



D Commerce Bank AD

# ANNUAL REPORT 2010



The Best Managed Bank  
— 2010 —  
Banks  
Investments  
Money



The Bank with the Lowest Risk Policy  
— 2010 —  
Banks  
Investments  
Money



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**Stoyan Alexandrov**  
*Chairman  
Supervisory Board*

## I. ADDRESS OF THE CHAIRMAN OF THE SUPERVISORY BOARD

Dear Ladies and Gentlemen,

During the past year D Commerce Bank AD worked hard, meeting the challenges to the local banking sector and to the national economy as well. Apart from certain single signs of recovery, the business environment in general was unsteady and of reduced activity throughout 2010.

In spite of that, we pursued further our key priorities and managed to retain to a certain degree our market positions, by gaining satisfactory results, compared to the severity of the economic stagnation in Bulgaria.

D Bank reported a positive financial result amounting to BGN 3 008 Thousand before taxation, and net income from operations of BGN 3 571 Thousand. The Bank's total assets marked a growth by 38,6% up to BGN 479 406 Thousand. While offering a wide range of products and flexible servicing, we marked a

conservative increase in corporate banking by granting loan facilities to companies with stable performance in an unfavorable business environment.

In 2010 we focused on retaining the quality of the loan portfolio and on monitoring the credit exposures. D Bank also retained its standing in retail banking with a focus on collecting deposit resource and a balanced growth of the loans granted, emphasizing on consumer lending. At the same time the provision and impairment expenses for financial assets saw an increase due to the aggravated economic environment.

Our Bank reported very good results in terms of capital adequacy of 18,29%, the liquidity amounted to 60,2%, and we retained our market standing in terms of assets, loans and deposits.

These satisfactory financial results were also confirmed by the Bulgarian Credit Rating Agency, which increased the long-term credit rating to "BBB", the short-term one to "A-3" and a "stable" perspective.

As a consequence of the above results, the institution was awarded with two prizes – "The Best Managed Bank" and "The Bank with the Lowest Risk Policy" for 2010 by the International Economic Forum "Banks, Investments, Money".

Throughout the past year the Bank continued to expand its branch network by opening ten new units in important locations in this country.

D Bank pursued its policy of social engagement by supporting a number of small projects in the social area, sports, culture, etc.

I would like to express my appreciation to all our customers for their business partnership and to the team of experts throughout the Bank for their efforts, professionalism and commitment.

Respectfully yours,

Stoyan Alexandrov  
Chairman Supervisory Board

A handwritten signature in black ink, appearing to be 'S. Alexandrov', written in a cursive style.



## II. INFORMATION ABOUT THE BANK

### 1. Business activities

D Commerce Bank (the Bank / D Bank) is a universal commercial bank, fully licensed to perform banking activities in this country and abroad.

The main priorities of the business of our Bank are the increase of its market share and rendering complete services both to leading companies, as well as to small and medium enterprises of various business sectors of the national economy, lending to business under programs of the Bulgarian government, retail banking facilities, operations on the local and international money and capital markets, assets management, providing assistance for the implementation of projects to operational programs, including lending, complete banking servicing for municipalities, budgetary entities, etc.

### 2. Ownership

D Commerce Bank AD (the Bank) is a part of the economic group owned by Mr. Fuat Güven, which has representations both in Bulgaria and Turkey.

### 3. Incorporation

Our Bank (formerly Demirbank-Bulgaria AD) was established on 15<sup>th</sup> April, 1999 as a shareholding company under a decision of Sofia City Court. The Bank's seat and registered address is in Bulgaria, Sofia, Sredetz Region, 8, Tsar Osvoboditel Blvd.

### 4. Banking license

D Commerce Bank is a universal commercial bank, fully licensed to perform banking operations in national and foreign currencies and to perform all other transactions as stipulated by the Law for Credit Institutions (art. 2, para 1 and 2).

### 5. Legal status and information about the Bank's shareholders

The registered share capital of the Bank, which is fully paid by its sole owner, amounts to BGN 40 000 000 and it consists of 40,000 ordinary, registered voting book-entry shares of BGN 1,000 nominal value each.

### 6. Shareholding structure of the Bank by the year-end of 2010:

Shareholder	Possessed shares as of 31.12.2010	Percentage
Mr. Fuat Güven	40,000	100.00
<b>Total</b>	<b>40,000</b>	<b>100,00</b>

### 7. Management

The Bank has a two-tier management system, consisting of a Supervisory and a Management Board. The Supervisory Board assigns the Management Board members; it approves the Executive Directors and determines their remuneration.

➤ **As of December, 2010 the Supervisory Board has the following members:**

- Ass. Prof. Stoyan I. Alexandrov – Chairman,
- Ms. Elenka H. Manova – Member,
- Ms. Emel Güven – Member,
- Mr. Bahattin Gürbüz – Member, and
- Mr. Valeri B. Borisov – Member.

➤ **As of December, 2010 the Management Board has the following members:**

- Mr. Plamen I. Petrov – Chairman of the MB and Executive Director
- Ms. Radka B. Nikodimova – Member of the MB and Executive Director
- Mr. Roumen D. Petrov – Member, and
- Ms. Gergana Ch. Beremska-Karadjova – Member.

### 8. Changes in the management and the registration of the Bank during 2010

Throughout the period from January 1, 2010 till December 31, 2010 no changes were made in the registration of D Commerce Bank, which was registered under court decision # 3936/1999 of Sofia City Court and duly reregistered in the Commercial Registrar to the Register Agency under UIC (unified identification code) 121884560.

### 9. Information about the persons managing and representing D Bank

As of December 31, 2010 the Bank has two Executive Directors and four members of its Management Board.

- Mr. Plamen I. Petrov – Chairman of the MB and Executive Director
- Ms. Radka B. Nikodimova – Member of the MB and Executive Director
- Mr. Roumen D. Petrov – Member, and
- Ms. Gergana Ch. Beremska-Karadjova – Member.

According to the Law on Credit Institutions, the Articles of Association of D Commerce Bank, and its court registration, the Bank is represented by all members of the Management Board on a collective basis or jointly by its two Executive Directors.

**The Executive Directors and the Management Board Members have no share in the capital of the Bank.**

### 10. Information in compliance with the Commercial Act (art. 187 and art. 247)

1. Under art. 187, d) – not applicable;

2. Under art. 247, para. 2:

- item 1 – The remunerations received totally in 2010 by members of the Supervisory and the Management Boards amounted to BGN 786 Thousand.
- item 2 – No deals of this type were performed during 2010;
- item 3 – There were no restrictions of the Boards members' rights to gain shares and bonds of the company (the Bank).
- item 4 – The involvement of the SB and the MB members, in their capacity of fully liable partners, and their possession of more than 25% of the equity of other companies or their involvement in the management of other companies and cooperations as procurators, managers or board members, who held their positions in the Bank during January 1 and December 31, 2010, is as follows:

**Ass. Prof. Stoyan I. Alexandrov** – Supervisory Board Chairman:

1. Aksa Group Ltd., UIC 175388272 – sole proprietor of the equity;
2. Alexandrov & Co. Ltd., UIC 130202069 – sole proprietor of the equity, manager and representative of the company;
3. Stovi Professional Sports Club, UIC 160056905 – Board of Directors Member;
4. Odesos Shipyard Ltd., UIC 103036629 – Board of Directors Member;
5. Land o Lake Agricultural Cooperation, UIC 829014536 – MB Member;
6. Elkabel-Co Ltd., UIC 102208556 – Manager;
7. Elkabel Ltd., UIC 102008573 – Management Board Member;
8. Stal 2007 Ltd., UIC 175336717 – Manager and sole proprietor of the equity through Alexandrov & Co. Ltd., UIC 130202069;
9. Ronkali Ltd., UIC 121414945 – Board of Directors Member, Executive and sole proprietor of the equity through Stal 2007 Ltd.;
10. Geneva Group International – Bulgaria Ltd., UIC 121423741 – Manager;
11. Radino Ltd., UIC 121088247 – representative of Alexandrov & Co. Ltd. as a Board of Directors Member;
12. Kramex Ltd., UIC 831635543 – representative of Alexandrov & Co. Ltd. as a Board of Directors Member;
13. Alexandrov & Partners Ltd., UIC 131272241 – limited partner with a 50% stake of the equity through Alexandrov & Co. Ltd.;
14. Vinzavod Winery Ltd., UIC 115040215 – representative of Alexandrov & Co. Ltd. as a Board of Directors Member.

**Ms. Elenka Harizanova Manova** – Supervisory Board Member:

1. Fortera Ltd., UIC 175194303 – Board of Directors Member;
2. Gama Invest Ltd., UIC 831283821 – Board of Directors Member;
3. Elkabel Ltd., UIC 102008573 – Management Board Member;
4. Varna Moda, UIC 121063663 – Board of Directors Member;
5. Aidatour Ltd., UIC 836143710 – Board of Directors Member.

**Mr. Valeri Borissov Borissov** – Supervisory Board Member:

1. Elkabel Ltd., UIC 102008573 – Supervisory Board Member;
2. Interyus Ltd., UIC 831644428 – limited partner with a 41% stake of the equity.

**Ms. Emel Güven** – Supervisory Board Member:

1. Varna Moda, UIC 121063663 – Board of Directors Member;
2. Elkabel Ltd., UIC 102008573 – Supervisory Board Member;
3. Elkabel Ltd., UIC 831283821 – Board of Directors Member.

**Mr. Plamen Ivanov Petrov** – Management Board Chair and Executive Director:

1. Alexandrov & Partners Ltd., UIC 131272241 – Manager.

➤ **item 5 – No contracts were concluded in 2010 under art. 240, b) of the Commercial Act**

**11. Address**

The seat and registered address of our Bank is in Bulgaria, Sofia, Sredetz region, 8, Tsar Osvoboditel Blvd.

**12. Branch Network**

As at 2010 year-end D Bank had thirty nine structural units (HO, financial centers, offices and outlets) in this country as follows: in Sofia (ten units), Plovdiv (three units), Varna (three units), Bourgas (four units), Haskovo (two units), Svilengrad, Assenovgrad, Rouse, Yambol, Kardzhali, Blagoevgrad, Dobrich, Targovishte, Shoumen, Stara Zagora, Pleven, Razgrad, Silistra, Sliven, Karnobat, Momchilgrad and Hitrino.

**The Bank does not possess any subsidiaries or stocks in other companies exceeding 10 per cent.**

**13. Staff**

As of December 31, 2010 the number of employees working for D Bank was 299 persons.

**14. The Bank made a profit of BGN 2 699 641,90 in 2010.**

**15. Mission of the Bank**

The incessantly aggravating business environment throughout 2010 made D Bank to revise its priorities, ensuring the attainment of its mission, and thus undertaking a number of practical actions regarding the increase of its potential and enhancing the ability to serve its clients. Those measures enabled the Bank to accomplish the following:

- To provide the full range of banking facilities, based on an efficient implementation of innovative information technologies and high quality services, and
- To ensure confidentiality and protection of the customers' interest, while being serviced.

**16. Objectives and tasks solved by D Commerce Bank in 2010**

Throughout the past year the Management of the Bank faced with a number of challenges arising from the problems of the financial crisis, which had to be overcome with significant efforts in view of reaching the optimum solutions. This, on one hand, imposed a dynamic and clear strategy to follow, protecting the interests of the Bank's clients and its owner.

The following were the major goals and tasks pursued by the Management of D Commerce Bank:

- The main priority of the Bank's Management throughout Y2010, which is still topical in 2011, was the formation of an adequate organization for assets and liabilities management, that would enable D Bank in any time to face the challenges of the economic crisis in this country;
- In 2010 the Bank continued to build up the base needed to ensure the increase of the generated income of its business and expanding its branch network;
- Ensuring further financial and capital stabilization of the institution;
- Resolving a number of issues regarding the risk management;
- Expanding the clients' basis and the cooperation with other institutions;
- Development and delivery of new banking facilities;
- Establishing the Bank as a stable profit center and gaining front positions in the local banking market.

**17. Clients**

Clients of our Bank are individuals and legal entities from all sectors of economy.

During the past year the relations with companies from the sectors of trade and services, agriculture, industry, construction works, servicing of municipalities, as well as further elaborating of products and facilities for individuals were of substantial importance for the Bank.

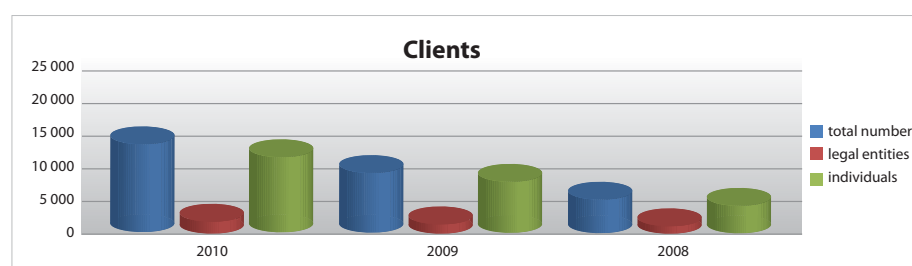
Throughout the reported period, the trend of the previous two years prevailed by retaining the share of the individual clients within the overall volume of clients of the Bank, as well as by maintaining their growth as a part of the general increase of attracted clients.

After the restructuring made in 2008, in 2010 the business clients were reported to retain their structure and its further

diversification as reported in 2009.

Number of clients				Changes in % compared to 2008			Changes in % compared to previous periods		
	Total number	Legal entities	Individuals	Total number	Legal entities	Individuals	Total number	Legal entities	Individuals
2010	20 037	2 825	17 212	258,97	170,69	282,99	147,55	139,71	148,93
2009	13 579	2 022	11 557	175,50	122,18	190,02	175,50	122,18	190,02
2008	7 737	1 655	6 082	100,00	100,00	100,00			

Number of accounts	Total number	Legal entities	Individuals	Total number	Legal entities	Individuals	Total number	Legal entities	Individuals
2010	23 842	4 251	19 591	200,23	150,53	215,68	148,82	133,59	152,60
2009	16 020	3 182	12 838	134,54	112,67	141,34	134,54	112,67	141,34
2008	11 907	2 824	9 083	100,00	100,00	100,00			



Despite the changes vis-a-vis the previous year, the companies from the sector of trade and services continued to be on top position with its 48,3 % share, followed by the sectors of agriculture and food-processing industry with more than 12%, construction works with 10,7%, hotel industry and transport with 4% any, financial services with 3%, etc. The remaining 18% belonged to companies from 60 sub-sectors of economy including the budgetary units, which joined the Bank in 2010. Our goal is to further diversify the companies serviced by the Bank in view of minimizing the risk, and increasing its profitability.

#### 18. Business indices of the Bank

Financial Indices	Measure unit	31 Dec., '10	31 Dec., '09	31 Dec., '08	31 Dec., '07
<b>Main indices of the Balance Sheet</b>					
1. Total assets	BGN Th.	479 406	345 964	294 242	222 543
2. Shareholder equity	BGN Th.	52 480	49 588	44 852	20 645
3. Financial assets	BGN Th.	472 910	341 285	291 185	221 260
4. Interest-bearing assets	BGN Th.	425 727	327 419	262 661	193 694
5. Liquid assets	BGN Th.	288 502	191 805	157 474	141 505
6. Loans and advances to customers	BGN Th.	184 340	149 480	133 711	79 509
7. Investments in securities	BGN Th.	105 738	97 480	91 276	95 582
8. Deposits	BGN Th.	425 325	295 254	248 092	199 235
<b>Results</b>					
1. Net income from banking operations	BGN Th.	18 246	18 824	14 223	7 212
2. Net profit	BGN Th.	2 700	4 700	4 274	1 121
3. Net interest and other similar income	BGN Th.	13 522	16 604	11 114	6 528
4. Fees and commissions net income	BGN Th.	2 949	1 595	1 558	1 765
5. Gains less losses from dealing in foreign currencies	BGN Th.	832	394	1 435	340
6. Other income	BGN Th.	943	231	116	38
7. Loan impairment losses	BGN Th.	(554)	(1 930)	(1 368)	(215)

Financial Indices	Measure unit	31 Dec., '10	31 Dec., '09	31 Dec., '08	31 Dec., '07
8. Total operating expenses	BGN Th.	( 14 684)	(11 665)	(8 103)	( 5 746 )
<b>Ratios</b>					
1. Return on assets	%	0,56	1,36	1,45	0,52
2. Return on equity	%	5,15	9,48	9,53	5,4
3. Level of assets coverage	%	10,95	14,33	15,24	9,27
4. Total capital adequacy	%	18,29	20,03	23,0	21,95
5. Total liquidity	%	60,18	55,44	53,52	63,58
6. Expenses per BGN 100 income	%	95,38	93,03	90,69	89,67
7. Interest-bearing assets / Assets	%	88,85	94,64	89,27	87,04
8. Regular loans / Loan portfolio	%	68,50	79,46	89,5	99,5
9. Gearing	%	12,32	16,80	18,1	10,36
<b>Resources</b>					
1. Staff	persons	299	248	181	116
2. Number of branch units	number	39	29	17	10

### 19. Responsibility of the Management

In compliance with the Bulgarian legislation the Management of D Commerce Bank is obliged to prepare the annual financial statements, representing the true financial status, the possessions and the financial performance of the Bank by the year-end.

#### By preparing these reports the Management confirms herewith the following:

- The introduced accounting policy is suitable and applied in a consistent way;
- The assessments and proposals made are in compliance with the principle of prudence;
- The accounting standards are sustainably applied in compliance with the law;
- The annual financial statements are prepared on the principle of the going concern.

#### The Management declares herewith the following:

- Wherever it was necessary, the best approximate assessments and decisions were made;
- It has observed all International Accounting Standards for financial statements, applicable in compliance with the national accounting legislation for the banks in this country;
- The Annual Financial Statements reveal the performance of the Bank to a reasonable extend of precision;
- It has undertaken all possible measures for protecting the assets of the Bank and for preventing any frauds.

By virtue of a decision of the Management Board of D Commerce Bank.

Plamen Petrov  
Chairman of the Management Board  
Executive Director

Radka Nikodimova  
Member of the Management Board  
Executive Director

### III. MACROECONOMIC REVIEW

#### 1. Development of the national economy

The complicated problems and the crisis process throughout the year had a negative impact on the levels of the basic macroeconomic indices, reported for this country by the year-end of 2010.

Regardless the reported increase of GDP by 1,7 % during Q4 of the reported period, as compared to the previous quarter, the past year saw negative results as a whole. According to preliminary data, Y2010 is expected to complete with a budget deficit of BGN 2 783,4 mill., or 3,9% of the projected GDP, while the deficit for 2009 was BGN 529,5 mill., or 0,8% of the projected GDP.

According to preliminary data, Y2010 is expected to yield 0,3% growth of GDP, while its growth for the previous year was a negative one within 0,5%. In this case the GDP level, by current prices, shall be around BGN 63 518 mill.

The analyses of the economic environment in Bulgaria confirm the expectations that the intensity of the crisis processes, although declining, shall retain in 2011, which might result in insignificant GDP growth.

The level of this decrease was accompanied by a shrink of the individual consumption for a third successive year, due to three factors.

The first major factor was the economic environment, aggravating throughout the year, related to the incessant fall of employment and the income of the population.

The second factor was the abrupt shrink of lending to the business and the economy. Due to this during the past year the private sector saw a reduction of its activity, which had a negative impact on the national economy.

Although there was limited activity in the local loan market during Q4 of 2010, it is expected that in 2011 this problem shall continue.

The third factor, that influenced negatively the economic environment, was the trend of the previous year for a decrease of the foreign investments. According to preliminary data, in 2010 direct investments decreased by 58% compared to the level of the previous year.

The limited access to loans, the insufficient volume of direct foreign investments and the aggravating performance of the local business shall contribute the prevailing trends of 2010 to continue to aggravate the business climate in 2011. The trend of 2009, when the major sectors of the national economy, especially the leading ones, reported negative growth, prevailed in 2010 as well.

Overall 2010 could be considered as the second in a row of three consecutive years, that would be a hard one for the development of the national economy.

The agriculture reported growth of income during 2010, which should be considered as a direct consequence of the fair crop.

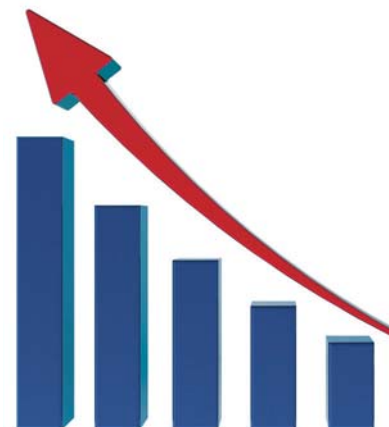
Besides the low growth of the surplus value by the industrial sector throughout the year, internal restructuring of the national economy was also reported. This situation and the imposed trend since the beginning of the past year confirm our expectations that the inner restructuring shall deepen in 2011, combined with further decrease of activities of all sectors of the national economy, and especially in the services and industry.

In 2010 inflation reached 4,5%, exceeding the level of the previous year. The growth of the reported rate of inflation, as compared to 2009, influenced restrictively income levels and individual consumption. That inflation increased despite the shrink of consumption.

It is expected that this trend shall prevail in Y2011 as well.

The reported decrease of the activity of the national economy during the past year, including the shrink of consumption by the population, enabled the trend of the previous year to continue to decrease the deficit of the foreign trade balance. The reported shrink for 2010, as compared to the previous year, was 42,5%.

However, the retention of negative foreign trade balance of significant volume, coupled with a negative GDP growth, continues to be one of the main problems, which has to be resolved together with all negative consequences, arising from this process.



In 2009 the gross domestic debt (GDD) was reported to have increased by 1,9% as compared to 2008, reaching 107,9% of the GDP. However, in 2010 a decrease of 2,36% of the GDD composed 102,3% of GDP.

The positive development in the GDD management during in 2010 was a result of increased exports and a quick shrink of imports.

Due to the measures undertaken by the government and the stability reached in the financial sector, on December 17, 2010 Standard & Poor's announced that it would be retaining the same credit rating as the one of December 1, 2009, and thus providing the long-term rating for this country to "BBB" with a "stable" perspective.

## 2. Development of the banking sector

The objective analyses of the banking system suggest that currently it is assessed with stability and reliability. Throughout the past year the sector continued its efforts to synchronize the banking legislation in line with the EU regulations.

The Bulgarian banking market includes 30 banks, divided in three major groups.

More than 95% of the banking assets are privately owned and more than 90% of the sector belongs to foreign investors.

Throughout 2010 banks maintained fair levels of liquidity and capital adequacy, appropriate to the economic environment. The capital position, measured through the capital adequacy index was 17,48%, while the formed capital buffer amounted to BGN 2,8 billion.

During the past year the trend of the previous year for retaining the credit expansion remained, regardless the increase of gross loans in the last quarter (excluding those from financial institutions) saw an increase by BGN 388 mill., till BGN 53,9 billion, or by 0,7% on an annual basis.

The retaining of the lending business in general influenced negatively the possibilities of extending loans to the industrial sector and the individuals, and hence the economy in general. The reported retaining of lending was accompanied with an aggravation of the loan portfolio of the banks, by having loans overdue for more than 90 days reaching 10,61%. It is expected that this situation shall remain and would contribute to an additional aggravation of the loan portfolios of the commercial banks in 2011.

Through the generated income from their main business, in 2010 the local commercial banks managed to cover the increased credit risk and the related additional depreciation expenses.

2010 made a start and imposed a trend for retaining or decreasing the loan interest rates depending on the type, currency and maturity of the loans granted, and this change became more tangible during Q4.

The deposit facilities reported for a decrease in 2009, which persisted throughout 2010. This decrease was caused of the permanent increase of the deposit resource, while the deposit maturity and currency remained in the background.

As a final effect, the overall efficiency of the local banking system continued to decline, which resulted in its reported profit (unaudited) by December 31 2010, amounting to BGN 617 mill., while in 2009 it amounted to BGN 780 mill.

## 3. Perspectives for development in 2011

Problems related to the economic development are expected to intensify in 2011, subordinating the business of the banks to these processes.

The prognosis for further retaining and/or decrease of GDP will result into an additional aggravation of the macroeconomic and price stability, i.e. the main factors for performing in a predictable environment, and enabling the investment decision making. This will retain the tendency for further decrease of the economic activity, while at the same time unemployment and consumption of the population are expected to aggravate substantially.

Shrinking of the national economy will cause a decrease of the imports to this country. This situation, combined with the lowered consumer lending, will further contribute to the negative foreign trade balance. Due to these factors a decrease of the current account deficit in absolute amount is expected, however this decrease will not be a stable one, while the reported levels will continue to be comparatively high, without reaching acceptable levels in the near future.

The used convention, of current account deficit to be totally covered by direct foreign investments, shall be one of the main challenges, which has to be addressed in 2011, in anticipation of an additional decrease of foreign investments.

The additional regulations that can be approved by the Bulgarian National Bank (BNB /Central Bank) in 2011, stipulated to minimize the impact of the economic crisis on the local financial system, are expected to impose a restriction effect on the banking business. They could have a negative influence and retain the individual consumption, and hence its contribution for the GDP increases.

D Commerce Bank will be developing further to operate in this environment during 2011 and to defend its standing.

#### 4. Market share and positioning of D Commerce Bank

As of December 31, 2010 the total assets of the Bank amounted to BGN 479 406 Thousand

Indices	Measure unit	2010			2009		
		Banking sector	D Bank	Relative share %	Banking sector	D Bank	Relative share %
1. Total assets	BGN mill.	73 726	479	0,65	70 866	346	0,49
2. Due from NFI	BGN mill.	53 652	184	0,34	57 777	149	0,25
3. Total deposits	BGN mill.	63 693	425	0,67	61 409	295	0,48
4. Return on Assets	%	0,84	0,56	*	1,1	1,36	*
5. Return on equity	%	6,15	5,15	*	8,25	9,48	*
6. Liquid assets / deposits	%	20,45	67,83	*	17,82	64,96	*

- 2010 saw an increase of D Bank's business, which resulted in a growth of the total assets by BGN 133 mill., or by 38,58%, compared to 2009.
- The asset growth achieved by our Bank in 2010, considerably surpassed the reported growth of 4,03% of the local banking system.
- The fair asset increase throughout the past year enabled the Bank to improve the obtained positions by that index among the second group of the local banks, as compared to its position of the previous year.
- D Bank reported an increase of other basic indices, characterizing its performance.
- In spite of the considerable increase of a number of its major indices, the Bank is still considered to be one of the smaller banks in the system.
- Under the circumstances of strong and violent competition and economic crisis, the reported minimum market share of D Commerce Bank in the banking sector can be defined as the major problem, which has to be resolved in the years to come, following the mid-term strategy for the development of the Bank as approved by its Management.
- The reported increase of certain indices, regardless their high growth, is far below the levels reached by other banks, and this poses the necessity once again of the Bank's further intensive development.

Under the circumstances of increased competition and an economic crisis, the reported minimum market share of D Bank could be defined as a major problem, which has to be solved during the years to come in compliance with the medium-term development strategy of the institution.



#### IV. BUSINESS RESULTS

Taking in consideration the local economic environment, amendments had to be made to the Business strategy of our Bank.

Practical actions for implementing the above mentioned amendments were undertaken since the beginning of the past year. The adequate actions undertaken for minimizing the impact of the enhancing economic crisis upon the financial position of the Bank enabled the institution to attain the set major targets by the year-end.

As a result, D Bank managed to streamline its business strategy mainly in the following directions:

- Retaining the Bank's position as a stable profit center;
- Increasing the business volumes and proactive delivery of the complete range of banking products and facilities;
- Further optimization of management of assets and liabilities of the Bank under the terms of the continuing economic crisis;
- Undertaking concrete actions for further minimizing of the negative impact incurred by the crisis processes over the local economy and hence affecting the stability and prosperity of D Bank;
- Increasing the number of the corporate and individual clients and the volume of operations of the Bank;
- Enhancing the quality and efficiency of the rendered bank products and facilities;
- Optimizing the loan portfolio increase, combined with a change of the Bank's approach towards the economic sectors in time,
- Enhancing of the risk management efficiency,
- Rendering of competitive services by means of resourceful information technologies, and
- Optimizing the branch network development by taking in consideration the potential of the region, the crisis processes in the country and D Bank's policy.

##### 1. Financial results

D Bank recorded a profit before taxes of BGN 3 008 Thousand. In 2010, a decrease of 42,5% over 2009.

The reported profit was mainly due to the generated minimum increase of the net income from operations by BGN 34 Thousand, or by 0,3 %.

The major contribution for the above results is as follows:

- Decrease of B GN 3 082 Thousand of the net interest income;
- Increase of fees and commissions net income by BGN 1 354 Thousand;
- Increase of other net income from operations by BGN 712 Thousand, and
- Increase of net income from trade operations by BGN 1 070 Thousand.

The reported volume of income from bank operations enabled our Bank, after covering its operational costs and loan impairment losses, to report net income of BGN 3 571 Thousand. This is BGN 1 589 Thousand, or 30,8% less than the previous year.

The reported significantly lower amount of profit, while having a substantial increase of the Bank's total assets, presupposes the reported decrease of 2010 levels of the main correlations of profitability and effectiveness, as compared to the previous year.

## Analyses of the results

(BGN '000)

Financial indices	31 Dec., '10	31 Dec., '09	31 Dec., '08	31 Dec., '07
<b>Bank operations</b>				
Interest income from loans and advances to customers	16 270	14 544	11 640	6 427
Interest income from placements with banks	1 939	1 255	1 659	1 148
Interest income from investments in securities and repo-agreements	5 235	5 093	1 560	3 181
<b>Interest income</b>	<b>23 444</b>	<b>20 892</b>	<b>14 859</b>	<b>10 756</b>
Interest expenses	(9 922)	( 4 288 )	( 3 745 )	( 4 228 )
<b>Net interest income</b>	<b>13 522</b>	<b>16 604</b>	<b>11 114</b>	<b>6 528</b>
Net fees and commissions income	2 949	1 595	1 558	1 765
Net income from dealing in foreign currencies	1 395	325	490	(1 108)
Other income	943	231	116	38
<b>Results from main banking operations</b>	<b>18 809</b>	<b>18 775</b>	<b>13 278</b>	<b>5,764</b>
Loan impairment losses	(554)	(1 930)	(1 368)	(215)
<b>Net income from banking operations</b>	<b>18 255</b>	<b>16 825</b>	<b>11 910</b>	<b>5 549</b>
General operating expenses	(14 684)	(11 665)	(8 103)	(5 746)
<b>Gains less losses from dealing in foreign currencies</b>	<b>3 571</b>	<b>5 160</b>	<b>3 807</b>	<b>(197)</b>
Profit / Loss from FX depreciation	(563)	69	945	1 448
<b>Profit / loss before taxes and dividends</b>	<b>3 008</b>	<b>5 229</b>	<b>4 752</b>	<b>1 251</b>
Tax expenses	(308)	(529)	(478)	(130)
<b>Net profit</b>	<b>2 700</b>	<b>4 700</b>	<b>4 274</b>	<b>1 121</b>

The results of banking operations, indicate that D Commerce Bank, regardless the impact of the crises processes, was able to self-finance, and also to generate income.

## Net interest income

In 2010 D Commerce Bank reported substantial increase in interest bearing assets and liabilities.

During the past year the Bank could not attain the desired optimization of its interest earning assets and expense bearing liabilities. Instead of obtaining the desired increase of the share of interest bearing assets in total assets, the past year retained the tendency of its decrease, and due to that 2010 reported an increase of the interest income of BGN 2 552 Thousand, or by 12,12%, while interest expenses increased by BGN 5 634 Thousand, or by 131,39%.

The main reason for that was the inability of the Bank to reach throughout the year parity between the increase of the deposit resource and its loan portfolio. Throughout Y2010 the borrowed funds of D Bank exceeded its loan portfolio, reaching by the year-end BGN 425 mill., marking a growth over the previous year of BGN 130 mill., or 44,05%. During the same period the loans granted increased by BGN 35 mill., reaching BGN 184 mill., and that allowed, an increase of 23,3% over 2009. As a result the net interest income decreased by BGN 3 082 Thousand. down to BGN 13 522 Thousand and also for a further decrease of the share of high profit assets. During 2010 the share of the loans granted to the total assets saw a decrease by 4,7%, reaching 38,5%, which presupposed of granting loans of BGN 23 mill. less, with all negative consequences for the Bank.

Due to the above reasons, the Bank reported net interest income of 3,25% in 2010, lower than the 5,34% of 2009.

The effect of the specifics of the deposit resource in 2010, is expected to perform its supporting role, when forming the price levels of the borrowed capital in 2011, without resulting into an abrupt increase of the expenses for its collection.

Maintaining a comparatively low liquidity level during the past year resulted into forming of lower volume of additional interest income, but at a decreased risk for the Bank.

By comprising 81,6% of the total income, the interest income continued to be the main income source for D Bank. In 2010 the interest income increased due to growth of loans and investments in securities, in line with the trend of the previous year of inner restructuring the interest income by sources.

Interest income from loans and from clients grew to BGN 1 726 Thousand, or by 11,87%, while the loan portfolio grew by BGN 34 860 Thousand. That situation was a direct consequence of a decreasing trend to the price levels of loans granted by

2009 year-end. This trend is expected to continue in 2011, and this means that the loan interest income and the income of the Bank in general shall grow in a slower pace.

Loan interest income continued to define the overall volume of interest income by growing from 66,4% in 2009 to 69,4% in 2010.

interest income from securities portfolio management increased by BGN 142 Thousand, or by 2,8%.

In spite of the permanent increase of the interest income from the securities portfolio, Y2010 retained the tendency of the previous two years, lowering their share in the overall volume of the interest income. During the reported period the income from securities portfolio comprised 22,33% of total interest income, compared to 28,84%, and 24,37% in 2009 respectively.

Although throughout 2010 the Central Bank retained the basic interest rate on levels, significantly lower than those in 2009, D Bank succeeded to manage effectively during the reported period its lowest interest-bearing assets, by reporting an increase of the interest income of BGN 684 Thousand mainly due to placements with financial institutions. This result was attained both through the increasing mass of the loans granted to FI, but also through retaining the proper interest rate levels when placing that resource.

#### **Net fees and commission income**

The concrete measures taken throughout 2010 aimed at proactive delivery of D Bank's facilities, resulted in an increase of net fees and commissions income, compared to the previous year. The Bank reported a net income amounting to BGN 2 949 Thousand, marking an increase higher than the previous year by BGN 1 354 Thousand, or 84.8%.

The main contributions for that substantial increase were the generated income from loans and non-credit facilities as well. This has to be considered as a result of the changes to the macroeconomic environment, combined with the higher activity of the Bank's structural units when offering non-interest facilities to clients.

Regardless of the reported results during the past year for net fees and commission income, D Bank has not gained its potential for offering non-interest facilities, and this defines the on-going insufficiency of the reported volumes of income.

The generated income from payment operations still occupies the main share of the non-interest income, exceeding 35% of the overall volume of non-interest income.

#### **Net income from FX operations**

During the past year the net income from FX deals and revaluation of balances in foreign currencies were reported to be BGN 833 Thousand, while the reported amounts for the previous year were BGN 387 Thousand, and thus marking an increase of BGN 446 Thousand, or 115,3%. The reported results shall be considered as a result of the increased turnover of FX deals with clients.

The prevailing tendency throughout 2010 for increasing and retaining a higher USD/BGN exchange rate had an additional impact of the net income of FX market operations generated by D Bank. A concrete result from the levels maintained during the period were the permanently increasing losses of FC revaluation, reaching up to BGN (563) Thousand by the year-end.

#### **General operating expenses**

The operating expenses include the staff cost, amortization, office rent, security services, communications, marketing and other management expenditures, as well as the annual premium fee to the Fund for guaranteeing the deposits in banks. In 2010 overall expenses increased by 25,88%, as compared to 2009, amounting to BGN (14 684) Thousand, while the volumes reported for 2009 were BGN (11 665) Thousand.

The increase of the maintenance costs was mainly due to the expenditures for opening new branch units of D Bank and the increase of the annual premium fee to the Fund for guaranteeing the deposits in banks.

In 2010 the inflation pressure increased the expenses for outsourced services, which was insignificant, considering the fact that on a comparable basis those services saw an increase of less than 4,5% yearly, which equaled to the inflation rate for the past year.

#### **Loan impairment losses**

In 2010 D Bank reported net expenses for loan impairment losses in 2009 of BGN (554) Thousand, while the volumes for the previous year amounted to BGN (1930) Thousand. The generation of that result was influenced by the additionally provisioned expenses in compliance with the Bank's policy for assessment of loan exposures.

## Taxes

The corporate tax rate, applicable when assessing the tax volume, due on the generated profit for 2010, was 10%. The profit tax for 2010 amounted to BGN 308 Thousand, while the amount paid for the previous year was BGN 529 Thousand. The reported lower level of the tax expenses was compatible with the amount of the income for the reported period.

## 2. Financial performance report

In 2010 D Bank reported a growth of its active banking operations in corporate banking, retail banking and investment banking by expanding its branch network in Sofia and country-wide. At the same time those operations were mainly financed with sufficient volume of borrowed funds from clients (companies, individuals, other financial institutions and banks) by providing comparatively good profitability, which resulted in the reported profit of the Bank for 2010.

By 2010 year-end the total assets of D Bank reached BGN 479 406 Thousand, while for the previous year they were BGN 345 964 Thousand, and thus marking a growth of 38,58%, that was considerably higher than the increase of 4,03%, reported by the banking system.

During the reported period the mass of the FC component of the assets marked an increase of 57,13%, as compared to the previous year, reaching a level of BGN 354 mill. As a result of the increase of the FC component, its share in the total assets was increased reaching levels of 73, 82% in 2010 from 63,64% in 2009.

Throughout the year the Bank reported a decrease of the BGN assets from BGN 290 Thousand to BGN 125 499 Thousand, and a decrease of their relative share in the total volume of the assets to 26,18%, from 36,36% in 2009.

In 2010 the Bank reported insignificant increase of the BGN equivalent of the USD of 6,72%.

The loan portfolio saw an increase of BGN 34 860 Thousand, or 23,32%, reaching BGN 184 340 Thousand. The reported increase was significant within the limits of the reasonable sufficiency. However its share in the increased total assets decreased to 38,6% from 43,2% in 2009.

The securities portfolio reported an increase as compared to the previous year by BGN 8 258 Thousand (from BGN 97 480 Thousand to BGN 105 738 Thousand), or by 8,5%. At the same time the share of the securities portfolio, within total assets, decreased from 28,18% in 2009 to 22,06% in 2010.

The inner restructuring of D Bank's assets during the year resulted in an increase of its interest-bearing assets by BGN 98 308 Thousand (i.e. from BGN 327 419 Thousand to BGN 425 727 Thousand), or by 30,02%. At the same time the relative share of the interest-bearing assets decreased to total assets decreased from 94,64% in 2009 to 88,85% in 2010.

The above decrease and the reported negative restructuring of the interest-bearing assets prevented the establishment of the circumstances needed for attaining a better interest income during the year. 2011 is expected to be the same.

## Due from banks

Due from banks as at 2010 year-end were BGN 135 649 Thousand, or 28,3% from total assets of the Bank. That was a substantial increase as an absolute amount, regardless the reported decrease on relative weight as compared to 2009. Compared to BGN 58 670 Thousand in 2009, Y2010 reported an increase of BGN 76 979 Thousand, or a growth of 131,21%. The amounts due from banks include deposits placed with local and overseas banks, payment accounts with banks, and guarantees for credit lines for issuing L/Cs.

Placements with banks were made on a short-term basis and provided high liquidity for D Bank. 93,62% of such placements were made with banks with assessed credit rating. The placements were managed in compliance with the limits approved by the Bank.

Bearing in mind the potential and the capacity of D Bank for operative management of the liquidity with suitable instruments, aimed at minimizing the liquidity risk, we expect the intra-bank deposits in 2011 to be of comparatively stable behavior, while having a clearly depicted trend to an absolute and relative retain of the levels, as compared to 2010, within the Bank's total assets.

## Financial assets, held to maturity

As at December 31, 2010 D Bank had a portfolio of securities, held to maturity, together with the discount and the premium, amounting to BGN 94 637 Thousand. Compared to 2009 the balance sheet value of the securities held to maturity, together with the discount and the premium, amounted to BGN 86 640 Thousand. Throughout 2010 an increase of BGN 7 997 Thousand was obtained, or with 9,2%.

Regardless the reported increase, their relative share in the total volume of assets decreased to 19,74% from 25,04% in 2009.

### Financial Assets Held for Sale

The financial assets classified in the relevant portfolios of instruments for sale include securities, held for an indefinite period of time, which can be sold when additional liquidity is needed, or when interest rates, exchange rates or capital income fluctuate. Their size as of December 31, 2010 amounted to BGN 11 033 Thousand, marking an increase only by BGN 193 Thousand, or 1,78%, as compared to 2009.

They included BGN 7 822 Thousand in government securities of the Republic of Bulgaria denominated in national currency, long-term government securities of the Republic of Turkey denominated in Euro of BGN 1 126 Thousand equivalent and European Investment Bank securities denominated in Euro, equal to BGN 2 081 Thousand. Non-financial enterprises' shares, amounting to BGN 4 Thousand, were also included in that portfolio.

D Bank achieved average profitability of the bonds denominated in foreign currency of 7,03% while for BGN bonds it was within 4,16% for the past year. The overall Bank's profitability achieved was 6,50%.

### Loans and Advances to Clients

In the Financial Statements of D Bank as of December 31, 2010, the loans granted to customers amounted to BGN 184 340 Thousand, as compared to BGN 149 480 Thousand for 2009. Their share in the increased amount of the assets decreased to 38,45%, as compared to the level of 43,21%, reported for the previous year.

Taking into consideration the economic environment in this country, the Bank followed a policy of reasonable adequacy in its lending business during 2010, granting loans predominantly to corporate customers.

The multitude of specially elaborated facilities and solutions offered to the clients of the Bank resulted in increased lending to private companies by applying of various types of loans as credit lines and lines for letters of guarantee and letters of credit issuance, investment loans as well as multipurpose credit facilities for achieving full satisfaction of the particular customers' needs.

At the same time priority of D Bank for 2010 continued to be the credit risk management, based on improving the whole model for risk exposures identification, measurement, monitoring and control. The risk was controlled by a detailed initial analysis of each separate investment project, while requiring high quality collateral, and by monitoring the fulfillment of each stage of the project, which the Bank grants the loan for.

The industry sector analysis shows that in 2010 the Bank continued to withdraw from the so called "risky" sectors of the national economy, while directing lending to spheres of profitable business which guaranteed the loans' regular repayment and maintained the competitive level of the Bank.

The quality of the loans and advances granted can be assessed as relatively good rendering an account of the economic situation in the country. By following its conservative policy at credit extension and risk management, the Bank obtained coverage of the portfolio with provisions for loss and impairment risk of 1,5%, while the level reached in 2009 was 2,50%.

### Capital and Liabilities

The basic source of funding of D Bank appeared to be the resources attracted from companies, individuals and banks. The absolute increase amounted to BGN 130 071 Thousand (from BGN 295 254 Thousand to BGN 425 325 Thousand), representing a growth by 44,05%.

The share of term deposits from companies and individuals in the aggregate volume of attracted funds grew from 21,96% by 2009 year-end to 40,22% by the end of 2010. As an absolute amount, that increase was by BGN 101 549 Thousand or a growth by 146,27%.

Parallel to the deposit mass growth, the attracted funds' average maturity also increased. The average maturity for deposits as of December 31, 2009 was 5,52 months, while by 2010 year-end it was already 7,58 months, marking an improvement of the attracted funds' quality.

The previous years' tendency towards a leading share of the demand funds within the aggregate attracted funds did not continue in 2010. Terminating the influence of this factor, together with the substantial improvement of the funds quality and the influence of 2009 market conditions as well, that continued throughout 2010, led to a quicker increase of the price of the funds, attracted by the Bank, compared to previous years. As of December, 2010 the Bank reported average cost of funds of 3,33%, while the levels achieved in 2009 had been of 1,89%.

As of December 31, 2010 D Bank reported equity amounting to BGN 52 480 Thousand, marking a growth of 5,83%, as compared to the reported level by 2009 year-end of BGN 49 588 Thousand. That growth was due to profit after tax, amounting to BGN 2 700 Thousand, generated in 2010.

The minimum profit growth by the end of 2010 combined with the complex influence of a number of other factors influenced the capital adequacy ratios. The reported capital adequacy of 18,29% for the past year substantially exceeded the minimum level, as required by BNB, but was below the level from the previous year (20,03%).

The assets coverage level (capital for BGN 100 assets) decreased to 10,95% during the past year. A decrease in another ratio (Gearing - showing the Bank's stability) was also reported to be 12,32% by December 31, 2010.

The situation by 2010 year-end requires additional measures to be undertaken in 2011 for maintaining and improving the basic capital ratios.

### Liquidity

D Bank continued to maintain a satisfactory liquidity throughout the past year. The reported liquidity is formed by:

- the volume formed by the securities portfolio, amounting to 22,05% of the Bank's total assets;
- the net receivables from financial institutions, reaching 28,3% of the total assets;
- cash amounts, reaching 9,85% of the total assets.

As a whole, the liquidity assets are balanced both generally and split by structures, and this is expected to retain throughout 2011 as well.

### 3. Bank Regulators

In accordance with the requirements of the bank legislation in Bulgaria and the instructions of BNB, D Commerce Bank should observe certain limitations connected with the following ratios:

#### General Capital Adequacy

D Bank calculates the general capital adequacy as percentage ratio between equity and its risk-estimated assets. The capital base includes the basic share capital, the Reserve Fund and the other reserves up to a certain volume, reduced by the volume of the intangible long-term assets and the unrealized loss from financial instruments held for sale. The risk-estimated assets represent the sum from the risk-estimated assets for credit, market and operational risk.

The reported capital adequacy as of December 31, 2010 was 18,29%, due to the reported increase of the risk component during the year resulting from an increase of the assets size and the economic situation in the country. Due to that reason a decrease was reported, as compared to the level of 20,03% as at 2009.

The minimum required capital adequacy ratio is 12%.

#### Minimum Required Share Capital

As of December 31, 2010 the basic share capital was BGN 40 000 Thousand. D Bank has fulfilled the requirements of the Central Bank for minimum required share capital of BGN 10 000 Thousand.

#### Other Regulatory Ratios:

Regarding the capital base in relation to the open FX positions, the maximum ratio is up to 30% for all types of currencies and respectively – up to 15% for each individual currency, excluding the positions in Euro.

The capital base in relation to big risk exposures – the total size of all big loans cannot exceed 8 times the Bank's capital base. The exposure towards a single person or related parties cannot exceed 25% of the capital base.

As far as the liquidity assets in relation to net cash flows is concerned, the Central Bank monitors the size and the contents of the liquid assets of banks and if needed sets minimum liquidity ratios for each individual bank, that should be achieved within a certain period of time as percentage of the liquidity assets to attracted funds.

Regarding the capital base in relation to the size of investments in real estates, equipment, stocks and shares from non-financial institutions – the investments cannot exceed the size of the Bank's capital base and only those in real estates and equipment should not exceed 50% from the capital base.

As at December 31, 2010 D Bank had observed all regulatory requirements of BNB and the Bulgarian legislation.



## V. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

In the course of its general business the Bank is exposed to various financial risks, the most important of them being market risk (including the currency risk, the risk from change of the fair value and price risk), credit risk, liquidity risk and risk of the interest rate bound cash flows.

The general risk management is focused on the difficulties in making prognoses on financial markets and on achieving minimum potential negative effects that could influence the financial performance and status of the Bank. Financial risks are identified, measured and monitored on a current base by applying various control mechanisms. They are introduced to define adequate prices of bank services, the types of products and the attracted by the Bank customers' funds, as well as to adequately evaluate the market circumstances of the investments made by the Bank and the forms of maintaining of the free liquidity means without letting misplaced concentration of a particular risk. The bank manages its trade operations in accordance with the type of risk and on the basis of the different categories of owned trade instruments.

### *Risks Management Structure*

The basic units responsible for risks management in the Bank are as follows:

**Supervisory Board** - executes general supervision on risks management;

**Management Board** - responsible for the general approach to risks management and approves risks management strategies and principles;

**Assets and Liabilities Committee** - analyzes the current condition of the Bank's assets and liabilities, monitors risks connected with the liquidity management and the financial instruments market and proposes particular measures in case of deviation from the approved limits;

**Credit Committee and Provision Council** - current analysis of credit deals from the point of view of credit risk management;

**Risk Events Assessment Committee** - it takes decisions on final registering of occurred operation events, estimates losses (if any occur), analyzes registered (booked) data;

**Executive Directors** - perform operational control over all bank operations regarding monitoring and current maintenance of the defined limits for the particular types of risks;

The Central Bank performs additional supervision on risks management in the Bank by requiring periodical reports and control on observing the legally defined levels for exposure towards certain types of risks.

### *Measuring and Managing of the Basic Risks*

The Management of the Bank has approved various internal regulations and methods for risks measuring that are based on statistic models or on historical experience.

The risks control and management is mainly structured on the basis of limits under types of operations. These limits influence the Bank's strategy and its market position as well as the level of the particular risk, which the Bank defines as acceptable for its operations.

Reports are periodically prepared for the particular types of risks for making follow-up analysis and correction of the already defined limits under the separate types of operations and deals.

#### 1. Credit Risk

A credit risk is related with the inability of customers/counterparties to fully repay the amounts due to the Bank within the period scheduled.

The management of the specific credit risk is performed by the Provisions Council of the Bank and is monitored by the Management Board. The function regarding the credit risk management secures the application of a suitable policy and the compliance of this policy to the related procedures and control activities for current monitoring of each type of credit exposure.

The credit portfolio risk exposure is managed by a regular analysis of the capability of the borrowers to observe their obligations regarding repayment of the principals and interests due and by mechanisms for setting of suitable credit limitations. The credit risk also decreases partially by obtaining various types of collateral.

The basic aim of the instruments in the form of bank guarantees and letters of credit is providing of funds for the customer whenever a necessity for them arises. Bank guarantees and letters of credit, representing irrevocable payment engagement on behalf of the Bank, in case a customer cannot fulfil

his obligations to a third party, bear the same credit risk as loans themselves. Documentary and commercial letters of credit, representing an undertaking in writing of the obligations of the Bank in the name of a customer, authorise a third person to receive funds up to a certain amount by observing certain conditions. They are covered by a certain quantity of goods and because of this they bear lower risk than when directly granting a loan.

The unutilized funds under approved loan agreements in the form of credits, bank guarantees or letters of credit represent an engagements of the Bank. With respect to the credit risk the Bank is potentially exposed to loss, amounting to the total sum of the unutilized loans. However, the probable loss size is lower than all unutilized funds as most of this type of engagements presume requirements for maintaining of certain credit standards on behalf of the customer. The Bank currently monitors the periods for drawing the loans as the longer-term liabilities are usually with a higher level of credit risk than the short-term ones.

#### Maximum Credit Risk Exposure

The exposure to credit risk resulting from financial assets recognized in the balance-sheet is as follows:

	(BGN '000)	
	2010	2009
<b>Financial Assets</b>		
Cash in cash-desk and under current account with the Central Bank	47,183	35,655
Loans and advances to banks	135,649	58,670
Loans and advances to customers	184,340	149,480
Securities held for sale	11,033	10,840
Securities held to maturity	94,637	86,640
Securities held for trading	68	0
	<b>472,910</b>	<b>341,285</b>

The exposure to credit risk resulting from conditional engagements, reported as off-balance, is the following:

	2010	2009
Bank guarantees and letters of credit	13,974	15,807
Undrawn amount of approved loans	24,039	14,565
	<b>38,013</b>	<b>30,372</b>
Maximum credit risk	<b>510,923</b>	<b>371,657</b>

#### Credit Risk - Concentration

The Bank's Management currently monitors the credit risk resulting from concentration of financial assets by economic sectors as well as by separate counterparties on the basis of approved limits. They are defined as follows:

1. General limit to counterparty bank - defined on the basis of the official rating of the bank awarded by an internationally approved credit rating agency. It includes limits under the following types of deals: deposit limit, forex (FX) limit, trade/portfolio limit.
2. Internal rating of the countries and the counterparty banks - defined on the basis of methods developed in the Bank for determining the internal rating of the countries and the counterparty banks by their financial state assessment.
3. Limit for maximum exposures to one person or economically related persons - it is determined regarding credit exposures of customers - non-financial institutions in accordance with article 44, para 2 of the Law on Credit Institutions.

The excess of a set limit up to 25%, at keeping the general bank limit for a particular bank, is approved by two executive directors. The excess of a certain limit above 25% for a particular bank is approved by the Management Board of D Bank.

The regulation limits and the intra-bank limits for maximum exposures to one person and economically linked persons, including counterparty banks, are periodically assessed and analyzed.

The general credit exposure to a separate industry sector as a percentage from the whole loan portfolio is periodically tracked down and is approved by the Management Board of D Bank.

Data for the financial assets of the Bank (credits, receivables and financial assets held to maturity - under depreciable cost, securities held for trading - under net book value) classified under economy sectors/branches are presented here below:

	(BGN '000)	
Sectors/Branches	31.12.2010	31.12.2009
Receivables from governments	97,305	95,351
Cash with the Central Bank	47,183	35,655
Financial activities/services	144,082	60,798
Government and municipalities	3,203	-
Trade and services	48,367	40,407
Construction	55,708	52,639
Tourism	11,740	11,286
Manufacturing	21,038	24,721
Loans and other receivables from individuals	25,022	9,782
Transport and communications	1,643	2,226
Agriculture and forestry	19,725	12,257
Insurance, leasing business	708	-
	<b>475,724</b>	<b>345,122</b>
Provisions	<b>(2,814)</b>	<b>(3,837)</b>
	<b>472,910</b>	<b>341,285</b>

Y2009 tendency, when the share of the financial instruments, representing receivables under loans granted to customers and investments in government securities in the structure of the risk exposures by economic sectors/branches exceeded the share of receivables from other banks, was preserved during 2010.

A risk for more significant concentration of credit risk (balance-sheet and off-balance) under loans to Trade and services and Construction sectors exists for the Bank. The raised concentration of loans to Construction Sector compared to the previous years was due to the intense development of this sector and the demand for additional bank financing for different investment projects on behalf of the construction companies. The risk is controlled by applying initial analysis of any separate investment project and high quality types of collateral are required, while performing routine monitoring of each stage of the project, for which the bank grants the loan.

#### Loans and Receivables Quality

D Bank has got internal regulations for the assessment of the particular counterparties' creditability. This assessment is done on the basis of methods including financial information and information on the types of collateral provided. All corporate loans granted to private enterprises as well as the consumer and housing loans to individuals are covered by collateral. The types of collateral accepted are mainly blocked cash deposits under accounts with the Bank, real estate mortgages – residential lodging, commercial and industrial buildings, hotels, etc., pledge on movables insured in favor of the Bank – mainly goods and materials kept in stock, transportation means, trade receivables, securities pledge, etc. Customer's promissory notes and third persons' warrants are required in addition.

The Provision Council of the Bank makes each month analysis of the risk exposures regarding delays in their servicing and alteration in the financial condition of the borrowers. Analysis of the financial information submitted to the customers is done quarterly. The fulfillment of investment and construction projects is currently monitored as well as the utilization of the loan funds. Examination and re-assessment of the types of collateral provided is done periodically, but not less than once a year.

The exposures, occurred in connection with business and individual loans, are individually analyzed for depreciation and are classified in four risk groups, based on the current servicing of the loan and on assessment of the borrower's paying capacity.

## 2. Market Risk

The market risk originates from the negative fluctuations of the interest rates, of the FX rates between the different currencies and of the securities and the other financial instruments market price. These movements influence the Bank profitability.

The Bank manages the possessed financial instruments, rendering an account of the changing market conditions. The exposure regarding market risk is managed in compliance with the risk limits defined by the Bank Management by means of financial instruments trade or by means of opening a compensatory position for risk hedging.

#### Interest Rate Risk

The bank activity leads to a continuous maintenance of positions sensitive to the movement of the market interest rates, that influences its financial status and the cash flow dynamics. Interest rate risk is the probability for a potential change of the net

income from interests or the net interest margin (the difference between gross interest income and gross interest cost) and the market value of the equity because of change of the general market interest rate levels.

The interest rates for assets and liabilities denominated in BGN are usually determined on the basis of the basic interest rate movement defined by the Central Bank. The interest rates for assets and liabilities denominated in EURO are based on the quotations of the European Central Bank.

In the cases of assets and liabilities with floating interest rates the Bank is exposed to the risk of changes in the basic interest points serving to define the interest rates that are determined as a difference between the characteristics of the variable interest rate indexes, as for example the basic interest rate, six months LIBOR or different interest rates. The Risk Management Policy aims optimizing the net income from interests and achieving of market interest levels in compliance with the strategy of the bank.

The procedures for interest rate risk management are connected with the current maintenance of a reasonable interest rate margin between the applicable interest rates for attracted funds and to the active bank operations and they are applied from the point of view of the bank's sensitivity to changes of the interest rate levels.

For defining the interest rate levels under loans and receivable from non-financial institutions the Bank has introduced rules for its customers – basic interest rate determined by means of approved internal methods.

D Bank continuously monitors the movements of the foreign currencies, the discrepancies in the interest rate levels and in the maturity structure of its assets and liabilities. At the same time it currently monitors the changes in prices and profitability of the traded government securities. The interest rate risk is actively monitored by the analysis, risk management and liquidity departments so that a compliance with the market risk limitations be secured. The Assets and Liabilities Committee currently monitors the interest rate risk that the Bank is exposed to and takes decisions on changing of the interest rate levels.

The interest rate risk analysis of the Bank's financial assets and liabilities and their sensitivity towards the interest rates behavior are announced in the Annual Financial Report.

### **Currency Risk**

Currency risk is the risk from the influence of fluctuations in the predominating FX rates on the financial status and the cash flows of the Bank as a result of open currency positions. The net position in each currency is currently monitored by the Management body of the Bank and Financial Markets and Investments Department as well as by the members of the Assets and Liabilities Committee.

The Bank is exposed to currency risk when performing deals with financial instruments denominated in a foreign currency. After introducing of Currency Board in R Bulgaria, the Bulgarian lev was fixed to the EURO and as a result of this no open currency risk connected with it exists. The movements in BGN exchange rate to the currencies outside the Euro zone influence the indexes in the reports.

Currency risk is the risk from the negative influence of the fluctuations in the predominant FX rates over the financial status and the cash flows of the Bank. The net position of each currency is continuously monitored by the Financial Markets and Investments Department and the Risk Management Department. The Bank follows a policy of having the basic part of the assets and liabilities denominated in EURO or BGN. In addition the Bank does not perform substantial deals and does not maintain large open FX positions in currencies different from EURO.

The Financial Markets and Investments Department manages the Bank's assets and liabilities within the defined limits for reaching the set aims and indexes of investments return. The size of the Bank open FX position (by various currencies) is monitored on a daily basis and the necessary activities for minimizing the possible effects for the Bank from changes in the FX rates are being undertaken. The analyses show that the Bank is exposed to a minimum currency risk, as it maintains every day limited open positions under the different types of currencies differing from EURO, to which the BGN is pegged.

### **Liquidity Risk**

Liquidity risk relates to the inability of the Bank to meet its current and potential liabilities connected with payments, when they are due, without bearing unacceptable losses.

The activity of the Bank requires a stable cash flow to substitute the existing deposits, when their maturity expires, as well as to satisfy the customers' demand for additional loans. When managing the liquidity, D Bank also takes into consideration the engagements connected with the undrawn part of the loans granted and the level of all conditional engagements.

The compliance and the controlled non-compliance with the assets and liabilities maturity terms and the interest rates is a basic question of the Bank's liquidity managing. The full compliance is not customary for banks. The non-compliance of the maturity structure increases potentially the earnings capacity, but it also increases the losses risk. The assets and liabilities maturity terms as well as the replacement capacity at an acceptable price of the interest liabilities on their maturity date are important factors, when estimating the Bank's liquidity and the influence of the fluctuations in the interest rates and the FX rates on it. In order to manage the risk the Bank maintains at any moment high liquidity assets in different currencies. The control and monitoring of the general liquidity are currently executed by the Assets and Liabilities Committee in the Bank on the basis of ratios set as a regulation in BNB Ordinance # 11. In addition, maturity tables are maintained for scenarios "Working enterprise" and "Liquidity Crisis" for specifying of the net cash flows under periods.

The models for measurement and control of the risk liquidity exposure of the Bank include analysis of: the financial insufficiency, the liquidity maturity disruption, the basic liquidity surplus/insufficiency of the short-term assets/liabilities, the medium-term liquidity index, etc.

The Bank is obliged to maintain minimum reserves to the amount of 10% of the attracted funds, in accordance with BNB requirements. The managing and control on the reserves is executed by Financial Markets and Investments Department on a daily basis on the grounds of the attracted funds data. A part of the minimum reserves can be set aside in EURO under a separate account with the Central Bank. The currency structure of the minimum reserves is defined on the basis of interest rates levels at the money markets and the incoming and outgoing cash flows of the Bank in BGN and EURO as far as the accounts for reserves set aside are interest-free.

The Bank maintains at any time a relatively constant portfolio of liquidity assets as a part of the created internal system for liquidity risk managing.

The requirements to the liquidity for meeting payments under letters of guarantee and letters of credit are substantially lower than the amount of the engagement as the Bank usually does not expect a third party to claim payment of amounts upon the agreement.

The analysis of the maturity structure of the financial liabilities and the off-balance sheet engagements prepared on the basis of the undiscounted gross cash flows is announced in the Annual Financial Report.

### **Equity Management**

D Bank follows its basic aims for equity management by maintaining the equity level to a size sufficient for developing the activity and for securing the respective return of the owner's invested funds and the economic benefits for other persons concerned and participants in his business as well as to maintain optimum capital structure in view of reducing expenses for capital.

The Bank should observe the regulatory requirements for capital adequacy in its activity, and should continue to function as a going concern as well.

The main equity components, according to the regulatory requirements and the ratios that D Bank has obtained, are announced in its Annual Financial Report.

In 2010 the Bank maintained general capital adequacy and capital adequacy of the first row above the minimum required size in compliance with the requirements of the Central Bank.

## VI. OPERATING ACTIVITY

### 1. Corporate Banking

The practice from previous years for establishing of long-term relations with corporate customers, showing reliable performance and having good development perspectives, was further developed in 2010.

The pursued policy of “individual” approach to corporates, rendering an account of the specific character of the separate sectors of the national economy had in addition positively influenced the financial stability of the Bank.

The simultaneous application of these two approaches had positively influenced the financial stability of D Bank under the conditions of a continuing economic crisis and had turned them into a basic task to be reached, when working with corporate customers in 2011 and the years to come.

The tendency from the previous year of granting loans mainly for financing of companies’ working capital with a period mostly up to 5 years was preserved.

#### Information about the number of active loans and off-balance engagements of the Bank

Number (total)	31.12.2009	31.12.2010	Ratio
Active loans	897	1262	140,69%
Active guarantees/letters of credit	77	112	145,45%
<b>Total</b>	<b>974</b>	<b>1374</b>	<b>141,07%</b>
Number (corporate customers)	31.12.2009	31.12.2010	Ratio
Active loans	288	401	139,24%
Active guarantees/letters of credit	77	112	145,45%
<b>Total</b>	<b>365</b>	<b>513</b>	<b>140,55%</b>

Throughout the past year D Bank was aiming at attracting corporates by offering high quality servicing, flexible products according to the needs of the customer and short terms for the processing and examining of documents, analyzing the projects and making decisions. This approach will be preserved during the next years making it a common practice for the Bank.

D Bank’s orientation allows it to have a competitive advantage in servicing trade operations and investment projects between Bulgaria and Turkey. The predominant number of the Bank’s customers is entirely Bulgarian companies with business in this country, but D Bank also serves projects of large Turkish corporations in Bulgaria.

#### Analysis of the Activity of Corporate Banking

##### *Market Environment*

The activity of D Commerce Bank in the corporate banking area was carried out under the conditions of continuous economic crisis in 2010.

The strong competition between banks for increasing the volume of deposits, led to continuation of their relatively high acquisition price, which influenced the reported price of granted loans during the past year.

The decrease of the inter-bank interest rates during the year, under equal other conditions, should have led to further, more substantial decrease of the loans’ price, especially with loans agreed at a floating interest rate indexed at the inter-bank market, which did not happen. In 2010 a tendency to a gradual decrease of the loans and deposits prices of developed.

The expectations are that this tendency will prevail in 2011, and due to this no substantial changes in the business conditions should be expected.

The continuing economic crisis influenced negatively the stability of a larger part of the local companies, and respectively the servicing banks. Being a part of the banking system of the country, this problem influenced D Commerce Bank as well. Thanks to the duly undertaken measures from the very beginning of 2010, it did not impact the Bank in full strength.

##### *Credit Exposures to Corporate Customers*

The policy of “reasonable sufficiency” pursued by the Bank during the past year impacted the volume of the granted loans. Loans granted to corporate customers were reported to total BGN 162 mill., resulting in an insignificant increase of BGN 19 mill., or 13,3% was reported as compared to the previous year.



Its share in the increased assets size decreased to 33,8% from 41,5% for the previous year.

Corporate loans profitability in 2010 was preserved at the previous year levels within 9,4%, which was a fair achievement.

The interest rates income from corporate loans formed 61,5% of the total interest income business of the Bank in 2010. A decrease of 6,4% was reported, as compared to the previous year, which was a result of the insufficient growth of the loan portfolio mass, despite maintaining their profitability.

The corporate loans portfolio quality analysis can be specified as good.

The acceptable price levels of the granted funds allowed D Commerce Bank to lend at competitive interest rates levels, to fund small and medium enterprises.

### Trade Financing

D Bank offers its customers – local and international companies - up-to-date products for trade financing, aiming to facilitate their foreign trade operations. By the established correspondent relations D Bank has access to different parts all over the world. The Bank serves the needs of international and local companies executing different projects in the country by issuing bank guarantees to government institutions and private companies.

## 2. Retail Banking

A priority in Retail Banking business throughout 2010 was to further expand the product range and respectively the development of internal regulations for each product offered to individuals.

Apart from the aggressive competitive environment, the undertaken activities secured selling of 3 712 pieces of deposit products for the past year, which represented an increase by 2 115 pieces or 132,45%. The achieved increase of the sold products has positively influenced the absolute and relative increase of the mass of funds attracted by individuals and their share in the total volume of funds, attracted by the Bank.

During 2010 the Bank continued offering successfully the products developed by it. The volume of consumer loans granted both for employees in companies receiving their remuneration through accounts with the Bank and for new customers was increased. The total amount of granted loans reached BGN 24,9 mill. compared to BGN 9,8 mill., representing a growth of BGN 15,1 mill. or 154,08%, as compared to the previous year.

### Information about the Number of Active Individual Loans and Off-balance Engagements of the Bank

Number (individuals)	31.12.2009	31.12.2010	Ratio
Active loans	609	861	141,38%
Active guarantees/letters of credit	0	0	-
<b>Total</b>	<b>609</b>	<b>861</b>	<b>141,38%</b>

### Public Relations and Advertising

During the passed reporting period an accent was put on the brand distinguishing and validating, the offered new product range and the creative vision of the Bank among the target customer groups and in the public environment as a whole.

Efforts were directed towards developing of suitable advertising and electronic channels and PR media presence. As a priority every day press editions with national and partially with regional coverage, periodical Internet advertisement including the wholly renewed web-site were used. The purpose of the activity executed was mainly announcing the new products and services offered by D Bank with a basic accent on their beneficial and high quality parameters and their compliance with the particular needs of the customer as well as strengthening the image of the institution as an upright and flexible business partner. PR events were also organized mainly connected with opening of new offices of the Bank in the country.

Further development of this activity is being planned by means of enlarging of the already existing channels and introducing new ones for advertising and PR communications with the purpose of affirming the positive image of the Bank and its product range.

### Perspectives

D Bank's efforts in Retail Banking throughout 2011 will be attributed mainly to:

- Increase the credit portfolio and retaining the good quality of loans granted with a view of raising the market share and using the free potential regarding sales and servicing.

- Increase the attracted funds by launching new products related with the passive bank operations – opening and servicing of term and demand deposit accounts.
- Increase the number of customers having their remuneration under a current account with branches and offices of the Bank.
- Gain popularity of utility payments by transfers via card accounts in the branch outlets of the Bank.
- Start and make popular the credit cards issuance service.
- Increase the number of sold international debit cards through the Bank's mediation.
- Additional ATM and POS terminals installment in newly opened structural units.
- Develop new products connected with active and passive bank operations.
- Accepting card payments at traders.

### 3. Assets and Liabilities Management

D Bank's assets and liabilities management is executed in three main directions: money market, FX trade and securities trade. The available wide network of counterparties, local and international banks, secures market FX rates and prices for all deals. The Bank trades mainly the following currencies: BGN, EUR, USD, CHF, and GBP.

A priority for the Bank is to ensure its liquidity. Due to the proper cash flows management and to the increased volume of individual and business deposits, the institution had not felt any need for interbank funds in 2010. However, limits with other banks were agreed upon and if necessary, funds can be borrowed from interbank market. The liquidity management is also connected with the maintenance of minimum obligatory reserves in compliance with the regulatory requirements. D Commerce Bank maintained its minimum obligatory reserves within the required volumes throughout 2010.

Another basic activity in this area was the securities and Euro bonds trade.

The securities portfolio is in the basis of different products directed towards the customers such as repo-agreements, etc. By 2010 year-end the securities possessed by the Bank amounted to BGN 105 738 Thousand, 89,5% of them being held to maturity.

### 4. Information Systems Development

#### Online Banking

D Commerce Bank offers its customers on-line banking since August 2003 and it continuously improves the quality of the facility, meeting the increased needs of its customers. Online banking offers international access to the bank products and improves the flexibility of the provided services. Customers enjoy more abundant and up-to-date information regardless of their location. To the present moment the service security level has been increased as well as the capacity of coherence of the Bank to Internet for achieving a quicker and higher quality service.

#### Unified branch network system

D Bank has always tried in its activity to elaborate the possibilities for optimization of the connections between the separate structural units and its Head Office. The final result of this purposeful activity is an improvement in time not only of communications, but also ensuring better servicing of the Bank's customers decreasing to a minimum the influence of its separate structural units geographical location.

### 5. Card Business

Several MasterCard projects connected both with receiving licenses for issuance of the following types of cards: Maestro, MC Standard and MC Business were successfully finalized during the past year. D Commerce Bank is the first bank in the system of BORIKA, certified by MasterCard to issue cards with the latest DDA chip technology.

An increase in the active debit cards by 42,8% was reported for the year. The situation with credit cards is similar. Despite the reported substantial growth during 2010, the card business of the Bank still reports a certain delay as compared to the achievements of the commercial banks in this country.

The expectations are that in 2011 the increase in the number of active cards will continue as planned and this, combined with offering of new services and the continuous improvement of the conditions of the facilities. In the next two years, the Bank will be able to build up a quality loan portfolio and to overcome the formed delay and to reach the level of the banks in the country during the next two years.

**ATM terminals**

By December 31, 2010 the total number of installed ATM terminals reached 42.

A system for ATM communication monitoring was built up. A contract for servicing payments by international Visa cards at ATM was signed and servicing payments by international cards at traders, additionally facilitating the Bank's customers, was provided.

In 2011 the total number of ATM terminals of the Bank is planned to reach 65.

The official web-site of the Bank secures connection with the information system.

**POS terminals**

The Bank offers its customers POS terminals. This service enables them to more easily direct the cash flows straight to their bank account. As at December 31, 2010 the Bank has 42 working POS terminals.

It is expected the total number of the installed POS terminals is planned to reach 227 until 2011 year-end.

**6. Correspondent Bank Relations**

The Bank executes transfers in all basic foreign currencies including TRY, the transfers in TRY being directly done through the respective correspondence banks in Turkey.

The correspondence network of D Commerce Bank covers 80 local and international banks. The Bank has opened FX NOSTRO accounts as follows:

<b>EUR</b>	<b>Commerzbank, Frankfurt</b>	<b>USD</b>	<b>Citibank NA, New York</b>
	Standard Chartered Bank, Frankfurt		Standard Chartered Bank, N.Y
	<b>ING Bank, Sofia Branch</b>		Commerzbank, Frankfurt
	<b>Fortis Bank, Istanbul</b>		Fortis Bank, Istanbul
	<b>Bankpozitif Kredi ve Kalkinma Bankasi, Istanbul</b>		Bankpozitif Kredi ve Kalkinma Bankasi, Istanbul
	<b>Unicredit Bulbank, Sofia</b>		<b>Unicredit Bulbank, Sofia</b>
	<b>Invvstbank Bulgaria, Sofia</b>		<b>Invvstbank Bulgaria, Sofia</b>
	<b>Bulgarian Development Bank, Sofia</b>		
<b>GBP</b>	<b>Citibank N.A., London</b>	<b>TRY</b>	<b>Fortis Bank, Istanbul</b>
			Bankpozitif Kredi ve Kalkinma Bankasi, Istanbul

## VII. PLANS FOR DEVELOPMENT

In 2011 D Commerce Bank will further its activity forming a group of customers, who will be provided the full range of bank facilities needed by them, delivered by rapid and effective servicing.

The Bulgarian and foreign corporate customers, who will be offered the full range of bank services, remain a priority for D Bank.

The deposit base of the Bank, taking into consideration the economic situation in the country and the expected further development of crisis processes during the year, is foreseen to increase in a moderate way as compared to 2010 within 33,2% at average base.

The set objectives project further reasonable increase in the pace of lending as well as of investment banking. The goal is to reach parity with the deposits increase, while further optimizing the assets structure and reaching higher positive financial performance.

Lending is expected to continue, being the main part of D Bank's business. The aim is a portfolio of BGN 395 mill. to be gained by 2011 year-end, the share of corporate banking being within 88%.

The achievement of the above results is an inseparable part of the Strategy for development of D Bank during the next five years, until 2014.

Following the program, the Bank is expected to open 65 structural units with 410 employees until 2011 year-end.

Launching the new structural units will need investments of BGN 1 mill., and BGN 1,8 mill. incremental costs as well, regarding the accomplishment of the necessary refurbishment and adapting of the rented premises.

Investment expenses within BGN 5,5 mill. are expected to be made during 2011.

Total expenses, split by economic items, are expected to reach BGN 17,9 mill. by 2011 year-end.

For creating the necessary preconditions for successful start of the new structural units as well as for keeping the Bank's staff at the needed professional level, means for training are foreseen, aimed at the continuous increasing of the staff qualification that will allow creating of an environment for enhancing the efficiency of the Bank's activity as a whole.

The expenses for advertising are planned to an amount that could allow making public the new competitive services, offered by the Bank, without any problems and that could shorten the way to the final consumer - the customer.

It is expected that the Bank will service about 45 000 customer's accounts until the end of 2011.

The aim is the Bank to work as a unified structural mechanism and to affirm itself as a stable profit centre by 2011 year-end.



**VIII. EVENTS AFTER THE BALANCE-SHEET DATE**

- a) The Plan and Budget of the Bank for 2011, divided under structural units and execution periods, was approved on January 11, 2011.
- b) The formed positive financial performance from the activity of the Bank during 2010 will serve for replenishment of Reserve Fund in accordance with the orders of article 246 from the Commercial Act.
- c) As at the date of approval of the present report the MB of the Bank has put forward to the SB suggestions and the respective approvals were received for opening of financial centers in: Veliko Tarnovo, Gotse Delchev, Kazanlak, office in Varna to Varna Financial Centre, as well as small office in Svilengrad to Svilengrad Financial Centre, small office in the village of Satovcha to Gotse Delchev Financial Centre and small office in Antonovo to Targovishte Financial Centre.
- d) The amendment and supplement of the Tariff of the Bank in force as of March 1, 2011 was approved on February 16, 2011.

*This report is prepared in compliance with the requirements of art. 33 from the Accountancy Act. It was accepted and signed by the members of the Management Board of D Commerce Bank on March 25, 2011.*

**Plamen Petrov**

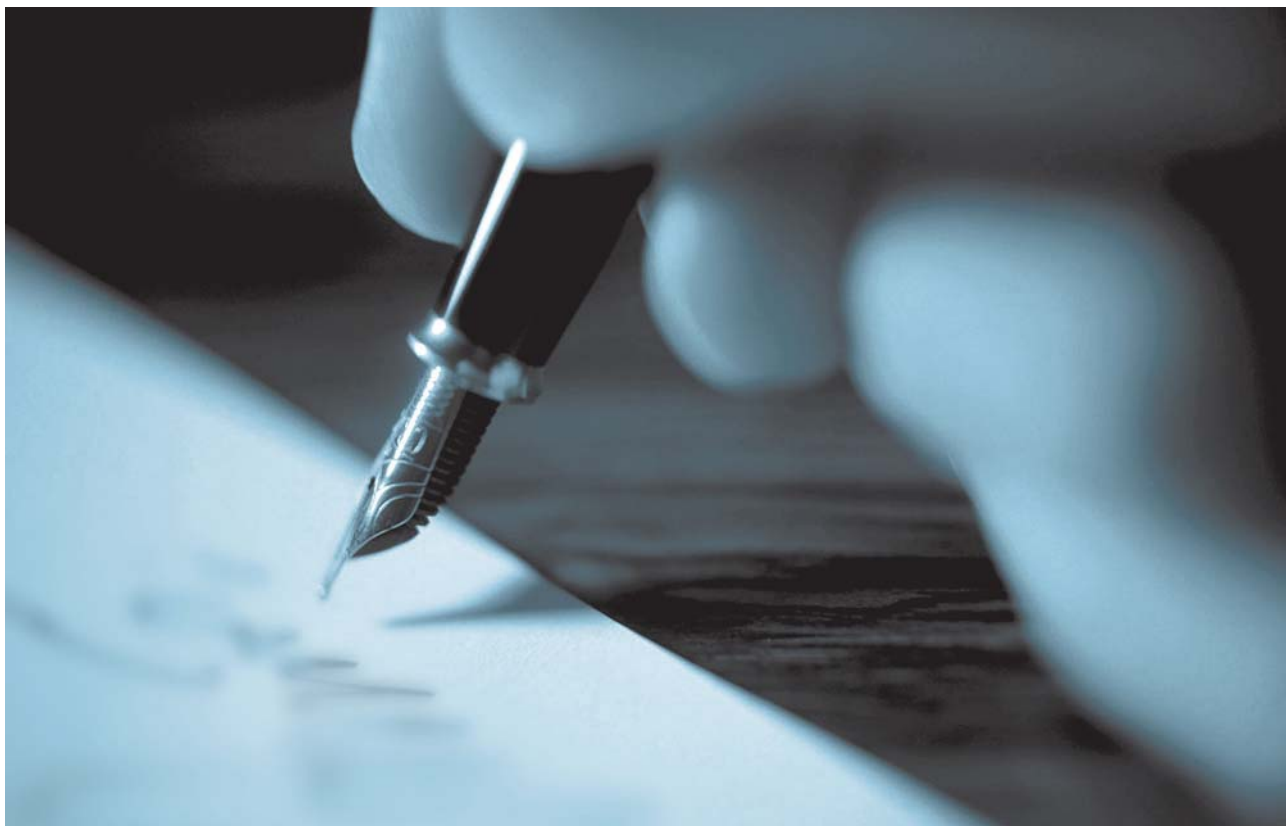
Executive Director, MB Chairman

**Radka Nikodimova**

Executive Director, MB Member

IX. Report of the independent auditor

**FINANCIAL STATEMENTS FOR THE YEAR  
ENDED DECEMBER 31, 2010  
IN ACCORDANCE WITH INTERNATIONAL  
FIANANCIAL REPORTING STANDARDS  
WITH INDEPENDENT AUDITOR'S REPORT  
THEREON**



## IX. INDEPENDENT AUDITORS' REPORT



To the shareholders of  
D Commerce Bank AD

**Report on the Financial Statements**

We have audited the accompanying financial statements of D Commerce Bank AD („the Bank“) which comprise the statement of financial position as at 31 December 2010, the 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 Financial Statements*

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements give a true and fair view of the financial position of the Bank as at 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.



D Commerce Bank

Statement of the comprehensive income  
for the year ended 31 December 2010

<i>In thousands of BGN</i>	<i>Note</i>	<b>2010</b>	<b>2009</b>
Interest income		23,444	20,892
Interest expense		(9,922)	(4,288)
<b>Net interest income</b>	7	13,522	16,604
Fee and commission income		3,347	1,774
Fee and commission expense		(398)	(179)
<b>Net fee and commission income</b>	8	2,949	1,595
Net trading income	9	832	394
Other operating income	10	943	231
<b>Operating income</b>		18,246	18,824
Impairment loss on loans and advances	11	(554)	(1,930)
Personnel expenses	12	(6,800)	(5,423)
Depreciation and amortization	12	(1,143)	(769)
Other expenses	12	(6,741)	(5,473)
<b>Profit before Income tax</b>		3,008	5,229
Income tax expense	13	(308)	(529)
<b>Net profit for the year</b>		2,700	4,700
Other comprehensive income			
<b>Change in fair value of financial assets available for sale</b>		191	36
<b>Other comprehensive income</b>		191	36
<b>Total comprehensive income</b>		2,891	4,736

The notes on pages 6 to 55 are an integral part of these financial statements.

<p>Radka Nikodimova <i>Executive Director</i></p> 	<p>Gergana Beremska <i>Member of MB, (under power of attorney)</i></p> 	<p>Petar Blagoev <i>"Economic policy"</i></p> 
<p>Krassimir Hadjidinev <i>Authorised representative</i> KPMG Bulgaria OOD</p> 		<p>Margarita Soleva <i>Registered auditor</i></p> 
		

**D Commerce Bank**  
**Statement of financial position**  
**As at 31 December 2010**

<i>In thousands of BGN</i>	<i>Note</i>	<b>2010</b>	<b>2009</b>
<b>Assets</b>			
Cash and balances with the Central Bank	14	47,183	35,655
Loans and advances to banks	15	135,649	58,670
Loans and advances to customers	16	184,340	149,480
Held-to-maturity investments	18	94,637	86,640
Trading assets		68	-
Available-for-sale financial assets	17	11,033	10,840
Property, plant and equipment	19	5,004	4,060
Intangible assets	20	140	96
Assets held for sale	22	240	-
Other assets	23	1,112	523
<b>Total assets</b>		<b>479,406</b>	<b>345,964</b>
<b>Liabilities</b>			
Deposits from banks	25	47,792	48,270
Deposits from customers	24	377,533	246,984
Deferred tax liabilities	21	40	31
Other liabilities	26	1,561	1,091
<b>Total liabilities</b>		<b>426,926</b>	<b>296,376</b>
<b>Equity</b>			
Share capital	27	40,000	40,000
Reserves	27	12,480	9,588
<b>Total equity</b>		<b>52,480</b>	<b>49,588</b>
<b>Total liabilities and equity</b>		<b>479,406</b>	<b>345,964</b>

The notes on pages 6 to 55 are an integral part of these financial statements.

The financial statements have been approved by the Bank's Management Board on 31 March 2011 and signed on its behalf by:

Radka Nikodimova  
Executive Director

Gergana Beremska  
Member of MB, (under power of attorney)

Petar Blagoev  
"Economic policy"

Krassimir Hadjidinev  
Authorised representative  
KPMG Bulgaria OOD



Margarita Goleva  
Registered auditor



**D Commerce Bank**  
**Statement of cash flows**  
for the year ended 31 December 2010

<i>In thousands of BGN</i>	Note	2010	2009
<b>Cash flows from operating activities</b>			
Net profit for the year		2,700	4,700
<i>Adjustment for non cash items</i>			
Impairment losses	11	554	1,930
Depreciation and amortization	12	1,143	769
Income tax expense	13	308	529
Carrying value of written off assets		98	122
		<u>4,803</u>	<u>8,050</u>
<i>Change in operating assets and liabilities</i>			
(Increase) in trading assets		(68)	-
(Increase) in financial assets available-for-sale		(2)	-
(Increase) in loans and advances to banks		(2,299)	(21,162)
(Increase) in loans and advances to customers		(35,414)	(17,699)
(Increase) in assets held for sale		(240)	-
(Increase) in other assets		(389)	(241)
Increase/(decrease) in deposits from banks		(478)	41,118
Increase in deposits from customers		130,549	6,044
Increase/(decrease) in other liabilities		471	(208)
Income tax paid		(499)	(478)
<b>Net cash used in operating activities</b>		<u>96,434</u>	<u>15,424</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(2,139)	(2,248)
Purchase of intangible assets		(90)	(43)
Increase of held-to-maturity investments		(7,997)	(6,168)
<b>Net cash used in investing activities</b>		<u>(10,226)</u>	<u>(8,459)</u>
<b>Cash flows from financing activities</b>			
Cash proceeds from issue of shares		-	-
<b>Net cash from financing activities</b>		<u>-</u>	<u>-</u>
<b>Net increase in cash and cash equivalents</b>		<u>86,208</u>	<u>6,965</u>
Cash and cash equivalents at the beginning of period		51,865	44,900
<b>Cash and cash equivalents at the end of period</b>	28	<u>138,073</u>	<u>51,865</u>

The notes on pages 6 to 55 are an integral part of these financial statements.

Radka Nikodimlova  
Executive Director

Gergana Beremska  
Member of MB, (under power of attorney)

Petar Blagoev  
"Economic police"

Krassimir Hadjidinev  
Authorised representative  
KPMG Bulgaria

Margarita Goleva  
Registered auditor



**D Commerce Bank**  
**Notes to the Financial Statements**

<i>In thousands of BGN</i>	<i>Note.</i>	<b>Share capital</b>	<b>Statutory reserve</b>	<b>Revaluation reserve - FA</b>	<b>Retained earnings</b>	<b>Total</b>
<b>Balance at 1 January 2009</b>		40,000	932	(354)	4,274	44,852
<i>Total comprehensive income for the period</i>						
Net profit for the year		-	-	-	4,700	4,700
<i>Other comprehensive income</i>						
Change in fair value of financial assets available for sale		-	-	36	-	36
Total other comprehensive income		-	-	36	-	36
<b>Total comprehensive income for the period</b>		-	-	36	4,700	4,736
<i>Contributions by and distributions to owners</i>						
Transfer to statutory reserves		-	4,274	-	(4,274)	-
Total transactions with owners		-	4,274	-	(4,274)	-
<b>Balance at 31 December 2009</b>	27	40,000	5,206	(318)	4,700	49,588

<i>In thousands of BGN</i>	<i>Note</i>	<b>Share capital</b>	<b>Statutory reserve</b>	<b>Revaluation reserve - FA</b>	<b>Retained earnings</b>	<b>Total</b>
<b>Balance at 1 January 2010</b>		40,000	5,206	(318)	4,700	49,588
<i>Total comprehensive income for the period</i>						
Net profit for the year		-	-	-	2,700	2,700
Undistributed profit from previous period		-	-	-	1	1
<i>Other comprehensive income</i>						
Change in fair value of financial assets available for sale		-	-	191	-	191
Other comprehensive income		-	-	191	-	191
<b>Total comprehensive income for the period</b>		-	-	191	2,701	2,892
<i>Contributions by and distributions to owners</i>						
Transfer to statutory reserves		-	4,700	-	(4,700)	-
Total transactions with owners		-	4,700	-	(4,700)	-
<b>Balance at 31 December 2010</b>	27	40,000	9,906	(127)	2,701	52,480

The notes on pages 6 to 55 are an integral part of these financial statements.

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Executive Director

Gergana Beremska  
Member of MB, (under power of attorney)

Petar Blagoev  
"Economic policy"

Krassimir Hadjidinev  
Authorised representative  
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*D* Commerce Bank AD

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