BULGARIAN DEVELOPMENT BANK GROUP
CONSOLIDATED ANNUAL MANAGEMENT REPORT
INDEPENDENT AUDITOR'S REPORT
AND
CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

DECEMBER 31, 2010

BULGARIAN DEVELOPMENT BANK GROUP

CONSOLIDATED ACTIVITY REPORT
2010

CONTENT

Information of the BDB Group

Bulgarian Development Bank Group (BDB Group) includes the parent company – Bulgarian Development Bank AD (BDB/The Bank) and its subsidiaries – National Guarantee Fund EAD (NGF/The Fund) and Jobs Micro Financing Institution (MFI).

The Parent Company

Bulgarian Development Bank AD (BDB AD) was 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). It is governs the the structure and the scope of Bank's activities including those for its envisaged subsidiaries.

As successor of Encouragement Bank AD,, Bulgarian Development Bank AD preserved as its mission to provide support for pre-export and export financing of small and medium-sized enterprises (SME), refinancing of Bulgarian banks that grant loans to SME, refinancing of foreign banks that provide funds to purchasers of goods and services, provided by SMEs. In addition, the Bulgarian Development Bank Act provides institutions of the banking group Bank's status under art.44, second paragraph, letter "b", p. "ii" of Regulation (EC) № 1083/2006 of the Council for the determination of general provisions for the European Regional Development Fund, European Social Fund and the Cohesion Fund.

For the purpose of implementation of its objectives BDB AD, under the provisions of the Act, formed a financial group with two of its subsidiaries – the Capital Investment Fund which has not been established as of 31 December 2010 (the Capital Investment Fund will participate in the capital of SMEs and will provide advisory services regarding the capital structure) and the National Guarantee Fund.

The ownership of the Bank's share capital shall be apportioned as follows:

99,9999% is being held by the Republic of Bulgaria represented by the Ministry of Finance

0,0001% is being held by Bank DSK AD

From the very beginning the Bank was established with a special purpose – 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 to SME to serve to 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;

(h) other activities relevant to this scope and state objectives.

The main activity of the Bank in 2010 was related primarily to the implementation of Decision 197 dated 08 April 2010 of the Council of ministers on the "Adoption of a mechanism for settlement of State budget liabilities".

In 2010 it was decided to make complete reconstruction of the building of the Bank and therefore the Bank moved into new building. For the period of reconstruction, the new address of the Bank is Sofia, 1000, district of Sredetz, 10, Stefan Karadzha street. As at 31 December 2010, the Bank has one representation office in the city of Plovdiv.

At 31 December 2010, the staff of the Bank includes 100 employees.

Subsidiaries

"National Guarantee Fund" EAD (NGF) was established on 12 August 2008 as a company based upon the Bulgarian Development Bank Act and was registered in BNB (Trade Register) on 22 August 2008. The company is fully owned by Bulgarian Development Bank AD. As of 31 December 2010 the registered share capital is 800 000 registered nominal shares with face value of BGN 100 each (31 December 2009: 800 000 registered nominal shares with par value of BGN 100 each), the paid-in capital of which as at 31 December 2010 amounts to BGN 27,500,000 (31 December 2009 it is BGN 27,500,000).

The creation of the National Guarantee Fund aims to be consolidated the guarantee line of products of BDB AD and is focused on the SME sector through commercial networks of the commercial banks. The implementation of the guarantee schemes of the Fund will facilitate the access to financing SME's through compensating the lack of sufficient collateral when applying for loans, and will reduce the risk assumed by the commercial banks in the country providing financing to SME's.

The scope of NGF's principal activities, according to its Statute, includes:

(a) issue of guarantees to supplement the collaterals for SME loans,

(b) provide other guarantee products to SME to serve as security for participation in teners, for good performance, guarantees for advance payments and for payment of loans to exporters

(c) issue of guarantees to supplement the collaterals for loans to SME which performing research and development for the implementation of these products and scientific developments in the industry, and

(d) other services not prohibited by low

Guarantees issued by the Fund may cover up to 50 percent of the debt. The maximum value of guaarntees issued by the Fund to trade company can not exceed 10 per cent of the capital of the Fund.

Seat and address of the Fund: Sofia city, district of Sredetz, 10, Stefan Karadzha street.

At 31 December 2010, the NGF has 12 employees

The Capital Investment Fund is at project level and has not been established as at 31 December 2010.

Microfinancing institution JOBS EAD **(MFI) was established on 23 December.2010 as sole proprietorship joint stock company, 100% owned by BDB. The registered address of the MFI is 10, Stefan Karadzha str., Sofia city. As at 31 December 2010 the registered shareholder's equity comprises 45 618 nominal shares with par value of BGN 100 each, and the paid-in capital as at 31 December 2010 amounts to BGN 4,561,800.**

MFI' scope of activity includes, as follows:

- micro-financing /with a maximum equivalent per product per customer – EUR 25,000/ including, but not limited to;
    - provision of micro-loans;
    - purchase from third parties and leasing of industrial equipment, automobiles and other vehicles, as well as other assets (financial leasing);

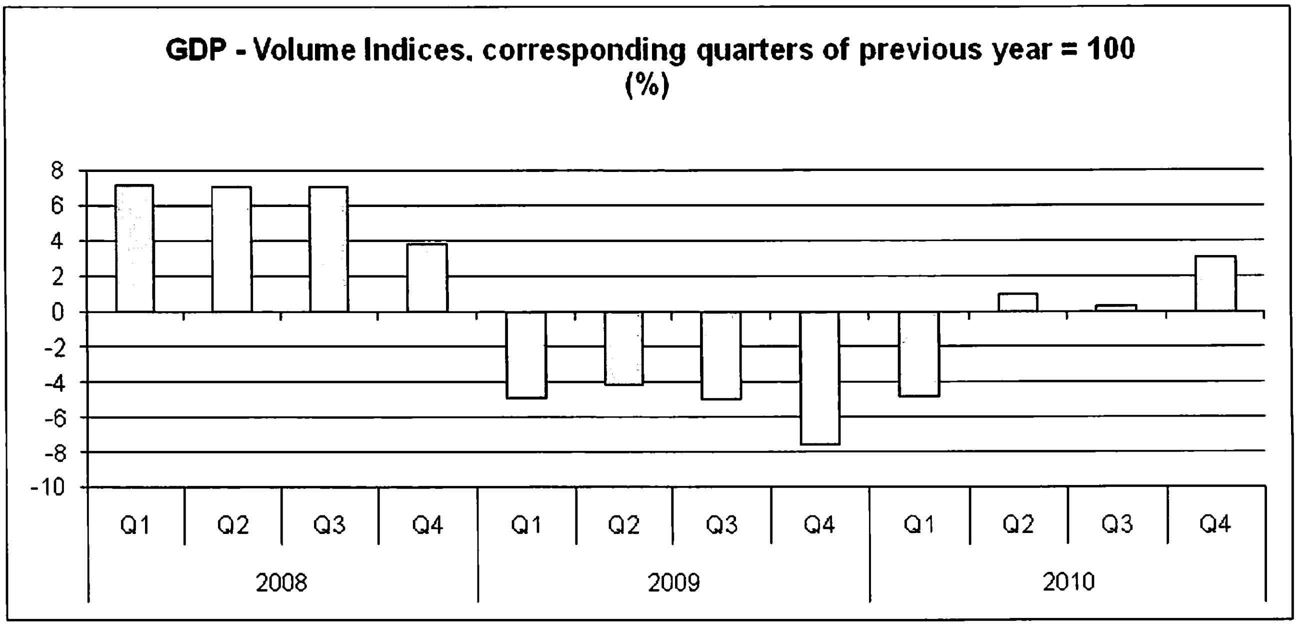
- sale and purchase of such items;
- consultancy;

JOBS MFI is managed by a Board of directors (BoD) with a mandate until 23 December 2013. Members of the Board are: Krassimir Popov, Sasho Tchakalski and Martin Ganchev.
The registration of the company is dated 14 January 2011, and the company has no employees as at the end of 2010. As of the date of the present report, the MFI has 8 employees.

Characteristics of the environment

Macroeconomic environment

In 2010 the Bulgarian economy has started gradually to recover from the crisis, in which has entered in the previous year. In the second quarter GDP registered positive growth, which accelerated in the last quarter of the year. According to the initial data of the NSI the Gross Domestic Product (GDP) in Bulgaria ended 2010 with real growth of 0,2%.



Source:NSI

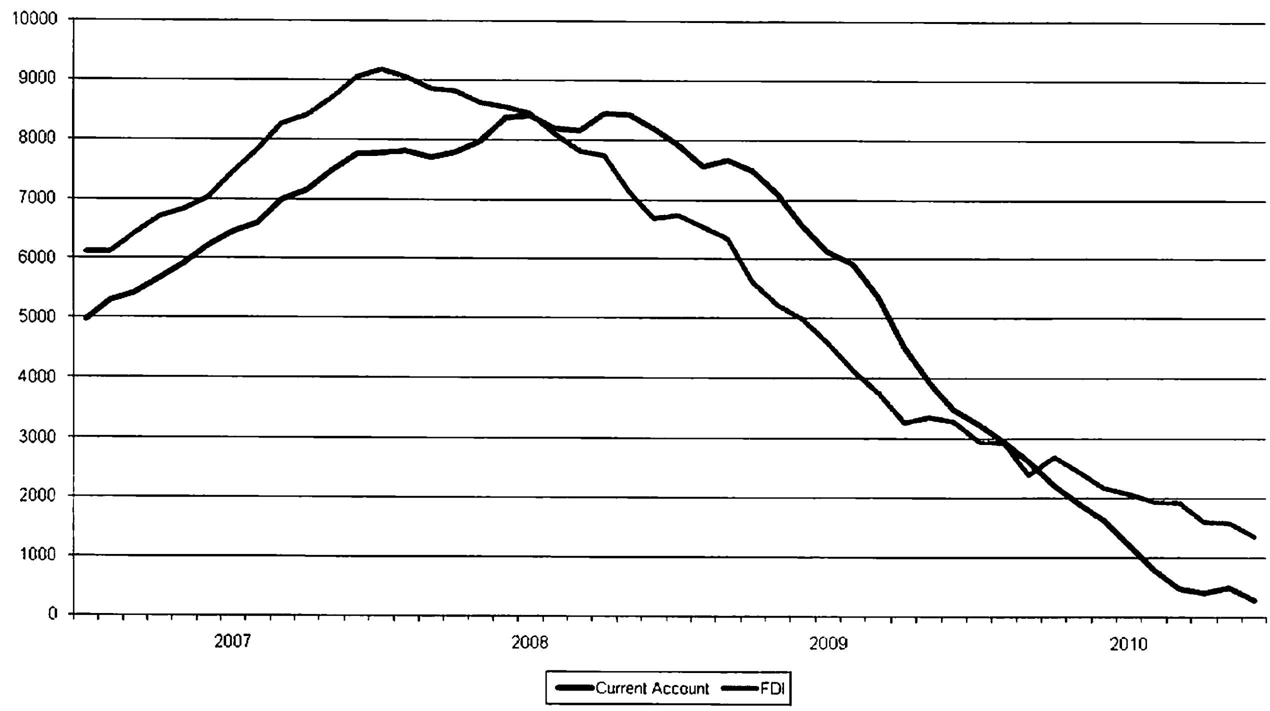
In the greater part of the year the national economic growth was supported only by the positive contribution of net exports. Favorable situation of essential for the Bulgarian export markets contributed to higher possitve growth of export value. The growth of the European economy and in particular the economy of Germany provided more impetus for the recovery of the foreign trade activities, which have been steadily increasing their growth rate. In 2010, the Bulgarian exports towards the European Union (EU) increased by approximately 25% in nominal terms. In addition there has been a good development in the exports towards third countries, where the growth rate reached 48,5% in the year. At the same time, the level of imports has suppressed due to reduced domestic demand.. During the first quarter of the year it remained below its prior period level and began to grow in the subsequent months (in part because demand for raw materials by export-oriented producers), but its growth rate remain lower than that of exports. For the entire 2010 the nominal growth of imports averaged 13,5%.

Almost the entire year the investment activity of the companies remained low. Only in the last quarter of 2010 the formation of the gross capital registered a growth rate of 3,4% on an annual basis, while in previous quarters its volume decreased between 18 and 24% per quarter. The dynamics of consumption remains fluctuating, with periods of decline alternating with periods of low growth. On an annual basis the final consumption and the gross capital formation continued to decrease in real terms.

Balance of payments

The combined effect of high dynamics of exports and the low domestic demand through the final consumption and investments, have led to a rapid improvement of the Trade Balance of payments. According to preliminary data of BNB (Bulgarian National Bank), Bulgaria ended 2010 with trade deficit of EUR 2.401 million (6.7% of GDP), while in the previous year was almost twice as large (EUR 4,173.6 million or 11.9% of GDP).The lower trade deficit under the item "Incomes" and the higher positive balances under the items "Services" and "Transfers") have led to reduction of the current account deficit for 2010 to EUR 282.7 million (0.8% of GDP). Therefore, the flow of FDI, although decreased (EUR 1,360 million), is able to fully cover the deficit of the current account.

Current Account, Net and FDI (EUR million, 12-month volumes)



Source:BNB

In 2010 the financial account was negative (EUR -403,1 million), while in the previous year (2009) it was positive and amounted to EUR 2,193,4 million. The underlying reason for this is the change in flow under the item "Other investments". "Other investment – liabilities" have been reduced by EUR 1,423,4 million, while during 2009 have increased with EUR 40,3 million. Due to the contracted possibilities for lending in the country the commercial banks used this opportunity to reduce their debt exposure towards the foreign financial institutions. By doing this, in 2010 the outstanding loans towards foreign financial institutions have decreased by EUR 918 million, while in 2009 were almost unchanged (an increase of EUR 2.9 million)

Labor market

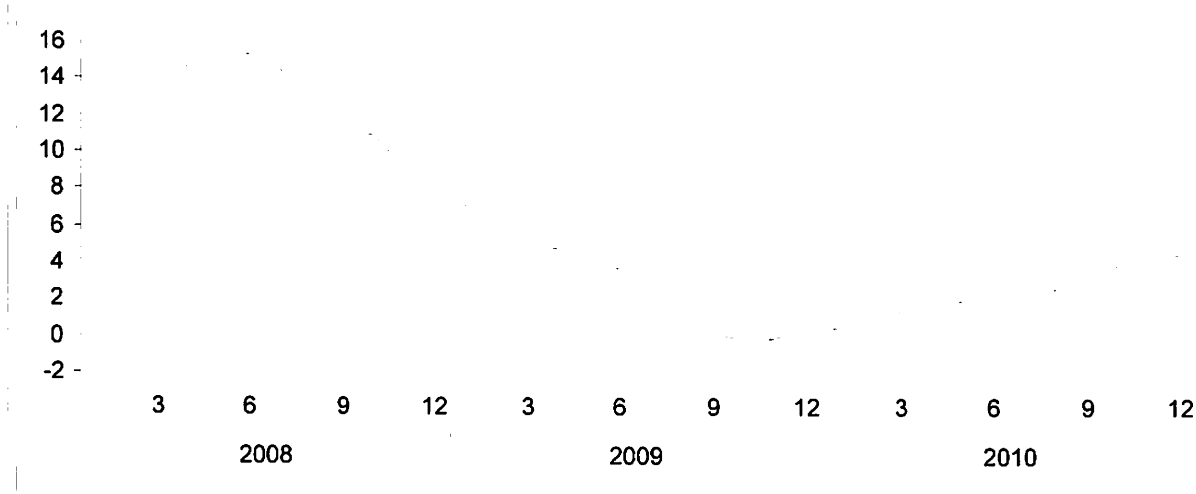
In 2010 the process of optimization in the labour market continues. The uncertain economic environment and the reduced activity, especially in companies in the sector of services, force employers to continue the process of reducing employment in the economy. According to data from Supervision of the Work force the number of employed people in 2010 decreased by 150 thousand and the number of unemployed respectively has increased by 110 thousand. Therefore, the unemployment rate has increased to 11,2% of the work force as of the end of 2010 (an increase of 3.3 percentage points compared to the end of 2009).

The reduction in employment in the country and the uncertain perspectives for the dynamics of the indicator in the followings months contributed to the slowdown of labor income in the economy. According to preliminary data of NSI the monthly salary for 2010 is BGN 647 and is 6,3 % up compared to 2009 in nominal terms. Due to the acceleration of inflation, especially during the second half of the year, real growth of average salary slowed to 3,8% and is lower than the growth of labor productivity for the whole economy in real terms, which for 2010 is 6,4%. In turn, the slowdown in the growth of salary was one of the main factors for the decline in the private spending in 2010.

Inflation dynamics

After 2009, during which the Bulgarian economy registered its lowest annual inflation for the last 10 years, in 2010 the consumer price index (CPI) again accelerated its growth. The inflation as of the end of the current reporting period reached 4,5%, the average annual inflation was – 2,4%. The value of the harmonized CPI was close to the value of the national CPI – respectively 4,4% inflation at the end of the period and 3% for average annual inflation.

Consumer price index (12-month index, %)



Source:NSI

The main inflationary factors in the year were changes in food and oil-product prices, which in turn were influenced by the dynamics of their prices on the international markets. An additional factor for the change of prices of alcoholic and tobacco products in 2010 was the change of their duties, dictated by the process of the harmonization with EU minimum requirements. Hence, in 2010 the prices of the food group rose by 4%, the alcoholic beverages and tobacco - by 26.4%. Transport prices, which are directly linked to the dynamics of fuel prices, increased by 10%. One of the traditional pro-inflationary factors in previous years, the price dynamics of the services group, had no upward pressure on the increase of prices in 2010. Their change remained lower than the overall CPI (total inflation for the group amounted to 2.2 %), largely due to the decreased demand in the country, which affected the demand for services. The basket of non-food goods, including durables like household appliances, housing equipment, etc., showed deflation of -0.6%. The price dynamics of that group of goods is influenced by the prices of competitive imports, but is also largely pro-cyclical. Demand and hence price dynamics of durables are most affected during periods of crisis and decreased consumption.

State budget

According to preliminary data of the Ministry of Finance, the consolidated budget ended 2010 with a deficit of EUR 2.8 billion on cash basis, which is 3.9% of expected GDP.

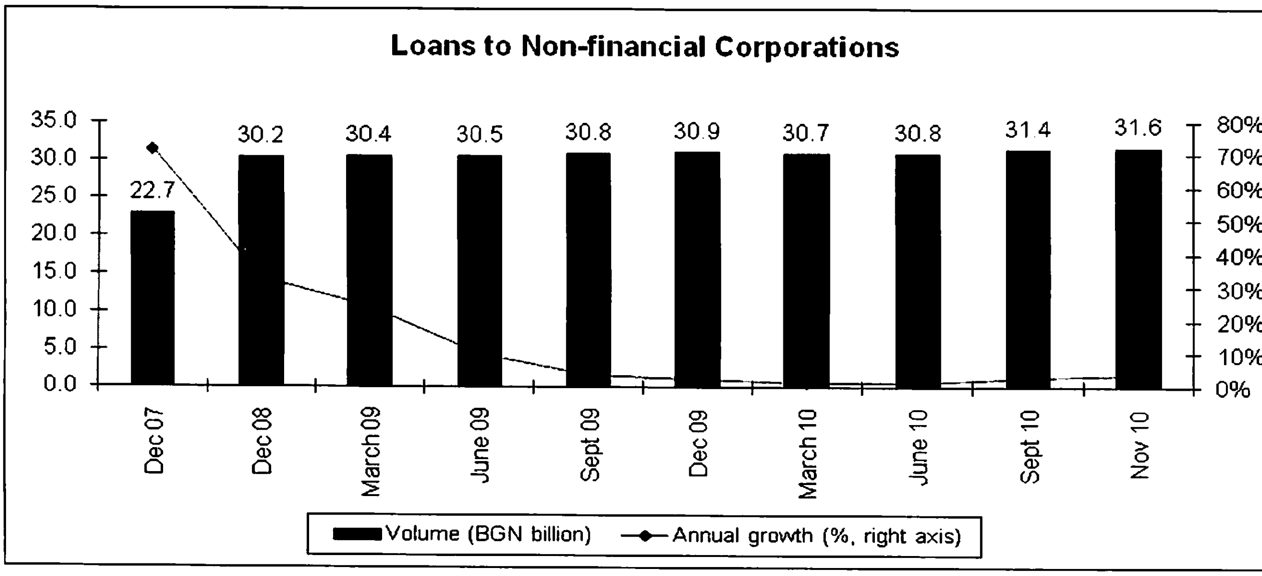
Received revenue and benefits in the consolidated budget for 2010 amounted to BGN 23.9 billion. The total amount of tax revenue (including revenue from social security contributions) amounted to BGN 19 billion. Budget revenues decreased by 4.4% on annual basis, while tax revenues were 5.8% lower compared to 2009. The revenue decrease in comparison to the previous year developed during the first six months of 2010, followed by smooth recovery in the revenue from indirect taxes, recording a nominal growth on a monthly basis for the period July – December. The underlying reasons for lower revenue compared to 2009 is the lower economic activity during the first quarter, as well as the revised structure of the economy, aimed at growth based mainly on exports. The weak domestic demand and especially low individual spending does not allow indirect taxes to recover rapidly to pre-crisis levels.

The expenses in the consolidated budget (including the contribution of Bulgaria to the EU budget) for 2010 amounted to BGN 26.7 billion, marking an increase of 5% on annual basis. This is due to the higher social and health-insurance payments in 2010 (including the base effect of the increase of pensions in 2009) as well as the settlement of obligations from 2009, which are recorded as cash expenses in 2010

Banking system

As of the end of 2010 the total assets of the banking sector amounted to BGN 73,726 million, marking an increase of 4% compared to the previous year. Loans and advances formed 79.2% of the balance sheet assets. Cash and securities portfolio increased as at the end of the year their share is respectively 9.9% and 7.4% of the total assets of the system.

In 2010 the financing activity of commercial banks remained depressed, as in the previous year. The main factors contributing to that were the uncertainty regarding the recovery pace of the economy, which affected the poor demand for credit resources by companies and households; the limited number of viable projects for financing as a result of the unfavorable outlook for business development, especially in the first half of the year and higher criteria for evaluation of the creditworthiness of customers.



Source:BNB

In 2010 the slow-down of annual growth of loans to non-financial corporations continued.

At the end of the year the loans to non-financial corporations reached BGN 31,678 billion, increasing by 2,4% from the end of 2009. The poor credit activity is determined by both the prudence of the banks as well as the difficulties of potential borrowers in meeting the high credit standarts. Commercial banks' receivables from households contracted. At the end of 2010 the amount of overdrafts contracted to BGN 1,811 million (by 10,1%) and the consumer loans – to 7,554 million (by 2,8%). Only the value of mortgage loans for households increased to BGN 8,709 million (by 3,8%). Reducing the exposure of commercial banks to Households is due to the declining employment during 2010 and the unclear prospects on the dynamics of this indicator during the following months, as well as the slow-down of the growth of salaries.

In 2010 the borrowed funds in the banking system increased and as of the end of the year reached BGN 63 billion. Due to the increased uncertainty in the economy, the households reduced their spending and increased their savings throughout the year. The deposits of citizens and households increased by 12,8% in 2010 and reached BGN 26,7 billion at the end of December.

The share capital in the balance of the banking system as of the end of 2010 amounts to BGN 10 billion, marking an increase by 6,1% on annual basis. In 2010 the ratio of liquid assets, measuring the coverage of borrowed funds, increased to 24,37% and guarantees adequate level of financial intermediation. All commercial banks stick to the recommended by BNB level of coverage of liquid assets on borrowed funds from citizens and non-credit institutions.

Due to difficulties of companies and households to service their debts to commercial banks, the process of deterioration of the credit portfolio continues. At the end of 2010 the share of exposures overdue more than 90 days in gross loans (excluding credit institutions) reached 11,9% (according to data of supervisory statistics), as during last months the increase slowed down. The income generated from main activity allows the commercial banks to cover the extended credit risk and the related additional impairment costs. The banking system ended the year with net (unaudited) profit of BGN 617 million, which provide additional capital protection. As a result of the increased systemic credit risk, the banks have set more provisions, which inevitably reflected the price levels of the offered financing.

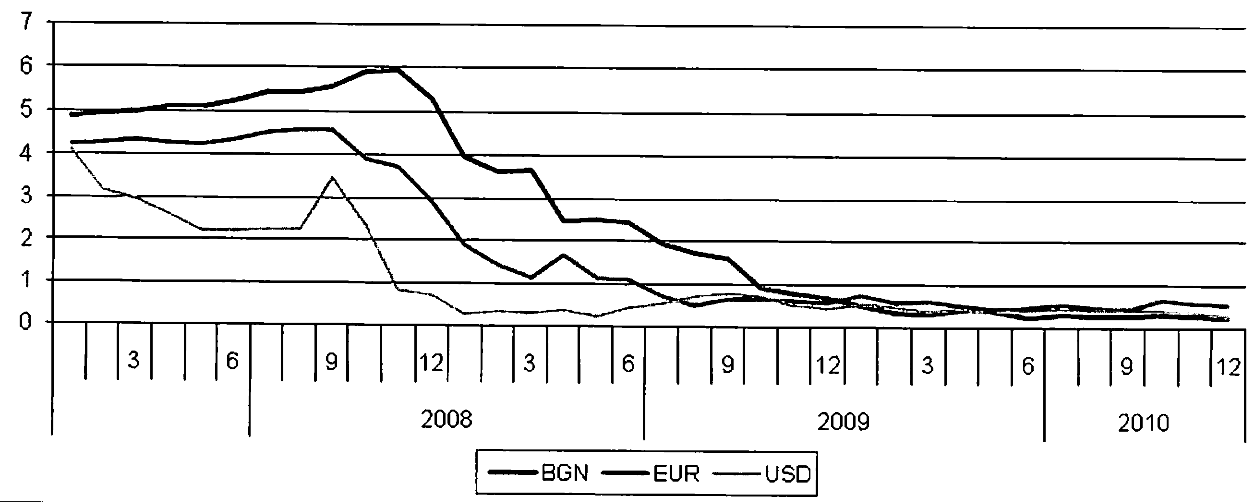
The capital adequacy of the banking system, even though slightly decreasing during the year, remained high – 17,48% as of the end of December 2010.

Interest rate dynamics

The improved liquidity of the banking system in the country affected the interest rate dynamics during the year. Most of the basic interest rate levels followed a downward trend and unlike the Eurozone, interest rates in Bulgaria were characterized by lower levels of disparity.

Interest rates on the interbank market were decreasing during the first three quarters, but at the end of the year they stabilized around the reached levels. The average interest rate on transactions on the interbank money market in BGN was within 0,25% - 0,30%, while on the interbank money market in Euro the interest rate level remained higher in comparison to the third quarter of the year and fluctuated within 0,55% - 0,63%.

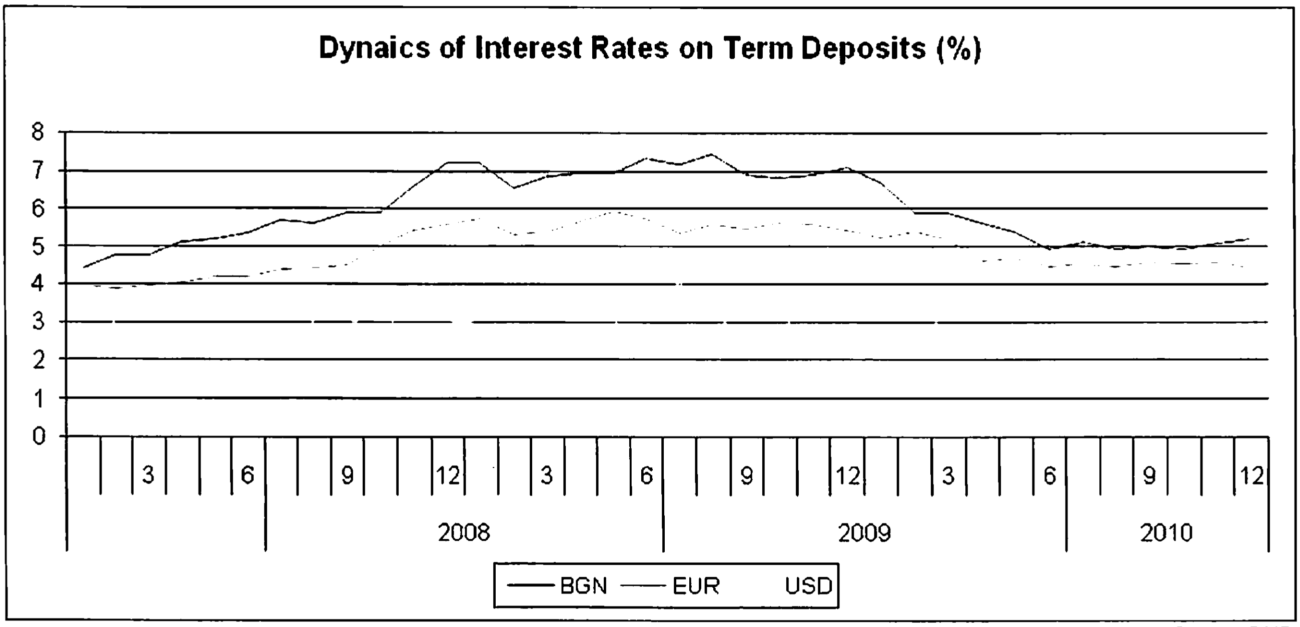
Dynamics of Interest Rates on the Interbank Market (%)



Source:BNB

The LEONIA index decreased from 0,39% at the end of 2009 to 0,17% in July 2010 and until the end of the year remained almost unchanged. The spread between LEONIA and EONIA remained negative throughout the year, constantly increasing. So at the end of 2010 it reached 32 b.p. (10 b.p. in January), which was due mostly to the increase of European interest rates rather than the contraction of domestic interest rates.

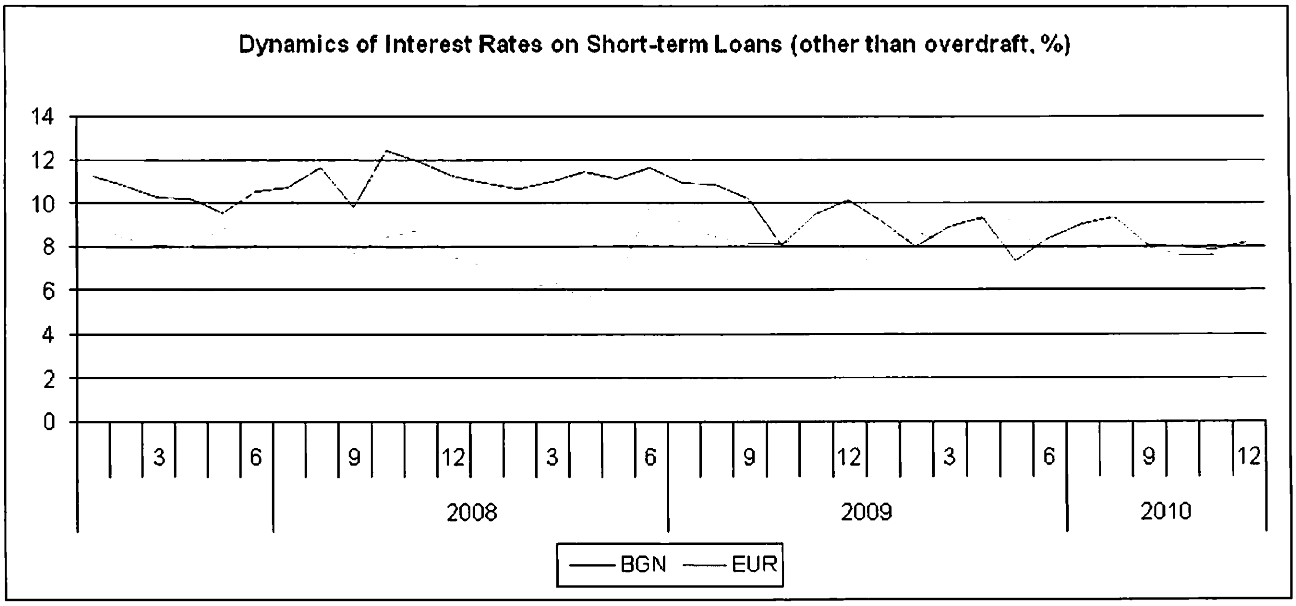
The trend in the dynamics of the SOFIBOR index (3-month) was similar. The spread between SOFIBOR (3-month) and EURIBOR (3-month) declined by over 100 b.p. within one year. During December 2009 this spread was 399 b.p. and reached 291 b.p. in December 2010. During this period the two indexes moved in different directions, as SOFIBOR (3-month) decreased to 0.47% (0.63% in December 2009), and EURIBOR (3-month) reached 0.81% (0.48% in December 2009). This is determined by the problems, faced by some countries in the periphery of the Eurozone, while the domestic risk premium did not change significantly.



Source:BNB

The high liquidity of the banking system, as a whole, allowed for the commercial banks to gradually decrease interest rates on borrowed funds. During the period January – June 2010 the interest rates on deposits in BGN decreased to 4.94% (7.1% in December 2009). During the subsequent months they stabilized around the reached level and fluctuated around 4.9% - 5.2%. Similar was the dynamics of interest levels on term deposits in EUR, which also suspended their downward trend around the middle of the year and also fluctuated around 4.5%.

In 2010 the interest rates on loans also declined, but not as fast as the interest rates on deposits. Interest rates on short-term loans in BGN (without overdraft) reached its lowest monthly average value in May (7.29%), then increased and fluctuated around 7.8% - 9.3%. Interest levels on long-term loans denominated in BGN slightly increased during the first months of 2010 (11.97% in April), then returned to levels of around 10.5% - 11.5%. Overall the interest rates on loans denominated in EUR remained lower then similar loans in BGN (especially on long-term loans), but around the end of the year a gradual convergence of interest rates on short-term loans in BGN and EUR was observed. The high liquidity of the banks and the decline in interest rate levels on deposits affected the dynamics of interest rate on loans, but opposing factor, limiting the decrease of the latter are the increasing provisions of commercial banks, related to the increase of non-performing loans. The increased provisions and the aim of the banks to support acceptable levels of profitability will continue to affect the spread between interest rates on deposits and credits.


Dynamics of Interest Rates on Short-term Loans (other than overdraft, %)
14
12
10
8
6
4
2
0
3
6
9
12
3
6
9
12
3
6
9
12
2008
2009
2010
BGN
EUR

Source: BNB

Operations review

Bulgarian Development Bank Group AD (the Group) has achieved a significant development and has fulfilled the set goals and objectives according to the annual plan.

Financial result

The profit before taxes of the Bulgarian Development Bank AD as of 31.12.2010 is in the amount of BGN 29,098 thousand, which composed growth of 64.6%. The profit of the Bank (parent company) is in the amount of 28,270 thousand, which composed growth of 63,5% and that by the NGF is in the amount of BGN 828 thousand and is more than twice higher compared to 2009 (growth of 111,8%).

The most significant contribution to this outcome is that net interest income reached BGN 52,596 thousand. The index registered growth of 35.3%, which is the result of the increased activity of the group companies. The net income from fees and commission amounts to BGN 2,159 thousand and shows an increase of 15,3%. The amount of "Other operating income" is formed entirely by income from funds endowment under the program JOBS, which have the purpose to capitalize the Microfinance Institution JOBS EAD.

in '000 BGN

	2010	2009	Ръст в %
NET INTEREST INCOME	52 596	38 884	35.3%
NET FEES AND COMMISSIONS INCOME	2 159	1 872	15.3%
NET INCOME FROM OPERATIONS IN FOREIGN CURRENCIES	251	198	26.8%
PROFIT / LOSS FROM INVESTMENTS AVAILABLE FOR SALE	31	(30)	
OTHER OPERATING INCOME	4 760	47	10 027.7%
LOSSES FROM РАЗХОДИ INCOLLECTABILITY AND IMPAIRMENT OF LOANS	(22 745)	(16 524)	39.9%
GENERAL ADMINISTRATIVE EXPENSES	(7 751)	(6 776)	14.4%
DEPRECIATION EXPENSES	(203)	(262)	-22.5%
PROFIT BEFOREE TAXES	**29 098**	**17 679**	**64.6%**

The interest income on loans for SME's reached BGN 28,517 thousand registering an increase of 37.7% compared to 2009. This growth is due to both the increased volume of direct lending by BDB and the higher average interest rate. For 2009 the average interest rate on loans to enterprises amounted to 7.75%, while for 2010 at reached 8.32%.

The interest income from the on-lending program of the BDB (the parent company) in 2010 is in the amount of BGN 22,887 thousand and has increased by 47.7% compared to the previous year. The majority of loans to banks were agreed in 2009, so that interest income from this part of the assets are received on the time of its disbursement, while in 2010 the interest income are received during the year.

The interest income from deposits in other banks in 2010 amount to BGN 4,051 thousand and have decreased by 42,3%. The interest income from portfolio securities held by Group is BGN 1,052 thousand for 2010, which is equivalent to a 13% decline in comparison to the volume for 2009. In both cases the underlying reason for the decrease of the interest income is the dynamics of interest levels on the interbank market in the country and the profitability of the securities.

The interest expenses on borrowed funds have increased to BGN 11,172 thousand (BGN 5,529 thousand in 2009). This is due to the increased volume of funds with which the lending activity of the bank has increased. The interest expense on borrowed funds from international institutions is in the amount of BGN 5,162 thousand and have increased by 39,9%. The interest expense on customer deposits is in the amount of BGN 1,477 thousand and has increased by 35% compared to 2009. The interest expense on deposits from other banks has increased from BGN 214 thousand in 2009 to BGN 1,602 thousand in 2010. In 2010 an increase of interest expenses on the issued debt instruments is observed, which reached BGN 1,285 thousand (BGN 209 thousand) due to new bond issues of BDB.

In 2010 was set aside additional provisions against impairment loss in the amount of BGN 14,721 thousand. In 2010 by the issued bank guarantees are charged provisions in the amount of BGN 8,024 thousand.

Balance indicators

As of 31.12.2010 the total assets of the Group have reached BGN 1,370,640 thousand, showing, a growth compared to the end of 2009, of 55.8 %. Significant contribution to the growth of the statement of financial position has the signed agreement with the Council of Ministers of the Republic of Bulgaria for settlement of obligations of primary, secondary and lower level budget spending institutions payable from the state budget. For carrying out of transactions on the purchase of receivables (discount loan) the commitment of BDB AD is to provide its own resource in the amount of BGN 100 million. At the end of 2010 the volume of the discount loans are in the amount of BGN 266,190 thousand.

The loan portfolio of the Group as per the statement of financial position as of 31.12.2010 is BGN 367,590 thousand. The increase compared to 2009 is 32.1%.

The volume of indirect lending of BDB as of 31.12.2010 is in the amount of BGN 461,676 thousand (BGN 462,885 thousand at the end of 2009).

Other receivables from banks as of 31.12.2010 are in the amount of BGN 198,531 thousand and are increased by 104.8% compared to 2009.

In 2010 the Group explore diversification opportunities for its loan portfolio. The loan portfolio is formed only by funding provided by the Bank (parent company) as presented below:

Loan Portfolio Structure by sectors, in '000 BGN

			Structure	
	2010	**2009**	**2010**	**2009**
Manufacturing	125 537	74 486	31.1%	24.8%
Tourism	34 140	25 416	8.5%	8.5%
Wholesale and retail trade	19 234	48 475	4.8%	16.2%
Agriculture	22 500	25 007	5.6%	8.3%
Construction	74 880	64 872	18.6%	21.6%
Transport	84 591	12 912	21.0%	4.3%
Others	42 400	48 591	10.5%	16.2%
Total	**403 282**	**299 759**	**100.0%**	**100.0%**

The share of performing loans is 88.3% at the end of 2010 (compared to – 87.6% at the end of 2009). The allocation of the loan portfolio according to risk classification groups in accordance with the applicable international standards for financial statements is as follows:

	2010		2009	
IFRS classification group	**Amortized amount IFRS**	**%**	**Amortized amount IFRS**	**%**
Standard	356 078	88.3	262 721	87.6
Watch	12 764	3.2	14 045	4.7
Non-performing	8 091	2.0	6 167	2.1
Loss	26 349	6.5	16 826	5.6
Total	**403 282**	**100**	**299 759**	**5.6**

The structure of the portfolio securities is reflected in the chart below. The portfolio volume at the end of 2010 increased by 26.3% compared to the previous year. The bank keeps its conservative policy regarding investment of securities.

Structure of portfolio securities in '000 BGN

	2 010	2 009
Corporate bonds	14 841	12 099
Shares of unlisted compaies	1 903	1 815
Shares of listed compaies	207	276
EUR denoinated state bonds (ZUNK)	971	-
Total:	**17 922**	**14 190**

In 2010 the Bank (parent-company) increased almost in double the borrowed funds from international institutions ensuring its lending activity.

Funds borrowed from international institutions, in '000 BGN

	2010	2009
Long-term borrowed funds		
Council of Europe Development Bank	58 801	44 065
European Investment Bank	54 090	7 325
KfW	49 062	-
Nordic Investment Bank	31 437	16 911
Japan Bank for International Cooperation	28 804	19 030
DEPFA Investment Bank	21 348	25 229
Dexia Kommunalcredit Bank	19 512	19 473
BSTDB	15 697	15 590
China Development Bank	7 869	9 830
Short-term borrowed funds		
HYPO NOE Gruppe Bank	39 121	-
CITIBANK.	23 470	-
Sumitomo Mitsui Banking Corporation Europe Limited	5 616	-
Total	**354 827**	**157 453**

The significant part of the long-term borrowed investment resources – 70% is provided from the Council of Europe Development, European Investment Bank, Nordic Investment Bank, Depfa Investment Bank, Dexia Kommunalcredit Bank, KfW and Japan Bank for International Cooperation. The cost of these credit lines is

formed by the interest rate, based on 3 or 6-month EURIBOR plus the relevant margin. Only for the credit line from the Japan Bank for International Cooperation the interest rate is calculated by CIRR, EURIBOR and margin.
These credit lines are provided in EURO and are long-term. The final repayment of individual lines is in the period from 2013 to 2022. The first loan provided by the Japan Bank for International Cooperation under loan agreement is from 2006 with maturity in 2011.

Other borrowed funds:

Direct loan by the Ministry of Finance with funds from KfW – BDB AD, précised as "Bearer of projects" has received EUR 4,929 thousand for the purpose of financing the commercial banks, which will lend investment projects of Bulgarian micro-and SMEs. The KFW's funds, provided by the Ministry of Finance, for trust management – the funds are provided to commercial intermediaries banks for financing of small and medium enterprises, after selection and monitoring of banks from BDB AD;

Long term contracts for refinancing with funds from State Agricultural Fund – for providing specific loans for agricultural producer. The refinancing amount of Agricultural Fund as of 31.12.2010 is BGN 6,472 thousand.

The deposits from commercial banks placed with BDB have reached BGN 91,538 thousand as of 31.12.2010, while at the end of 2009 they were BGN 28,800 thousand. The increase is primarily due to the increase of short-term deposits with original maturity up to one month. At the end of 2010 they were in the amount of BGN 64,140 thousand, while at the end of the 2009 were at the amount of BGN 8,998 thousand. Furthermore in 2010 BDB has attracted term deposits with a maturity between 6 and 12 months in the amount of BGN 23,476 thousand.

At the end of 31.12.2010 the deposits of the companies and sole traders are in the amount of BGN 52,850 thousand (BGN 46,842 thousand as of 31.12.2009). The customer's deposits do not represent a main financing source of credit activities of BDB.

Risk management

In the ordinary course of business the Group is exposed to different financial risks. These risks are identified, measured and observed by the assistance of various control mechanisms in order to be managed and to avoid the concentration of unjustified risk exposures. The process of risk management is important for the Group and its existence. The main risks to which the Group is exposed to are credit, market, liquidity, and operational

Credit risk

The credit risk is the risk that the customers will not be able to pay all amounts due to the bank in the envisaged period.

The management of the specific credit risk is performed by the Credit Committee of the Bank (the parent company) and is observed simultaneously by the Management and Supervisory board. The management of credit risk function ensures the implementation of appropriate policy and the compliance with this policy with the associated procedures and controls for ongoing monitoring of the respective loan. The risk exposure of the portfolio is managed by regular analysis of the borrowers' ability to comply with its obligations according to payment of interest and principal and by setting of appropriate credit limits. The credit risk is reduced partially through the adoption of different collateral types.

On the basis of a signed guarantee letter by the European Investment Fund (EIF) in 2003 and subsequent annexes the Bank participates in guarantee scheme for provision of loans to small and medium enterprises (SMEs) under the long-term agenda of the European Union for SMEs. EIF is committed to provide direct guarantee which covers 50% of the residual loss of principal and interest on each loan by loan groups included in the Bank's sub-loan portfolio according to the provided conditions by the agreement, but no more than EURO 2,520 thousand. The parent company (the bank) has applied a reduced collateral requirements for loans included in the portfolio guaranteed by EIF.

As of 31.12.2010 the total exposure on loans guaranteed by the EIF is in the amount of BGN 16,924 thousand (31.12.2009: BGN 22,235 thousand). This amount includes the disbursed, but not the outstanding portion of loans and the commitments made by the bank on undisbursed loans. On that date the payment commitment by EIF is in the amount of BGN 4,903 thousand, as the covered losses by EIF are in the amount of BGN 4,115 thousand (31.12.2009: BGN 2,876 thousand).

On 13.02.2009, the Parent company (the bank) has signed a new agreement with EIF for guarantee line in the amount of EURO 60 million. EIF is committed to provide a direct guarantee, which has to cover 50% of the residual loss on principal and interests of each loan of the loan group included in the loan sub-portfolio of the Bank, formed under the agreement's conditions but generally not more than 5.4% of the guaranteed portfolio. In 2010 the agreement has been canceled in due to the necessity of new guarantee line for NGF EAD and the exhausted EIF limit for Republic of Bulgaria.

For the purpose of risk management the Group applies a system of limits including sectoral restrictions. In order to effectively manage the risk exposure in NGF EAD (the subsidiary) are applied limits in respect of the quality of guaranteed portfolios of the bank partners as well as limit on the paid guarantees. The Group's loan portfolio is identified by concentration of long-term loans, which is a result of specific tasks by the parent-company (the bank) to support the SMEs.

The main purpose of the instruments in the form of guarantees and letters of credit is to ensure funds to the customer according to their necessity. Guarantees and letters of credit represent irrevocable commitment by the Bank to make payments in case that the customer does not fulfill its obligations to third party, take the same credit risk as well as the loans. The documentary and commercial letters of credit, represent written commitment of the Bank obligations on behalf of the customer, authorized a third party to withdraw funds to a specified amount under certain conditions. Usually they are covered with cash, hence bearing a lower risk than the direct lending.

The guarantees issued by the Group under Project "Micro-credit Guarantee Funds" of Ministry of Labour and Social Policy are unsecured. In the event of activation of a component from issued guarantee by any of the subsidiaries in the group, the provided payment shall not be assessed as an ultimate loss in view of the fact that the Bank's partner has an obligation to take all necessary operations for implementation of collateral on the raising loan and to recover the respective amount.

The undisbursed funds on approved loan agreements in the form of loans, guarantees and letters of credit are committed to the parent company (the bank). In relation to the credit risk the parent company (the bank) is potentially exposed to lose the total amount of the undisbursed loans. The probable loss amount, however, is lower than the amount of all undisbursed funds, as most of this type of commitments require for maintaining of specific credit standards by customer. The parent company (the bank) observes current the terms of loans disbursement, as the long-term commitments generally have a higher credit risk than the short-term.

In the case the trade with banks without collateral the enforcement regime of the established limits is strictly monitored by the Group's management. Deviations from the mentioned regime are allowed only by decision of the Management Board of the Bank.

Market risk

Market risk is the risk of adverse movements in the level of interest rate, the exchange rates between different currencies and the market price of securities and other financial instruments. These movements can affect the Bank Group's profitability as a whole.

Interest rate risk

The Bank (parent company) is always exposed to the fluctuations of the market interest rates, which affects its financial condition and cash flows. The interest rate margins can increase as a result of such changes, but can as well decline or cause losses in case of unexpected movement or sharp changes in the direction of movement.

The interest rates on assets and liabilities, denominated in BGN are based on the movement of the basic interest rate determined by the Central Bank (BNB), and those fluctuations are predictable to some extent. The Bank's Management permanently monitors the movements in foreign currencies, the mismatch in the interest rate levels and in the maturity structure of its assets and liabilities. The Management also monitors permanently the changes in the price and yield of the traded government securities. The Analysis Department of BDB AD (the parent company) monitors on a daily basis the factors that cause market risk in order to ensure compliance with the adopted by the Bank market risk limits. The results of the current analysis are reported for information and decision to the Assets and Liabilities Committee (Liquidity Committee), which monitors the levels of market risk to which the Group is exposed.

Risk management in the Bank Group is in compliance with the requirements of the supervision authorities. The specific principles and procedures are described in the internal rules and instructions of the parent company (the Bank), and through them the risk profile of the Bank is identified, estimated, monitored and preventive measures are undertaken in accordance with the applied policy.

In the securities portfolio (classified as available-for-sale) the proportion of securities with fixed income (the main source of interest imbalance as at 31.12.2009, given the variable nature of the interest rates conditions on liabilities of the Group) is insignificant.

Finding a market for the funds is subject to the internal rules for assessment of counterparty risk, as the practice of the Group is to work exclusively with first class financial institutions. The financing of commercial banks, within the programs for funding of SMEs and farmers, is as well subject to the internal rules for assessment and limitation of the credit risk.

The table below summarizes the interest rate exposure and risk of the Group. The table includes the assets and liabilities of the bank at book value according to the interest clauses specified in the contracts, their maturity structure and sensitivity to the behavior of the interest rates.

Interest imbalance in '000 BGN

Basic Periods	**up to 1 month**	**1-3 *months***	**3-6 months**	**6-12 months**	**1-5 years**	**over 5 years**	**Non-interest**	**Total**
Financial Assets	329 773	215 757	13 714	289 473	110 317	355 970	35 804	**1 350 808**
Financial Liabilities	145 208	170 889	123 794	157 925	94 950	6 779	6 524	**706 069**
Interest Imbalance	**184 565**	**44 868**	**(110 080)**	**131 548**	**15 367**	**349 191**	**29 280**	**644 739**

Currency risk

The Currency risk is the risk due to the negative impact of the variations in the prevailing currency exchange rates on the financial situation and cash flows of the Group as a result of open currency positions. The net position in each currency is permanently supervised by the Liquidity Department of the parent company (the Bank). The policy of the Group is the main part of the assets and liabilities and respectively the banking operations of the Bank are denominated in EUR or BGN and the third currency with which BDB operates is the USD but in very limited as amount positions and volumes. The Bank does not carry out significant transactions and does not hold significant open positions in currencies other than EUR. As the Bulgarian currency is pegged to the EURO, there is no significant open currency risk for the Bank.

The following table summarizes the exposure of the Group in relation to the currency risk. The table includes the financial instruments and the contingent liabilities and commitments of the Bank at book value, categorized by type of currency.

Exposure to currency risk in '000 BGN

	USD	EUR	Other Currencies	BGN	Total
Financial Assets	546	447 400	18 594	884 268	1 350 808
Financial Liabilities	530	474 229	18 896	212 414	706 069
Net open currency position	16	(26 829)	(302)	671 854	644 739
Contingent Liabilities and Commitments	-	92 653	-	118 265	210 918

Banking regulators under the Bulgarian legislation

In accordance with the requirements of the banking legislation in Bulgaria and the instructions of Bulgarian National Bank (BNB) - Central Bank, the Bulgarian Development Bank AD (the parent company) individually and respectively as a banking group, must observe certain restrictions relating to the following ratios:

Total capital adequacy

The Bank (the parent company) calculates the total capital adequacy on a consolidated level as a percentage of the net capital base and the overall risk component of the assets of the Group. The capital base includes the authorized share capital, Reserve Fund and other reserves up to a certain size. The overall risk component of the consolidated assets includes statement of financial position and off-statement of financial position exposures of the Group, weighted at risk.

The reported capital adequacy of the Group as of 31.12.2010 is 65.66 % (31.12.2009: 88.97%).The minimum required capital adequacy ratio is 12%. The minimum required (recommended) primary capital adequacy is 10%.

Minimum required share capital

As of 31.12.2010 the paid-in authorized share capital of the parent company (the Bank) is BGN 601,774 thousand (31.12.2009: BGN 589,574 thousand). The Bank has fulfilled the requirements of BGN 10,000 thousand of the Central Bank for the minimum required share capital, respectively equity, as well as the capital requirements of the Law on Bulgarian Development Bank.

Other regulatory ratios:

⇒ Capital base to open foreign currency positions on consolidated level – the maximum ratio is up to 30 % for all currencies and respectively up to 15 % for each other currency, except for positions in EURO. As of 31.12.2010 the Bank has fulfilled the requirement for this ratio (31.12.2009: fulfilled);

⇒ Liquid assets to net cash flows – the Central Bank (BNB) monitors on a individual level (bank level) the size and composition of the liquid assets of the banks and if necessary sets minimum liquidity ratios for each bank, which has to be achieved within a specified period as a percentage of the liquid assets to borrowed funds. As of 31.12.2010 the liquid assets ratio (LAR) of the Group is 15.73 % (31.12.2009: 22.35%). BNB has recommended a liquid assets ratio under Ordinance 11 to the borrowed funds from institutions other than credit institutions, individuals and households of 15%. The ratio "liquid assets to net cash flows" on a consolidated level as of 31.12.2010 for the Group is 54.47 % (for 2009: 68.99%).

Furthermore the Group through its parent company (the Bank) maintains: a) minimum reserves on accounts with the Central bank in the amount of BGN 9,975 thousand and in the amount of 10 % of the borrowed funds under deposits and loans, without budget, and 5% - from borrowed funds from non-residents

(31.12.2009: BGN 3,912 thousand and 10% - for all borrowed funds), and b) reserve guarantee fund which amounts to BGN 66 thousand (31.12.2009: BGN 81 thousand) established by BNB as an additional guarantee mechanism to ensure the settlement of payments, initiated by the system operators to the gross settlement system in real time RINGS.

Capital base compared to the size of investments made in real estate, equipment, shares from non-financial institutions on a consolidated level – all of the Group's investments in such a form could not exceed the amount of its capital base, but only those in: a) real estate and equipment – up to 60% of the capital base, b) shareholdings in subsidiaries which are not banks, insurance companies, investment agents or other financial institutions – up to 40% of the capital base (according to the Law on Bulgarian Development Bank), and c) shareholdings which are not banks, insurance companies and investment agents – up to 50% of the capital base (according to the Law on Credit institutions). The amount of direct or indirect involvement of the parent company (the Bank) in a company that is not a bank, insurance company, investment agent or financial institution could not exceed 15% of the capital base according to the Law on Bulgarian Development Bank (10% according to the Law on Credit Institutions).

As of 31.12.2010 the Bank has been in compliance with all the regulatory requirements of BNB and the Bulgarian legislation.

International activities, credit rating and projects of significant scale

BDB AD (the parent company) continues the successful development of its partnership with major European and international financial institutions. These relationships provide opportunity for the Bank (the parent company) not only to be a preferred business partner but also to make use of the best banking practices as well as to participate in their development and implementation.

During 2010 the Bank (the parent company) has negotiated a resource for EUR 102 million from European and international financial institutions, has concluded loan agreements for EUR 82 million and has utilized more than EUR 110 million under these and other signed loan agreements.

As a shareholder with 0.10% of the capital of EIF, BDB regularly participates in the Committee of the minority shareholders of the financial institution and discusses the guidelines for the future activities and the policy of EIF.

In 2010 the 2009 loan agreement in the amount of EUR 25 million between BDB and EIB has been fully utilized. This was the second fully utilized and effectively used credit line from EIB. In mid-2010 the loan agreement between BDB and the Council of Europe Development Bank (CEB) which was signed on 18 November 2009 in the amount of EUR 15 million has been fully utilized.

The excellent history of relationship with these European financial institutions gave an opportunity for BDB AD (the parent company) to continue the negotiations for expanding the cooperation with these institutions. In November 2010 the Administrative Council of CEB has approved a third loan to the Bank (the parent company) in the amount of EUR 20 million. This loan will be aimed at supporting the SME sector in Bulgaria.

Second credit line in the amount of EUR 20 million with Nordic Investment Bank has been negotiated. The funds will be used for projects related to renewable energy or environmental protection that are of strategic importance for Bulgaria. The funds also may be used for investment projects with the participation from NIB member-countries. The funds from this credit line can be used both for direct and indirect financing through commercial partner-banks of BDB (the parent company).

The development of the partnership relations with the German development bank KFW has great importance for BDB AD (the parent company). On 27 July BDB AD (the parent company) signed a credit line in the amount of EUR 25 million which was fully utilized in 2010. This is the first direct loan from the German financial institution provided to the Bank (the parent company). The aim of the loan is the direct lending of long-term investment projects of small and medium enterprises as well as the provision of credit lines to commercial banks for the financing of the real sector of the Bulgarian economy.

Several short-term agreements worth a total of EUR 35 million were signed with Citibank – Sofia branch, HYPO NOE Gruppe Bank AG, Austria and Sumitomo Mitsui Banking Corporation Europe Limited. Part of these funds were used for refinancing contracts for cession according to the decision of the Council of Ministers № 197 from 08.04.2010 which was part of the mechanism for settlement of liabilities in the state budget.

In August 2010 YEN 1,121 billion were utilized under the loan agreement from 2009 between BDB and the Japan Bank for International Cooperation. These funds are used for financing of long-term investment projects in Bulgaria, for the implementation of which Japanese equipment has been purchased.

Within the expansion of the partnership relations with similar financial institutions, in 2010 were signed co-operation agreements with the Export-Import Bank of Korea, the Macedonian Development Bank, the Croatian Bank for Reconstruction and Development and the Industrial Development Bank of Turkey.

As a respected partner, BDB AD (the parent company) also maintains an intensive dialogue with:

- KFW IPEX-Bank, Germany;
- Instituto de Credito Oficial (ICO), Spain;
- NRW (North Rhine-Westphalia Bank), Germany;
- Hungarian Export-Import bank, Hungary;

BDB AD (the parent company) is an active member of the European Association of Public Banks (EAPB) since 2005. In 2010 the Bank (the parent company) continued to take an active part in the workshops and seminars organized by EAPB related to the development of the European banking and financial legislation. In addition, the Bank (the parent company) has a permanent representative who participates in the Committee on Competition and Development. In the same time the membership in EAPB helps exchange experience and best practices between the Bank (the parent company) and other European public banks.

In June 2010, BDB AD (the parent company) hosted a meeting of the chief economists of the financial institutions, which are members of the European Association of Public Banks. The forum was held within two days and during that time the current economic situation in the EU, the role of the euro and its impact on the real economy in Europe were discussed. Since 2010 a representative of the Bank (the parent company) was elected as a member of the managing board of the association.

BDB AD (the parent company) is also a member of the Network of European Financial Institutions for SME (NEFI), which includes 15 financial institutions for development from 14 different countries members of the EU and Croatia. The objectives of NEFI are on one hand to improve the exchange of information, know-how and experience in the financing of SME between the banks and on the other hand to conduct constructive dialogue with the EU institutions with regard to the problems with financing of SMEs in the EU. During the last year the Bank participated regularly in the meetings of the Permanent Working Group of the Network of European Financial Institutions.

In September 2010 BDB AD (the parent company) organized and hosted the regular autumn meeting of the Network of European Financial Institutions for SME. During the forum, representatives of leading European Development Banks discussed the possible initiatives under the program of the EU "Progress", the NEFI participation in various international forums, the implementation of anti-crisis measures, state aid and other matters of interest for the NEFI members.

BDB AD (the parent company) retains its status as an observer and participates in the activity of the organization "European Union institutions specialized in long-term lending" together with EIB, EBRD, Caisse des depots et consignations (CDC), Cassa depositi i prestiti (CDP) and others.

In addition, BDB AD (the parent company) is a member of the following organizations, which help to identify the opportunities for development of pre-export and export financing of BDB:

- French-Bulgarian Chamber of Commerce;
- German-Bulgarian Industrial Chamber of Commerce (GBICC);
- Bulgarian-Nordic Chamber of Commerce;
- Bulgaria-Japanese Economic Council at BCCI;
- American Chamber of Commerce in Bulgaria;

The National Guarantee Fund is a full member of AECM (European Association of Mutual Guarantee Societies) and participates in its annual meeting. The purpose of the member organizations in AECM is providing loan guarantees to SMEs which have economic viable projects, but are unable to provide sufficient collateral for bank loans. In 2009 the members of AECM had a total volume of guarantee portfolio in the amount of € 70 billion and issued a total of € 34 billion new guarantees.

In the second quarter of 2011, it is expected that the European Investment Fund (EIF), will approve a counter-guarantee line in the amount of EUR 60 million in favor of the NGF, which will also contribute to the development of the guarantee potential of NGF.

On 23 December 2010, the international rating agency Fitch Ratings has confirmed the long-term rating of BDB AD (the parent company) as issuer in long-term debt in foreign currency „BBB-". The perspective remains negative. The short-term rating of the bank is confirmed as „F3", and the individual is „D". The rating is considered as an investment rating by the investment community. The confirmed ratings by the agency reflect the high level of capitalization of the bank and the availability of support from the shareholder – the Ministry of Finance.

BDB AD (the parent company) also has a rating „BBB-„ with stable perspective from the Bulgarian Credit Rating Agency (BCRA).

Management of the Group

Bulgarian Development Bank AD has a two-tier management structure that is composed by a Supervisory Board with three members and a Management Board with three members.

The Supervisory Board of the Bank made changes in the Management Board with a decision – Proceedings No 6 dated 16.06.2010, by releasing Mrs. Dimana Rankova from her capacity as member of the Management Board.

As of 31.12.2010 the Supervisory Board and the Management Board have the following members:

Supervisory Board:

Roumen Porodzanov – Chairman;

Garabed Minasian - Member;

Francis Adam Уейкфилд Carpenter – Member;

Management Board:

Dimitar Dimitrov – Chairman;

Sasho Tchakalski – Deputy Chairman;

Angel Gekov - Member;

As of 31.12.2010 the Executive Directors of the Bank are: Dimitar Dimitrov, Sasho Tchakalski and Angel Gekov. As of the 31.12.2010 the Bank has two appointed procurators – Krasimirka Velinova-Saeva and Todor Vanev. The Bank is managed and represented jointly by two of the three Executive Directors, or by a procurator and one of the three Executive Directors.

The remuneration of the members of the Supervisory Board and of the Management Board for 2010 amounts to BGN 398 thousand.

The members of both Boards did not acquire and don't own shares of the Bank as well as special privileges to buy (acquire) such shares during the year.

There are no concluded contracts in accordance with Art. 240 "b" of the Commercial Act between the members of the Supervisory Board and the Management Board or related to them persons, on one side, and the Bank, on the other side, that are not related to their ordinary activity or that defer significantly from the market conditions.

The participation of the members of the Supervisory Board and Management Board in commercial entities as un-limited responsible associate, possession of more than 25 per cent of the capital of another company as well as the participation in the management of other commercial entities or cooperatives as procurators, managers or members of Management Boards, under Art. 247, par. 2, point 4 of the Commercial Act, is as follows:

Participation of the members of SB and MB in the capital of other companies:

Roumen Andonov Porodzanov, Chairman of the Supervisory Board – no participations;

Garabed Ardaches Minassian, member of SB – no participations;

Francis Adam Wakefield Carpenter is owner of:

„Ayers Rock Lux", Luxembourg = 100% of the capital

Dimitar Kirilov Dimitrov, Chairman of the MB and Executive Director, is in possession of :
"Balance Commerce" OOD, Identity Number (IN) 121902421 – 50% of the capital;
„Dimos" OOD, IN 131375686 – 33.33% of the capital;
„P G D" OOD, IN 175247211 – 50% of the capital

Sasho Petrov Tchakalski, member of the MB and Executive Director, is in possession of:
„Dimos" OOD, IN 131375686 – 33.33% of the capital;
Angel Kirilov Gekov, member of the MB and Executive Director – no participations.

Participation of the members of the SB in the management of other associations:
Roumen Andonov Porodzanov, Chaiman of the SB
„Sofia-Bulgarian Tobacco" AD, IN 831520311 – member of the Board of Directors;
Garabed Ardaches Minassian, member of the SB – no participations
Francis Adam Wakefield Carpenter, member of the SB:
I.P. Group Pls – manager;
17 Capital , London – member of SB;
Delta Capital Tetra Fond SA – member of SB;
I.V.C.I, Istanbul – member of the Investment Committee

Participation of members of the MB in the management of other associations:
Dimitar Kirilov Dimitrov, Chairman of the MB and Executive Director:
"Andema" AD, IN 121067932 – member of the collective management body;
"Balance Commerce" OOD, IN 121902421 – manager;
Energy Efficiency Fund, IN 131320278 – member of the collective management body;

Sasho Petrov Tchakalski, member of the MB and Executive Director – no participations
Angel Kirilov Gekov, member of the MB and Executive Director
National Guarantee Fund EAD, IN 200321435, member of the collective management body

Participation of the procurators in the management of other associations:
Todor Nikolov Vanev, procurator
National Guarantee Fund EAD, IN 200321435, Chairman of the Board of Directors

The subsidiary company of Bulgarian Development Bank AD – the National Guarantee Fund (NGF), has a single-tierl management structure – Board of Directors whose members may vary between three and five in accordance with its Statutes.

The Board of Directors (BD) was increased to three members with the decision of the sole owner of the capital and with decision of the Management Board of the Bulgarian Development Bank AD (the parent-company) dated 17.03.2010 Mr. Angel Kirilov Gekov was elected as member of the Board of Directors of the NGF.

The Board of Directors has the following composition as of 21.12.2010:

Todor Vanev – Chairman of the Board of Directors

Svetlin Statkov – Member of the Board of Directors and Executive Director;

Angel Gekov – Member of the Board of Directors.

The remuneration of the members of the Board of Directors for 2010 amounts to BGN 51 thousand.

There are no concluded contracts in accordance with Art. 240 "b" of the Commercial Act between the members of the Board of Directors or related to them persons, on one side, and the Fund, on the other side, that are not related to their ordinary activity or that defer significantly from the market conditions.

The participation of the members of the Board of Directors in commercial entities as un-limited responsible associate, possession of more than 25 per cent of the capital of another company as well as the participation in the management of other commercial entities or cooperatives as procurators, managers or members of Management Boards, under Art. 247, par. 2, point 4 of the Commercial Act, is as follows:

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

Todor Nikolov Vanev, chairman of the BD – no participations;

Svetlin Dimov Statkov, member of the BD and Executive Director – no participations;

Angel Kirilov Gekov, member of the BD – no participations

Participation of members of the BD in the management of other companies:

Todor Nikolov Vanev, chairman of the BD

Bulgarian Development Bank AD, IN 121856059, procurator

Svetlin Dimov Statkov, member of the BD and Executive Director – no participations

Angel Kirilov Gekov, member of the BD

Bulgarian Development Bank AD, IN 121856059, member of the collective management body and Executive Director

Development of Bulgarian Development Bank AD during 2011

BDB forms its financial group with three subsidiary companies – the Fund for Capital Investment, the National Guarantee Fund EAD and JOBS Micro Financing Institution EAD, in accordance with the Law for the Bulgarian Development Bank and in order to fulfill its objectives during 2011. The portfolio that is administrated by the National Guarantee Fund and secured by Bulgarian Development Bank includes 2 931 loans with a total guaranteed amount of BGN 39 594 thousand as of 31.12.2010. The National Guarantee Fund EAD has signed agreements with 11 banks within its own guarantee programs with a total commitment of BGN 80 000 thousand.

The Fund for Capital Investment is not yet established. The start of the second subsidiary company of BDB will depend upon the economic conjuncture in short-term and mid-term perspective.

The JOBS Micro Financing Institution EAD (JOBS MFI) was established as a single joint-stock company with 100% participation of BDB. The address of the management of the JOBS MFI is: 10, Stefan Karadzha Street, Sofia. The registered share capital is 45 618 personal shares with a nominal of BGN 100 per share as of 31 December 2010.

Financial purposes and tasks

The prime financial objective of the Group is the achievement of a stable growth of the benefit, respectively a sustainable level of capitalization in order to increase the Reserve Fund.

The planned growth of the net result of the Group for 2011 is 31% and reflects the increased volume of operations. The targets for a capital return ratio of 4.8% for 2011 and maintenance of a steady level of this indicator within the long-term strategic horizon are formulated on this basis.

The achievement of the objective with regard to the result shall be accomplished through smooth absorption of the capital reserves and growth in profitable (risk) assets. The level of the capital adequacy of the Bank shall be within the range of 60-65% at the end of 2011. In the medium-term period, the Bank's objective is to absorb its capital reserves to the levels of 20-25%.

BDB (the parent company) plans a significant increase of the loan portfolio for direct lending to clients from the non-financial sector as well for on-lending. It is envisaged that the loan portfolio of the Bank shall increase by 45% by the end of 2011. The Bank has restrained its on-lending program in comparison with its plans due to the important scale of the operation for the purchase of the receivables of primary, secondary and lower level budget spending institutions, and the need to provide adequate funds for its completion. BDB's Program for on-lending shall increase by BGN 190 million in 2011 what shall be done by stages during the second half of the year. At the end of 2011 BDB's on-lending program shall reach a total amount of BGN 645 million. The loan portfolio for corporate customers is planned to reach a total amount approximately BGN 695 million. BDB maintains its medium-term goal and the share of receivables from customers in the non-financial sector shall not exceed 40% of the total loan portfolio (including banks).

For the successful implementation of the defined objectives it is essential to sustain optimal levels of risks exposure in terms of complicated economic situation and relatively intense, but corresponding to the role of the Bank, increase in the volume of operations. The efforts in managing the overall risk profile shall be focused on the following tasks:

1. To maintain the share of the commitments on granted loans at around 17% for 2011;
2. Strict compliance and routine analysis of the adopted limits for exposures to sectors, industries and regions in order to prevent increased concentration risk;
3. Diversification of the loan portfolio by both expanding the customer base and types and variation of the product portfolio;
4. Diversification of the pool of long-term borrowed funds, including expansion of the bond issuance program of the bank.

The main target of the National Guarantee Fund EAD (subsidiary company) is until the end of 2011 to achieve as quantitative indicator the issue of new guarantees for BGN 80 million under loans of BGN 160 million as well to collect the paid by BDB AD (the parent company) guarantees under the agreements with 8 commercial banks under the Micro-credits Guarantee Fund.

The fulfillment of the tasks of the National Guarantee Fund (NGF) shall reflect on some of the main financial parameters of its activity, namely:

- an increase of the incomes of the NGF during 2011 by 203% is planned while the incomes from the direct guarantee activity is planned to increase by 257%;

- the expenses of the NGF in 2011 shall increase by 177% while the most significant share in this increase shall have the provision costs that will change by 195%;
- the planned benefit from its activity before taxes for 2011 is BGN 2,067 thousand or relative increase by 249%.

A Financial Agreement for granting funds for the purpose of accomplishment of the guaranteed activity under the Operational Program for development of the Fishery sector 2007-2013 was singed by the National Guarantee Fund EAD and the Executive Agency for Fishery and Aquacultures (EAFA) under the Ministry of Agriculture and Foods of Republic of Bulgaria. EAFA provides funds to the amount of BGN 6 million to the NGF in order to improve the access to financing, to support the competitiveness, to speed up the completion of investments, while the Fund shall issue guarantees on loans granted by banks to borrowers for implementation of projects in fishery sector as well as counter-guarantees that the Fund shall issue to banks for advance payments on projects approved for support under the Operational Program for Development of the Fishery 2007-2013. NGF is the first company of the Group that has received a mandate to manage funds under European programs.

As a newly started company the main target of the Micro-financing institution is to grant BGN 5 957 thousand under financial leasing and BGN 1 180 thousand under loans.

Commercial tasks and objective

In 2011 the main priority for the Group will be to support the efforts made by the Bulgarian government for the successful utilization of the EU funds. The Group will actively cooperate with the Bulgarian government and all state intuitions which are engaged in the implementation of the measures and activities under the Operational programs "Competitiveness", "Transport", "Environment" and "Regional Development". The guidelines and tasks that are foreseen for execution in 2011 are as follows:

- Financing of the funding gap of beneficiaries under the Operational programs "Transport", "Environment" and "Regional Development". The main beneficiaries under these measures are municipalities, budget and state enterprises, whose projects under the three operational programs are approved by the European Investment Bank.

- Securing financing for projects under Operational program "Competitiveness", that will contribute to the technological upgrade of the Bulgarian economy. The financed projects should bring into operation new technologies, that will bring the activities of the financed enterprises in line with the European standards for achieving of high productivity; production of competitive products, goods and services.

Another priority of the Group's activities is to support the enhancement of the competitiveness of the Bulgarian economy through financing of projects which aim at development and implementation of new technologies and increasing the energy efficiency and environmental friendliness of the Bulgarian economy. The guidelines and tasks that are foreseen for implementation in 2011 are as follows:

- Financing of projects and companies specialized in the high tech sector.
- Extensive participation in infrastructure projects, as one of the adopted measures for increasing the overall competitiveness of the country.
- Increasing the intensity of the activities under the investment banking and project financing.
- Strengthening the focus on financing of projects aimed towards improving the energy efficiency of the Bulgarian economy, including financing of renewable energy projects.

Investments

During the planning period, the bank expects to implement an investment program adequate to its financial capabilities and objectives.

The projects are presented below:

National Guarantee Fund

In 2011 the Bank (parent-company) foresees to transfer its contribution in the capital of the National Guarantee Fund (subsidiary) and to increase the amount of paid-in capital from BGN 22.5 mio (at the end of 2010) to BGN 80 mio (at the end of 2011).

In 2011 the National Guarantee Fund (subsidiary) plans development and acquisition of a new software product for management of the guarantee activity. The maximum planned cost for this is BGN 30 thousand.

Capital Investment Fund

The investigation of the current financial and economic situation in the country and the state of the banking market with the purpose of the possible creation of a new subsidiary of the Bank – Capital Investment Fund, will continue. The institution could be established at the earliest in the second half of 2011. Its function will be to assist the development of Bulgarian small and medium companies through:

- Participation in their capital;
- Providing advisory services regarding capital structure, as well as consulting and provision of services to companies on their transformation under Art. 261 on the Commercial Code;
- Providing investment advisory services;
- Providing advisory services and management of pools of securities of small and medium enterprises.

The Capital Investment Fund will participate in the capital of small and medium enterprises in order to improve their competitiveness, to increase their production capacity, to provide funds for R&D and others.

Reconstruction of the building of BDB AD

2011 will mark the beginning of the actual period of reconstruction of the building of the bank. The expectations are that the final budget for the project will be determined after conducting a tender for selection of general contractor to the construction works. The effect on the current expenses of the bank is a rent cost for offices, which for 2011 is foreseen to be in the amount of BGN 716 thousand.

General management tasks and objectives, factors with important impact on the plan completion

The main goal of the general management process in the Group is its structuring as an effective and integrated financial group.

In view of the expansion of the operations of the existing company NGF EAD, the activity of the Micro-Financing Institution and the potential creation of a capital investment fund, particular attention should be given to the integration of these structural units with the units performing, support and control functions. In this regard, BDB AD will retain a major emphasis on the following activities:

- the activity on updating and further development of the internal regulations of BDB AD in 2010 will continue in the following directions: 1) current update of the regulations in order to reflect the changes in the existing general regulations for banking activity, and 2) complement of the legal framework of the bank with new documents, regulating the new activities, processes and products;

- critical areas of the current reporting as risk management and monitoring of the execution of the planned objectives to be observed with increased intensity, respectively operated in the logic of the process of internal analysis of the adequacy of the capital;
- the process of building of a management information system will continue, consolidating the necessity for the management of the Bank's information and creating prerequisites for analysis and assessment of scenarios for the development of the institution.

The implemented in the Bank's practice business model will be developed in terms of current reporting and supported with personnel, due to the need of achieving required minimum level of interchangeability.

The main priority in the activity of the NGF EAD for 2011 is to further develop the offered guarantee programs in support of SMEs.

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

The main goals of the Fund for 2011 are:

- To continue the active work on implementing in practice the guarantee programs in support of micro, small and medium enterprises in the Republic of Bulgaria. As a quantitative measure the NGF EAD has set to issue new guarantees in the amount of BGN 80 million under loans in the amount of BGN 160 million;
- The implementation of guarantee programs in support of enterprises from the Fisheries Sector, in accordance to the signed contract with the Executive Fisheries and Aquaculture Agency;
- Active work on the recovery of paid guarantees from BDB AD under agreements with 8 commercial banks signed under the Micro Credit Guarantee Fund scheme (MCGF);
- Development of guarantee schemes implemented by the Fund by improving the existing ones and if necessary implementing new ones.

To be able to execute its goals and tasks, the NGF will cooperate actively with the partner banks under guarantee agreements, it will continue to attract new partners and will also seek the cooperation of associations of small and medium businesses at national and regional level.

Subsequent events

With a resolution of the Registry Agency on the 14.01.2011 the JOBS Microfinancing Institution EAD, subsidiary of the Bank, was registered in the Trade Register. The Microfinancing Institution was established on 23.12.2010.

Statement of the Management

The management of the Bank (parent company) states that the enclosed annual financial statements present fairly the assets and financial position of the Group as of the end of 2010, as well as the financial result for the year then ended in accordance with the applicable law. Appropriate accounting policies have been used and have been applied consistently. The necessary estimations have been made in accordance with the principle of prudence when composing the annual financial-accounting report as of the end of the year. The management consistently applies the applicable accounting standards and the annual financial statements are prepared on the basis of an active company.

The management of the Bank (parent company) has made efforts for maintaining an appropriate accounting system, which is in compliance with the current accounting standards. The annual financial statements describe the status of the Group with reasonable accuracy.

All necessary measures for securing the assets of the Group, preventing fraud and avoiding any violation of the existing laws of the country and the regulations of BNB for bank regulation have been undertaken.

This activity report has been adopted on 30.03.2011 by the Management Board of BDB and is signed from:

Executive Directors:

D.Dimitrov

S.Tchakalski

A.Gekov

БЪЛГАРСКА БАНКА ЗА РАЗВИТИЕ АД СОФИЯ

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INDEPENDENT AUDITORS' REPORT

To the shareholders of
Bulgarian Development Bank AD

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Bulgarian Development Bank AD ("the Bank") which comprise the consolidated statement of financial position as at 31 December 2010, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements give a true and fair view of the consolidated financial position of the Bank as at 31 December 2010, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Other Matter

The consolidated financial statements of the Bank as at and for the year ended 31 December 2009 were audited by another auditor who expressed an unmodified opinion on those statements on 9 April 2010.

Report on Other Legal and Regulatory Requirements

Annual report of the activities of the Bank prepared in accordance with the requirements of article 33 of the Accountancy Act

As required under the Accountancy Act, we report that the historical financial information disclosed in the consolidated annual report of the activities of the Bank, prepared by Management as required under article 33 of the Accountancy Act, is consistent, in all material aspects, with the consolidated financial information disclosed in the audited consolidated financial statements of the Bank as of and for the year ended 31 December 2010. Management is responsible for the preparation of the consolidated annual report of the activities of the Bank which was approved by the Management Board of the Bank on 30 March 2011.

Krassimir Hadjidinev
Authorized representative

KPMG Bulgaria OOD

Sofia, 4 April 2011

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

Margarita Goleva
Registered auditor

BULGARIAN DEVELOPMENT BANK GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

In thousand of BGN	Notes	As of 31.12.2010	As of 31.12.2009
Assets			
Cash and balances with the Central Bank	15	33,694	17,971
Loans and advances to banks	16	660,207	559,847
Loans and advances to customers	17	367,590	278,265
Receivables from the State budget	18	266,190	-
Available-for-sale securities	19	17,922	14,190
Held-to-maturity securities	20	5,205	5,297
Property, plant and equipment, intangible assets	21	14,273	2,052
Deferred tax assets	13	146	117
Other assets	23	2,122	107
Assets held for sale	22	3,291	1,803
Total assets		1,370,640	879,649
Liabilities			
Deposits from banks	24	91,538	28,800
Deposits from customers, other than banks	25	52,850	46,842
Borrowings from international institutions	26	331,357	157,453
Other borrowings	27	151,303	20,628
Debt securities issued	28	78,499	-
Other liabilities	29	4,633	4,183
Total liabilities		710,180	257,906
Equity			
Share capital	30	601,774	589,574
Retained earnings	31	26,628	15,777
Revaluation reserves	31	(304)	(193)
Reserves	31	32,362	16,585
Total equity		660,460	621,743
Total equity and liabilities		1,370,640	879,649

The accompanying notes form an integral part of these consolidated financial statements.

БЪЛГАРСКА БАНКА ЗА РАЗВИТИЕ АД
СОФИЯ

Dimitar Dimitrov
Executive director

Angel Gekov
Executive director

Sasho Tchakalski
Executive director

Ivan Lichev
Chief accountant

Krasimir Hadjidinev
Authorized representative
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
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BULGARIAN DEVELOPMENT BANK GROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR, ENDING ON 31 DECEMBER 2010

In thousand of BGN	Notes	For the year ending on 31.12.2010	For the year ending on 31.12.2009
Interest income	6	63,768	44,413
Interest expense	6	(11,172)	(5,529)
Net interest income		52,596	38,884
Fee and commission income	7	2,211	1,902
Fee and commission expenses	7	(52)	(30)
Net fee and commission income		2,159	1,872
Net gains from foreign exchange deals	8	251	198
Net gains (losses) from available-for-sale securities	9	31	(30)
Other operating income	10	4,760	47
Total operating income		59,797	40,971
General and administrative expenses	12	(7,751)	(6,776)
Depreciation and amortization	21	(203)	(262)
Net impairment loss on financial assets	11	(22,745)	(16,254)
Profit before income tax		29,098	17,679
Income tax expense	13	(2,470)	(1,781)
Profit for the period		26,628	15,898
Other comprehensive income:			
Net change in fair value of available-for-sale financial assets	14	(111)	(339)
Income tax relating to components of other comprehensive income	14	-	79
Other components comprehensive income for the year, net of tax		(111)	(260)
Total comprehensive income for the year		26,517	15,638

The accompanying notes form an integral part of these consolidated financial statements.

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СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
София
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КПМГ България ООД

BULGARIAN DEVELOPMENT BANK GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousand of BGN	Share capital	Statutory reserves	Additional reserves	Revaluation Reserve	Retained earnings	Total Equity
Balance at 1 January 2009	214,574	5,000	6,190	67	5,274	231,105
Increase in share capital	375,000	-	-	-	-	375,000
Transfer to statutory reserves	-	5,395	-	-	(5,395)	-
Profit for the period	-	-	-	-	15,898	15,898
Net change in the fair value of financial assets available for sale	-	-	-	(260)	-	(260)
Total comprehensive income for the period	-	-	-	(260)	15,898	15,638
Balance at 31 December 2009	589,574	10,395	6,190	(193)	15,777	621,743
Increase in share capital	12,200	-	-	-	-	12,200
Transfer to statutory reserves	-	15,777	-	-	(15,777)	-
Profit for the period	-	-	-	-	26,628	26,628
Net change in the fair value of financial assets available for sale	-	-	-	(111)	-	(111)
Total comprehensive income for the period	-	-	-	(111)	26,628	26,517
Balance at 31 December 2010	601,774	26,172	6,190	(304)	26,628	660,460

The accompanying notes form an integral part of these consolidated financial statements.

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Chief accountant

БЪЛГАРСКА БАНКА ЗА РАЗВИТИЕ АД
СОФИЯ

Krasimir Hadjidinev
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СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
София
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"КПМГ - България" ООД

BULGARIAN DEVELOPMENT BANK GROUP

CONSOLIDATED STATEMENT OF CASHFLOWS
FOR THE YEAR, ENDED ON 31 DECEMBER 2010

In thousand of BGN	Notes	For the year ending on 31.12.2010	For the year ending on 31.12.2009
Cash flows from operating activities			
Profit before income tax		29,098	17,679
Impairment loss on financial assets		22,746	16,254
Available-for-sale securities impairment losses		-	306
Depreciation and amortization		203	262
Loss from written-off tangible assets		28	-
Cash flow from operating activity before changes in operating assets and liabilities		52,075	34,501
Decrease in balances with the Central Bank		15	132
(Increase)/ decrease in loans and advances to banks		3,243	(400,716)
(Increase) in loans and advances to customers		(107,174)	(100,914)
(Increase) in receivables from the State Budget		(258,819)	-
(Increase)/ decrease in available-for-sale securities		(3,843)	6,372
(Increase) in assets held for sale		(153)	-
(Increase) in interest and fee receivables		(7,323)	(791)
(Increase)/ decrease in other assets		(295)	388
Increase in deposits from banks		62,733	20,824
Increase/(decrease) in deposits from customers other than banks		(16,340)	7,090
Increase/(decrease) in other borrowings		120,000	(141)
Increase/(decrease) in interest and fees payable		(5,442)	362
(Decrease) in other liabilities		356	(3,268)
Income tax paid		(1,949)	(649)
Net cash flows used in operating activities		(162,916)	(436,810)
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		(252)	(200)
Proceeds from assets held to maturity		-	66
Acquisition of shares held to maturity		-	(5,297)
Net cash flows used in investing activities		(252)	(5,431)
Cash flows from financing activities			
Proceeds from issue of shares		-	375,000
Repayments on debt securities issues		-	(5,000)
Proceeds from debt securities issues		78,233	-
Proceeds from long-term borrowed funds		203,748	63,680
Repayments on long-term borrowed funds		(21,796)	(28,109)
Net cash flows used in financing activities		260,185	405,571
Net (decrease)/increase in cash and cash equivalents		97,017	(36,670)
Cash and cash equivalents at 1 January	33	100,803	137,473
Cash and cash equivalents at 31 December	33	197,820	100,803

The accompanying notes form an integral part of these consolidated financial statements.

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Българска банка за развитие АД София

Специализирано одиторско предприятие София Рег. №045 "КПМГ - България" ООД

1. REPORTING ENTITY AND OPERATING POLICIES

Bulgarian Development Bank Group (The Group) includes a parent company – Bulgarian Development Bank AD (BDB/The Bank) and its subsidiaries – National Guarantee Fund EAD (NGF/The Fund) and Microfinancing Institution JOBS EAD (MFI).

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.

In 2010, a decision for a complete reconstruction of the Group's building, owned by the parent company (The Bank), was adopted, and with this regard the entities in the Group moved to a new building for the period of reconstruction.

The new registered address of the bank is 10, Stefan Karadzha, Sofia.

The parent company (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 r. (due to the new Credit Institutions Act) and is allowed to conduct all banking transactions permitted by the Bulgarian legislation. Nevertheless, its Articles of Incorporation 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.

The parent company (The Bank) was established with a special purpose – to support the implementation of the economic policies of the State by financing the business development of small and medium-sized enterprises (SME) by maintaining their investment and export abilities and initiatives. With the adoption of the Bulgarian Development Bank Act in 2008 this objective was further incorporated in the principles and scope of the Bank's activities as set by law. These include:

(a) pre-export and export financing of SME;

(b) SME financing by investing in equity from its subsidiary the Capital Investment Fund (still not incorporated);

(c) financing SME operations and projects either through local intermediary banks or directly;

(d) guarantees issuance to SME to serve to local and foreign banks either directly or through its subsidiary the National Guarantee Fund (already established - 2008);

(e) refinancing 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 main activity of the parent company (The Bank) in 2010 was related mainly to the implementation of Decision 197 dated 08 April 2010 of the Council of ministers on the "Adoption of a mechanism for settlement of State budget liabilities". The parent company (The Bank) hereby acquires the receivables arising out of contracts, concluded after applying the Law on Public procurement procedure, related to capital expenses and deliveries, where the receivables are liquid and payable as of 31.03.2010. The receivables were acquired in compliance with the specific provisions of the applicable laws and regulations through session under the Law on liabilities and contracts.

In 2010, the commercial banking activity continued as well, including provision of loans to private companies (with priority on long-term and investment loans), special-purpose financing of banks (on-lending), transactions with treasury bonds, deposit and REPO transactions on interbank market, attraction of long-term credit lines and loans from international financial institutions, issuance of bank guarantees – directly to customers (companies) and in favor of lending banks (under the transferred to BDB project of the MLSP "Microcredit guarantee fund"), as well as other financial services in Bulgaria.

At 31 December 2010, the parent company (The Bank) has 100 employees (31.12.2009: 94).

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 2010.

The National Guarantee Fund (the NGF) was established on 12 August 2008 as a sole owner joint-stock company with 100% ownership of BDB. The registered office of the Fund is 1, Dyakon Ignatiy Str., Sofia. The registered share capital is 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 (31.12.2009: BGN 27,500,000).

The scope of NGF's principal activities is defined by the Bulgarian Development Bank Act. It includes:
(a) issue of guarantees to supplement the collaterals for SME loans,
(b) provide 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 ending 12 August 2011. The members of the BD are: Todor Vanev, Svetlin Statkov and Angel Gekov.
At 31 December 2010, the NGF has 12 employees (31.12.2009.: 10)

A micro-financing institution JOBS EAD (MFI) was established on 23.12.2010 as sole proprietorship joint stock company, 100% owned by BDB. The registered address of the MFI is 10, Stefan Karadzha str., Sofia. As of 31.12.2010 the registered shareholder's equity comprises 45 618 nominal shares with par value of BGN 100 each, and the [paid-in capital as of 31.12.2010 amounts to BGN 4,561,800.

MFI' scope of activities include, as follows:

a) micro-financing /with a maximum equivalent per product per customer – EUR 25,000 /including, but not limited to:
  - provision of microloans;
  - purchase from third parties and leasing of industrial equipment, automobiles and other vehicles, as well as other assets (financial leasing);
  - sale and purchase of such items;
  - consultancy;

JOBS MFI is managed by a Board of directors (BoD) with a mandate ending 23.12.2013. Members of the Board are: Krassimir Popov, Sasho Tchakalski and Martin Gantchev.
The registration of the company is dated 14.01.2011, and the company has no employees as of the end of 2010. As of the date of the present report, the MFI has 8 employees.

As at 31 December 2010, the parent company (Bulgarian Development Bank AD) has established as well one representation office in Plovdiv.

The consolidated financial statements have been adopted by the Bank's Managing board of the parent company (The Bank) on March 30th 2011.

2. BASIS FOR THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Statement of compliance

These consolidated financial statements have been prepared in accordance with all International Financial Reporting Standards (IFRS), as adopted by the European Union.

These financial statements have been prepared on consolidated basis. The Bank prepares unconsolidated financial statements as per the Accounting law. The present consolidated financial statements shall be read together with the unconsolidated financial statements.

Basis for preparation

These consolidated financial statements have been prepared on historical cost basis except for:

- derivative instruments, measured at fair value at the reporting date.
- trade instruments and other instruments, designated at fair value through profit and loss, as long as the fair value can be appropriately measured
- instruments available-for-sale, designated at fair value through profit and loss, as long as the fair value can be appropriately measured

Functional and presentation currency

These consolidated financial statements are presented in Bulgarian leva (BGN) rounded to the nearest thousand, which is the Group's functional currency.

Use of estimates and judgments

The preparation of these consolidated financial statements requires management to exercise its judgment in the process of applying the Group's accounting policies and the reported value of assets, liabilities, income and expense. Actual results may differ from these estimates and judgments.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

3. SIGNIFICANT ACCOUNTING POLICIES

Consolidation methods

These consolidated financial statements are prepared in accordance with IAS 27 "Separate and consolidated financial statements", as all entities, controlled through ownership of more than 50% of the voting rights by Bulgarian Development Bank AD, are consolidated through the full consolidation method, and all entities, significantly influenced through ownership of more than 20% of the voting rights by the Bank, are consolidated through the equity method.

Upon consolidation all receivables and liabilities, income and expenses, arising from operations between the Bank and its subsidiaries, are eliminated. Unrealized losses are eliminated in the same way as the unrealized profit in case there are no indications for impairment.
The consolidated entities and the consolidation method applied as of 31 December 2010 are as follows:

Entity	Capital ownership	Consolidation method
National Guarantee Fund	100%	Full consolidation
Microfinance Institution "JOBS"	100%	Full consolidation

Financial instruments

The Group 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 Group at the time of their initial recognition on the balance sheet.

The Group recognizes its financial assets in 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, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability and the Group continues to recognize 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; deposits in other banks; loans granted to other banks; loans and advances to customers; and other receivables. They are carried at amortised cost in the statement of financial position amortised using the effective interest method, less any allowance for impairment. Interest income on loans and receivables is recognised on effective interest basis.

Loans and advances that have initially originated in the Group 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 – at the provided funds value or/and other assets, incl. direct cost of the transaction.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Held-to-maturity financial assets

Held-to-maturity financial assets are such non-derivative financial assets that represent debt securities with fixed or determinable payments and fixed maturities on acquisition, of which the Group has the positive intention and ability to hold to maturity, although the latter are traded on the market. These assets are initially measured at acquisition cost and subsequently – at amortised cost using the effective interest method, less allowance for impairment, if any.

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 as another category of financial assets.

The Group 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. 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 appropriate long-term assumptions for fair value calculation of their shares through other alternative valuation techniques, 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 "other component of comprehensive income" in the statement of comprehensive income for the year and respectively in a separate component 'Revaluation reserve' of the 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 in 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-sale' the Group recognises interest income by applying the effective interest method.

Dividends on shares, classified as 'available-for-sale' financial assets, are recognised and carried to the statement of comprehensive income as 'Other income' when the Group's 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 banks' or 'loans and advances to customers' secured with securities, as appropriate. The difference between purchase and resale prices is treated as interest and accrued over the period of the life of the agreement using the effective interest rate method.

Impairment of financial assets

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 Group assesses at each reporting date whether there is any objective evidence for permanent and clearly shown impairment of a financial asset or a group of financial assets.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

Loans and receivables from banks and other customers

At the end of each reporting period the Group assesses whether there is any objective evidence that certain individual loans and receivables or a group of loans and receivables 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 have 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 Group 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; problems with the implementation of the project financed with the loan, breach of key covenants and ratios (indicators) included in the loan agreement; deterioration of the borrower's financial, commercial 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 Group will not be able to collect all amounts due by borrowers (debtors).

The Group 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 a 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 Group. 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 occurred, but have not been reported, they are included in the allowances for loan impairment for coverage of the general credit risk on a portfolio basis. They are determined based on historical experience, statistical data and techniques and the judgment of the management on the grounds of its experience and knowledge.The amounts of impairment are calculated on the basis of internal rules and techniques developed by the Group in accordance with the requirements of IAS 39.

It is an accepted policy of the Group that all impaired loans and amounts receivable are reviewed and analyzed on a 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 (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 reflected as reintegration of losses from loan impairment and uncollectibility in the statement of comprehensive income.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets, continued

Financial assets held-to-maturity

Financial assets held-to-maturity are assessed individually for objective evidence of 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.

Financial assets available-for-sale

Financial assets available-for-sale 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 – when there is evidence that the carrying amount is higher than the expected recoverable amount. Additionally, alternative valuation methods are applied – discounted cash flows methods, analogous transaction price methods, analyses of trends in the accounting values of net assets, in order to establish and assess the trends in 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 – 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, towards the profit or loss for the year in the statement of comprehensive income.

Financial liabilities and instruments of equity

The Group classifies its financial 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. The Group's 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.

The financial liabilities include: amounts due to banks under deposits; amounts due to customers under deposits; Borrowings from international financial institutions under loan and other agreements; issued debenture loans and other current liabilities. They are initially recognised in 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 on current basis.

The financial liabilities are written off when the obligation under the liability is discharged or cancelled, or the counterpart loses its entitlement.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

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

Initial measurement

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

The Group 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 Group for subsequent measurement of property, plant and equipment, is the cost model under IAS 16, - acquisition cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation methods

The Group applies the straight-line depreciation method for property, plant and equipment. The useful life per group of assets has been determined considering: the 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 – 5 years;
- Motor vehicles – 5 years;
- Furniture and fixtures - 6.7 years.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment, continued

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 at the moment they are incurred. Subsequent costs incurred in relation to property, plant and equipment having the nature of replacement of certain significant parts or improvements and restructuring, are capitalized in the carrying amount of the respective asset whereas its residual useful life is reviewed at the date of capitalization. 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 the restructuring.

Impairment of assets
The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that they might significantly differ from their recoverable amount. If such 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 the tangible fixed assets is the higher of the fair value less costs to sell or the value in use. For the definition of the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the 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.

Gains and losses from sale
Property, plant and equipment are derecognised from the statement of financial position when they are permanently disposed of and no future economic benefits are expected therefore or when they are sold. The gains or losses arising from the sale of separate assets from the group of "property, plant and equipment" are determined by comparing the gains from the sale and the carrying amount of the asset at the date of sale.

Intangible assets

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

The Group applies the straight-line depreciation method for the intangible assets with a 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.

Intangible assets are written-off from the statement of financial position when they are permanently disposed of and no future economic benefits are expected from their use or when they are sold. The gains or losses arising from the sale of separate assets from the group of the "intangible assets" are determined by comparing the proceeds from sale and the carrying amount of the asset at the date of sale.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest income and expenses

Interest income and expenses are recognised in the statement of comprehensive income on accrual basis for all interest-bearing instruments using the effective yield method based on the actual price of acquisition or the applicable floating rate. Interest income and expenses include the depreciation 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 loans received and other borrowed funds, fees and commissions under loans received, which represent an integral part of the effective interest expense.

Fees and commissions

Fees and commissions on bank guarantees are recognised on a systematic basis over the period of existence 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 or to the provision of another bank service are recognised at the time of provision of the underlying service and attaining the result from it.

Transactions in foreign currency

Foreign currency transactions are transformed into BGN by applying the daily exchange rate as quoted by the Bulgarian National Bank (BNB) as of the day of the transaction. The receivables and liabilities in foreign currency are revalued on a daily basis. At the end of the year they are revalued in BGN according to closing official rate of BNB, which for the main currencies as of the dates of the financial position are the following:

Foreign Currency	31 December 2010	31 December 2009
US dollars	1.47276	1.36409
Euro	1.95583	1.95583

Since 2002 the Bulgarian Lev is pegged to the Euro, the official currency of the European Union, at ratio of EUR 1: BGN 1.95583.

The net gains or losses from changes in the exchange rates incurred from revaluation of receivables, liabilities and from transactions with foreign currencies are included in the statement of comprehensive income, for the period in which they have occurred.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions and contingent liabilities

Provisions are recognised when the Group has a current constructive or legal obligation as a result of a past event and it is probable that an outflow of resources will be required to repay/settle this obligation. The provisions are measured 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. For the measurement of the portfolio provisions statistical methods are applied, based on historical experience and gathered data regarding behavior and events under the guarantee commitments.

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 Group, 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 special disclosure.

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

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

Short-term income

Short-term income of the employees of the Group in the form of remunerations, bonuses and social payments and benefits are recognised as an expense in the statement of comprehensive income in the period when the service thereon has been rendered or the requirements for their receipt have been met and as a current liability at their undiscounted amount. The Group's payables for social security and health insurance are recognised as a current expense and liability at their undiscounted amount together with the respective benefits they relate to and within the period of their accrual.

At the end of each reporting period the Group assesses and reports the amount of expected costs on the accumulating paid leaves, which amount is expected to be paid as a result of the unused entitlement. The assessment includes the estimated expenses on the employee's remunerations and the statutory social security and health insurance contributions due by the employer thereon.

Long-term retirement income

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-term retirement income, continued

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.

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.: one gross monthly salary;
- upon termination of the employment contract due to illness: two gross monthly salaries;
- for unused annual paid leave: for the respective years of the time recognised as service period.

The Group recognizes employee income obligations in the event of 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.

Taxation

Current income taxes are determined in accordance with the requirements of the Bulgarian tax legislation. Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted by the date of preparation of the statement of financial position.

The tax effect, related to transactions and other events, reported in the statement of comprehensive income are recognised as well in the statement of comprehensive income and the tax effect related to transactions and other events, reported directly in the equity, is also recognised directly in the equity.

The liabilities under deferred taxes are reported for all temporary differences, subject to taxation, except in teh events when they arise from the initial recognition of assets and liabilities for a transaction, which at the time of being concluded is not reflected in the accounting or the tax income (tax loss).

The deferred tax receivables are recognised for all temporary differences, subject to deduction, to the extent that it is probable that there might be an available taxable profit, against which the relevant deductions under the deferred tax receivables can be made. This is not applicable for the cases when they arise from the initial recognition of assets and liabilities for a transaction, which at the time of being concluded is not reflected in the accounting or the tax income (tax loss).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation, continued

The deferred taxes are recognised as income or expenses and are included in the net profit for the period, except in cases, when these taxes arise from transactions or events, reported for the same or another period directly in the equity. Deferred taxes are charged or deducted directly from the equity, when these taxes refer to positions, which are charged or deducted during the same or a different period directly in the equity.

Cash and cash equivalents

For the purposes of the cash flow statement cash equivalents comprise cash on hand, cash at current accounts with other banks, demand deposits and placements with other banks – 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 (BNB).
They are presented in the statement of financial position at amortised cost.

Assets held for sale

Assets are 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 Group. Usually, these assets have been initially accepted by the Group as collaterals and subsequently acquired thereby as a result of a "debt against property" exchange by borrowers 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 realize 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 and their fair value less the direct expected costs for sell.
The assets within this classification group are not depreciated.

Share capital and reserves

Bulgarian Development Bank AD (parent company) is a joint-stock company and 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 Group's creditors. The shareholders are liable for the obligations of the Group only up to the amount of the share capital held by them and may claim refunding of this participation only in the event of liquidation or bankruptcy proceedings.
The share capital represents the non-distributable capital of the Group and is presented at the nominal value of the issued shares.

The parent company (the Bank) is obliged to set aside a **Reserve Fund** in accordance with the requirements of the Bulgarian Development Bank Act. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share capital and reserves, continued

The fund amounts 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 the share capital.

Similarly, the subsidiary – the National Guarantee Fund EAD, as a public company is obliged to form a Reserve Fund according to the requirements of the Commercial Law. The sources and the directions of use are the same as the ones of the parent company.

The Revaluation Reserve is set aside from the difference between the carrying amount of the available-for-sale financial assets and their fair value at the revaluation date. This reserve is transferred into the statement of comprehensive income (into current profit and loss for the year) when the financial assets are derecognised (sold) from the statement of financial position or in case of stable and lasting impairments.

New standards and interpretations that have not been applied before
Certain new standards, changes in standards and interpretations, that will enter into force for the financial period starting after the 1st of January 2010, have not been applied before for the preparation of this financial report. The management of the Group does not expect these future changes to have any effect on the financial report of the Group.

4. FINANCIAL RISK MANAGEMENT

In the ordinary course of business, the Group 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 essential for the Group's profitability and existence. The main risks, to which the Group is exposed, are 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:

For the parent company (the Bank)

- *Supervisory Board* – performs overall supervision of risk management;
- *Management Board* – responsible for the overall risk management approach and for approving risk management strategies, principles and specific methods, techniques and procedures;
- *Assets and Liabilities(Liquidity) Committee* – 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 in the event of more permanent adverse trends;
- *Credit Committee and Credit Council* – 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* –exercise current operating control of the maintenance and observance of the set limits for the particular types of risk and the application of the developed procedures.

The Central Bank carries an additional supervision of the risk management within the Group, by requiring periodically regulatory reports and subsequent control on the compliance of the statutory set maximum levels of exposure to certain risks.

For the subsidiary (the Fund):
Board of Directors – performs a general supervision of the risk management and is responsible for the overall approach towards risk and approves risk management strategies, principles and specific methods, techniques and procedures;

- *Executive Director* – exercises current operating control of the maintenance and observance of the set limits for the particular types of risk and the application of the developed procedures;

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Guarantee Administration and Monitoring Department – performs monitoring of the guaranteed portfolios and the provided collateral. The department executes inspections and monitoring of guaranteed loans according to the approved by the BoD plan for spot checks of guarantees, performs analysis of the risk groups under the guaranteed portfolios, and at least once every 12 months carries out an inspection on fulfillment of the economic and social requirements by SMEs using a guarantee from the NGF EAD.

Measurement and management of major risks

The management of the companies comprising BDB Group has approved a set of internal rules and methods for measurement of the different risks which are based on statistical models and good international banking practice, as well as on the historical experience of the Group itself.
Controlling and managing risks is primarily performed based on limits established by the Group. These limits reflect on the strategy and market position of the Group, as well as on 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.

4.1. Credit risk

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

The management of specific credit risk is performed by the Credit Committee of the parent-company and is supervised by both the Management Board and the Supervisory Board. 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 the 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 a Guarantee letter from year 2003 and the subsequent annexes signed with the European Investment Fund (EIF), the parent-company (the bank) participates in the EU SME Guarantee Facility under conditions determined by the long-term EU Program on SMEs. 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 Group, formed on the basis of the conditions of the agreement, but not exceeding EUR 2,520 thousand. The parent-company (the Bank) has applied reduced requirements in accepting collaterals for the EIF-guaranteed portfolio of loans.

The volume of the loans with EIF guarantee amounts to BGN 16,924 thousand as of 31.12.2010 (31.12.2009: BGN 22,235 thousand). This amount includes the drawn but not paid portion of loans and the engagements undertaken by the Bank under un-drawn loans. The payment engagements of EIF at this date amount to BGN 4,903 thousand (31.12.2009: BGN 4,903 thousand), whereas the losses covered by EIF amount to BGN 4,115 thousand (31.12.2009: BGN 2,876 thousand).

On 13 February 2009 the parent-company (the Bank) singed 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. The Agreement was cancelled in 2010.

Letters of guarantee and letters of credit represent another source of the credit risk. The main purpose of the instruments in form of letters of guarantee and letters 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 his/her obligations to a third party, bear the same credit risk as the loans. Documentary and trade letters of credit, representing written commitment of the Group 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.

The un-drawn portion of authorized loan agreements in form of loans, letters of guarantee or letters of credit represents commitments of the parent-company (the Bank). With respect to credit risk the Group (through the Bank – parent-company) is potentially exposed to loss in an amount equal to the total un-drawn 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 parent-company (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.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

The special financial guarantees, representing irrevocable commitment that the parent-company (the bank) or its subsidiary company (the fund) will pay in case a partner-bank, having financed SME under the scheme of the Micro-credits Guarantee Fund Project, is experiencing serious problems with certain debtor-borrowers under the scheme, classifies their loans as "loss" and disposes with a writ of execution against the bad debtors, have similar risky characteristics as loans. The parent-company (the bank) manages the guarantee portfolios of the Group at consolidated level by applying all the rules and procedures, regarding the management of the credit risk of the loan portfolios (loans and advances to banks and to customers).

Additionally to these procedures, the subsidiary company (the fund) has also developed specific principles, rules and limits for current monitoring and control upon guarantee portfolios behaviour: a) the total guarantee exposure to the capital of the fund ratio and possible leverage of up to 3 times the amount of the capital; b) shared and common current control of the loss between the Fund and the partner–bank and creditor of loans guaranteed by the Fund; c) the loans in the portfolios of partner-banks and creditors, guaranteed by the Fund, have to be mandatory secured with assets or engagements of the borrower or by third persons; d) using of a system of limits for each portfolio guaranteed to the respective partner-bank and creditor; e) diversification of the total guarantee portfolio by industry sectors, by regions, by maturities and others; f) non-transferability of the guarantees of the Fund, unless explicitly authorized by it. The fulfilment of the limits and diversification designated are quarterly examined by the Board of Directors of the Fund. In case of breaches respective actions are undertaken, as defined in the contracts of the partner-banks.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Maximum exposure of the credit risk

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

In thousand of BGN	**2010**	**2009**
Financial asset		
Cash and balances with the Central Bank	33,694	17,971
Loans and advances to Banks	660,207	559,847
Loans and advances to customers	367,590	278,265
Receivables from the State Budget	266,190	-
Available-for-sale securities	17,922	14,190
Held-to-maturity securities	5,205	5,297
	1,350,808	875,570

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

In thousand of BGN	**2010**	**2009**
Bank guarantees and letters of credit	136,037	71,408
Un-drawn authorized loans	69,370	29,668
	205,407	101,076
Maximum exposure to credit risk	1,556,215	976,646

Credit risk - concentration

The Management of the parent-company (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 Group has risk exposure of concentration of loans to small- and medium sized enterprises and granting of long-term loans – with maturity of 3 to 10 years (Note 16 and 17).

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

The table below presents data on the financial assets of the parent-company (the bank) (loans and receivables, held-to-maturity financial assets, securities available-for-sale), classified by industry sectors:

In thousand BGN

Sectors	**2010**	**%**	**2009**	**%**
Financial services	660,207	49.65	559,847	65.12
Receivables from the State Budget	266,190	20.02	-	-
Manufacturing	125,537	9.44	74,486	8.67
Transport	84,591	6.36	12,912	1.50
Construction	74,880	5.63	64,872	7.55
Tourist services	34,140	2.57	25,416	2.96
Agriculture	22,500	1.69	25,007	2.91
Trade	19,234	1.45	48,475	5.64
Operations with real estate	2,490	0.19	18,063	2.10
Other industry sectors	39,910	3.00	30,528	3.55
	1,329,679	100.00	859,606	100.00

Quality of the loans and receivables

The parent-company (the Bank) has introduced internal rules for risk assessment by counterparty. Risk assessment is made on a methodology covering current financial information, forecasts, investments 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 (2009: four groups) risk groups depending on the result of the assessment. The adopted classification groups are as follows: **"standard"**, **"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 utilization are currently monitored. The provided collaterals, which are subject to approval by the Credit Committee, are reviewed and revaluated periodically, but not less than once per year. All decisions of the Credit Committee are controlled and approved by the Management Board of the Bank (the parent-company).

4. MANAGEMENT OF THE FINANCIAL RISK (CONTINUED)

4.1. Credit risk (continued)

The structure of the financial assets of the Group by risk classification groups is as follows:

In thousand BGN

At 31 December 2010.	**Standard**	**Watch**	**Non-performing**	**Loss**	**Total**
Loans and advances to banks	660,207	-	-	-	660,207
Receivables from the State Budget	266,190	-	-	-	266,190
Loans for commercial property and construction	276,655	10,194	5,945	19,145	311,939
Trade loans	77,244	2,570	2,146	5,200	87,160
Agricultural loans	-	-	-	2,004	2,004
Consumer loans	747	-	-	-	747
Residential mortgage loans to individuals	846	-	-	-	846
Other loans and receivables	586	-	-	-	586
Total financial assets	1,282,475	12,764	8,091	26,349	1,329,679

In thousand BGN

At 31 December 2009.	**Standard**	**Watch**	**Non-performing**	**Loss**	**Total**
Loans and receivables to banks	559,847	-	-	-	559,847
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
Agricultural loans	-	-	-	2,751	2,751
Consumer loans	749	-	-	-	749
Residential mortgage loans to individuals	305	-	-	-	305
Other loans and receivables	597	-	-	-	597
Total financial assets	822,568	14,045	6,167	16,826	859,606

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 Group is to require from loan applicants a collateral at least 100% of the contracted loan amount.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

The table below presents the types of collaterals held by the Group at 31 December 2010 and 2009 at update fair value, determined with the assistance of an internal certified appraiser:

In thousand of BGN	**2010**	**2009**
Collateral type	Fair value	Fair value
Mortgages	289,413	254,851
Pledge of a ship	98,302	35,369
Pledges of machinery, equipment, installations and inventories	38,483	32,374
Blocked deposits	2,330	5,205
Total collaterals	428,528	327,799

The table below presents data on the portfolio amount of the Group's financial assets by type of instrument at amortized costs and the impairments made:

In thousand of BGN	**Loans and amounts due from non-financial institutions**		**Receivables from the State Budget**		**Loans and amounts due from financial institutions**		**Loans and amounts due from individuals**	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Impaired on individual basis								
-------watch	12,765	14,045	-	-	-	-	-	-
-------non-performing	8,091	6,167	-	-	-	-	-	-
------loss	23,969	14,925	-	-	-	-	-	-
Gross value	44,825	35,137	-	-	-	-	-	-
Impairment	(29,450)	(16,796)	-	-	-	-	-	-
Book value	15,375	18,341	-	-	-	-	-	-
Impaired on portfolio basis								
------performing	344,146	261,568	-	-	-	-	-	-
Gross value	344,146	261,568	-	-	-	-	-	-
Impairment	(6,242)	(4,698)	-	-	-	-	-	-
Book value	337,904	256,870	-	-	-	-	-	-
Past due but not impaired								
------up to 30 days	-	-	-	-	-	-	2	-
------from 31 to 90 days	-	68	-	-	-	-	-	-
------from 90 to 360 days	-	1,929	-	-	-	-	-	-
------more than 360 days	2,379	-	-	-	-	-	-	-
Book value	2,379	1,997	-	-	-	-	2	-
Neither past due nor impaired								
------performing	10,339	3	266,190	-	660,207	559,847	1,591	1,054
Book value	10,339	3	266,190	-	660,207	559,847	1,591	1,054
Book value	365,997	277,211	266,190	-	660,207	559,847	1,593	1,054

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

The Group may re-negotiate the initial conditions under the signed contacts in case of a request by the contacting parties. Usually these conditions are the terms for disbursement of the loans, loan amounts, interest rates and/or repayment schedules with regard to the amounts of the repaid instalments. This is often observed in the case of changes of the projects' original parameters, objectives and scope, including the time schedule for their completion.

The re-negotiated loans and receivables, presented at amortised cost, are as follows:

In thousand of BGN	**2010**	**2009**
Loans for commercial property and construction	120,656	111,622
Trade loans	40,186	31,281
Other loans and receivables	644	598
	161,486	143,501

4.2. Market risk

Market risk is the risk of adverse movements of the interest rates, the exchange rates between currencies and the market price of securities and other financial instruments. These movements affect the Group's profitability.

Interest risk

The Group is always exposed to the effects of fluctuations of market interest rates, what impacts its financial state and cash flows.

Interest risk is the probability for potential change of the net interest income or the net interest margin and the market value of the equity due to the changes in the total market interest levels.

The interest rates on assets and liabilities, denominated in BGN, are usually based on the movements of the basic interest rate as determined by the Bulgarian National bank. Interest rates on assets and liabilities denominated in euro, are based on the quotations of the European Central Bank.

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

The management of the parent-company (the Bank) continuously monitors interest rate movements in foreign currencies, the mismatch in interest rate levels and in the maturity structure of its assets and liabilities. It also currently monitors the changes in the prices and the yields of the 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 parent-company (the Bank) is exposed and develops measures for its coverage and maintenance within admissible for the parent-company (the Bank) limits.

The table below summarizes the interest exposure and risk of the Group. It includes information on Group's assets and liabilities at their book value in accordance with interest-related clauses, set in the contracts, their maturity structure and sensitivity to the behavior of the interest rates.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

In thousand of BGN *31 December 2010.*	*With floating interest %*	*With fixed interest %*	*Interest-free*	*Total*
Financial assets				
Cash and balances with the Central Bank	-	-	33,694	33,694
Loans and advances to banks	43,183	617,024	-	660,207
Loans and advances to customers	286,591	80,999	-	367,590
Receivables from the State Budget	-	266,190	-	266,190
Available-for-sale securities	6,840	8,972	2,110	17,922
Held-to-maturity securities	-	5,205		5,205
Total financial assets	336,614	978,390	35,804	1,350,808
Financial liabilities				
Deposits from banks	127	91,411	-	91,538
Deposits from customers, other than banks	25,167	27,683	-	52,850
Borrowings from international institutions	331,357	-	-	331,357
Other borrowings	10,776	134,525	6,002	151,303
Debt securities issued	-	78,499	-	78,499
Other liabilities	-	-	522	522
Total financial liabilities	367,427	332,118	6,524	706,069
Total interest rate exposure	(30,813)	646,272	29,280	644,739

In thousand of BGN *31 December 2009*	*With floating interest %*	*With fixed interest %*	*Interest-free*	*Total*
Financial assets				
Cash and balances with the Central Bank	-	-	17,971	17,971
Loans and advances to banks	9,391	550,456	-	559,847
Loans and advances to customers	259,078	19,187	-	278,265
Available-for-sale securities	8,045	4,054	2,091	14,190
Held-to-maturity securities	-	5,297	-	5,297
Total financial assets	276,514	578,994	20,062	875,570
Financial liabilities				
Deposits from banks	129	28,671	-	28,800
Deposits from customers, other than banks	17,926	28,916	-	46,842
Borrowings from international institutions	157,453	-	-	157,453
Other borrowings	10,661	9,967	-	20,628
Other liabilities	-	-	104	104
Total financial liabilities	186,169	67,554	104	253,827
Total interest rate exposure	90,345	511,440	19,958	621,743

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Analysis of interest rate sensitivity and risk

The table below includes the financial instruments of the Group at book value, categorized by the earlier of interest change or maturity dates.

In thousand of BGN	*Up to 1 month.*	*1-3 months*	*3-6 months*	*6-12 months*	*1-5 years*	*over 5 years*	*Non-interest bearing*	*Total*
31 December 2010.								
Financial assets								
Cash and balances with the Central Bank	-	-	-	-	-	-	33,694	33,694
Loans and advances to banks	51,314	127,725	22,040	-	104,128	355,000	-	660,207
Loans and advances to customers	286,591	80,999	-	-	-	-	-	367,590
Receivables from the State Budget	-	-	-	266,190	-	-	-	266,190
Available-for-sale securities	-	9,186	4,672		984	970	2,110	17,922
Held-to-maturity securities					5,205			5,205
Total financial assets	337,905	217,910	26,712	266,190	110,317	355,970	35,804	1,350,808
Financial liabilities								
Deposits from banks	64,140	3,922	-	23,476	-	-	-	91,538
Deposits from customers, other than banks	24,177	7,121	9,252	2,321	9,979	-	-	52,850
Borrowings from international institutions	50,389	155,572	114,542	10,854	-	-	-	331,357
Other borrowings	-	10,776	-	121,274	6,472	6,779	6,002	151,303
Debt securities issued	-	-	-	-	78,499	-	-	78,499
Other liabilities	-	-	-	-	-	-	522	522
Total financial liabilities	138,706	177,391	123,794	157,925	94,950	6,779	6,524	706,069
Total interest rate exposure of sensibility	199,199	40,519	(97,082)	108,265	15,367	349,191	29,280	644,739

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

In thousand of BGN	*Up to 1 month*	*1-3 months*	*3-6 months*	*6-12 months*	*1-5 years.*	*over 5 years*	*Non-interest bearing*	*Total*
31 December 2009								
Financial assets								
Cash and balances with the Central Bank	-	-	-	-	-	-	17,971	17,971
Loans and advances to banks	54,837	38,114	4,011	4,349	103,536	355,000	-	559,847
Loans and advances to customers	259,078	19,187	-	-	-	-	-	278,265
Available-for-sale securities	-	5,405	2,640	3,070	984	-	2,091	14,190
Held-to-maturity securities					5,297			5,297
Total financial assets	313,915	62,706	6,651	7,419	109,817	355,000	20,062	875,570
Financial liabilities								
Deposits from banks	8,997	19,803	-	-	-	-	-	28,800
Deposits from customers, other than banks	14,807	2,829	213	12,712	16,281	-	-	46,842
Borrowings from international institutions	60,976	45,828	50,649	-	-	-	-	157,453
Other borrowings	-	10,661	-	-	7,021	2,946	-	20,628
Other liabilities	-	-	-	-	-	-	104	104
Total financial liabilities	84,780	79,121	50,862	12,712	23,302	2,946	104	253,827
Total interest rate exposure of sensibility	229,135	(16,415)	(44,211)	(5,293)	86,515	352,054	19,958	621,743

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Sensitivity of the interest assets and liabilities with floating interest rate

The table below shows the sensitivity of the Group on possible changes in the interest rate based on the structure of assets and liabilities as of 31 December with floating interest rate and with the assumption that the influence of the other variables is ignored. The effect is measured and presented as an impact on the financial results after tax. The real effect of changes in the market interest rates could be different, since a significant portion of the loans and receivables are accumulated at a floating interest rate, based on the determined by the BDB Group's variable portion, which is influenced by numerous factors.

In thousand of BGN	**2010**		**2009**	
Currency	***Increase in percentage points***	***Sensitivity of the financial result***	***Increase in percentage points***	***Sensitivity of the financial result***
BGN	0.50%	249	0.50%	421
EUR	0.50%	(474)	0.50%	(135)
BGN	-0.50%	(249)	-0.50%	(421)
EUR	-0.50%	474	-0.50%	135

Currency risk

The currency risk is a risk with a negative impact of fluctuations in the prevailing currency exchange rates on the financial position and cash flows of the BDB Group as a result of open currency positions. The net position of each currency is constantly monitored by Liquidity Department of the parent company (the Bank). The policy of the BDB Group is that the main part of the assets and liabilities, and respectively the bank operations of the BDB Group are denominated in EUR or BGN and the third currency with which the BDB Group operates is the USD, but in very limited amount of positions and volumes. BDB Group does not carry out significant transactions and does not hold significant open positions in currencies other than euro. As the Bulgarian lev is pegged to the euro, there is no significant open currency risk for the Group.

The following table summarizes the BDB Group's exposure to currency risk. The table includes the financial instruments and the contingent liabilities and commitments of the Group at book value, categorized by type of currency.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

As at 31 December 2010
In thousand of BGN

	In USD	In EUR	In other foreign currency	In BGN	Total
Financial assets					
Cash and balances with the Central Bank	8	10,870	-	22,816	33,694
Loans and advances to banks	538	152,256	18	507,395	660,207
Loans and advances to customers	-	269,369	18,576	79,645	367,590
Receivables from the State Budget	-	-	-	266,190	266,190
Available-for-sale securities	-	9,700	-	8,222	17,922
Held-to-maturity securities	-	5,205	-	-	5,205
Total financial assets	546	447,400	18,594	884,268	1,350,808
Financial liabilities					
Deposits from banks	-	27,422	-	64,116	91,538
Deposits from customers, other than banks	530	37,832	-	14,488	52,850
Borrowings from international institutions	-	312,461	18,896	-	331,357
Other borrowings	-	17,555	-	133,748	151,303
Debt securities issued	-	78,499	-	-	78,499
Other liabilities	-	460	-	62	522
Total financial liabilities	530	474,229	18,896	212,414	706,069
Net balance sheet currency position	16	(26,829)	(302)	671,854	644,739
Contingent liabilities and commitments	-	92,653	-	118,265	210,918

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

As at 31 December 2009
In thousand of BGN

	In USD	In EUR	In other foreign currency	In BGN	Total
Financial assets					
Cash and balances with the Central Bank	15	3,935	-	14,021	17,971
Loans and advances to banks	39	38,687	613	520,508	559,847
Loans and advances to customers	-	202,911	-	75,354	278,265
Available-for-sale securities	-	5,389	-	8,801	14,190
Held-to-maturity securities	-	5,297	-	-	5,297
Total financial assets	54	256,219	613	618,684	875,570
Financial liabilities					
Deposits from banks	-	15,711	-	13,089	28,800
Deposits from customers, other than banks	46	38,787	577	7,432	46,842
Borrowings from international institutions	-	157,453	-	-	157,453
Other borrowings	-	13,607	-	7,021	20,628
Other liabilities	-	81	-	23	104
Total financial liabilities	46	225,639	577	27,565	253,827
Net currency position	8	30,580	36	591,119	621,743
Contingent liabilities and commitments	2,461	22,294	16,589	66,194	107,538

Price risk of shares quoted on the Stock Exchange

BDB Group is exposed to price risk in respect to the shares it holds, classified as investments available for sale. For this purpose the management of the parent company (the Bank) monitors and analyzes all changes in the securities market, as well as uses the advisory services of authoritative investment intermediaries in the country. Additionally, at this stage, due to the economic and financial crisis, the management of the parent company (the Bank) has decided to greatly reduce the operations on the stock markets, the hold of the purchased shares in the longer horizon for ongoing monitoring of the reported from the respective issuer financial and business indicators, as well as the development of its activities under the circumstances of a crisis.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Liquidity risk

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

The BDB Group companies 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 the BDB Group's liquidity.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group'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 parent company (the Bank) and its exposure to changes in interest rates and exchange rates. To manage this risk, the Group maintains at all times highly liquid assets depending on the currency of its liabilities. The overall liquidity control and monitoring are performed by the Assets and Liabilities (Liquidity) Committee of the parent company (the Bank) based on the coefficients legally set in Ordinance 11 of BNB. 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 Group's liabilities (determined in accordance with Ordinance 11 of BNB);

	2010	2009
	%	%
At 31 December	15.73%	22.35%
Average for the period	24.02%	53.87%
Highest for the period	32.30%	104.96%
Lowest for the period	15.73%	22.35%

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Liquidity risk (continued)

The table below provides an analysis of the financial assets and liabilities of the Group grouped by remaining maturity:

In thousand of BGN

As at 31 December 2010	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Maturity not defined**	**Total**
Financial assets							
Cash and balances with the Central Bank	33,694	-	-	-	-	-	33,694
Loans and advances to banks	166,623	18,919	16,537	103,128	355,000	-	660,207
Loans and advances to customers	12,762	15,821	85,462	171,233	82,312	-	367,590
Receivables from the State Budget	-	-	266,190	-	-	-	266,190
Available-for-sale securities	-	4,332	1,470	9,051	959	2,110	17,922
Held-to-maturity securities	352	-	-	4,853	-	-	5,205
Total financial assets	213,431	39,072	369,659	288,265	438,271	2,110	1,350,808
Financial liabilities							
Deposits from banks	64,140	3,922	23,476	-	-	-	91,538
Deposits from customers, other than banks	24,177	7,121	11,573	9,979	-	-	52,850
Borrowings from international institutions	1,374	5,561	65,178	144,554	114,690	-	331,357
Other borrowings	57	60	122,424	17,935	10,827	-	151,303
Debt securities issued	-	266	-	78,233	-	-	78,499
Other liabilities	62	404	56	-	-	-	522
Total financial liabilities	89,810	17,334	222,707	250,701	125,517	-	706,069
Difference in maturity thresholds of assets and liabilities	123,621	21,738	146,952	37,564	312,754	2,110	644,739
Contingent liabilities and commitments	31,091	2,362	45,574	127,197	-	4,694	210,918

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Liquidity risk (continued)

In thousand of BGN

As at 31 December 2009	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Maturity not defined**	**Total**
Financial assets							
Cash and balances with the Central Bank	17,971	-	-	-	-	-	17,971
Loans and advances to banks	54,891	39,102	8,314	102,540	355,000	-	559,847
Loans and advances to customers	8,826	12,545	71,642	146,954	38,298	-	278,265
Available-for-sale securities	-	594	18	11,487	-	2,091	14,190
Held-to-maturity securities	338	-	-	4,959	-	-	5,297
Total financial assets	82,026	52,241	79,974	265,940	393,298	2,091	875,570
Financial liabilities							
Deposits from banks	8,997	19,803	-	-	-	-	28,800
Deposits from customers, other than banks	14,807	2,829	12,925	16,281	-	-	46,842
Borrowings from international institutions	1,344	5,022	13,999	104,239	32,849	-	157,453
Other borrowings	63	115	3,769	5,731	10,950	-	20,628
Other liabilities	21	-	81	2	-	-	104
Total financial liabilities	25,232	27,769	30,774	126,253	43,799	-	253,827
Difference in maturity thresholds of assets and liabilities	56,794	24,472	49,200	139,687	349,499	2,091	621,743
Contingent liabilities and commitments	817	2,481	33,455	9,101	56,990	4,694	107,538

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Liquidity risk (continued)

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

The table below presents the gross undiscounted cash flows related to the Group's liabilities as of 31 December:

In thousand of BGN *As at 31 December 2010*	Carrying amount	Gross nominal outflow	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	over 5 years
Financial liabilities							
Deposits from banks	91,538	92,131	64,144	3,936	24,051	-	-
Deposits from customers, other than banks	52,850	53,626	24,177	7,197	11,744	10,508	-
Borrowings from international institutions	331,357	364,786	1,375	5,611	66,683	155,460	135,657
Other borrowings	151,303	156,074	79	133	126,055	18,780	11,027
Debt securities issues	78,499	95,974	-	980	2,875	92,119	-
Other liabilities	522	522	62	404	56	-	-
	706,069	763,113	89,837	18 261	231 464	276,867	146,684
Provisions on bank guarantees	1,557	1,557	100	300	276	881	-
Undrawn credit commitments	69,370	69,370	31,091	4,862	33,417	-	-

In thousand of BGN *As at 31 December 2009*	Carrying amount	Gross nominal outflow	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	over 5 years
Financial liabilities							
Deposits from banks	28,800	28,916	8,998	19,918	-	-	-
Deposits from customers, other than banks	46,842	48,197	14,807	2,842	13,269	17,279	-
Borrowings from international institutions	157,453	169,968	1,390	5,211	16,643	112,572	34,152
Other borrowings	20,628	21,892	68	149	3,892	5,995	11,788
Other liabilities	104	104	102	-	-	2	-
	253,827	269,077	25,365	28,120	33,804	135,848	45,940
Provisions on bank guarantees	1,033	1,033	100	300	588	45	-
Undrawn credit commitments	29,668	29,668	346	1,576	22,569	5,177	-

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.4. Capital management

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

In its activities the Group should observe the regulatory requirements for capital adequacy (Notes № 30, 31), 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 Group at a consolidated level (the parent company being a bank):

In thousand of BGN	**2010**	**2009**
Tier 1 capital		
Ordinary shares	601,774	589,574
Total reserves	26,172	10,395
Other general-purpose reserves	6,190	6,190
Total Tier 1 capital	634,136	606,159
Tier 2 capital	-	-
Total capital	634,136	606,159
Investments	(57)	(74)
Incl. Intangible assets	(57)	(74)
Other deductions		
Specific provisions for credit risk using standardized approach	2,888	4,463
Evaluation differences, included in Tier 1 capital	304	193
Tier 1 capital base	*630,887*	*601,429*
Tier 2 capital base	*630,887*	*601,429*
Credit risk		
Risk-weighted assets	920,499	626,315
Incl. Risk-weighted assets for credit risk	802,653	579,616
Incl. Off-balance sheet equivalents of risk-weighted assets for credit risk	117,864	46,699
Significant trade portfolio	-	18,429
Market risk	-	-
Currency risk	-	18,429
Commodity risk	-	-
Risk component	920,499	644,744

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.4. Capital management (continued)

Total capital requirements for operating risk	3,225	1,661
Reconciliation of the risk component for operating risk (operating risk *12.5)	40,313	20,763
Total risk component	*960,812*	*665,507*
Tier 1 capital adequacy	*65.66%*	*90.37%*
Total capital adequacy	*65.66%*	*90.37%*
Regulatory required levels		
Tier 1 capital adequacy	*10.00%*	*10.00%*
Total capital adequacy	*12.00%*	*12.00%*

5. USE OF ESTIMATES AND JUDGEMENTS

Accounting estimates

The presentation of financial statements in accordance with the International Financial Reporting Standards requires the management of the Group to make the best estimates, accruals and reasonable assumptions, which affect the reported amounts of assets and liabilities, revenues and expenses and disclosure of contingent claims and liabilities as of the reporting date. These estimates, accruals and assumptions are based on the information available as of the date of the consolidated financial statements, and by reason of that the future actual results could be different from them. The items, that require a higher degree of discretion or complexity or where the assumptions and accounting estimates are essential for the financial statements, are disclosed below.

Key estimates and assumptions with high uncertainty

a) Impairment losses on loans and advances

At the date of each financial statements the Group reviews its loan portfolios in order to detect the availability and calculates the losses from such impairment.
When determining whether to include the impairment loss in the statements for the comprehensive income, the Group's management considers whether there are and what are the visible indicators and data, which indicate that there is a measurable reduction in the expected cash flows of the loan portfolio as a whole, or respectively – a decrease associated with a particular loan/component from this portfolio. Such indicators and data are those that indicate the existence of an adverse change in the payment options by the borrowers from a particular group or by a particular borrower, or the presence of national, economic or other conditions that are associated with a particular risk for a given group/type of loans.

5. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

Key estimates and assumption with high uncertainty, continued

a) Impairment losses on loans and advances, continued

When analyzing the risks of impairment losses and uncollectability, the loans are grouped into four risk classification groups: "standard", "watch", "non-performing" and "loss". The main indicators for determining the risk groups are financial condition of the debtor and project implementation, funded by the loan, problems with servicing, including interest in arrears and maturing principal, sources of repayment and granted collateral, as a type and opportunity for realization. Additionally, for loans, guaranteed by the EIF, the impairment loss is recognised after deduction of the part, borne by the Fund (Note № 4.1).
In determining the future cash flows pattern, the management of the Group uses estimates, judgments and assumptions based on its historical loss experience for assets with similar credit risk characteristics, as well as an objective evidence for impairment of the portfolio from non-crystallized 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 minimize the discrepancies between loss estimates and actual loss experienced (Notes № 11, 17).

b) Measurement of available-for-sale financial instruments non-quoted on the active stock market

The BDB Group 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 Group. The management has judged and accepted that they should be measured at cost because sufficiently reliable sources and methods to determine their fair value are not available at present and due to the specific closed manner of their trading until the time when new circumstances occur that allow the formation of reasonable assumptions and reliable valuation.
Analysis and assessment is performed at each end of reporting period as to whether indicators for impairment of the Group'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 Group's statement of financial position are revalued at the price of the sale (Notes 9, 19).

5. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

c) Impairment of available–for-sale financial instruments quoted on stock market

As at 31.12.2010 the Group made a detailed comparative analysis of the changes in the stock market prices of public companies shares held by the bank on the national fund market.
For investments in companies, whose shares are listed for the Bulgarian Stock Exchange of the Group dealing the management has carried out investigation and analysis and is in position to assess further on fair value, determined directly on realized transactions in the stock market in the last month of the financial year (Level 1). Additionally, the applied prices are analyzed for trends in the behavior in stock exchange prices of the respective securities at the least three months of the year and respectively against for the date of issuing of the financial statement (Notes № 9, 14, 19).The management has used compulsory and alternative valuation methods for further confirmation of the applicable assessment as fair value for both reporting years.
For all investment securities available for sale, held by the bank more than one year relation to the date of acquisition, has performed a special analysis of monitored graphics of the stock exchange prices and fair values, defined by alternative methods of valuation for a period of 18 months to 31 December, in order to define if there are conditions of permanent and material impairment.

d) Provisions for issued bank guarantees

At the end of each reporting period the Group reviews its contingent liabilities for the purpose of establishing whether any events have occur, that would confirm with a high probability outflow of resources might take place for the settlement of an obligation. If such events occur , the Group provides its liability up to the amount of its future costs (loses) related to the outflows from economic benefits (payments). These costs (loses) 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 resources to third parties (Notes № 11,32).

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) , in 2009 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%, which is preserved in 2010 (2009: 1.64 %) 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% (2009: 1.71%).

e) Actuarial calculations

For assessing the present value of the long-term liabilities to employees upon retirement are used actuarial methods and calculations based on assumptions for mortality rate, staff turnover rate, future level of salaries and discount factor considered by the management as reasonable and relevant to the Group (Note 29).

5. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

Fair value of financial assets and liabilities

The fair value is defined as the value compared to which an asset could be changed or a liability could be settled between informed and willing parties in a fair transaction. The Group publishes information for the fair value of those financial assets and liabilities for which there is available market information and whose fair value is materially different from the one reported in the statement of financial position.

The fair values of financial assets and liabilities dealing on active markets and for which there is available market information are based on declared market prices or prices closing. The use of real market prices and information reduce the need for information of management assessment and assumptions, as well as the uncertainty related to determination of the fair values. The availability of real market prices and information varies depending on products and markets and changes in according to the specific events and the general financial market conditions. For some of the other financial instruments the Group determines the fair values by using of assessment method based on net present value. The net present value calculation is provided by market yield curves and credit spreads, where necessary for the respective instrument. The purpose of evaluation techniques is to determine fair value, which would be précised by direct market participants. For investments in subsidiaries and associated companies and equity investments for which no observable market prices are, the Group accepts, that the fair value is the price of acquisition. The Group has established a control under assessment of fail values.

Fair Value Hierarchy

The Group determines the following hierarchy for disclosing the fair value of financial instruments using valuation techniques :

- Level 1: quoted (not adjusted) prices on active markets for identical assets or liabilities;
- Level 2: other techniques for which the all incoming information, which has a material effect on the reported fair value is subject to monitoring, either directly or indirectly;
- Level 3: techniques that use an incoming information, which has a material effect on the reflected fair value not based on the observed market data.

The following charts summarize information on the assets at fair value for 2010 and 2009:

In thousand of BGN	Book value	Level 1 – quoted market price	Level 2 – Evaluation technique - monitored market levels	Level 3 – Evaluation technique – not monitored market levels
2010				
Available-for-sale securities	17,922	16,019	138	1,765
	17,922	16,109	138	1,765

5. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

In thousand of BGN	Book value	Level 1 – quoted market price	Level 2 – Evaluation technique - monitored market levels	Level 3 – Evaluation technique – not monitored market levels
2009				
Available-for-sale securities	14,190	12,376	49	1,765
	14,190	12,376	49	1,765

6. NET INTEREST INCOME

'n thousand of BGN	2010	2009
Interest income		
Loans and advances to customers	28,517	20,690
Loans and advances to banks	22,887	15,495
Receivables from the State budget	7,261	-
Deposits in other banks	4,051	7,019
Available-for-sale securities	1,052	1,209
	63,768	44,413
Interest expenses		
Borrowings from international institutions	5,162	3,690
Deposits from customers other than banks	1,477	1,094
Other borrowings	1,646	322
Deposits from banks	1,602	214
Debt securities issued	1,285	209
	11,172	5,529
Net interest income	52,596	38,884

7. NET FEE AND COMMISSION INCOME

In thousand of BGN	**2010**	**2009**
Fee and commission income		
Guarantees and letters of credit	1,360	1,066
Customers' accounts, bank transfers, cash operations	505	456
Servicing of debenture loans	269	301
Trust management of borrowings	77	79
	2,211	1,902
Fee and commission expenses		
Bank transfers and cash operations with other banks	33	18
Current accounts due from other banks	19	12
	52	30
Net fee and commission income	2,159	1,872

8. NET GAINS FROM FOREIGN EXCHANGE DEALS

In thousand of BGN	**2010**	**2009**
Net gain from dealing in foreign currencies	186	197
Net gain from foreign currency translation of assets and liabilities	65	1
	251	198

9. NET GAINS FROM AVAILABLE-FOR-SALE SECURITIES

In thousand of BGN	**2010**	**2009**
Net (loss)/gain on transactions with available-for-sale securities, incl. revaluation reserve	59	276
Allowance for impairment on available-for-sale securities	(28)	(306)
	31	(30)

10. OTHER OPERATING INCOME

In thousand of BGN	**2010**	**2009**
Rentals	6	15
Recovered litigation costs	261	46
Dividends received	4	29
Gains from grants	4,566	-
Other income/ (expenses), net	(77)	(43)
	4,760	47

Other income/ (expenses), net include mainly expenses on maintenance and servicing of assets acquired by the parent company (BDB) from borrowers against debt for the purpose of resale.

The amount, indicated as gains from grants is due to a sign agreement between Ministry of Labour and Social Policy, BDB and UNDP – partners to JOBS project, which assets of the project shall be transferred gratuitous to the parent company (the bank) and it subsidiary – MFI.

11. IMPAIRMENT LOSS ON FINANCIAL ASSETS

In thousand of BGN	**2010**	**2009**
Individual allowance for loan impairment loss, net	13,177	11,845
Collective allowances for loan impairment loss on portfolio basis, net	1,544	1,514
Letters of guarantee provisions, net	8,024	2,895
	22,745	16,254

12. GENERAL AND ADMINISTRATIVE EXPENSES

In thousand of BGN	**2010**	**2009**
Personnel costs and social security contributions	4,076	3,656
Remuneration of Managing Board and Supervisory Board members	449	777
Communications and IT services	432	424
Office and office equipment maintenance	456	385
Government taxes and charges	741	297
Audit, legal and consulting services	243	292
Advertising and entertainment expenses	184	295
Contribution to the Statutory Fund for Guaranteeing Deposits	235	158
Expenses on enforced collection of guarantee portfolio	193	150
Hired services	146	178
Business trips	95	80
Rentals	501	84
	7,751	6,776

In thousand of BGN	**2010**	**2009**
Personnel costs and social security contributions include:		
Salaries	3,552	3,165
Social security contributions	409	396
Social benefits	85	73
Accruals for indemnities upon retirement	30	22
	4,076	3,656

13. INCOME TAX EXPENSES

In thousand of BGN	2010	2009
Current tax expense	2,542	1,808
Deferred tax expense	(72)	(27)
Total income tax expense	2,470	1,781

In thousand of BGN	2010	2009
Profit before income tax	29,098	17,679
Income tax, calculated on standard tax rate (10% for 2010, 10% for 2009)	2,910	1,768
Tax effect from permanent differences	(440)	13
Total income tax expense	2,470	1,781
Effective tax rate	8.49%	10.07%

Outstanding amounts of deferred income taxes on income related to the following items from the statement for the financial condition

In thousand of BGN	Assets		Liabilities		Net (Assets)/Liabilities	
	2010	2009	2010	2009	2010	2009
Property and equipment	(3)	(4)	-	-	(3)	(4)
Provisions for guarantees	(157)	(104)	-	-	(157)	(104)
Other liabilities	(25)	(28)			(25)	(28)
Available-for-sale securities			39	19	39	19
Net tax (assets)/liabilities	(185)	(136)	39	19	(146)	(117)

13. INCOME TAX EXPENSE (CONTINUED)

The amendments by the temporary differences during the year are recognised in the statement for comprehensive income and in the statement of equity as follows:

In thousand of BGN	2010	Changes in profit and loss	2009
Property, equipment and intangible assets	(3)	1	(4)
Provisions for guarantees	(157)	(53)	(104)
Other liabilities	(25)	3	(28)
Available-for-sale securities	39	20	19
	(146)	(29)	(117)

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.

14. OTHER COMPREHENSIVE INCOME

Other comprehensive income include:

In thousand of BGN	2010	2009
Change in fair value of available-for-sale securities		
Profit/(loss) for the year	(111)	41
Less: Correction from reclassification of profit/(loss), included in current year profit and loss	-	(380)
Income tax, related to components of other comprehensive income	-	79
Other comprehensive income for the year, net of tax	(111)	(260)

15. CASH AND BALANCES WITH THE CENTRAL BANK

In thousand of BGN	**2010**	**2009**
Cash on hand	674	782
Balances with the Central Bank:		
Current accounts	22,979	13,196
Minimum required reserve	9,975	3,912
Security fund	66	81
	33,020	17,189
Total cash and balances with The Central bank	33,694	17,971

Deposits with the Central Bank are not interest-bearing.

16. LOANS AND ADVANCES TO BANKS

In thousand of BGN	**2010**	**2009**
Current accounts and demand deposits		
Current accounts local banks	39,814	1,107
Current accounts foreign banks	820	1,388
Term deposits with local banks	157,897	94,467
Loan granted to local banks	458,548	462,885
Loan granted to foreign banks	3,128	-
	660,207	559,847

As at 31.12.2010 there are loans granted to local banks with nominal value of EUR 1,299 thousand and BGN equivalent 2,541 thousand (31.12.2009: EUR 3,499 thousand equivalent to BGN 6,843 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.

As at 31.12.2010 the Group has receivables to foreign banks in currency of nominal value EUR 1,779 thousand and BGN equivalent 3,479 thousand under a sign agreement for servicing of export transactions.

16. LOANS AND ADVANCES TO BANKS (CONTINUED)

As at 31.12.2010, there are loans granted to banks in BGN with nominal value of BGN 455,000 thousand (31.12.2009: BGN 455,000 thousand) under two programs. The loans are with a special purpose under the first program (BGN 375,000 thousand of nominal value) and 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 loan period or according to repayment schedule with 5 years grace period. Under the second program (BGN 80,000 thousand – nominal value) the loans are with special purpose and 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 years 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 31.12.2010 the Bank has term deposits receivables denominated in BGN or EUR from fourteen local banks, representing 21,14 % of the carrying value of the deposits due from banks (31.12. 2009 : eight local banks – with 16.88%). The term deposits are with original maturity from four days to four months (31.12.2009: from five days to six months).

As at 31.12.2010 the Bank has a repo deal receivable denominated in BGN with amortized amount of BGN 3,010 thousand, maturity 03.01.2011 and contracted interest rate – 4 % (31.12.2009 : BGN 3,001 thousand)

13. LOANS AND ADVANCES TO CUSTOMERS

In thousand of BGN	2010	2009
Loans and advances to customers	403,282	299,759
Less allowance for loan impairment loss	(35,692)	(21,494)
	367,590	278,265

In thousand of BGN	2010	2009
A. Analysis by customer type		
Corporate and sole traders	391,347	298,705
Municipalities	10,342	-
Individuals	1,593	1,054
	403,282	299,759

In thousand of BGN	2010	2009
B. Analysis of loans by industry sector		
Manufacturing	125,537	74,486
Construction	74,880	64,872
Trade	19,234	48,475
Tourist services	34,140	25,416
Agriculture	22,500	25,007
Real estate operations	2,490	18,063
Transport	84,591	12,912
Other industry sectors	39,910	30,528
	403,282	299,759

The group represented by the parent company (the Bank) provides funds mainly for activities of small and medium-sized enterprises as well as investment projects with 5 to 10 years return on investment.

17. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

C. Movement in the allowances for loan impairment and uncollectability

In thousand of BGN	2010			2009		
	Individually impaired	Collectively impaired	Total	Individually impaired	Collectively impaired	Total
At 1 January	16,796	4,698	21,494	5,380	3,184	8,564
Net increase/(decrease) for the year	13,177	1,544	14,721	11,845	1,514	13,359
Written-off against impairment	(523)	-	(523)	(429)	-	(429)
At 31 December	29,450	6,242	35,692	16,796	4,698	21,494

18. RECEIVABLES FROM THE STATE BUDGET

Upon implementation of Decision 197 of the Council of Ministers for the "Adoption of a mechanism for settlement of liabilities in the national budget" dated 8 April 2010 and the Agreement between BDB AD and the Council of Ministers dated 13 April 2010 , the bank shall acquire receivables arising from contracts after a procedure, as provided by the Public Procurement Act, relating to capital expenses and supplies, due and payable as of 31.03.2010 and subject to the specific requirements of current legislation, through cession under the Law on Obligations and Contracts.

The Council of Ministers, in turn shall repay to the bank on 20.07.2011 the payment obligations under the receivables, purchased by the bank For the implementation of the purchase of receivables program, the bank commits to provide its own resources to a maximum amount of up to BGN 100,000 thousand, and if necessary, the Ministry of Finance shall provide additional resources by depositing funds of up to BGN 400,000 thousand in the bank. At 31.12.2010 the Ministry of Finance has provided such a resource amounting to BGN 120,000 thousand (Note 27).

As of 31.12.2010 the Bank has purchased receivables with nominal value of BGN 276,574 thousand. In the statement of financial position , the receivables are stated their at amortised cost.

19. AVAILABLE-FOR-SALE SECURITIES

In thousand of BGN	**2010**	**2009**
Corporate bonds	14,841	12,099
Government bonds	971	-
Non-public companies' shares	1,903	1,815
Public companies' shares	207	276
	17,922	14,190

Movement in available-for-sale securities

In thousand of BGN	**2010**	**2009**
At 1 January	14,190	21,207
Additions (purchases)	5,989	1,600
Disposals (sale and/or redemption)	(2,146)	(8,155)
Net decrease from revaluation of available-for-sale securities to fair value	(111)	(462)
At 31 December	17,922	14,190

Shares denominated in EUR, held by the Group, represent shares of the capital of 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 a decision to be taken on the General meeting of the EIF shareholders (Note №32)

The shares in non-public companies, denominated in BGN, represent shares in a company licensed as payment system operator under the Bulgarian law – BORICA - Bankservice AD. Only banks can be shareholders in this company and they acquire its 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 reserve formed of the available-for-sale financial assets as of 31.12.2010 is at the amount of BGN 304 thousand – negative value (31 December 2009: BGN 193 thousand – negative value) (Note 31).

In 2010 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 28 thousand (Note 9) (2009: BGN 306 thousand).

20. HELD TO MATURITY SECURITIES

As at 31.12.2010 the securities held to maturity, owned by the Group, are as follows:

	Number of bonds	Nominal value *in EUR*	Amortized value *Thousand BGN*	Fair value *Thousand BGN*
Government bonds denominated in EUR	24,000	100	5,205	5,205

In June 2009 the Group has purchased 24.000 government securities - bonds issued by The Republic of Bulgaria, denominated in Euro. The bonds have a nominal value of EUR 100, maturity – 15.01.2013, and have a fixed coupon - 7,5%. The interest coupons are annual and paid in four equal parts: 15.01.2010 (paid) on 15.01.2011 (paid), 15.01.2012, and 15.01.2013. The bonds are presented at amortized cost

21. PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS

In thousand of BGN	Land and buildings	Bank equipment and computers	Furniture and fixtures	Motor vehicles	Licenses and software	Total
Book value						
At 1 January 2009	1,926	823	279	388	278	3,694
Additions	-	45	7	72	76	200
Disposals	-	-	-	-	-	-
At 31 December 2009	1,926	868	286	460	354	3,894
Additions	12 241	152	52	-	7	12,452
Disposals	(24)	(340)	(61)	-	(22)	(447)
At 31 December 2010	14,143	680	277	460	339	15,899
Accumulated depreciation						
At 1 January 2009	285	607	155	295	238	1,580
Charge for the year	38	76	29	77	42	262
Disposals	-	-	-	-	-	-
At 31 December 2009	323	683	184	372	280	1,842
Charge for the year	38	82	30	29	24	203
Disposal	-	(336)	(61)	-	(22)	(419)
At 31 December 2010	361	429	153	401	282	1,626
Carrying amount						
At 31 December 2010	13,782	251	124	59	57	14,273
At 31 December 2009	1,603	185	102	88	74	2,052

21 PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS (CONTINUED)

At 31.12.2010, the book value of fully depreciated property, plant and equipment, which are still in use by the Group amounts to BGN 616 thousand (31.12.2009: BGN 824 Thousand).

In 2010 the Group provides rental space from the owned building under two rental agreements (operating lease). The term of the rent agreements is not determined as they have a clause for one-month preliminary notification in case of termination by any of the parties, without subsequent penalties. The amount of the annual rental income for the year ended 31 December 2010 is BGN 39 thousand (2009: BGN 47 thousand).

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

At 31.12.2010 the book value of fully amortized intangible assets, which are still in use by the Bank amounts to BGN 254 thousand (31.12.2009: BGN 170 thousand).

22 ASSETS HELD FOR SALE

The available assets held for sale as at 31.12.2010 with book value of BGN 3,219 thousand include property (land and buildings) at the amount of BGN 3,261 thousand (31 December 2009: BGN 1,034 thouasand) and machinery and equipment at the amount of BGN 30 thousand (31 December 2009: BGN 769 thousand), acquired by the parent-company (the Bank) in 2010 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 actively searches buyers for them with the aim to sell them by the end of 2011.

23 OTHER ASSETS

In thousand of BGN	**2010**	**2009**
Prepayments and advances	57	95
Other receivables	61	12
VAT refundable	201	-
Other assets	1,803	-
	2,122	107

Other assets includes assets held for sale, but not realized within the stipulated 12-month period and were reclassified in other assets.

24 DEPOSITS FROM BANKS

In thousand of BGN	**2010**	**2009**
Deposits of local banks	87,616	19,005
Deposits of foreign banks	3,922	9,795
	91,538	28,800

The average interest rates on term deposits in BGN are from 0.17% do 0,90% (for 2009 – from 0.23% to 3.20%), and for term deposits in EUR – from 1.85% do 4.20% (for 2009 – from 0.30% to 1,25)

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

25 DEPOSITS OF CUSTOMERS, OTHER THAN BANKS

In thousand of BGN	2010	2009
Individuals	740	1,053
Companies and sole traders	52,110	45,789
	52,850	46,842

The amounts due to individuals represent deposits of employees of the bank.

26 BORROWINGS FROM INTERNATIONAL INSTITUTIONS

In thousand of BGN	2010	2009
Long-term Framework Loan Agreement with the *Council of Europe Development Bank*	58,801	44,065
Long-term loans from KfW Kreditanstalt fur Wiederaufbau	49,062	-
Long-term financing from European Investment Bank	54,090	7,325
Short-term loan from Hypo Noe Gruppe Bank	39,121	-
Long-term loan from Nordic Investment Bank	31,437	16,911
Long-term loan from JBIC (Japanese Bank for International Cooperation)	28,804	19,030
Long-term loan from DEPFA Investment Bank	21,348	25,229
Long-term loan from DEXIA Kommunalkredit	19,512	19,473
Long-term loan from Black Sea Trade and Development Bank	15,697	15,590
Long-term loan from China Development Bank	7,869	9,830
Short-term loan from Sumitomo Mitsui – Banking Corporation Europe	5,616	-
	331,357	157,453

The interest rates on borrowings from international institutions as at 31.12.2010 are in the range from 1.276% to 6.7737% (31.12.2009: from 0.964% to 4.747%)

26. BORROWINGS FROM INTERNATIONAL INSTITUTIONS (CONTINUED)

Council of Europe Development Bank

Framework Loan Agreements for EUR 10,000 thousand and EUR 5,000 thousand, intended for 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 Loan agreement for the amount BGN 10,000 thousand is guaranteed by the Republic of Bulgaria. As at 31.12.2010 the loans dated 2003 are fully utilized. As at 31.12.2010 the principal due under both loans amounts to EUR 15,000 thousand equivalent to BGN 29,337 thousand (31.12.2009: EUR 15,000 thousand equivalent to BGN 29,337 thousand). The interest rate is floating, on the basis of 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 loan is unsecured. As at 31.12.2010 the loan from 2009 is utilized in full. As at 31.12.2010 the principal due under the loan amounts to EUR 15,000 thousand equivalent to BGN 29,337 thousand (31.12.2009: EUR 7,500 thousand equivalent to BGN 14,669 thousand). The interest rate is floating, on the basis of 3-month EURIBOR plus margin.

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 unsecured. As at 31.12.2010 the loan is utilised in full.

As at 31.12.2010 the principal due under the loan amounts to EUR 11,000 thousand equivalent to BGN 21,514 thousand (31.12.2009: EUR 13,000 thousand equivalent to BGN 25,426 thousand). The interest rate is floating, on the basis of 6-month EURIBOR plus margin.

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 for the financing of 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 31.12.2010 the loan is utilized in full.

As at 31.12.2010 the principal due under the loan amounts to EUR 7,412 thousand equivalent to BGN 14,496 thousand (31.12.2009: EUR 8,588 thousand equivalent to BGN 16,797 thousand) The interest rate is floating, on the basis of 3-month EURIBOR plus margin.

On 15.12.2010 a second credit line has been signed between the Nordic Investment Bank and Bulgarian Development Bank AD for EUR 20,000 thousand. The funds are intended for the financing of investment projects with participation of the Nordic Investment Bank member states and ecological projects, as the financing may be provided directly from BDB of through bank-partners. The loan is unsecured.

As at 31.12.2010 has been utilized first tranche of the loan in the amount of EUR 8,765 thousand equivalent to BGN 17,144 thousand. The term of the loan is 10 years with 2 years grace period. The interest rate is floating, on the basis of 3-month EURIBOR plus margin.

European Investment Bank

On 4/6 October 2000 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 contract is based on agreement between the European Investment Bank and the Republic of Bulgaria dated 14.07.1997. The loan is guaranteed by the Republic of Bulgaria. The loan has been utilized in full.

26. BORROWINGS FROM INTERNATIONAL INSTITUTIONS (CONTINUED)

As at 31.12.2010 the outstanding principal amounts to EUR 2,651 thousand equivalent to BGN 5,186 thousand (as at 31.12.2009: EUR 3,743 thousand equivalent to BGN 7,322 thousand). The interest rate is formed on the basis of 3-month EURIBOR for a period of 3 months.
On 30.12.2009 a second loan contract has been signed between Bulgarian Development Bank AD and European Investment Bank for the amount of EUR 25,000 thousand and intended for financing of projects of small and medium-sized companies, with priority over infrastructure, energy, ecology, industry, health care and education. The loan is unsecured and utilized in full.
As at 31.12.2010 the outstanding principal under the loan amounts to EUR 25,000 thousand equivalent to BGN 48,896 thousand (as at 31.12.2009 there are no utilizations under the loan). The interest rate if floating, based of 3-month EURIBOR plus margin.

DEXIA Kommunalkredit Bank
On 23 May 2007 the Bank signed a loan agreement with DEXIA Kommunalkredit Bank for EUR 10,000 thousand. The loan is intended for funding investment projects of small- and medium-sized enterprises in Bulgaria. As at 31.12.2010 the loan has been utilized in full. The loan is secured by Letter of comfort, signed by the Minister of Finance.
As at 31.12.2010 the outstanding principal of the loan amounts to EUR 10,000 thousand, equivalent to BGN 19,558 thousand (as at 31.12.2009: EUR 10,000 thousand, equivalent to BGN 19,558 thousand). The interest rate is floating on the basis of 3-month EURIBOR plus margin.

Japanese Bank for International Cooperation (JBIC)

On 19.07.2006 a loan agreement for EUR 10,000 thousand was concluded between the Encouragement Bank AD (being at present the Bulgarian Development bank AD) and the Japanese 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 collateral for the established credit facility. As of 31.12.2010 the loan has been utilized in full.
As at 31.12.2010 the outstanding principal under the loan amounts to EUR 4,945 thousand, equivalent to BGN 9,672 thousand (31.12.2009: EUR 9,587 thousand, equivalent to BGN 18,750 thousand). The applicable interest rate on utilized tranche is former as: for 60% of the total amount as (CIRR) plus margin and for the other 40% as floating interest rate, on the basis of 6-month EURIBOR plus margin.
On 17.12.2009 a second loan agreement has been signed between Bulgarian Development Bank AD and Japanese Bank for International Cooperation for the amount of EUR 20,000 thousand. The loan can be utilized both in EUR and JPY. For a loan 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 rest 40% of the amount. For a loan utilized in JPY the applicable interest rate is fixed (CIRR plus risk margin). The loan is unsecured. As at 31.12.2010 the utilized amount of the loan is JPY 1,122,594 thousand, equivalent to BGN 19,812 thousand.
As at 31.12.2010 the outstanding principal under the loan amounts to JPY 1,052,431 thousand, equivalent to BGN 19,017 thousand.

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 are intended for direct financing of small and medium-sized enterprises. The loan is unsecured. As at 31.12.2010 the credit line is utilized in full.
As at 31.12.2010 the outstanding principal under the loan amounts to EUR 4,000 thousand, equivalent to BGN 7,823 thousand (as at 31.12.2009: EUR 5,000 thousand, equivalent to BGN 9,779 thousand). The interest rate is floating, on the basis of 6-month EURIBOR plus margin

26. BORROWINGS FROM INTERNATIONAL INSTITUTIONS (CONTINUED)

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 are intended for financing of Bulgarian small and medium-sized enterprises. The loan is unsecured. As at 31.12.2010 the loan is utilized in full.

As at 31.12.2010 the outstanding principal under the loan amounts to EUR 8,000 thousand, equivalent to BGN 15,646 thousand (as at 31.12.2009: EUR 8,000 thousand, equivalent to BGN 15,646 thousand). The interest rate is floating, on the basis of 6-month EURIBOR plus margin.

Kreditanstalt für Wiederaufbau

On 27 July 2010 Bulgarian Development Bank AD signed a direct loan for EUR 25,000 thousand with the German development bank Kreditanstalt für Wiederaufbau. The financial resource is intended for direct lending of small and medium sized enterprises and/or for credit lines for commercial banks for special-purpose financing for the business. The loan is unsecured and as at 31.12.2010 is utilized in full.

As at 31.12.2010 the outstanding principal under the loan amounts to EUR 25,000 thousand, equivalent to BGN 48,896 thousand. The interest rate is floating, on the basis of 6-month EURIBOR plus margin.

Hypo Noe Gruppe Bank

On 3 November 2010 Bulgarian Development Bank AD signed short-term loan agreement with Hypo Noe Gruppe Bank amounting to EUR 20,000 thousand. The loan is intended for financing of transactions under Decision 197 from 08.04.2010 of the Council of Ministers of the Republic of Bulgaria for the adoption of a mechanism for settlement of liabilities of primary, secondary and lower grade budget spending institutions, payable from the republican budget, incurred and accrued before 31.12.2009 under contracts, signed by them. The loan is unsecured and as at 31.12.2010 is utilized in full.

As at 31.12.2010 the outstanding principal under the facility amounts to EUR 20,000 thousand, equivalent to BGN 39,117 thousand. The interest rate is on the basis of 6-month EURIBOR plus margin.

Sumitomo Mitsui – Banking Corporation Europe

On 13 May 2010 Bulgarian Development Bank AD and Sumitomo Mitsui – Banking Corporation Europe signed a bilateral commercial financial facility. According to the facility Sumitomo Mitsui – Banking Corporation Europe may provide short-term financing to BDB AD for commercial transactions for period of up to 1 year and limit or up to USD 5,000 thousand. As at 31.12.2010 the utilized amount is EUR 2,843 thousand, equivalent to BGN 5,560 thousand.

As at 31.12.2010 the outstanding principal under the facility amounts to EUR 2,843 thousand, equivalent to BGN 5,560 thousand. The interest rate is on the basis of 12-month EURIBOR plus margin.

27. OTHER BORROWINGS

In thousand of BGN	**2010**	**2009**
Borrowed financing from the Ministry of Finance with funds from KfW	10,776	10,661
KfW funds provided by the Ministry of Finance for trust management	6,779	2,946
Attracted special purpose deposit from the Ministry of Finance	121,274	-
Long-term refunding agreement with the State Fund Agriculture	6,472	7,021
Special-purpose deposit by the Executive agency for Fishery and Aquacultures	6,002	-
	151,303	20,628

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 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 capitalized quarterly and is based on 3-month EURIBOR plus margin.

As at 31.12.2010 the amount of the loan is EUR 5,506 thousand, equivalent to BGN 10,770 thousand (31.12.2009: EUR 5,448 thousand, equivalent to BGN 10,656 thousand).

As at 31.12.2010 the bank has provided loans to commercial banks under this agreement at the amount of EUR 1,299 thousand (31.12.2009: EUR 3,499 thousand) (Note 16)

KfW funds provided by the Ministry of Finance for trust management

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

The main responsibilities of the Bank in respect of the funds management include the following: selection of the banks – 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.

As at 31 December 2010 r the balance of the loan with the Bank amounts to EUR 3,466 thousand equivalent to BGN 6,779 thousand (31 December 2009: EUR 1,506 thousand equivalent to BGN 2,946 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 2010, the funds transferred to partner - banks amount to BGN 803 thousand (31 December 2009: BGN 4,803 thousand).

27. OTHER BORROWINGS (CONTINUED)

Attracted deposit from the Ministry of Finance with a special purpose

Funds of Ministry of Finance provided pursuant Decision 197 of 8 April 2010 and an Agreement between the Council of Ministers and the Bank of 13 April 2010 for implementation of mechanism for settling obligations pursuant to State budget. In order to fulfill the provisions of the set mechanism, Ministry of Finance provides an additional financial support by depositing funds in the bank up to the amount of BGN 400,000 thousand. As at 31 December 2010 MF has provided such resources with a nominal amount of BGN 120,000 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 farmers*, 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 Borrowings is 2% p.a. The loans granted by the Bank to the farmers are at 9% annual interest rate.

As at 31 December 2010 the amounts received for refinancing from the fund is BGN 6,462 thousand (31 December 2009: BGN 6,761 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 execution 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 Borrowings 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 2010 the amounts for refinancing from the fund pursuant this contract is fully repaid. (31 December 2009: BGN 254 thousand).

Attracted deposit from the Executive agency for fishery and aquacultures with a special purpose

On 07 December 2010 an financial agreement been signed between National Guarantee Fund and the Executive agency for fishery and aquacultures (EAFA) which is a party of the Ministry of Agriculture and Food of Republic of Bulgaria to provide funds for the implementation of guarantees on the Operational Program for development of the Fishery's sector 2007-2013. EAFA provides to the Fund an amount of BGN 6,000 thousand in order to improve the access to financing and support competitiveness, and accelerating the completion of investments, the Fund will issue guarantees on loans granted by banks to borrowers for fulfillment project in the Fishery's sector, as well as counter-guarantees that the Fund will issue in reference of guarantees to banks for advance payments on projects approved for support under the Operational Program for development of Fishery's sector 2007-2013.

28. DEBT SECURITIES ISSUED

In May 2010 the Parent Company (the Bank) has issued second ordinary, corporate, interest bearing, non-cash, registers, freely transferable, non-convertible, unsecured bonds ISIN code BG 2100005201 with a total nominal value EUR 20,000 thousands and par value of bond - EUR 1,000 each. The term of bond loan is 60 months, to 15 May 2015. The agreed interest is paid quarterly by applying interest rate of 5% p.a. The principal is payable single installment on maturity.

In December 2010 the Parent Company (the bank) issued third registers, non-cash, freely transferable, ordinary, non-convertible, unsecured, interest bearing bonds with a total nominal value EUR 20,000 thousands and par value of bond – EUR 1,000 each. The term of bond loan is 60 months, to 30 December 2015. The contracted interest is paid quarterly by applying interest rate of 4,8 % p.a. The principal is payable single installment on maturity.

Debt securities issued are presented in the statement of financial position at amortized cost.

29. OTHER LIABILITIES

In thousand of BGN	**2010**	**2009**
Charges on debenture loans and guarantees	1,651	1,569
Taxes payable	612	1,188
Provisions on bank and portfolio guarantees	1,557	1,033
Payables to personnel and for social security	291	289
Accruals for expenses	118	102
Payables to EIF	404	-
Other creditors	-	2
	4,633	4,183

Provisions on bank portfolio guarantees represent the amount expected to be actually paid to third aprties by the Group under issued thereby guarantees. It is comprised of two components: (a) individual provisions – when at 31 December (the balance date) there are already sufficiently clear evidence as to the individual guarantees that they will be enforced and the beneficiaries there under will have undeniable right and may submit request for payment – as well as (b) portfolio provisions – determined as at 31 December (the reporting 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 Labor and Social Policy: BGN 1,557 thousand (31 December 2009: BGN 1,033 thousand).

Payables to personnel include: 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 2010 (the statement-of-financial-position date).

In accordance with the Labor 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 – 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 115 thousand is included in the balance at 31 December 2010 (31 December 2009: BGN 114 thousand).

29. OTHER LIABILITIES (CONTINUED)

In thousand of BGN	2010	2009
Present value of the liability at 1 January	114	106
Unrecognised actuarial loss at 1 January	(1)	(4)
Liability recognised in the balance sheet at 1 January	113	102
Expenses for the period	30	22
Amounts paid in the period	(28)	(10)
Liability recognised in the balance sheet at 31 December	115	114
Unrecognised actuarial gain/(loss) at 31 December	9	8
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:

In thousand of BGN ***Name***	Amounts on retirement for old age and service	Amounts on retirements due to illness	Total
Interest expense	6	1	7
Current service costs	21	-	21
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)	27	3	30

The following actuarial assumptions are used in calculating the present value of the liabilities as at 31 December 2010:

- mortality rate – in accordance with the table, on basis of statistics issued by the National Institute Statistics for the total mortality rate of the population in Bulgaria for the period 2005 – 2007;
- staff turnover rate – from 0% to 10% depending of the five age groups formed;
- effective annual interest rate for discounting – 6.5% (2009 - 7.0 %);
- the assumptions for the future level of working salaries in the Bank is based on the plan for development of the company and verified by the Bank with confirmation letter: 2011 – 0% compared to level in 2010 and for 2012 and subsequent – 5% compared to the previous year level;

30. SHARE CAPITAL

In thousand of BGN	2010	2009
Share capital		
Ordinary shares issued for cash fully paid	587,964	587,964
Ordinary – in-kind contribution (parcel building of the bank)	12,200	-
Issued ordinary shares – in-kind contribution (building of the bank)	1,610	1,610
	601,774	589,574
Share capital movement		
At 1 January	589,574	214,574
Newly issued shares	12,200	375,000
At 31 December	601,774	589,574

The capital of Parent Company (the Bank) is composed by 6,017,735 ordinary registered voting shares with par value of BGN 100 each.

The increase of capital in 2010 was made through non-monetary contribution, representing the value of ownership of real estate – private state property with an area of 893.42 square meters, located in the city of Sofia, 1 Dyakon Ignatiy street. The non-monetary contribution was made by the State on basis and to implementation of Decision 340 of the Council of Ministers in 2010, as against this contribution the State acquires 122 000 new registered shares with par value of BGN 100 each.

The new Bulgarian Development Bank Act provides that not less than 51% of the shares - should be owned by the State whereas shares of the State amounting to not less than 51% of the registered share capital, are non-transferable. Also, a specific limit is established with regard to the remaining shareholders, other than the Bulgarian State, through the Ministry of Finance. They 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.

The Parent Company's (the Bank) shares may not be pledged and the rights thereon may not be subject to transfer deals.

31. RESERVES

Specific requirements, other than under the general regulation of the Commercial Act regarding the Reserve Fund of the Bank (the Parent Company) have been introduced with the new Bulgarian Development Bank Act from 2008. 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 (the Parent Company) can use the money from the Reserve Fund to cover its current or prior period losses, but cannot 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.

The subsidiary National Guarantee Fund EAD formed the Reserve Fund according to the requirements of the Commercial Act.

As at 31 December 2010 the Statutory reserve of the Group amount to BGN 26, 172 thousand including of the Bank (the Parent Company) – BGN 25,941 thousand and of the Fund (the Subsidiary)- BGN 231 thousand (31.12.2009: BGN 10, 395 thousand) – including of the Bank (the Parent Company) – BGN 10,395 thousand and of the Fund (the Subsidiary) – there is not.

As at 31 December 2010 the ***additional reserves*** of the Bank (the Parent Company) amount to BGN 6,190 thousand (31.12.2009: BGN 6,190 thousand) and are formed as result of distribution of profits of the Parent Company (the bank) from previous periods, according to decisions of the General Meeting of shareholders.

In 2010 and 2009 there are no dividends paid.

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 Group through the Parent Company has set aside a special component of equity **'Revaluation Reserve'**, to which are accumulated all retained earnings and accumulated losses from revaluation to fair value of securities held and for sale, existing in 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 2010 it is negative value amounting to BGN 304 thousand (31 December 2009: BGN 193 thousand – negative value).

32. CONTINGENT LIABILITIES AND COMMITMENTS

In thousand of BGN

	2010	2009
Contingent liabilities		
Bank and portfolio guarantees and letters of credit	138,411	74,209
Recognised in the statement of financial position (provided)	(1,557)	(1,033)
	136,854	73,176
Irrevocable commitments		
Undrawn authorized loans	69,370	29,668
Uncalled nominal portion of held EIF shares	4,694	4,694
	74,064	34,362
	210,918	107,538

32. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

By virtue of the Bulgarian Development Bank Act, the transfers of the activities under the Micro-credits Guarantee Fund Project from the Ministry of Labor and Social Policy (MLSP) to the National Guarantee Fund EAD – subsidiary of the Parent Company (the bank) 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 2010 and Parent company (the Bank) guarantees at the amount of BGN 39,594 thousand were issued. (31 December 2009: eight partner-banks and bank guarantees issued amounting to BGN 57,882 thousand)

In 2010 are operating agreements for portfolio guarantees with 11 banks, which it is party the subsidiary – the Fund. The total limit of funds provided to the banks for inclusion of loans in the portfolio amounted to BGN 80,000 thousand. As at 31 December 2010 the approved amount of the loans included in the portfolio of the partner-banks amounted BGN 61,783 thousand (2009: BGN 3,250 thousand) and the amount of the guaranteed debt is BGN 53,145 thousand (2009: BGN 2,771 thousand).

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 reporting date 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 (the Parent Company), mortgages of real estate and insurance policies issued in favour of the Group. When conditions for enforcement of an issued guarantee occur, the Group judges the possibilities for recourse to the counterparty and eventual realization of the provided securities.

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

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

33. CASH AND CASH EQUIVALENTS

In thousand of BGN	**2010**	**2009**
Cash on hand (Note 15)	674	782
Current account with the Central Bank (Note 15)	22,979	13,196
Minimum required reserve with the Central Bank	9,975	3,912
Amounts due from other banks, with less than 90 days maturity	164,192	82,913
	197,820	100,803

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

Related parties

Company/person	*Relation type*
Ministry of Finance	Majority shareholder of the capital of the BDB AD representing the State
Holding Bulgarian State Railways EAD	Company under joint control with the State
National Electricity Company EAD	Company under joint control with the State
BULGARGAS EAD	Company under joint control with the State
Bulgarian Institute for Standardization	Company under joint control with the State
State-owned Enterprise "Communicative Construction and Rehabilitation"	Company under joint control with the State
South Stream Bulgaria AD	Company under joint control with the State
State-owned Enterprise "Transport Construction and Rehabilitation"	Company under joint control with the State
"I C J B" AD	Company under joint control with the State
Ministry of Environment and Water	Company under joint control with the State
Bulgarian State Railways EAD	Company under joint control with the State

34. TRANSACTIONS WITH RELATED PARTIES AND COMPANIES UNDER JOINT CONTROL WITH THE STATE (CONTINUED)

Receivables and payables with related parties as per Statement of Financial Position (in thousand BGN):

Assets

Company/person *In thousand of BGN*	***Type of receivable / payable***	**2010**	**2009**
Ministry of Finance	Receivable from State Budget	265,894	-
Ministry of Environment and Water	Receivable from State Budget	296	-

Liabilities

Company/person	***Type of receivable / payable***	**2010**	**2009**
Ministry of Finance	Other borrowings	138,829	13,607
Holding Bulgarian State Railways EAD	Deposits from customers	1,363	94
National Electricity Company EAD	Deposits from customers	183	1
BULGARGAS EAD	Deposits from customers	19	270
Bulgarian Institute for Standardization	Deposits from customers	48	178
State-owned Enterprise "Communicative Construction and Rehabilitation"	Deposits from customers	4	-
South Stream Bulgaria AD	Deposits from customers	50	-
State-owned Enterprise "Transport Construction and Rehabilitation"	Deposits from customers	4	-
"ICJB" AD	Deposits from customers	3,912	-

Related parties transactions are (in thousand BGN):

Company/person *In thousand of BGN*	***Type of relationship***	**2010**	**2009**
Ministry of Finance	Fee and commission income	77	85
	Interest income	7,211	-
	Interest expense	(1,461)	(269)
Holding Bulgarian State Railways EAD	Fee and commission income	70	70
	Interest expense	1	5
Ministry of Environment and Water	Interest income	50	-

34. TRANSACTIONS WITH RELATED PARTIES AND COMPANIES UNDER JOINT CONTROL WITH THE STATE (CONTINUED)

Contingent liabilities and commitments with related parties

Company/person	***Type***	**2010**	**2009**
Ministry of Finance	Issued bank guarantees	-	1,277

Relations with key management personnel

Receivables/ payables from key management personnel: *In thousand of BGN*	**2010**	**2009**
Deposits from customers	141	152
Remunerations payable	56	50
Loans and advances to customers	(20)	-
	177	202

Transactions with key management personnel: *In thousand of BGN*	**2010**	**2009**
Remunerations and social security contributions	1,128	1,418
Interest expense	5	6
Interest income	1	-

35. SUBSEQUENT EVENTS

Following a decision of the Registry Agency dated 14 January 2011 JOBS MICRO FINANCING INSTITUTION EAD was registered at the Registry of Trade Companies as a subsidiary of the Bank and was established on 23 December 2010.