,530 thousand equivalent to BGN 18,638 thousand). The interest on the loan is payable in six-month periods. The interest rate is floating, based on of 6-month EURIBOR plus margin.

European Investment Bank

The Bank has signed a financial agreement (Global Loan Bulgaria - Encouragement Bank AD) with the European Investment Bank for EUR 10,000 thousand to be used for funding of small and medium-sized businesses. The Bank has signed a financial agreement (Global Loan Bulgaria - Encouragement Bank AD) with the European Investment Bank for EUR 10,000 thousand to be used for funding of small and medium-sized businesses.

As at 31 December 2009 the outstanding loan amount is EUR 3,743 thousand equivalent to BGN 7,322 (31 December 2008 EUR 4,836 thousand equivalent to BGN 9,458 thousand). The interest on the loan is payable quarterly. The interest rate is floating and it is determined at the beginning of each interest period on the basis of 3-month EURIBOR plus margin.

A second loan contract between Bulgarian Development Bank AD and European Investment Bank for the amount of EUR 25,000 thousand with the purpose of financing of projects of small and medium-sized companies, or priority projects in sectors of infrastructure, energy, environment, industry, health care and education, including financing of working capital, has been signed on 30 December 2009. The term for utilization of the loan 31 December 2011. The interest rate and repayment schedule are determined for each separate tranche. The maximum term of the tranches is 12 years for SME projects and 15 years for priority projects with grace period of 4 and 5 years respectively.

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DEXIA Kommunalkredit Bank

On 23 May 2007 the Bank signed a loan agreement with DEXIA Kommunalkredit Bank for EUR 10,000 thousand. The loan purpose is financing of investment projects of small- and medium-sized enterprises in Bulgaria. As at 31 December 2009 EUR 10,000 are utilized in full (31 December 2008 ó EUR 10,000 thousand utilized). The loan will be repaid in 10 equal semi-annual instalments after a 60-month grace period from the date of the agreement. For security purposes, the Bulgarian government has issued a Letter of Comfort, signed by the Minister of Finance.

As at 31 December 2009 the amount of the loan is EUR 10,000 thousand equivalent to BGN 19,558 thousand (31 December 2008 EUR 10,000 thousand equivalent to BGN 19,558 thousand). The interest on this tranche is due every six months based on 6-month EURIBOR plus margin.

On 19 May 2008 the Bank signed a second contract with DEXIA Kommunalkredit Bank for a short-term loan of EUR 10,000 thousand. The purpose of the loan was intended for bridge financing until bonds issue. As at 31 December 2008, EUR 10,000 thousand were drawn in full and received on 2 June 2008.. This loan was not secured.

The interest on the loan was due quarterly based on 3-month EURIBOR plus margin.

The loan is repaid in full on 19 May 2009. (31 December 2008: EUR 10,000 thousand equivalent to BGN 19,558 thousand).

Japan Bank for International Cooperation (JBIC)

A Loan Agreement for EUR 10,000 thousand was signed on 19 July 2006 between the Encouragement Bank AD (being at present the Bulgarian Development bank AD) and the Japan Bank for International Cooperation.. The purpose of the loan is financing of the import of Japanese investment goods and part of the local expenses of Bulgarian companies. The Government of the Republic of Bulgaria has issued a Letter of Intent accepted as a collateral for the established credit facility. The agreement is structured as a framework agreement and should be utilised until April 2009. For 60% of the amount of a drawn tranche the interest rate is determined on the basis of a fixed interest rate CIRR plus margin and for the remaining 40% of the amount - on the basis of a floating six-month EURIBOR plus margin. No financial commitments arise for the Bulgarian Development Bank AD from the signing of the agreement.

As at 31 December 2009 the amount utilized on the loan is EUR 9,587 thousand equivalent to BGN 18,750 thousand (31 December 2008: none). The loan will be repaid in 4 equal installments in the period from 24 February 2010 to 24 August 2011.

A second loan agreement has been signed between Bulgarian Development Bank AD and Japan Bank for International Cooperation for the amount of EUR 20,000 thousand on 17 December 2009 . The loan can be

BULGARIAN DEVELOPMENT BANK AD

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disbursed both in EUR or in JPY. The purpose of the loan is for financing of the import of Japanese investment goods and part of the local expenses of Bulgarian companies. The agreement is structured as a framework agreement with utilization period until 15 December 2012. The last repayment date is 15 December 2022. The repayment of the loan will be on equal semi-annual installments. For a tranche in EUR the applicable interest rate will be, fixed (CIRR plus risk margin) for 60% of the amount and floating (6-month EURIBOR + margin) for the remaining 40% of the amount. For a loan utilized in JPY-denominated tranche the applicable interest rate is fixed (CIRR plus risk margin). The loan is unsecured. As at 31 December 2009 no tranches have been drawn.

China Development Bank

On 15 October 2009 an agreement for credit line for the amount of EUR 5,000 thousand has been signed between Bulgarian development Bank AD and China Development Bank. The funds of the loan shall be used for direct financing of small and medium-sized enterprises. As at 31 December 2009 the credit line is drawn and utilized in full. The term of the of the credit line is 5 years from the date of utilization of the respective tranche. The repayment is on 5 equal annual installments from 13 November 2010 to 13 November 2014.

As at 31 December 2009 the outstanding loan amounts to EUR 5,000 thousand equivalent to BGN 9,779 thousand. The interest on the credit line is paid semi-annually. The interest rate is floating, based on 6-month EURIBOR plus margin. The loan is unsecured.

Black Sea Trade and Development Bank

On 9 October 2009 a loan contract for EUR 8,000 thousand has been signed between Bulgarian development Bank AD and Black Sea Trade and Development Bank. The funds shall be used for financing of Bulgarian small and medium-sized enterprises. As at 31 December 2009 the amount of the loans is drawn and utilized in full. The repayment schedule comprises 8 equal semi-annual installments, the first one of which is on 9 April 2011 and the last one on 9 October 2014.

As at 31 December 2009 the outstanding loan amounts to EUR 8,000 thousand equivalent to BGN 15,646 thousand. The interest is payable semi-annually. The interest rate is floating, based on 6-month EURIBOR plus margin. The loan is unsecured.

BULGARIAN DEVELOPMENT BANK AD**NOTES TO THE FINANCIAL STATEMENTS****for the year ended 31 December 2009****26. OTHER BORROWED FUNDS**

	2009	2008
	<i>BGN'000</i>	<i>BGN'000</i>
Borrowed financing from the Ministry of Finance with funds from KfW	10,661	10,455
KfW funds provided by the Ministry of Finance for trust management	2,946	3,087
Long-term refunding agreement with the State Fund Agriculture	<u>7,021</u>	<u>2,848</u>
	<u>20,628</u>	<u>16,390</u>

Borrowed financing from the Ministry of Finance with funds from KfW

On 18 April 2007 the Bank concluded a loan agreement with the government of the Republic of Bulgaria, represented by the Minister of Finance. This agreement is based on the Treaty between Republic of Bulgaria and Germany for financial collaboration from year 2001 and an agreement between the Republic of Bulgaria and KfW. By virtue of this agreement, the amount of EUR 4,929 thousand is granted to the Bank designated as Project Provider for the purpose of financing commercial banks, which provide loans for investment projects of small- and medium-sized enterprises. The term of the agreement is 10 years as from the date of fund receipt while the latter along with the due interest is repaid bullet at the end of the period. The loan interest is capitalised quarterly and is based on 3-month EURIBOR plus margin.

As at 31 December 2009 the outstanding loan amount is EUR 5,448 thousand equivalent to BGN 10,656 thousand (31 December 2008: EUR 5,337 thousand equivalent to BGN 10,438 thousand).

As at 31 December 2009, the Bank has provided loans to commercial banks under this agreement at the amount of EUR 3,499 thousand (31 December 2008: EUR 5,199 thousand) (Note 13).

KfW funds provided by the Ministry of Finance for trust management

The Bank has concluded an agreement with the Ministry of Finance (MF) for management of funds granted to the Ministry by Kreditanstalt für Wiederaufbau (KfW) pursuant to an agreement between the Governments of Bulgaria and Germany. These funds are advanced to other partner-banks, for the purpose of financing small and medium-sized businesses. The Ministry retains the risk for the advances provided to the partner-banks.

The main responsibilities of the Bank in respect of the funds management include the following: selection of the banks and intermediaries, jointly with the Ministry of Finance, and transferring the funds to those approved; gathering of information and performance of periodic reviews regarding the funds utilization, establishing of a pledge on government securities on the part of the borrowers, monitoring of the timely payments of the interest and principal due and their repayment to the special account of the Ministry of Finance.

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As at 31 December 2009 the balance of the Fund account with the Bank amounts to EUR 1,506 thousand equivalent to BGN 2,946 thousand (31 December 2008: EUR 1,578 thousand equivalent to BGN 3,087 thousand).

The Bank receives a management fee of 1% per annum. The calculation of the management fee is based on the total of funds advanced to the partner-banks plus the balance on the current account of the Fund with the Bank. The balance bears quarterly interest of 2% per annum.

As at 31 December 2009 the funds transferred to partner-banks amount to BGN 4,803 thousand (31 December 2008: BGN 4,785 thousand).

Long-term refunding agreement with the State Fund Agriculture

Under a Contract, signed in 2002, with the State Fund Agriculture for re-financing *special-purpose loans provided to agricultural producers*, the Fund has refinanced the Bank with its own funds for granting such loans in relation to investment projects and disclosed investment programs. The interest due by the Bank on the borrowed funds is 2% p.a. The loans granted by the Bank to the agricultural producers are at 9% annual interest rate.

As at 31 December 2009 the amounts received for refinancing from the fund is BGN 6,761 thousand (31 December 2008: BGN 2,285 thousand).

In 2003, the Bank signed a contract and annexes thereto with State Fund Agriculture for re-financing loans granted by the Bank for the implementation of approved *projects under SAPARD program*, for which agreements have been concluded for grant-based aid under the terms and conditions of the Special pre-accession program of EC for the development of agriculture and the rural areas in Bulgaria. The interest on the borrowed funds due by the Bank is 2% p.a. The Bank grants loans to farmers under the SAPARD program at 9% annual interest rate.

As at 31 December 2009 the amounts received for refinancing from the fund are BGN 254 thousand (31 December 2008: BGN 558 thousand).

27. DEBENTURE LOANS

The Bank has issued a debenture loan dated 2 November 2007 under private offering terms. The purpose of the loan is funding operating activities. The issued bonds are ordinary, non-cash, interest bearing, unsecured, non-convertible and freely transferable. The number of the issued bonds is 5,000 ó with par value BGN 1,000 each. The total amount of the issued loan is BGN 5,000 thousand.

The term of the debenture loan is two years whereas the principal is payable bullet on maturity ó 2 November 2009. Interest is paid quarterly by applying a fixed interest rate of 4.75% p.a.

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28. OTHER LIABILITIES

	2009	2008
	<i>BGN'000</i>	<i>BGN'000</i>
Charges on debenture loans	1,569	1,767
Taxes payable	1,157	25
Provisions on bank guarantees	988	996
Payables to personnel and for social security	274	320
Accruals for expenses	94	88
Payables to EIF	-	178
Finance lease liabilities	-	3
Other creditors	2	2
	4,084	3,379

Provisions on bank guarantees represent the amount expected to be actually paid to third persons by Bank under issued thereby bank guarantees. It is comprised of two components: (a) individual provisions ó when at 31 December (the statement of financial position date) there are already sufficiently clear evidence as to the individual guarantees that they will be enforced and the beneficiaries thereunder will have undeniable right and may submit request for payment ó none (31 December 2008: BGN 773 thousand) as well as (b) portfolio provisions ó determined as at 31 December (the statement of financial position date) based on the assessment of the risk of loss for each guaranteed credit portfolio of a partner-bank under the Micro-credits Guarantee Fund Project of the Ministry of Labour and Social Policy: BGN 988 thousand (31 December 2008: BGN 223 thousand).

Payables to personnel include: current supplementary payments for December, accruals on compensated leaves and social security contributions thereon as well as the present value of the Bank's liability due on retirement benefit obligations as at 31 December (the statement of financial position date).

In accordance with the Labour Code each employee is entitled to indemnity on retirement at the amount of two gross monthly salaries, and if he or she has worked for more than 10 years for the Bank ó six gross monthly salaries at the time of retirement. The Bank has estimated the amount of these liabilities by using mathematical models and the services of a certified actuary. On the basis of the calculations made, the amount of BGN 114 thousand is included in the statement of financial position at 31 December 2009 (31 December 2008: BGN 102 thousand).

BULGARIAN DEVELOPMENT BANK AD**NOTES TO THE FINANCIAL STATEMENTS****for the year ended 31 December 2009**

	2009	2008
	<i>BGN'000</i>	<i>BGN'000</i>
Present value of the liability at 1 January	106	88
Unrecognised actuarial loss at 1 January	(4)	(8)
Liability recognised in the statement of financial position at 1 January	102	80
Expenses for the period	22	22
Amounts paid in the period	(10)	-
Liability recognised in the statement of financial position at 31 December	114	102
Unrecognised actuarial gain/(loss) at 31 December	8	(4)
Present value of the liability at 31 December	106	106

The change in Bank's liability to personnel for indemnities on retirement for the reporting year is presented in the statement of comprehensive income (as current profit and loss) and includes:

Name	Amounts on retirement for old age and service	Amounts on retirements due to illness	Total
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Interest expense	6	1	7
Current service costs	16	1	17
Net actuarial (gain) loss recognised for the period	-	(2)	(2)
Expense recognised in the statement of comprehensive income (as current profit or loss for the period)	22	-	22

The following actuarial assumptions are used in calculating the present value of the liabilities as at 31 December 2009:

- mortality rate δ in accordance with the table issued by the National Statistics Institute for the total mortality rate of the population in Bulgaria for the period 1998 - 2001;
- staff turnover rate δ from 0% to 10% for the four age groups formed;
- effective annual interest rate for discounting δ 7.0% (2008 - 6.2 %);
- the assumption for the future level of working salaries is based on the information provided by the management and amounts to 10 % (2008: 20%) annual growth for 2010 compared to 2009 and 5% growth for each subsequent year compared to the prior reporting period.

BULGARIAN DEVELOPMENT BANK AD**NOTES TO THE FINANCIAL STATEMENTS****for the year ended 31 December 2009****29. SHARE CAPITAL**

	2009	2008
	BGN'000	BGN'000
Share capital		
5 895 735 ordinary registered voting shares with par value of BGN 100 each		
Ordinary shares issued for cash fully paid	587,964	587,964
Unpaid portion	-	(375,000)
Ordinary shares issued - contribution-in-kind - 1999 (Bank's building)	1,610	1,610
	<u>589,574</u>	<u>214,574</u>
Share capital movement		
At 1 January	214,574	39,574
Newly issued shares	-	550,000
Newly issued shares ó paid / (non-paid)	375,000	(375,000)
At 31 December	<u>589,574</u>	<u>214,574</u>

The increase in the share capital in 2008 was made through issue of 5,500,000 registered, non-cash, voting shares with nominal and issue value of BGN 100 each. It is entirely subscribed by the Ministry of Finance. As at 31 December 2009 . the amount of the payments of this capital increase is fully paid (31 December 2008 the amount of the payments of this capital increase is BGN 175,000 thousand).

With the new Bulgarian Development Bank Act it is provided for that a package of not less than 51% of the shares in the capital should be property of the State whereas shares of the State amounting to not less than 51% of the registered share capital, are non-transferable. Also, the specific limit is established with regard to the remaining shareholders, other than the Bulgarian State, through the Ministry of Finance. Such may be: the Council of Europe Development Bank, the European Investment Bank, the European Investment Fund as well as other banks for development in EU member states.

Bank's shares may not be pledged and the rights thereon may not be subject to transfer deals.

30. RESERVES

Until 31 December 2006, the Bank had been obliged to allocate a **Reserve Fund** up to at least 1.25% of the total amount of the assets and the off-balance sheet commitments, in order to be able to distribute dividends, and it had been observing this requirement.

The Credit Institutions Act, in force as of 1 January 2007, does not prescribe any more specific rules for setting aside a Reserve Fund (Statutory Reserves) other than under the general provisions of the Commercial Act. Therefore, the Bank has followed these provisions when setting aside its Reserve Fund, namely: at least one

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tenth of the post-tax profit, funds paid above the nominal amount on issuance of capital, the sum of the additional payments made by shareholders against privileges granted on the acquired shares, other sources specified in the Articles of Association or designated by the General Meeting of Shareholders until the Fund reserves reach up to 1/10th of the share capital determined by Articles of Association. Additional requirements regarding the Reserve Fund of the Bank have been introduced with the new Bulgarian Development Bank Act. Under the law the Bank should allocate to the fund not less than ½ the annual profit after taxes until 50% of the share capital as per the Articles of Association are reached.

The Bank can use the money from the Statutory Reserve to cover its current or prior period losses, but can not use it for distribution of dividends without permission by Bulgarian National Bank.

In addition, under the Credit Institutions Act, the banks may not distribute dividends before reaching the minimum reserves (mainly Reserve Fund) required by law or by the Articles of Association, or in case the distribution of dividends results in violating the regulatory capital adequacy ratios. The requirement under the Bulgarian Development Bank Act is analogous.

As at 31 December 2009 the Reserve Fund of the Bank amounts to BGN 10,395 thousand (31 December 2008: BGN 5,000 thousand) whereas the minimum required amount under the Commercial Act and respectively, under the Bulgarian Development Bank Act is not reached due to the share capital increase made in 2008 (31 December 2008: the minimum required amount is not reached).

As at 31 December 2009 the *supplementary reserves* of the Bank amount to BGN 6,190 thousand. (31 December 2008: BGN 6,190 thousand) and have been set aside as a result of prior years profit distribution following a decisions of General Meeting of Shareholders.

In 2009 no dividend has been paid (2008 the dividend paid amount to a total of BGN 2,251 thousand).

In accordance with the Bulgarian Development Bank Act, each shareholder of the Bank may refuse the dividend due thereto and then the dividend amount is transferred to supplementary reserves.

The Bank has set aside a special component of equity '**Revaluation Reserve on Available-for-sale Financial Assets**', to which are accumulated all retained earnings and accumulated losses from revaluation to fair value of securities held-for-sale, existing at the statement of financial position. These profits and losses are transferred to current profit and loss on sale/maturity of the respective securities and/or in a case of lasting impairment. The revaluation reserve is presented net of deferred taxes. As at 31 December 2009 it is negative value amounting to BGN 193 thousand (31 December 2008: BGN 67 thousand ó positive value).

BULGARIAN DEVELOPMENT BANK AD**NOTES TO THE FINANCIAL STATEMENTS****for the year ended 31 December 2009****31. CONTINGENT LIABILITIES AND COMMITMENTS**

	Contracted amount 2009 BGN'000	Contracted amount 2008 BGN'000
Contingent liabilities		
Bank guarantees and letters of credit	71,438	48,385
Recognised in the statement of financial position (provided)	(988)	(996)
	<u>70,450</u>	<u>47,389</u>
Irrevocable commitments		
Undrawn authorised loans	29,668	93,554
NGF shares subscribed but not paid-in (Note 17)	52,500	7,500
Uncalled nominal portion of held EIF shares (Note 15)	4,694	4,694
	<u>86,862</u>	<u>105,748</u>
	<u>157,312</u>	<u>153,137</u>

By virtue of the Bulgarian Development Bank Act, the transfer 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 (Bankø subsidiary) were started in the last quarter of 2008. Based on this law and on Council of Ministers Decision No. 309/3 May 2007, re-negotiations was carried out within one year (until May 2009) with each of the partner-banks under the Micro-credits Guarantee Fund Project of MLSP for replacing the security of MLSP deposits with bank guarantees of the Bulgarian Development Bank AD. The capital of the Bulgarian Development Bank AD and respectively, of the National Guarantee Fund, shall be increased with the amount of the released government funds under the project.

Agreements with eight partner-banks were concluded as at 31 December 2009 and bank guarantees at the amount of BGN 57,882 thousand were issued. (31 December 2009: four partner-banks and bank guarantees issued amounting to BGN 40,072 thousand) (Note 37).

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. The amounts reflected in the above table for guarantees represent the maximum accounting loss that would be recognised at the end of reporting period if counterparties failed to perform in full their obligations as contracted. 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 collateral coverage ratio for common bank guarantees is over 100% and represents deposits blocked at the Bank, mortgages of real estate and insurance policies issued in favour of the Bank. When conditions for enforcement of an issued guarantee occur, the Bank judges the possibilities for recourse to the counterparty and eventual realisation of the provided securities.

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The bank guarantees issued under the Micro-credits Guarantee Fund Project are not secured. In case of activation of a bank guarantee component, the payment is not assessed as ultimate loss because the partner-bank is obliged to undertake all necessary measures for realising the received collaterals of the non-performing loan and to reimburse the respective amount to BDB.

The non-paid portion of the subscribed shares of Bankø subsidiary, the National Guarantee Fund, is payable until March 2011.

The non-paid portion of the nominal value of European Investment Fund shares, held by the Bank shall become due for payment after a special decision for this purpose taken by fundø General Meeting of Shareholders. By the issue date of these financial statement no such a decision has been taken.

32. CASH AND CASH EQUIVALENTS

The cash and cash equivalents as at 31 December include:

	2009	2008
	BGN'000	BGN'000
Cash on hand (<i>Note 12</i>)	782	106
Current account with the Central Bank (<i>Note 12</i>)	13,196	598
Amounts due from other banks, with less than 90 days maturity	82,781	124,662
	<u>96,759</u>	<u>125,366</u>

33. BANK REGULATORS IN ACCORDANCE WITH THE BULGARIAN LEGISLATION

According to the requirements of the banking legislation effective in Bulgaria and the instructions of the Bulgarian National Bank (BNB) in its capacity of a Central Bank, the Bulgarian Development Bank AD shall observe certain restrictions related to the following ratios:

Total capital adequacy

The Bank calculates its total capital adequacy ratio as a percentage of its net capital base to the total risk weighted assets. The capital base includes the registered share capital, the Statutory Reserve and the other reserves up to a particular amount. The total risk weighted assets include the statement of financial position and off-balance sheet exposures (items) as reported, weighted in accordance with their risk. The reported capital adequacy ratio level at 31 December 2009 is 84,99 % (2008: 58.67%). The minimum capital adequacy ratio required by law is 12%. The minimum recommended adequacy of primary capital is 10%.

Minimum required share capital

As at 31 December 2009, paid-in share capital amounts to BGN 589,574 thousand(31 December 2008: BGN 214,574 thousand). Banks satisfies the requirement of the Central Bank for BGN 10,000 thousand minimum share capital, respective equity, as well as the capital requirements of the Bulgarian Development Bank Act.

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Other regulatory ratios

- *Capital base to open foreign currency positions* - the maximal ratio is up to 30% for all foreign currency positions and respectively, up to 15% for each foreign currency position with the exception of those in EUR. As at 31 December 2009, the bank has fulfilled the requirement for this ratio (31 December 2008: fulfilled);
- *Capital base to large risk exposures* - the total amount of all large loans cannot exceed 8 times the Bank's capital base. The exposure to a borrower or related parties cannot exceed 25% of the Bank's capital base. As at 31 December 2009, the bank has fulfilled the requirement for this ratio (31 December 2008: fulfilled);
- *Liquid assets to net cash flows* - the Central Bank (BNB) monitors the amount and composition of the Banks' liquid assets and when necessary, determines a minimum liquidity ratio for each bank, which shall be reached within a defined term as a percentage of the liquid assets to the funds attracted. As at 31 December 2009, the liquid assets ratio of the Bank is 20,39 % (31 December 2008: 65.44%). In 2008, BNB recommended liquid assets ratio within the meaning of Ordinance 11 to borrowed funds from institution, other than credit institutions, citizens and households, of 15%. In 2009, the recommendation of BNB about this ratio has not been changed. As at 31 December 2009, the above mentioned ratio for BDB is 62,94 % (for 2008.: 231%)

The Bank additionally maintains: (a) minimum mandatory reserve at accounts with the Central Bank at the amount of BGN 3,912 thousand representing 10% of attracted funds under deposits and loans, exclusive of budget ones, and 5% of deposits from non-residents (31 December 2008: BGN 9,779 thousand and 10% - for all attracted funds); and (b) reserve security fund amounting to BGN 81 thousand (31 December 2008: BGN 213 thousand) established by BNB as a supplementary guarantee mechanism to ensure the settlement of payments initiated by system operators of the Real-time Interbank Gross-settlement System - RINGS.

- *Capital base to the amount of property, equipment and shares in non-financial institutions* - the investments may not exceed the Bank's capital base while only those in: (a) property and equipment - up to 60% of the capital base; (b) shares in subsidiaries, which are not banks, insurance companies, investments intermediaries and other financial institutions - up to 40% of the capital base as per the Bulgarian Development Bank Act; and (c) shares not in banks, insurance companies, investments intermediaries - up to 50% of the capital base (as per the Credit Institutions Act). The amount of the direct and indirect participation of the Bank in a company, which is not a bank, insurance company, investment intermediary or financial institution, may not exceed 15% of the capital base as per the Bulgarian Development Bank Act (10% of the Credit Institutions Act). As at 31 December 2009, the investments of the Bank in property and equipment are 0.36% (31 December 2008: 0.9%) while total regulated investments are 0.69 % (31 December 2008: 1.80%).

As at 31 December 2009, the Bank has complied with all regulatory requirements of the Central Bank and Bulgarian banking legislation (31 December 2008: the same).

34. RISK MANAGEMENT

In the ordinary course of business, the Bank 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 critical for Banks profitability and existence. The main risks, to which the Bank is exposed, include: credit risk, market risk and liquidity risk as well as operating risk.

Risk management structure

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

Supervisory Board ó performs overall supervision of risk management;

Management Board ó responsible for the overall for risk management approach and for approving risk management strategies, principles and specific methods, techniques and procedures;

Asset and Liability (Liquidity) Committee ó analyses the current position of the Bank, monitors liquidity-related risks and the market of financial instruments and proposes specific measures in case of variance from the set limits or observed more permanent adverse trends;

Credit Committee and Credit Council ó analyses credit transactions from the perspective of credit risk management in general for the credit portfolio as well as at the level of credit deals and borrowers;

Executive Directors ó they exercise current operating control over the maintenance and observance of the set limits for the particular types of risk and the application of the developed procedures.

The Central Bank exercises additional surveillance on risk management in the Bank by requesting periodical regulatory reports and subsequent control on the observance of the set maximum exposure levels to particular types of risk.

Measurement and management of major risks

The management of the Bank has approved a set of internal rules and methods for various risks measurement mainly based on statistical models and good international banking practice as well as on the historical experience of the Bank itself.

Controlling and managing risks is primarily performed based on limits established by the Bank. These limits reflect the strategy and market position of the Bank as well as the level of risk that can be born. Reports on the specific types of risks are periodically prepared for the purposes of subsequent analysis and possible adjustment of already set limits.

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34.1. Credit risk

Credit risk is the risk that the customers/counterparts will fail to discharge their contractual obligations in full and on time.

The management of specific credit risk is performed by the Credit Committee of the Bank and is supervised by both the Management and the Supervisory Boards. The credit risk management function ensures that appropriate policies are established and its compliance with the related credit monitoring procedures and controls. Exposure to credit portfolio risk is managed through regular analysis of the ability of borrowers to meet interest and capital repayment obligations and by establishing lending limits as appropriate. Exposure to credit risk is also reduced in part by obtaining different types of collateral.

On the basis of the guarantee letter from year 2003 and the subsequent annexes signed between the Bank and the European Investment Fund (EIF), the Bank participates in the EU SME Guarantee Facility under conditions determined by the long-term EU program on SMEs. EIF on its part is committed to provide a guarantee covering 50% of the remaining loss on the principal and interest of each loan, included in the sub-portfolio of the Bank, formed on the basis of the conditions of the agreement, but not exceeding EUR 2,520 thousand. The Bank has applied reduced requirements in accepting collaterals for the EIF-guaranteed portfolio of loans.

In 2008, the Bank met the volume of guarantee portfolio and the amount of the total guarantee amount is EUR 2,507 thousand. As at 31 December 2009, the total exposure under the loans guaranteed by EIF amounts to BGN 22,235 thousand. (31 December 2008: BGN 29,123 thousand. This amount includes the drawn but not paid portion of loans and the engagements undertaken by the Bank under undrawn loans. The payment engagements of EIF at this date amount to BGN 4,903 thousand. (31 December 2008: BGN 4,903 thousand.), whereas the losses covered by EIF amount to BGN 2,876 thousand. (31 December 2008: BGN 2,610 thousand.).

On 13 February 2009, the Bank has sign a new agreement with EIF for a guarantee facility amounting to EUR 60 million. EIF is committed to provide a direct guarantee covering 50% of the remaining loss on the principal and interest of each loan, included in the sub-portfolio of the Bank, formed on the basis of the conditions of the agreement, but not exceeding 5,4% of the amount of the guaranteed portfolio in total. As at 31 December 2009, the total exposure on loans guaranteed by EIF amount to BGN 4,387 thousand. This amount includes the drawn but not paid portion of loans and the engagements undertaken by the Bank under undrawn loans.

An other source of credit risk for the Bank represent letters of guarantee and letters of credit. The main purpose of the instruments in form of letter of guarantee and letter of credit is to ensure funds for the customer in case of need. Letters of guarantee and letters of credit, representing irrevocable commitment of the Bank to make a payment in case the customer is not able to meet its obligations to a third party, bear the same credit risk as the loans. Documentary and trade letters of credit, representing written commitment of the Bank on behalf of a customer, authorize a third person to draw funds up to a certain amount under certain conditions. Usually, they are secured with cash deposits, and so they are less risky than direct financing.

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The undrawn portion of authorized loan agreements in form of loans, letters of guarantee or letters of credit represent commitments of the Bank. With respect to credit risk on commitments to extend credit the Bank is potentially exposed to loss in an amount equal to the total undrawn commitments. However, the likely amount of loss is less than the total unused commitment since most commitments to extend credits are contingent upon customers maintaining specific credit standards. The Bank monitors on a current basis the utilization periods of the loans because longer-term commitments generally have a greater degree of credit risk than the short-term commitments.

Maximum exposure to credit risk

The exposure to credit risk attributable to financial assets recognised in statement of financial position is as follows:

<i>Financial asset</i>	2009 BGN'000	2008 BGN'000
Cash and balances with the Central Bank	17,971	10,696
Due from banks	559,715	200,101
Loans and advances to customers	278,265	190,842
Securities available-for-sale	14,190	21,207
Securities held-to-maturity	-	66
	<u>870,141</u>	<u>422,912</u>

The exposure to credit risk attributable to contingent commitments, not recognized in the statement of financial position, is as follows:

	2009 BGN'000	2008 BGN'000
Bank guarantees and letters of credit	68,682	47,389
Undrawn authorised loans	29,668	93,554
	<u>98,350</u>	<u>140,943</u>
Maximum exposure to credit risk	<u>968,491</u>	<u>563,855</u>

Credit risk - concentration

The management of the Bank currently monitors the credit risk of financial assets concentration both by industry sector and by individual counterparty. Limits for maximum exposures are established and they are periodically analyzed and measured. Due to its major objectives, the Bank has risk exposure of concentration
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of loans to small- and medium-sized enterprises and granting of long-term loans ó with maturity of 3 to 10 years. (Note 13 and 14).

Each variance from the set limits for concentration is approved by the Managing Board of the Bank.

Each variance from the set limits for concentration is approved by the Managing Board of the Bank.

The table below presents data on Bank's financial assets (loans and receivables, held-to-maturity financial assets, available-for-sale financial assets), classified by industry sector:

<i>Segments</i>	2009	2008
	<i>BGN'000</i>	<i>BGN'000</i>
Financial services, including Central Bank and cash on hand	588,946	223,123
Manufacturing	74,726	45,477
Construction	64,872	30,979
Trade	48,475	41,324
Tourist services	25,416	23,522
Agriculture	25,007	20,304
Operations with real estate	18,063	15,278
Transport	12,912	3,902
Government bonds	-	6,019
Other industry sectors	33,218	21,548
	891,635	431,476

Quality of loans and amounts due from banks and customers

The bank has introduced internal rules for risk assessment by counterparty. Risk assessment is based on a methodology covering current financial information, forecasts, investment projects execution and targeted use of funds, manner of exposure servicing and information on the state of accepted collaterals. Loans and receivables are classified in four (2008 .: four groups) risk groups depending on the result of the assessment. The adopted classification groups are as follows: **'performing'**, **'watch'**, **'non-performing'** and **'loss'**. The classification of risk exposures is within the competence of the Credit Committee and is made on monthly basis. In addition, current financial information is required from customers quarterly and is subject to analysis under an internal methodology of Analyses Department. The investment projects execution and respectively, loan withdrawal and utilisation, are currently monitored. The provided collaterals, which are subject to approval by the Credit Committee, are reviewed and revised periodically, but not less than once per year. All decisions of the Credit Committee are controlled and approved by the Managing Board of the Bank. The structure of Bank's financial assets as per risk exposure classification is as follows:

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<i>At 31 December 2009</i>	Performing	Watch	Non-performing	Loss	Total
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Cash and balances with the Central Bank	17,971	-	-	-	17,971
Due from banks (deposits and loans)	559,715	-	-	-	559,715
Loans for commercial property and construction	181,248	12,032	5,368	10,965	209,613
Trade loans	79,822	2,013	799	3,110	85,744
Agriculture loans	-	-	-	2,751	2,751
Consumer loans	749	-	-	-	749
Residential mortgage loans to individuals	305	-	-	-	305
Other loans and receivables	597	-	-	-	597
Corporate bonds	12,099	-	-	-	12,099
Shares	2,091	-	-	-	2,091
	854,597	14,045	6,167	16,826	891,635

<i>At 31 December 2008</i>	Performing	Watch	Non-performing	Loss	Total
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Cash and balances with the Central Bank	10,696	-	-	-	10,696
Due from banks (deposits and loans)	200,101	-	-	-	200,101
Loans for commercial property and construction	132,561	10,208	2,185	332	145,286
Trade loans	46,656	2,462	197	-	49,315
Agriculture loans	-	-	-	2,752	2,752
Consumer loans	1,432	-	-	-	1,432
Residential mortgage loans to individuals	81	-	-	-	81
Other loans and receivables	540	-	-	-	540
Government bonds	6,019	-	-	-	6,019
Corporate bonds	13,212	-	-	-	13,212
Shares	2,042	-	-	-	2,042
Total financial assets	413,340	12,670	2,382	3,084	431,476

All loans granted to non-financial institutions and individuals are secured. The accepted collaterals are mainly mortgages of land and industrial property, hotels, trade and residential buildings. Additional collaterals are also accepted in the form of pledge on machinery, equipment and inventories, securities, cash deposits, corporate shares, promissory notes, avals and guarantees from third parties. The common practice of the Bank is to require from loan applicants a collateral at least 100% of the contracted loan amount.

The table below presents the types of collaterals held by the Bank at 31 December 2009 and at 2008 at update value determined with the assistance of a certified appraiser:

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	2009	2008
<i>Collateral type</i>	Fair value	Fair value
	BGN'000	BGN'000
Mortgages	254,851	163,901
Pledge of a ship	35,369	-
Pledges of machinery, equipment, installations and inventories	32,374	28,091
Blocked deposits	5,205	10,169
Securities quoted on stock exchange	-	3,088
Total collaterals	<u>327,799</u>	<u>205,249</u>

The table below presents data on the portfolio amount of the Bank's financial assets by type of instrument *at amortised cost* and the impairments made:

<i>At 31 December 2009</i>	Loans and amounts due from non- financial institutions	Loans and amounts due from financial institutions	Loans and amounts due from individuals	Corporate bonds held-to- maturity	Total
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Not past due and not impaired	3	559,715	1,054	-	560,772
Not past due but impaired on portfolio basis	247,415	-	-	-	247,415
Past due but not impaired	1,997	-	-	-	1,997
Past due and impaired on portfolio basis	14,153	-	-	-	14,153
Individually impaired	35,137	-	-	-	35,137
Total at amortised cost	<u>298,705</u>	<u>559,715</u>	<u>1,054</u>	<u>-</u>	<u>859,474</u>
Provisions for impairment	(21,494)	-	-	-	(21,494)
Carrying amount	<u>277,211</u>	<u>559,715</u>	<u>1,054</u>	<u>-</u>	<u>837,980</u>
<i>At 31 December 2008</i>	Loans and amounts due from non- financial institutions	Loans and amounts due from financial institutions	Loans and amounts due from individuals	Corporate bonds held-to-maturity	Total
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Not past due and not impaired	-	200,101	1,514	66	201,681
Not past due but impaired on portfolio basis	158,191	-	-	-	158,191
Past due but not impaired	88	-	-	-	88
Past due and impaired on portfolio basis	21,566	-	-	-	21,566
Individually impaired	18,047	-	-	-	18,047
Total at amortised cost	<u>197,892</u>	<u>200,101</u>	<u>1,514</u>	<u>66</u>	<u>399,573</u>
Provisions for impairment	(8,564)	-	-	-	(8,564)
Carrying amount	<u>189,328</u>	<u>200,101</u>	<u>1,514</u>	<u>66</u>	<u>391,009</u>

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The loans past due but not impaired or impaired on portfolio basis are all under Loans and amounts due from non-financial institutions and are past due as follows:

<i>At 31 December 2009</i>	up to 30 days	from 31 to 90 days	from 91 days to 1 year	over 1 year	Total
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Loans for commercial property and construction	13,146	68	1,715	-	14,929
Trade loans	1,007	-	214	-	1,221
	14,153	68	1,929	-	16,150

<i>At 31 December 2008</i>	up to 30 days	from 31 to 90 days	from 91 days to 1 year	over 1 year	Total
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Loans for commercial property and construction	20,694	-	-	88	20,782
Trade loans	872	-	-	-	872
	21,566	-	-	88	21,654

The Bank may renegotiate the initially set terms of the concluded contracts when requested by counterparties. These are usually the availability periods, loan amount, interest levels and/or repayment schedules from the perspective of the specific instalment amounts. This is mostly observed in case of change in initial parameters, purposes and scope, respectively the time schedule of projects.

The renegotiated loans and receivables presented at amortised cost are as follows:

	2009	2008
	<i>BGN'000</i>	<i>BGN'000</i>
Loans for commercial property and construction	111,622	24,694
Trade loans	31,281	27,912
Other loans and receivables	598	-
	143,501	52,606

34.2. Market risk

Market risk is the risk of adverse movements in the level of interest rates, in the rate of exchange between currencies and the market price of securities and other financial instruments. Accordingly, these movements may affect the Bank's profitability.

BULGARIAN DEVELOPMENT BANK AD**NOTES TO THE FINANCIAL STATEMENTS****for the year ended 31 December 2009*****Interest risk***

The Bank is always exposed to the effects of fluctuations in the prevailing levels of market interest rates, which impacts its financial position and cash flows.

Interest risk arises from the possibility that changes in total market interest levels may potentially impact net interest income or net interest margin (being the difference between gross interest income and gross interest expense) and the market value of equity, due to general market interest levels alternations.

Interest rates on assets and liabilities denominated in BGN are based on the movements of the basic interest rate as determined by the Central Bank (BNB). Interest rates on assets and liabilities denominated in BGN are based on the quotations of the European Central Bank.

In order to determine interest rates on loans and amounts due from non-financial institutions, the Bank has introduced internal basic levels, which are related to the used financial resources for funding these loans ó equity, special-purpose long-term credit facilities and other, which are reviewed periodically.

The Bank monitors continuously interest rate movements in foreign currencies, the mismatch in interest rate levels and in the maturity structure of its assets and liabilities. It also monitors the price changes and the yields of traded securities. Interest risk is actively monitored by the Analyses Department to ensure compliance with market risk limits. Assets and Liabilities Committee currently monitors the interest risk to which the Bank is exposed and develops measures for its coverage and maintenance within permissible limits.

The table below summarises the Bank's exposure to interest rate risks. It includes information on Bank's assets and liabilities at their net book values in accordance with interest-related clauses, set in the contracts, their maturity structure and their sensitivity to interest rate changes.

<i>31 December 2009</i>	<i>With floating interest % BGN'000</i>	<i>With fixed interest % BGN'000</i>	<i>Interest-free BGN'000</i>	<i>Total BGN'000</i>
Financial assets				
Cash and balances with the Central Bank	-	-	17,971	17,971
Due from banks	9,259	550,456	-	559,715
Loans and advances to customers	259,078	19,187	-	278,265
Securities available-for-sale	8,045	4,054	2,091	14,190
	276,382	573,697	20,062	870,141
Financial liabilities				
Due to banks	129	28,671	-	28,800
Due to customers	18,078	51,054	-	69,132
Borrowed funds from international institutions	-	157,453	-	157,453
Other borrowed funds	10,661	9,967	-	20,628
Other liabilities	-	-	96	96
	28,868	247,145	96	276,109
Total interest rate exposure	247,514	326,552	19,966	594,032

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<i>31 December 2008</i>	<i>With floating interest %</i>	<i>With fixed interest %</i>	<i>Interest-free</i>	<i>Total</i>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Financial assets				
Cash and balances with the Central Bank	-	-	10,696	10,696
Due from banks	10,917	189,184	-	200,101
Loans and advances to customers	184,497	6,345	-	190,842
Securities available-for-sale	16,081	3,084	2,042	21,207
Securities held-to-maturity	-	66	-	66
Total financial assets	211,495	198,679	12,738	422,912
Financial liabilities				
Due to banks	129	7,837	-	7,966
Due to customers	28,269	10,868	-	39,137
Borrowed funds from international institutions	-	126,495	-	126,495
Other borrowed funds	10,455	5,935	-	16,390
Debenture loans	-	5,029	-	5,029
Other liabilities	-	-	271	271
Total financial liabilities	38,853	156,164	271	195,288
Total Interest rate exposure	172,642	42,515	12,467	227,624

Analysis of interest rate sensitivity and risk

The table below includes the Bank's financial instruments at net book value, categorised by the earlier of interest change or maturity dates.

<i>31 December 2009</i>	<i>up to 1 month</i>	<i>1-3 months</i>	<i>3-6 months</i>	<i>6-12 months</i>	<i>1-5 years</i>	<i>over 5 years</i>	<i>Non-interest bearing</i>	<i>Total</i>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Financial assets								
Cash and balances with the Central Bank	-	-	-	-	-	-	17,971	17,971
Due from banks	54,705	38,114	4,011	4,349	103,536	355,000	-	559,715
Loans and advances to customers	259,078	19,187	-	-	-	-	-	278,265
Securities available-for-sale	-	5,405	2,640	3,070	984	-	2,091	14,190
Total financial assets	313,783	62,706	6,651	7,419	104,520	355,000	20,062	870,141
Financial liabilities								
Due to banks	8,997	19,803	-	-	-	-	-	28,800
Due to customers	17,211	22,715	213	12,712	16,281	-	-	69,132
Borrowed funds from international institutions	60,976	45,828	50,649	-	-	-	-	157,453
Other borrowed funds	-	10,661	-	-	7,021	2,946	-	20,628
Other liabilities	-	-	-	-	-	-	96	96
Total financial liabilities	87,184	99,007	50,862	12,712	23,302	2,946	96	276,109
Total interest rate exposure of sensibility	226,599	(36,301)	(44,211)	(5,293)	81,218	352,054	19,966	594,032

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<i>31 December 2008 z.</i>	<i>up to 1 month</i>	<i>1-3 months</i>	<i>3-6 months</i>	<i>6-12 months</i>	<i>1-5 years</i>	<i>over 5 years</i>	<i>Non-interest bearing</i>	<i>Total</i>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Financial assets								
Cash and balances with the Central Bank	-	-	-	-	-	-	10,696	10,696
Due from banks	124,662	-	10,430	-	-	65,009	-	200,101
Loans and advances to customers	184,497	6,345	-	-	-	-	-	190,842
Securities available-for-sale	10,169	8,996	-	-	-	-	2,042	21,207
Securities held-to-maturity	-	-	-	66	-	-	-	66
Total financial assets	319,328	15,341	10,430	66	-	65,009	12,738	422,912
Financial liabilities								
Due to banks	7,966	-	-	-	-	-	-	7,966
Due to customers	28,773	10	13	10,280	61	-	-	39,137
Borrowed funds from international institutions	48,687	48,691	29,117	-	-	-	-	126,495
Other borrowed funds	-	10,455	-	-	2,848	3,087	-	16,390
Debenture loans	-	-	-	-	5,029	-	-	5,029
Other liabilities	-	-	-	-	-	-	271	271
Total financial liabilities	85,426	59,156	29,130	10,280	7,938	3,087	271	195,288
Total interest rate exposure of sensibility	233,902	(43,815)	(18,700)	(10,214)	(7,938)	61,922	12,467	227,624

Sensitivity of interest-bearing assets and liabilities with floating interest rate

The table below demonstrates the Bank's sensitivity to possible changes in interest rates based on the structure of assets and liabilities as at 31 December with a floating interest rate and with the assumption that the influence of all other variables is ignored. The effect is measured and presented as impact on the financial result after taxes. The actual effect from changes in market interest rates may be different since a significant portion of loans and amounts due from customers are subject to floating interest rate based on determined by the Bank variable part affected by multiple factors.

Currency	2009		2008	
	Increase in basis points	Financial result sensitivity	Increase in basis points	Financial result sensitivity
		<i>BGN'000</i>		<i>BGN'000</i>
BGN	0.50%	421	0.50%	353
EUR	0.50%	(135)	0.50%	(102)
BGN	-0.50%	(421)	-0.50%	(353)
EUR	-0.50%	135	-0.50%	102

BULGARIAN DEVELOPMENT BANK AD**NOTES TO THE FINANCIAL STATEMENTS****for the year ended 31 December 2009*****Currency risk***

Currency risk is the risk of adverse impact of fluctuations in the prevailing foreign currency exchange rates on the Bank's financial position and cash flows as a result of open currency positions. The net position in any currency is monitored on a continuous basis by the Assets and Liabilities (Liquidity) Committee. The policy of the Bank is that the main part of assets and liabilities, and respectively, bank operations, are denominated in EUR or BGN, while the third currency with which the Bank operates is USD but it is used in rather limited items and volumes. The Bank does not perform significant operations and does not hold significant open positions in currencies other than the EUR. Since the BGN is fixed to the EUR, there is no a significant outstanding exchange rate risk for the Bank related thereto.

The table below summarizes the Bank's exposure to foreign currency exchange rate risk. It includes financial instruments and contingent liabilities and commitments of the Bank at net book value, categorised by type of currency.

<i>At 31 December 2009</i>	In USD	In EUR	In other Foreign Currency	In BGN	Total
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Financial assets					
Cash and balances with the Central Bank	15	3,935	-	14,021	17,971
Due from banks	39	38,687	613	520,376	559,715
Loans and advances to customers	-	202,911	-	75,354	278,265
Securities available-for-sale	-	5,389	-	8,801	14,190
Total financial assets	54	250,922	613	618,552	870,141
Financial liabilities					
Due to banks	-	15,711	-	13,089	28,800
Due to customers	46	38,787	577	29,722	69,132
Borrowed funds from international institutions	-	157,453	-	-	157,453
Other borrowed funds	-	13,607	-	7,021	20,628
Other liabilities	-	81	-	15	96
Total financial liabilities	46	225,639	577	49,847	276,109
Net currency position as per statement of financial position	8	25,283	36	568,705	594,032
Contingent liabilities and commitments	2,461	22,294	16,589	63,468	104,812

BULGARIAN DEVELOPMENT BANK AD**NOTES TO THE FINANCIAL STATEMENTS****for the year ended 31 December 2009**

<i>At 31 December 2008</i>	In USD	In EUR	In BGN	Total
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Financial assets				
Cash and balances with the Central Bank	9	9,806	881	10,696
Due from banks	260	24,704	175,137	200,101
Loans and advances to customers	-	113,811	77,031	190,842
Securities available-for-sale	-	10,412	10,795	21,207
Securities held-to-maturity	-	66	-	66
Total financial assets	269	158,799	263,844	422,912
Financial liabilities				
Due to banks	-	7,926	40	7,966
Due to customers	260	27,165	11,712	39,137
Borrowed funds from international institutions	-	126,495	-	126,495
Other borrowed funds	-	13,542	2,848	16,390
Debenture loans	-	-	5,029	5,029
Other liabilities	-	248	23	271
Total financial liabilities	260	175,376	19,652	195,288
Net currency position as per statement of financial position	9	(16,577)	244,192	227,624
Contingent liabilities and commitments	708	32,180	112,749	145,637

Price risk related to shares quoted in the stock exchange

The Bank is exposed to price risk regarding shares held thereby and classified as investments available-for-sale. Concerning this, the management follows and analyzes all changes on the security market and also uses consulting services of well known in the country investment brokers. In addition, at this stage because of the emerging economic and financial crisis, the management has decided to reduce significantly stock market operations, keeping the purchased shares for a longer term while currently monitoring the financial and business indicators reported by the respective issuer as well as the development of its activities in the environment of financial crisis.

The sensitivity analysis of the Bank to the price of shares held thereby available-for-sale, is based on the state and structure of shares in other companies as at 31 December. The effect price increase by 25% would directly result in increase in other components of statement of comprehensive income and in equity respectively (Revaluation Reserve ó FA) by BGN 69 thousand (2008: BGN 57 thousand). On a decrease by 25%, the ultimate effect taken directly in equity would be equal and reciprocal to the mentioned above increase.

34.3. Liquidity risk

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

The Bank's business requires a stable flow of funds both to replace existing deposits and received loans as they mature and to satisfy demands of customers for additional borrowing. Undrawn borrowing facility commitments and the level of all outstanding contingent obligations are taken into consideration in managing Bank's liquidity.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank's liquidity. It is unusual for banks ever to be completely matched. An unmatched position potentially enhances profitability, but also increases the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates. To manage this risk, the Bank maintains at all times highly liquid assets depending on the currency of its liabilities. The overall liquidity control and monitoring are performed by the Asset and Liability (Liquidity) Committee based on coefficients legally set in BNB Ordinance No. 11. In addition, maturity tables are maintained for "Going concern" scenario and "Liquid crisis" scenario for establishing net cash flows by period.

The table below presents the amounts in percentage of the ratio of liquid assets to Bank's liabilities (determined in accordance with the requirements of BNB Ordinance No. 11):

	2009	2008
	%	%
At 31 December	20.39%	65.44%
Average for the period	52.55%	34.09%
Highest for the period	104.96%	65.47%
Lowest for the period	20.39%	20.59%

The following table analyses the financial assets and liabilities of the Bank grouped by remaining term to maturity.

BULGARIAN DEVELOPMENT BANK AD

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<i>At 31 December 2009</i>	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Undefined maturity	Total
Financial assets	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Cash and balances with the Central Bank	17,971	-	-	-	-	-	17,971
Due from banks	54,759	39,102	8,314	102,540	355,000	-	559,715
Loans and advances to customers	8,826	12,545	71,642	146,954	38,298	-	278,265
Securities available-for-sale	-	594	18	11,487	-	2,091	14,190
Total financial assets	81,556	52,241	79,974	260,981	393,298	2,091	870,141
Financial liabilities							
Due to banks	8,997	19,803	-	-	-	-	28,800
Due to customers	17,211	22,715	12,925	16,281	-	-	69,132
Borrowed funds from international institutions	1,344	5,022	13,999	104,239	32,849	-	157,453
Other borrowed funds	63	115	3,769	5,731	10,950	-	20,628
Other liabilities	13	-	81	2	-	-	96
Total financial liabilities	27,628	47,655	30,774	126,253	43,799	-	276,109
Net liquidity gap	53,928	4,586	49,200	134,728	349,499	2,091	594,032
Contingent liabilities and commitments	817	2,481	33,455	6,375	56,990	4,694	104,812
<i>At 31 December 2008</i>							
Financial assets	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Cash and balances with the Central Bank	10,696	-	-	-	-	-	10,696
Due from banks	124,924	-	3,334	6,843	65,000	-	200,101
Loans and advances to customers	6,632	3,232	39,611	105,045	36,322	-	190,842
Securities available-for-sale	679	40	96	15,170	3,180	2,042	21,207
Securities held-to-maturity	-	-	66	-	-	-	66
Total financial assets	142,931	3,272	43,107	127,058	104,502	2,042	422,912
Financial liabilities							
Due to banks	7,966	-	-	-	-	-	7,966
Due to customers	28,774	10	10,293	60	-	-	39,137
Borrowed funds from international institutions	1,400	293	26,778	31,590	66,434	-	126,495
Debenture loans	-	39	4,990	-	-	-	5,029
Other borrowed funds	60	128	498	5,088	10,616	-	16,390
Other liabilities	91	178	-	2	-	-	271
Total financial liabilities	38,291	648	42,559	36,740	77,050	-	195,288
Net liquidity gap	104,640	2,624	548	90,318	27,452	2,042	227,624
Contingent liabilities and commitments	80,839	2,318	10,694	7,244	39,848	4,694	145,637

This is a translation from Bulgarian of the financial statements of Bulgarian Development Bank AD for year 2009.

BULGARIAN DEVELOPMENT BANK AD**NOTES TO THE FINANCIAL STATEMENTS****for the year ended 31 December 2009**

Liquidity requirements to support calls under guarantees and letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under these agreements.

The table below presents gross undiscounted cash flows related to Bank's liabilities as at 31 December:

<i>At 31 December 2009</i>	Net book value	Gross flow	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	over 5 years
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Financial liabilities							
Due to banks	28,800	28,916	8,998	19,918	-	-	-
Due to customers	69,132	70,637	17,215	22,874	13,269	17,279	-
Borrowed funds from international institutions	157,453	169,968	1,390	5,211	16,643	112,572	34,152
Other borrowed funds	20,628	21,892	68	149	3,892	5,995	11,788
Other liabilities	96	96	94	-	-	2	-
	276,109	291,509	27,765	48,152	33,804	135,848	45,940
Provisions on bank guarantees	988	988	100	300	588	-	-
Undrawn credit commitments	29,668	29,668	346	1,576	22,569	5,177	-
<i>At 31 December 2008</i>	Net book value	Gross flow	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	over 5 years
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Financial liabilities							
Due to banks	7,966	7,976	7,976	-	-	-	-
Due to customers	39,137	39,458	28,770	10	10,611	67	-
Borrowed funds from international institutions	126,495	153,672	1,538	587	31,313	75,446	44,788
Debenture loans	5,029	5,198	-	59	5,139	-	-
Other borrowed funds	16,390	23,103	65	135	565	5,158	17,180
Other liabilities	271	271	91	178	-	2	-
	195,288	229,678	38,440	969	47,628	80,673	61,968
Provisions on bank guarantees	996	996	45	90	861	-	-
Undrawn credit commitments	93,554	93,554	79,928	1,541	5,260	6,825	-

BULGARIAN DEVELOPMENT BANK AD

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

Adverse consequences of the Global financial crisis /2009/ and measures undertaken by the Bank for its control

Considering the development of the general economic and financial environment in 2009, the Bank has develop further and additionally placed an accent to series of measures for making more precise its policies and practices for financial risk management adequate to the new events, effects and trends.

During the reporting year, the Bank strictly followed its policy of limiting its operations on capital markets, accepted ever since 2008. Direct consequence of this policy was limitation and restriction of the level of assumed market risks. Out of operational order, the limits limits for operations on the interbank market were updated with a view to achieve maximum diversification of exposure.

In 2009 the Bank extended the process of current review of its internal rules, with a view to their throughout coordination with the processes monitored from the point of view of timely and even preventive reaction to the major risks.

Considering the maintained and unfavourable dynamics of price levels of the assets, accepted as collaterals for granted loans, the process of current updating of accepted collaterals, including expanded use of independent external appraisers in the overall crediting process, became intensive.

Additionally, the Bank expanded its activity of preventive analysis of the financed investment projects with the purpose of prevention against newly arisen risks. It has been performed a thorough review and revaluation of accepted collaterals. On this basis, they have been undertaken additional measures for revision of time schedules and amounts of financing particular projects for more adequate and prudent lending of their realisation in the conditions of crisis.

With the new guarantee agreement with EIF, signed on 13 February 2009, the Bank extended its access to credit protection. The guarantee facility amounts to EUR 60 million and the term for utilisation is February 2011. Up to 50% of the newly formed credit portfolio of BDB AD will use the ensured credit protection.

34.4 Capital management

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

In its activities the Bank should observe the regulatory requirements for capital adequacy (Notes 29, 30 and 33) as well as continue operating as a going concern.

The table below shows the main equity components following the regulatory requirements and ratios achieved by the Bank:

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for the year ended 31 December 2009

	2009	2008
	BGN'000	BGN'000
<i>Tier 1 capital</i>		
Ordinary shares	589,574	214,574
Total reserves	10,395	5,000
Other general-purpose reserves	6,190	6,190
Total Tier 1 capital	606,159	225,764
<i>Tier 2 capital</i>	-	-
Total capital	606,159	225,764
Investments	(27,553)	(2,539)
including: Intangible assets	(53)	(39)
Other deductions		
Specific provisions for credit risk using standardized approach	4,463	128
Evaluation differences, included in Tier 1 capital	193	-
<i>Tier 1 capital base</i>	573,950	223,097
<i>Tier 2 capital base</i>	573,950	223,097
Credit risk		
<i>Risk-weighted assets</i>	636,153	362,864
including: Risk-weighted assets for credit risk	579,499	260,758
including: Off-balance sheet equivalents of risk-weighted assets for credit risk	56,654	102,106
<i>Significant trade portfolio</i>	18,429	-
Market risk	-	-
Currency risk	18,429	-
Commodity risk	-	-
Risk component	654,582	362,864
Total capital requirements for operating risk	1,660	1,394
Reconciliation of the risk component for operating risk (operating risk * 12.5)	20,750	17,425
Total risk component	675,332	380,289
<i>Tier 1 capital adequacy</i>	84.99%	58.67%
<i>Total capital adequacy</i>	84.99%	58.67%
<u>Regulatory required levels</u>		
<i>Tier 1 capital adequacy</i>	10.00%	10.00%
<i>Total capital adequacy</i>	12.00%	12.00%

BULGARIAN DEVELOPMENT BANK AD

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

35. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is generally the amount for which an asset could be exchanged, or a liability settled in an arm's length transaction between independent and knowledgeable parties.

The policy of the Bank is to disclose in its financial statements the fair value of these financial assets and liabilities for which market quotations are available.

The fair value concept presumes realization of the financial instruments through sales. However, in the majority of cases, particularly in respect of loans and deposits, the Bank expects to realise assets through their collection (repayment) in full over time. In addition, in their main part loans (granted and received) are with floating interest, which the Bank strives at maintaining to levels within those in the banking market, while receivables and payables on deposits are short-term and their fair value would not change materially over the period until their maturity.

A lot of financial assets and liabilities are either short-term in their nature or are presented in the statement of financial position at market value (deposits placed with other banks, deposits from other banks, investments in securities) and therefore, their fair value is almost equal to their carrying amount.

Sufficiently developed capital market, with stability and liquidity for specific (purchases and sales) of particular financial assets and liabilities is still not in place in the country and therefore, published market price quotations or sufficiently indicative quotations for these assets and liabilities are not readily available. The financial crisis in the second half of 2008 and extended in 2009 additionally led to significant stagnation of traded volumes and drop in stock exchange prices with no respective aggravation of the activities and the financial position of the companies, which securities are traded on the stock exchange.

The Bank's management is of the opinion that the estimates of the financial assets and liabilities presented in statement of financial position are in line with them and are as reliable, adequate and trustworthy as possible for financial reporting purposes under the existing circumstances.

36. TRANSACTIONS WITH RELATED PARTIES AND COMPANIES UNDER JOINT CONTROL WITH THE STATE

1. Related parties

For year 2009

Company/person

Ministry of Finance

National Guarantee Fund EAD

Relation type

Majority shareholder of the Bank representing the State

Subsidiary

BULGARIAN DEVELOPMENT BANK AD**NOTES TO THE FINANCIAL STATEMENTS****for the year ended 31 December 2009****For year 2008**

<i>Company/person</i>	<i>Relation type</i>
Ministry of Finance	Majority shareholder of the Bank representing the State
National Guarantee Fund EAD	Subsidiary
Pirinplast AD	Controlled by key managing personnel (directly or indirectly)
Eco-Electric OOD	Controlled by key managing personnel (directly or indirectly)
Borela-S AD	Controlled by key managing personnel (directly or indirectly)
Bulforest-2006 AD	Controlled by key managing personnel (directly or indirectly)
Chepelare Resort AD	Controlled by key managing personnel (directly or indirectly)
PONSSstroyengineering EAD	Controlled by key managing personnel (directly or indirectly)
PONS Holding AD	Controlled by key managing personnel (directly or indirectly)

2. Companies under joint control with the State**For year 2009**

Bulgarian State Railways EAD
National Electricity Company EAD
BULGARGAS EAD
Bulgarian Institute for Standardisation

For year 2008

Bulgarian State Railways EAD

3. Receivables and payables with related parties as per Statement of Financial Position:**At 31 December 2009**

Liabilities	<i>Type of Payable</i>	<i>Note</i>	2009 BGN'000
National Guarantee Fund EAD	Due to customers	24	22,290
Ministry of finance	Other borrowed funds	26	13,607
Contingent liabilities and commitments			
National Guarantee Fund EAD	Non-paid subscribed shares	31	52,500
Ministry of Finance	Issued bank guarantees	31	1,277

At 31 December 2008

Assets	<i>Type of receivable / payable</i>	<i>Note</i>	2008 BGN'000
Chepelare Resort AD	Loans and advances to customers	14	4,417
Eco-Electric OOD	Loans and advances to customers	14	1,436
Pirinplast AD	Loans and advances to customers	14	840
Bulforest-2006 AD	Loans and advances to customers	14	499
Borela-S AD	Loans and advances to customers	14	250

BULGARIAN DEVELOPMENT BANK AD**NOTES TO THE FINANCIAL STATEMENTS****for the year ended 31 December 2009**

Liabilities	<i>Type of receivable / payable</i>	<i>Приложение</i>	2008 <i>BGN'000</i>
Ministry of Finance	Other borrowed funds	26	13,542
National Guarantee Fund EAD	Due to customers	24	2,328
Pirinplast AD	Due to customers	24	74
Rodopa Initiative AD	Due to customers	24	16
Chepelare Resort AD	Due to customers	24	13
PONS Holding AD	Due to customers	24	13
PONSSstroyengineering EAD	Due to customers	24	6

Contingent liabilities and commitments

National Guarantee Fund EAD	Non-paid subscribed shares
PONSSstroyengineering EAD	Issued bank guarantees
PONS Holding AD	Issued bank guarantees

4. Related party transactions are:

For year 2009	<i>Type of income/expense</i>	<i>Note</i>	2009 <i>BGN'000</i>
Ministry of Finance	Fee and commission income	4	85
Ministry of Finance	Interest expense	3	(269)
National Guarantee Fund EAD	Interest expense	3	(779)
National Guarantee Fund EAD	Rental income	7	32
National Guarantee Fund EAD	Fee and commission income	4	1
National Guarantee Fund EAD	Fee and commission expense	4	(180)
National Guarantee Fund EAD	Gains less losses from dealing with foreign currency	5	2

For year 2008	<i>Type of income/expense</i>	<i>Note</i>	2008 <i>BGN'000</i>
Ministry of Finance	Fee and commission income	4	78
Ministry of Finance	Interest expense	3	(593)
National Guarantee Fund EAD	Interest expense	3	(19)
National Guarantee Fund EAD	Rental income	7	3
Eco-Electric OOD	Interest income	3	136
Pirinplast AD	Interest income	3	98
Borela-S AD	Interest income	3	21
Bulforest-2006 AD	Interest income	3	24
Chepelare Resort AD	Interest income	3	59
PONSSstroyengineering EAD	Fee and commission income	4	11
PONS Holding AD	Fee and commission income	4	1

BULGARIAN DEVELOPMENT BANK AD**NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2009

5. Receivables / payables and transactions with companies under joint control with the State are:**At 31 December 2009**

		<i>Note</i>	2009 BGN'000
Liabilities			
BULGARGAS EAD	Due to customers	24	270
Bulgarian Institute for Standardisation	Due to customers	24	178
Bulgarian State Railways EAD	Due to customers	24	94
National Electricity Company EAD	Due to customers	24	1
Deals			
	<i>Type of income/expense</i>		
Bulgarian State Railways EAD	Fee and commission income	3	70
Bulgarian State Railways EAD	Interest expense	3	5

At 31 December 2008**Assets**

		<i>Note</i>	2008 BGN'000
Bulgarian State Railways EAD	Loans and advances to customers (Cession)	14	2,676

Liabilities

Bulgarian State Railways EAD	Due to customers	24	9,943
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Deals

	<i>Type of income/expense</i>		
Bulgarian State Railways EAD	Interest expense	3	374
Bulgarian State Railways EAD	Interest income	3	363
Bulgarian State Railways EAD	Fee and commission income	4	70

6. Relations with key managing personnel:

The individuals being key managing personnel are disclosed in Note 1.2

Receivables/ payables from key managing personnel:

	2009 BGN'000	2008 BGN'000
Due to customers (<i>Note 24</i>)	152	461
Remunerations payable (<i>Note 28</i>)	46	110
	198	571
Loans and advances to customers (<i>Note 14</i>)	-	1,075

BULGARIAN DEVELOPMENT BANK AD**NOTES TO THE FINANCIAL STATEMENTS****for the year ended 31 December 2009**

Transactions with key managing personnel:	2009	2008
	<i>BGN'000</i>	<i>BGN'000</i>
Remunerations and social security contributions (<i>Note 9</i>)	1,247	1,219
Interest expense (<i>Note 3</i>)	6	10
Interest income (<i>Note 3</i>)	-	28

37. EVENTS AFTER THE REPORTING DATE

By Decision from 29 March 2009 the Managing Board approved issuing of debenture loan amounting to EUR 20,000 thousand, intended for financing of infrastructural projects.