

INDEPENDENT AUDITOR'S REPORT

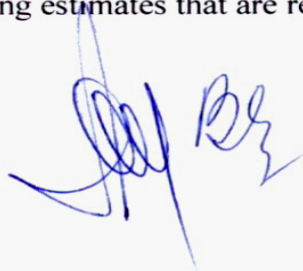
**TO
THE SHAREHOLDERS
OF D COMMERCE BANK AD**

Report on the Financial Statements

We have audited the accompanying financial statements of D COMMERCE BANK AD (the Bank), which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the national accounting legislation for year 2006, whereby International Financial Reporting Standards (IFRS), issue 2005, accepted by Council of Ministers' Decree No. 207 of 7 August 2006, have been adopted as the accounting standards applicable in the Republic of Bulgaria. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.



Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Independent Financial Audit Law and the professional requirements of International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the 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 the auditor's 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, the auditor considers 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 policies 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 present fairly, in all material respects, the financial position of the Bank as at 31 December 2006, and its financial performance and its cash flows for the year then ended in accordance with the national accounting legislation for year 2006, whereby International Financial Reporting Standards (IFRS), issue 2005, accepted by Council of Ministers' Decree No. 207 of 7 August 2006, have been adopted as the accounting standards applicable in the Republic of Bulgaria.

Report on Other Legal and Regulatory Requirements

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

Pursuant to the requirements of the Bulgarian Accountancy Act (Art. 38, para 4), we have read the Annual Report of the management on the Bank's activities for the reporting year 2006. This Report is not a part of the annual financial statements for the same period. The management of the Bank is responsible for the preparation of this Annual Report on the activities dated 30 March 2007. The historical financial information presented in the Annual Report on the activities is consistent, in all material respects, with the information disclosed in the Bank's financial statements as at 31 December 2006, prepared in accordance with the national accounting legislation for year 2006, whereby International Financial Reporting Standards (IFRS), issue 2005, accepted by Council of Ministers'



Decree No. 207 of 7 August 2006, have been adopted as the accounting standards applicable in the Republic of Bulgaria.

AFA OOD

AFA OOD

Registered Specialised Audit Firm

Renny Georgieva Iordanova

General Manager

Valia Iordanova Iordanova

Registered CPA in charge of the audit

30 March 2007

**38, Oborishte Street
1504-Sofia, Bulgaria**

This is a translation from Bulgarian of the Independent Auditor's Report on the Financial Statements of D Commerce Bank AD for the year ended 31 December 2006.



D COMMERCE BANK AD

(FORMERLY DEMIRBANK BULGARIA AD)

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED 31 DECEMBER 2006
WITH INDEPENDENT AUDITOR'S REPORT THEREON**

D COMMERCE BANK AD
INCOME STATEMENT
for the year ended 31 December 2006

| <i>In thousands of BGN</i> | Note | Year ended 31 December 2006 | Year ended 31 December 2005 |
|---|------|--------------------------------|--------------------------------|
| Interest and similar income | | 5,429 | 4,344 |
| Interest expense and similar charges | | (1,483) | (933) |
| Net interest and similar income | 3 | 3,946 | 3,411 |
| Fee and commission income | | 1,664 | 1,765 |
| Fee and commission expense | | (100) | (112) |
| Net fee and commission income | 4 | 1,564 | 1,653 |
| Gains less losses from dealing in foreign currencies | 5 | 495 | 408* |
| Gains less losses from dealing in securities held for trading | 6 | (490) | 236* |
| Total income from banking operations | | 5,515 | 5,708 |
| Recovery of / (loan impairment) and uncollectability losses | 7 | 39 | (5) |
| General administrative expenses | 8 | (4,946) | (4,873) |
| Other Income, net | | - | 17 |
| Profit from operations before taxes | | 608 | 847 |
| Income tax expense | 9 | (95) | 43 |
| Net profit for the year | | 513 | 890 |

The accompanying notes on pages 6 to 40 form an integral part of these financial statements.

Akşit Özkural
Chief Executive Director

Mumtaz Malik Agim
Executive Director

Radka Nikolimova
Executive Director

Issuer of the financial statements: Ina Ivanova – *Chief Accountant*

* reclassified



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D COMMERCE BANK AD
BALANCE SHEET
as at 31 December 2006

31 December 2006

31 December 2005

In thousands of BGN

Note

ASSETS

| | | | |
|---|----|---------|--------|
| Cash and balances with the Central Bank | 10 | 16,276 | 9,333 |
| Due from other banks | 11 | 119,743 | 18,350 |
| Receivables under repurchase agreements | 12 | 1,960 | 1,958 |
| Securities held for trading | 13 | 12,192 | 12,724 |
| Loans and advances to customers | 14 | 36,963 | 36,457 |
| Securities available-for-sale | 15 | 11,311 | 5,145 |
| Property and equipment | 16 | 647 | 957 |
| Intangible assets | 17 | 55 | 86 |
| Other assets | 18 | 106 | 154 |
| Deferred tax assets | 19 | 17 | 43 |

Total Assets

199,270

85,207

LIABILITIES

| | | | |
|---|----|---------|---------|
| Due to other banks | 20 | 644 | 639* |
| Due to customers | 21 | 178,192 | 61,421* |
| Due to customers on securities borrowed | 22 | - | 1,285 |
| Other liabilities | 23 | 768 | 2,537 |

Total Liabilities

179,604

65,882

Shareholders' equity

| | | | |
|----------------------|--|--------|--------|
| Issued share capital | | 20,000 | 20,000 |
| Reserves | | (334) | (675) |

Total shareholders' equity

24

19,666

19,325

Total liabilities and shareholders' equity

199,270

85,207

The accompanying notes on pages 6 to 40 form an integral part of these financial statements.

The financial statements have been approved for issue by the Managing Board of D Commerce Bank AD and signed on its behalf on 30 March 2007 by:

Akşit Özkural
Chief Executive Director

Mumtaz Malik Agim
Executive Director

Radka Nikodimova
Executive Director

Issuer of the financial statements: Ina Ivanova – *Chief Accountant*

* reclassified



AUDITED BY AEA

D COMMERCE BANK AD
CASH FLOW STATEMENT
for the year ended 31 December 2006

| | Note | 2006 | 2005 |
|---|------|----------------|----------------|
| <i>In thousands of BGN</i> | | | |
| Cash flows from operating activities | | | |
| Profit before taxes | | 608 | 847 |
| Revaluation of securities held for trading | | 509 | (176) |
| Loan impairment and uncollectability losses | | (39) | 5 |
| Depreciation/amortisation | | 484 | 573 |
| Net book value of assets written-off | | 5 | 4 |
| <i>Cash flows from operating activities before changes in working capital</i> | | <u>1,567</u> | <u>1,253</u> |
| <i>Changes in operating assets and liabilities:</i> | | | |
| Increase in mandatory reserve deposit at the Cental Bank | | (8,979) | (2,185) |
| Decrease/(increase) in amounts due from other banks | | 138 | (3,092) |
| Increase in receivables under repurchase agreements | | (2) | (1,958) |
| Decrease in securities held for trading | | 23 | 2,200 |
| Increase in loans and advances to customers | | (467) | (7,127) |
| Decrease/(increase) in other assets | | 64 | (77) |
| Increase/(decrease) in amounts due to other banks | | 5 | (9,695) |
| Increase in amounts due to customers | | 116,771 | 39,028 |
| Decrease in amounts due to customers on securities borrowed | | (1,285) | (2) |
| (Decrease)/increase in other liabilities | | (1,769) | 2,046 |
| <i>Net cash from operating activities before income taxes</i> | | <u>106,066</u> | <u>20,391</u> |
| Income taxes paid | | (69) | - |
| Net cash from operating activities | | <u>105,997</u> | <u>20,391</u> |
| Cash flows from investing activities | | | |
| Purchase of equipment and computer software | | (148) | (178) |
| Purchase of securities available-for-sale | | (8,470) | (5,840) |
| Sales/maturities of securities available-for-sale | | 2,116 | 726 |
| Net cash used in investing activities | | <u>(6,502)</u> | <u>(5,292)</u> |
| Net increase in cash and cash equivalents | | <u>99,495</u> | <u>15,099</u> |
| Cash and cash equivalents at the beginning of the year | | 20,064 | 4,965 |
| Cash and cash equivalents at the end of the year | 26 | <u>119,559</u> | <u>20,064</u> |

The accompanying notes on pages 6 to 40 form an integral part of these financial statements.

Akşit Özkural
Chief Executive Director

Mumtaz Malik Agim
Executive Director

Radka Nikodimova
Executive Director

Issuer of the financial statements: Ina Ivanova – *Chief Accountant*



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D COMMERCE BANK AD
STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2006

| <i>In thousands of BGN</i> | Note | Share capital | Statutory Reserve | Revaluation Reserve | Uncovered losses | Total |
|---|------|---------------|-------------------|---------------------|------------------|--------|
| Balance at 1 January 2005 | | 20,000 | 88 | - | (1,680) | 18,408 |
| Net profit for the year | | - | - | - | 890 | 890 |
| Net unrealised valuation gains from available-for-sale securities taken directly to equity | | - | - | 27 | - | 27 |
| Balance at 31 December 2005 | 24 | 20,000 | 88 | 27 | (790) | 19,325 |
| Net profit for the year | | - | - | - | 513 | 513 |
| Net unrealised valuation losses from available-for-sale securities taken directly to equity | | - | - | (188) | - | (188) |
| Effect of deferred taxes on items directly taken to equity | | - | - | 16 | - | 16 |
| Balance at 31 December 2006 | 24 | 20,000 | 88 | (145) | (277) | 19,666 |

The accompanying notes on pages 6 to 40 form an integral part of these financial statements.

Akşit Özkural
Chief Executive Director

Mumtaz Malik Agim
Executive Director

Radka Nikodimova
Executive Director

Issuer of the financial statements: Ina Ivanova – *Chief Accountant*



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AUDITED BY AEA

D COMMERCE BANK AD

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2006

1. Background information on the Bank

(a) Incorporation

D Commerce Bank (formerly Demirbank (Bulgaria) AD) was established in 15.04.1999 as a public company. The Bank's registered office is at Sofia, 8, Tsar Osvoboditel Blvd.

(b) Ownership and management

As at 31 December 2006 Fuat Guven is owner of the share capital of the Bank (Note 24b). In 2006 the share ownership has changed.

The Bank has a two-tier system of management.

As of 31 December 2006 the Managing Board consists of the following 3 (three) members: Muammer Aksit Ozkural – member of the Managing Board and Chief executive director, Radka Boneva Nikodimova - member of the Managing Board and Executive director and Mumtaz Malik Agim - member of the Managing Board and Executive director.

As of 31 December 2006 the Supervisory Board consists of 4 (four) members, as follows: Stoyan Iliev Alexandrov – Chairman of the Supervisory Board, Elenka Harizanova Manova – member of the Supervisory Board, Fuat Guven – member of the Supervisory Board and Bahattin Gurbuz - member of the Supervisory Board.

In 2006 changes in the Managing Board and in the Supervisory Board membership took place following the change in the ownership of the shares: Ognyan Yordanov Yordanov was released as member of the Managing Board and Executive director and Radka Boneva Nikodimova was elected member of the Managing Board and Executive director. The following members were released from the Supervisory Board: Mevlut Tufan Darbaz, Dinc Uner, Ahmet Izzet Karacahisarli and Ismail Hasan Akcakayalioglu and the following members were elected: Stoyan Iliev Alexandrov, Elenka Harizanova Manova and Fuat Guven.

As of 31 December 2006 the Bank was managed by Managing Board consisting of the following members: Muammer Aksit Ozkural, Radka Boneva Nikodimova and Mumtaz Malik Agim.

As of 31 December 2006 the Bank was represented by the Chief executive director Muammer Aksit Ozkural always together with one of the following Executive directors Radka Boneva Nikodimova and Mumtaz Malik Agim.

(c) Principal Activities

The Bank holds a general banking license, issued by the Central Bank of Bulgaria (BNB) and is allowed to perform all banking operations permitted by Bulgarian law.

The Bank's main activities in 2006 include attracting deposits from customers, granting loans to business clients and individuals, servicing payments of customers in the country and abroad, trading securities, performing repurchase agreements on the interbank market, dealing in foreign exchange, issuing letters of credit and bank guarantees and providing other financial services in Bulgaria.

(d) Structure of the Bank

As at 31 December 2006 the Bank has opened five branches in the country located in the cities of Sofia, Plovdiv, Varna, Burgas and Haskovo.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006

(e) Main indicators of the economic environment

The main indicators of the economic environment that affected the Bank's activities throughout the period 2004–2006, are presented in the table below:

| Indicator | 2004 | 2005 | 2006 |
|---|-------------|-------------|-------------|
| GDP in million BGN ¹ | 38,008 | 41,948 | 39,917* |
| Actual growth of GDP | 5.6% | 5.5% | 6.7%* |
| GDP per capita in BGN | 4,884 | 5,420 | 4,448* |
| Year-end inflation | 4% | 6.5% | 6.4% |
| Average exchange rate of the USD for the year | 1.57511 | 1.57415 | 1.55010 |
| Exchange rate of the USD at the year-end | 1.43589 | 1.65790 | 1.48506 |
| Basic interest rate at the year-end | 2.37% | 2.05% | 3.26% |
| Unemployment rate at the year-end | 12.16% | 10.73% | 9.12% |

2. Accounting policy

(a) Basis for the preparation of the financial statements

The financial statements of D Commerce Bank AD have been prepared in compliance with the Bulgarian accounting legislation for year 2006, whereby the accounting standards adopted for use in Bulgaria are the International Financial Reporting Standards, 2005 edition, endorsed for application by the Commission of the European Union, including the full text of IAS 39 "Financial Instruments: Recognition and Measurement" as accepted with Council of Ministers' Decree No. 207 of 7 August 2006 and promulgated in State Gazette, issue 66 of 15 August 2006 (IFRS-2005-CMD 207/2006). In addition, insofar as not contradicting to the Standards and the CMD, the Company has adopted in its accounting policies the following: the financial reporting general framework to these Standards; the amendments made in the Standards in 2006; and the International Financial Reporting Interpretations Committee (IFRIC) interpretations, approved by the International Accounting Standards Board (original editions, published in English language in the Official Journal of the Commission of the European Union as at 31 December 2006).

The Bank applies this financial reporting framework for the first time in 2006 for the purposes of its statutory financial statements.

The Bulgarian Accountancy Act (BAA) requires application of the International Financial Reporting Standards that have been accepted by the Commission of the European Union. It is assumed that they shall have an official translation into Bulgarian language – the commonly used language in the country. At the balance sheet date, the latest official edition in Bulgarian language, is that of the International Financial Reporting Standards, edition as at 1 January 2005, including the full text of IAS 39, as accepted with the Council of Ministers Decree No. 207 of 7 August 2006 and promulgated in State Gazette, issue 66 of 15 August 2006. Therefore, the management is of the opinion that their application as regards year 2006 is the practically adequate decision and that such decision

¹ New denominated Bulgarian Lev

Source: NSI, BNB

* The data are as at 30 September 2006

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006**

provides the users of the financial statements with useful and reliable information on the Company's financial position and performance.

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

The financial statements are prepared on a fair value basis for derivative financial instruments, financial assets and liabilities held for trading, and available-for-sale assets, except those for which a reliable measure of fair value is not available. Recognised assets and liabilities that are hedged are stated at fair value in respect of the risk that is hedged. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost convention.

The presentation of the financial statements in accordance with IFRS-2005-CMD 207/2006 requires the management to make best estimates, accruals and reasonable assumptions that affect the reported values of assets and liabilities, income and expenses, and the disclosure of contingent receivables and payables as at the date of the financial statements. These estimates, accruals and assumptions are based on the information, which is available at the date of the financial statements, and therefore, the future actual results might be different from them. The items presuming a higher level of subjective assessment or complexity or where the assumptions and accounting estimates are material for the financial statements, are disclosed in Note 2.

In addition, the Law on Banks requires that banks perform periodic assessment of their loans and other risk assets, including their off-balance sheet liabilities, and set aside allowances for loan impairment and uncollectibility losses in accordance with the Central Bank criteria defined in Regulation 9/2002 on the evaluation and classification of risk exposures of banks and the allocation of provisions to cover impairment loss. According to the Law on Banks these impairment losses are recognized as expenses and allowance to the book value of the assets. These financial statements also include allowance for impairment losses on Bank's risk assets, set aside under the requirements of Regulation 9 of BNB. In case the requirements of the IFRS adopted in Bulgaria differ from those of Regulation 9 of BNB in respect to their treatment of allowances for impairment losses, the requirements of Regulation 9 of BNB are applied with priority.

(b) Transition from IAS-2002-CMD 21/2003 to IFRS- 2005-CMD 207/2006

The official statutory financial statements of the Bank as at 31 December 2005, referring to the year then ended, issued on 28 February 2006, were prepared under the International Accounting Standards, issue 2002, as accepted with Council of Ministers' Decree No. 21 of 4 February 2003, promulgated in State Gazette, issue 13/2003 (IAS-2002-CMD 21/2003) and officially translated in Bulgarian language. For the two financial years preceding 2005 the Bank has prepared its statutory financial statements under the IFRS/IAS then in force and in accordance with the Bulgarian accountancy legislation applicable to banks.

For the purposes of these financial statements, the Bank has prepared on 1 January 2005 its opening balance sheet under the IFRS-2005-CMD-207/2006 adopted in Bulgaria, which date has been accepted as the date of transition to the new reporting framework whereby the Bank has followed the rules of the IFRS 1-2005-CMD-207/2006 First-time adoption of International Financial Reporting Standards. The management has performed a thorough analysis of the potential differences in the accounting for assets and liabilities, resp. for income and expenses, due to the adoption of the new reporting framework, and has concluded that neither the value of the Bank's assets and liabilities presented in the balance sheet, resp. the amount of income and expenses presented in the income statement, nor the way of presentation or disclosure would change.

(c) Comparatives

The Bank presents in its financial statements comparative information for one prior period. Where necessary, comparative data is reclassified in order to achieve comparability in view of the current year presentation changes.

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006**

(d) Functional currency and presentation of foreign exchange differences

The Bank's functional and presentation currency is the Bulgarian Lev (BGN). As from 1 July 1997 the Bulgarian Lev was pegged under the Law on BNB to the DEM at the rate of BGN 1: DEM 1. With the introduction of the euro as an official currency of the European Union, starting from 1 January 1999, the fixed ratio between both currencies is EUR 1: BGN 1.95583. The ratio BGN / USD is 1.48506: 1 as at 31 December 2006 (31 December 2005: 1.6579: 1).

Transactions in foreign currencies are recorded in the functional currency when initially recognized whereby the exchange rate on the date of the transaction is applied to the foreign currency amount. Cash and cash equivalents, receivables and payables, denominated in foreign currencies, are recorded in the functional currency on a daily basis by applying the official exchange rate of BNB on the last working day of the month. At 31 December 2006, they are stated at the closing exchange rate quoted by BNB.

The effects of exchange rate differences, which relate to the settlement of foreign currency transactions, or the recording of foreign currency transactions, at exchange rates different from those of their initial recognition are included in the income statement when they arise and are treated as income, on a net basis, from foreign currency operations.

(e) Interest income and expenses

Interest income and expenses are recognised in the income statement on accrual basis for all interest-bearing instruments using the effective yield method based on the actual purchase price or an applicable floating rate. Interest income and expense includes the amortization of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Interest income includes interest on bonds held for trading and available-for-sale bonds, interest on deposits with other banks, interest on loans and advances to customers, and fees and commissions on loans and advances to customers, which are an integral part of the effective yield of the financial instrument.

Interest expense is recognized on accrual basis and includes the interest accrued on the deposits due to customers and due to banks.

(f) Fee and commission income and expense

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

Fees and commission expenses related to servicing nostro accounts with other banks are recognized at the time of providing the underlying service.

(g) Income from securities held for trading

The realized gains/losses from dealing in securities held for trading are recognized at the time of performing the sale and presented in the income statement on a net basis. Income from securities held for trading includes also the unrealized gains and losses from the subsequent valuation at fair value of the securities on a net basis.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006

(h) Cash and cash equivalents

Cash and cash equivalents include cash in hand, balances with the Central Bank, and short-term deposits with banks, with original maturity of less than three months.

(i) Loans and advances to customers

Loans and advances with fixed and determinable payments that are not quoted in an active market are carried and reported at amortised cost.

Loans and advances originated in the Bank are recognised when cash is advanced to borrowers and initially measured at the nominal amount granted to customers.

(j) Allowances for loan impairment and uncollectibility

Allowances for loan impairment and uncollectibility are accrued in a special allowance account if there is objective evidence that the Bank will not be able to collect all amounts due under the agreed-upon conditions.

The amount of the specific allowances for loan impairment and uncollectibility is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collaterals, discounted based on the agreed-upon interest rate.

If there are indications of probable losses in the loan portfolio, including such based on historical patterns, which are not attributable to a specific exposure, allowances for loan losses are also allocated on a portfolio basis.

Allowances are also made for other components of the loan portfolio at the balance sheet date, estimated based on historical patterns of losses in each component, current economic conditions in which the borrowers operate and other relevant factors affecting the loan portfolio.

A particular loan is classified in one of the following risk groups: “standard”, “watch”, “substandard” or “non-performing” depending on the period of delayed payment of principal and/or interest as well as on the basis of the analysis of the financial position of the borrower, the sources for settlement of its debts to the Bank.

All loans are reviewed and analyzed on monthly basis for assessing the risk exposures and impaired loans. Any subsequent changes to the amounts and the maturity of the expected future cash flows compared to the prior estimates would result in a change in the allowances for loan impairment losses which are booked as increase or decrease in loan impairment and uncollectibility losses in the income statement.

An allowance for impairment is reversed only when the quality of the loan has improved so that a reasonable assurance exists as to the timely collection of principal and interest in accordance with the original contractual terms of the loan agreement.

Subsequent recoveries or decreases in the allowances due to an event occurring after the write-downs are credited to the loan impairment and uncollectibility losses in the income statement.

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

(k) Securities held for trading

Bank's securities held for the purpose of short-term profit taking are classified as instruments held for trading. Management determines the appropriate classification of these instruments at the time of their purchase.

Securities are initially recognized at cost, being the fair value of the consideration given including acquisition costs associated with the investment. They are subsequently re-measured at fair value based on quoted mid prices (between “bid” and “ask” price) or amounts derived from cash flow models.

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006**

Unrealized gains and losses arising from changes in the fair value of securities classified as held for trading are recognized in the income statement for the reporting period.

Interest earned whilst possessing securities held for trading is reported as interest income on the basis of the effective interest rate.

All purchases and sales of securities held for trading are recognized at trade date, which is the date that the Bank commits to purchase or sell the asset.

(l) Securities available-for-sale

Securities available-for-sale are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Management determines the appropriate classification of its investments at the time of their purchase.

Securities are initially recognised at cost, being the fair value of the consideration given including acquisition costs associated with the investment. They are subsequently re-measured at fair value based on quoted mid prices (between “bid” and “ask” price) or amounts derived from cash flow models.

Unrealized gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised directly in a separate component of equity as a special purpose (revaluation) reserve, until the financial asset is sold, collected or otherwise disposed of, or until it is impaired, at which time the accumulated gains or losses recognised in prior periods in the equity, are recognised in the income statement for the reporting period.

Available-for-sale financial assets are impaired if the carrying amount is greater than the estimated recoverable amount. The amount of the recognised impairment loss is equal to the difference between the acquisition cost, net of principal repayments and current fair value (for equity instruments) or recoverable amount (for debt instruments). The recoverable amount of a debt instrument is the present value of expected future cash flows, discounted at the current market interest rate for a similar financial asset. The Bank’s equity investments in other companies are subject to impairment review. In case indications for impairment exist, the loss is recognised in the income statement.

Interest earned whilst holding securities available-for-sale is reported as interest income on the basis of the effective interest rate.

All purchases and sales of securities available-for-sale are recognised at trade date, which is the date that the Bank commits to purchase or sell the asset.

(m) Securities borrowing and lending and repurchase transactions

Securities borrowing

Investments borrowed under securities borrowing agreements are not recognized as an asset in the balance sheet unless they are sold to third parties. In this case a liability to banks/customers for the return of the securities is recognised. The liability is measured at fair value of the securities and the revaluation gains or losses are included in “gains less losses from dealing in securities held for trading” in the income statement. Expenses related to securities borrowing are recognised as interest expense for the borrowing period and are calculated using the effective interest rate method.

Repurchase agreements

The Bank enters into securities agreements to resell/repurchase similar bonds on a predetermined future date at an agreed-upon fixed price. Securities purchased under agreements to resell at a specified future date (“reverse repo”),

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006**

are not recognised in the balance sheet. The corresponding cash paid is recognised in loans to either banks or customers. The receivables are reported and disclosed as collateralised by the underlying security. The difference between the purchase and resale prices is treated as interest income and is accrued over the life of the agreement using the effective interest rate method. Securities sold under repurchase agreements at a specified future date (“repos”) continue to be recognized in the balance sheet and are measured in accordance with the accounting policy for either assets held for trading or available-for-sale assets. The proceeds from the sale of the securities are reported as liabilities to either banks or customers.

The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method.

(n) Property and equipment

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

Initial measurement

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

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

Subsequent measurement

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

Depreciation methods

The Bank applies the straight-line depreciation method for property and equipment. The useful life of the individual assets has been defined in terms of: their physical wearing out, the characteristic features of the equipment, the future intentions for use and the expected obsolescence and is determined as follows:

| | | |
|--------------------------------|----|---|
| ■ Bank equipment and computers | 20 | % |
| ■ Furniture and fixtures | 15 | |
| ■ Motor vehicles | 20 | |
| ■ Leasehold improvements | 15 | |

The useful life, set for any tangible fixed asset, is reviewed at the end of each reporting year and in case any material deviations from future expectations concerning the terms of use are determined, the latter is adjusted prospectively.

Subsequent costs

Repair and maintenance costs are recognised as current as incurred. Subsequent costs, relating to items of property and equipment having the nature of replacement of key parts or of improvements and restructuring, are capitalized to the carrying amount of the respective asset and the asset’s residual useful life is reviewed at the date of

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capitalization. At the same time, the unamortized amount of the replaced components is written off from the assets carrying amount and recognized as current expense in the period of restructuring.

Impairment of assets

The carrying amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount might significantly differ from their recoverable amount. If any such indications exist that the estimated recoverable amount of an asset is lower than its carrying amount, the latter is adjusted to the recoverable amount of assets. The recoverable amount of property and equipment is the higher of the net selling price and the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market conditions and assessments of the time value of money and the risks specific to the particular asset. Impairment losses are recognised in the income statement.

(o) Intangible assets

Intangible assets are stated in the financial statements at acquisition cost (cost) less accumulated amortization and any impairment in value. They include licenses for software used in the Bank.

The Bank has adopted the straight-line amortization method for the intangible assets through applying the following rates:

| | |
|------------|----|
| | % |
| ■ Software | 20 |
| ■ Licenses | 15 |

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

(p) Provisions and contingent liabilities

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

Contingent liabilities are obligations arising from past events and whose existence can be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank, or it is not probable that an outflow of resources will be required to settle the obligation. They are not recognized in the balance sheet but are disclosed (Note 25).

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

Employment and social security relations with the employees within the Bank are based on the provisions of the Labour Code and the effective social security legislation.

The employer's major obligation is to meet its statutory obligation to the State Social Security concerning pension benefits, health insurance and against unemployment.

The social security contributions are defined under the Law on the Budget of State Social Security for the respective year. The contributions are shared between the employer and the employee at a ratio, which is changed annually and is provided for in the Social Security Code. The total rate of the contribution to the statutory state social security, unemployment and health insurance schemes in 2006 was 36.4% (the ratio for employer: employee

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being 65:35) for the individuals working under the terms of third category of employment to which the Banks's employees belong. In 2007 the contribution amount and the ratio remain the same - 36.5% and 65:35, respectively.

There is no established and functioning private voluntary social security scheme with the Bank.

The social security and pension schemes (plans) applied by the Bank in its capacity of an employer are based on the Bulgarian legislation and are defined contributions plans.

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

- for non-observed preliminary notice: at the amount of one gross monthly salary;
- due to closing down of the enterprise or part of it, staff cuts, reduction of the volume of work and work stoppage for more than 15 days, etc.: not more than one gross monthly salary;
- upon termination of the employment contract due to illness: at the amount of gross remuneration of the employee for two months if the employee has at least five years of length of service and has not received indemnity on the same grounds during the last 5 years;
- upon retirement: 2 to 6 gross monthly salaries depending on the length of service with the Bank;
- for unused paid annual leave: for the respective years of the time recognized as service period.

Except for payment of the above indemnities, no further liabilities to employees arise for the employer.

Short-term employee benefits in the form of remunerations, bonuses and social additional payments and benefits (payable within 12 months after the end of the period in which the employees render the related services or meet the requirements for these benefits) are recognized as an expense in the income statement for the period of rendering the service or meeting the requirements for their receiving, and as a current liability (less all amounts already paid and deductions due) amounting to their undiscounted amount. The Bank's payables for social security and health insurance are recognized as a current expense and liability at their undiscounted amount together with the respective benefits they relate to and within the period of their accrual.

In addition, at each balance sheet date the Bank measures the expected costs on the accumulating compensated absences, which amount the Bank expects to pay as a result of the unused entitlement. The measurement includes the estimated undiscounted expenses on the employee's remunerations and the statutory social security contributions owed by the employer thereon.

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

Actuarial methods and calculations based on assumptions about mortality rate, staff turnover rate, future level of the salaries and discount factor are used to determine the long-term retirement benefit obligations to personnel. Management considers these assumptions to be reasonable and adequate for the Bank.

(r) Income taxes

Current income taxes are determined in accordance with the requirements of the Bulgarian tax legislation – the Corporate Income Taxation Act (CITA). The nominal income tax rate for the year 2006 is 15% (2005: 15%).

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

Deferred tax liabilities are recognized for all taxable temporary differences, with the exception of the differences arising from the initial recognition of an asset or liability, which has affected neither the accounting nor the taxable profit/(loss) as at the date of the transaction.

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

The carrying amount of all deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that they will reverse and sufficient taxable profit will be generated or taxable temporary differences will occur in the same period, so that the deferred tax asset be utilized.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied in the period when the asset will be realized or the liability will be settled (repaid), based on tax laws that are in effect or to a large extent it is expected they will come into effect.

At 31 December 2006 the deferred income taxes are computed at a tax rate of 10% (31 December 2005: 15%).

(s) Disclosure of fair value

According to IAS 32 the Bank disclose fair value information on assets or liabilities for which published market information is readily available and where the fair value is materially different from their recorded amounts.

The fair value of cash and cash equivalents, deposits, loans and other current receivables and liabilities is approximately equal to the book value given, because of their short-term maturity.

For transaction with loans, there is no sufficient market experience, stability and liquidity and therefore their fair value cannot be reliably determined. According to the management, given the existing circumstances, the fair value of loans is not significantly different from the reported carrying amounts.

(t) Financial instruments

Classification

Trading instruments are those that the Bank principally holds for the purpose of short-term profit taking. These include investments, certain purchased loans and derivative contracts that are not designated and effective hedging instruments, and liabilities from short sales of financial instruments. All trading derivatives in a net receivable position (positive fair value), as well as any options purchased, are reported as trading assets. All trading derivatives in a net payable position (negative fair value), as well as any options written, are reported as trading liabilities.

Originated loans and receivables are loans and advances created by the Bank providing money to a debtor other than those created with the intention of short-term profit taking. Originated loans and receivables comprise loans and advances to banks and customers other than purchased loans as well as bonds purchased at original issuance.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity. These include certain purchased loans and advances to banks and customers and certain debt investments. The purchased loans to customers, which the Bank intends to hold until maturity, are recorded at amortized cost and classified as loans and advances to customers.

Available-for-sale assets are financial assets that are not held for trading purposes, originated by the Bank, or held

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to maturity. Available-for-sale instruments include money market placements and certain debt and equity investments. The Bank has adopted equity revaluation method of its assets classified in the available for sale category.

Any positive or negative revaluation (except any impairment loss) has been credited or debited directly in equity and presented as revaluation reserve, net of deferred tax and foreign revaluation gains/losses.

Recognition

The Bank recognizes financial assets held for trading and available-for-sale assets on settlement date. From this date any gains and losses arising from changes in fair value of the assets are recognized.

Held-to-maturity loans and originated loans and receivables are recognized on the day they are transferred to the Bank.

Measurement

Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition all trading instruments and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of available-for-sale assets are recognised directly in equity. When the financial assets are sold, collected or otherwise disposed of the cumulative gain or loss recognised in equity is transferred to the income statement.

Gains and losses arising from a change in the fair value of trading instruments are recognised in the income statement.

Derecognition

A financial asset is derecognized when the Bank loses control over the contractual rights that comprise that asset. This occurs when the rights are realized, expire or are surrendered. A financial liability is derecognised when it is extinguished.

Available-for-sale assets and assets held for trading that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the Bank commits to sell the assets. The Bank uses the specific identification method to determine the gain or loss on derecognition.

Held-to-maturity instruments and originated loans and receivables are derecognised on the day they are transferred by the Bank.

(u) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when the Bank has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis.

(v) Share capital and reserves

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

Share capital represents the non-distributable capital of the Bank and is recognised at the nominal amount of the issued shares.

Following the requirements of the Commercial Act and the Law on Banks, the Bank is obliged to set aside a statutory *Reserve Fund* from allocation of profit (Note 24).

(w) Critical accounting judgments on applying the Bank's accounting policies. Key estimates and assumptions with high uncertainty

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

a) Impairment losses on loans and advances

At the date of the financial statements the Bank reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the income statement management makes judgements as to whether there is observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans, resp. decrease in the value of an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or in the payment status of an individual borrower, or national or local economic conditions that correlate with defaults on assets in a group/type of loans. When analysing the risk of loan impairment losses and uncollectibility, the loans are classified into three credit groups based on three main criteria: financial position, payment difficulties, including interest in arrears and principal due, and collateral granted, depending on its type and liquidity.

Management uses estimates based on historical loss experience for assets with similar credit risk characteristics to those in the portfolio as well as objective evidence of portfolio impairment loss not evident in a specific portfolio component when scheduling its future cash flows. Management uses similar approach to evaluate the risk of individual loans taking into account the quality and liquidity of the collaterals. The methodology and assumptions used for estimating both the amount and timing of the future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience (Notes 7 and 14).

b) Fair value measurement of available-for-sale assets

The Bank classifies its shares in other companies (minority participation), which have been acquired with the aim of establishing and development of business relations, as 'available-for-sale' investments. Management has decided to value such investments at cost because sufficiently reliable sources for the determination of their fair value are currently not available and because of their closed trading. Significant and continuous decrease in the equity of the company, subject to the investment, including under the level of the registered share capital thereof, is accepted as a main indicator for that. Management analyses and evaluates if any indicators of impairment for its investments exist at each balance sheet date. In such cases the valuation is performed with the assistance of a certified appraiser but it shall be at least at the level of the difference between the acquisition cost (cost) and the estimate amount of the interest determined by applying the equity method, including with additional adjustments of net assets, if necessary (Note 15).

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006

3. NET INTEREST INCOME

| <i>In thousands of BGN</i> | 2006 | 2005 |
|---|---------------------|---------------------|
| Interest and similar income arises from: | | |
| - Deposits with other banks | 671 | 171 |
| - Loans and advances to customers | 3,690 | 3,352 |
| - Securities held for trading | 632 | 710 |
| - Securities available-for-sale | 371 | 95 |
| - Receivables under repurchase agreements | 65 | 16 |
| | <u>5,429</u> | <u>4,344</u> |
| Interest expense and similar charges arises from: | | |
| - Deposits from other banks | (68) | (123) |
| - Deposits from customers | (1,415) | (810) |
| | <u>(1,483)</u> | <u>(933)</u> |
| | <u>3,946</u> | <u>3,411</u> |
| Net interest and other similar income | <u><u>3,946</u></u> | <u><u>3,411</u></u> |

4. NET FEE AND COMMISSION INCOME

| <i>In thousands of BGN</i> | 2006 | 2005 |
|---|---------------------|---------------------|
| Fee and commission income | | |
| - Cash operations and money in transfer | 1,167 | 1,232 |
| - Documentary business | 211 | 225 |
| - Customers' accounts fees | 119 | 115 |
| - Communication fees | 87 | 109 |
| - Other | 80 | 84 |
| | <u>1,664</u> | <u>1,765</u> |
| Fee and commission expense | | |
| - Accounts maintenance | (29) | (32) |
| - Cash on hand deliveries | (47) | (49) |
| - Other | (24) | (31) |
| | <u>(100)</u> | <u>(112)</u> |
| Net fee and commission income | <u><u>1,564</u></u> | <u><u>1,653</u></u> |

5. GAINS LESS LOSSES FROM DEALING IN FOREIGN CURRENCIES

| <i>In thousands of BGN</i> | 2006 | 2005 |
|--|-------------|-------------|
| Net (loss)/gain from dealing in foreign currencies | (800) | 1,184 |
| Net gain/(loss) from foreign currency translation | 1,295 | (776) |
| | <u>495</u> | <u>408</u> |

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**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006**

| | | |
|---|------------|------------|
| Gains less losses from dealing in foreign currencies | 495 | 408 |
|---|------------|------------|

6. GAINS LESS LOSSES FROM DEALING IN SECURITIES HELD FOR TRADING

| <i>In thousands of BGN</i> | 2006 | 2005 |
|---|--------------|-------------|
| Net gain from dealing in securities held for trading | 19 | 60 |
| Net (loss)/gain from valuation of securities held for trading to fair value | (509) | 176 |
| Gains less losses from dealing in securities held for trading | (490) | 236 |

7. RECOVERY OF/(LOAN IMPAIRMENT) AND UNCOLLECTABILITY LOSSES

| <i>In thousands of BGN</i> | 2006 | 2005 |
|---|-------------|-------------|
| Recovery of/specific allowances for loan impairment | (25) | 13 |
| General allowances/recovery of allowances for loan impairment | 64 | (18) |
| | 39 | (5) |

8. GENERAL ADMINISTRATIVE EXPENSES

| <i>In thousands of BGN</i> | 2006 | 2005 |
|---|----------------|----------------|
| General and administrative expenses arise from: | | |
| - Personnel cost | (2,514) | (2,320) |
| - Depreciation and amortization | (484) | (573) |
| - Communications and IT services | (568) | (536) |
| - Rent | (460) | (436) |
| - Deposits guarantee fund annual contribution | (173) | (107) |
| - Security and encashment activities | (141) | (144) |
| - Office and office equipment maintenance | (103) | (85) |
| - Advertising and representative expenses | (76) | (272) |
| - Materials | (68) | (79) |
| - Insurances | (47) | (55) |
| - Other taxes and fees | (41) | (29) |
| - Consulting and legal services | (39) | (39) |
| - Business trips expenses | (29) | (13) |
| - Membership | (16) | (13) |
| - Other costs | (187) | (172) |
| Total general administrative expenses | (4,946) | (4,873) |

| <i>In thousands of BGN</i> | 2006 | 2005 |
|----------------------------------|----------------|----------------|
| Personnel costs comprise: | | |
| - Salaries | (2,270) | (2,033) |
| - Social security contributions | (244) | (286) |
| | (2,514) | (2,320) |

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006

The number of employee in the Bank as at 31 December 2006 is 86 (31 December 2005: 83).

According to Deposit Guarantee Act all Bulgarian banks should make annual instalments of 0.5% of the total deposit base from the previous year, determined on an average daily basis from non-financial institutions

9. INCOME TAX EXPENSE

The main components of the income tax expense for the periods ending 31 December are:

| | 2006 | 2005 |
|---|-------------|-------------|
| <u>Income Statement</u> | | |
| Taxable profit as per the annual tax return | 348 | - |
| Current income tax expense for the year – 15% (2005: 15 %) | (52) | - |
| <i>Deferred income taxes</i> | | |
| Related to origination and reversal of temporary differences | (42) | 43 |
| Effect of the reduction in the tax rate – 5% (2005: none) | (1) | - |
| Total | (43) | 43 |
| Total income tax expense reported in the income statement : | (95) | 43 |
| <u>Reconciliation of the income tax expense applicable to the accounting profit</u> | | |
| | 2006 | 2005 |
| <i>Accounting profit for the year</i> | 608 | 847 |
| Income taxes – 15% (2005: 15%) | (91) | (127) |
| <i>Permanent differences between accounting and tax profit</i> | | |
| Related to increases – BGN 11 thousand (2005: BGN 102 thousand) | (2) | (15) |
| Related to decreases – none (2005: BGN 954 thousand.) | - | 142 |
| Previously unrecognized assets/liabilities BGN 10 thousand (2005: BGN 287 thousand.) | (1) | 43 |
| Effect of the reduction in the tax rate – 5% (2005: none) | (1) | - |
| Total income tax expense reported in the income statement | (95) | 43 |
| Deferred income taxes taken directly to equity are as follows: | | |
| Changes of deferred taxed taken directly to equity – revaluation reserve of securities available-for-sale | 16 | - |

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**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006**

10. CASH AND BALANCES WITH THE CENTRAL BANK

| <i>In thousands of BGN</i> | 31 December 2006 | 31 December 2005 |
|--------------------------------|-------------------------|-------------------------|
| Cash on hand | | |
| - In Bulgarian Leva | 1,389 | 1,807 |
| - In foreign currencies | 1,381 | 2,999 |
| Balances with the Central Bank | 13,506 | 4,527 |
| Mandatory reserve deposit | 13,502 | 4,524 |
| Security fund | 4 | 3 |
| Total | <u>16,276</u> | <u>9,333</u> |

The current account with the Central Bank is used for direct participation in the money and Treasury bill markets and for settlement purposes.

11. DUE FROM OTHER BANKS

| <i>In thousands of BGN</i> | 31 December 2006 | 31 December 2005 |
|--|-------------------------|-------------------------|
| Current accounts and demand deposits | | |
| <i>Local Banks</i> | | |
| - In foreign currencies | 2 | 1 |
| <i>Foreign Banks</i> | | |
| - In foreign currencies | 662 | 1,472 |
| Total | 664 | 1,473 |
| Time deposits | | |
| <i>Local Banks</i> | | |
| - In Bulgarian Leva | 74,025 | 4,000 |
| - In foreign currencies | 27,155 | 4,478 |
| <i>Foreign Banks</i> | | |
| - In foreign currencies | 14,945 | 5,307 |
| Total | 116,125 | 13,785 |
| Blocked LC cover deposits with foreign banks | | |
| - In foreign currencies | 2,954 | 3,092 |
| Total due from other banks | <u>119,743</u> | <u>18,350</u> |

| The average interest rates applied to current accounts are: | 2006 | | 2005 | |
|--|-------------|-----------|-------------|-----------|
| USD | | 0.2 | | 0.2 |
| EUR | | 0.3 | | 0.3 |
| The average interest rates applied to the term deposits are: | from | to | from | to |
| BGN | 2.13 | 3.58 | 1.43 | 2.27 |
| EUR | 1.39 | 3.67 | 0.98 | 2.37 |
| USD | 4.17 | 5.38 | 2.17 | 4.28 |
| TRY | 16 | 17 | 12 | 18 |

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006

12. RECEIVABLES UNDER REPURCHASE AGREEMENTS

Receivables under repurchase agreements on Bulgarian government bonds are as follows:

As at 31 December 2006

| Nominal amount (BGN) | Fair value as at 31 December 2006 (BGN) | Amount sale (BGN) | Interest rate | Value date | Maturity |
|----------------------|---|-------------------|---------------|------------|------------|
| 1,955,830 | 1,959,932 | 1,955,830 | 4% | 15/12/2006 | 13/01/2007 |

As at 31 December 2005

| Nominal amount (BGN) | Fair value as at 31 December 2005 (BGN) | Amount sale (BGN) | Interest rate | Value date | Maturity |
|----------------------|---|-------------------|---------------|------------|------------|
| 1,955,830 | 1,958,529 | 1,955,830 | 2.76% | 14/12/2005 | 13/01/2006 |

13. SECURITIES HELD FOR TRADING

In thousands of BGN

| | 31 December 2006 | 31 December 2005 |
|--|------------------|------------------|
| Government securities – Republic of Bulgaria | | |
| - Short- and medium-term denominated in BGN | 6,125 | 6,287 |
| - Long-term bonds denominated in EUR | 6,067 | 6,437 |
| Total | 12,192 | 12,724 |

Movement in securities held for trading

| <i>In thousands of BGN</i> | 2006 | 2005 |
|--|--------|----------|
| At 1 January | 12,724 | 14,748 |
| Additions (purchases) | 93 | 10,368 |
| Disposals (sales and maturity) | (116) | (12,568) |
| Net gain on remeasurement of securities held for trading | (509) | 176 |
| At 31 December | 12,192 | 12,724 |

NOTES TO THE FINANCIAL STATEMENTS
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Fair value of securities held for trading

| <i>In thousands of BGN</i> | Nominal value | Fair value | Accrued interest as at 31 Dec 2006 | Effective interest rate | Maturity |
|------------------------------------|----------------------|----------------------|---|--------------------------------|-----------------|
| Interest-bearing securities in BGN | 2,383 | 2,384 | 11 | 3.83% | 18/02/2007 |
| | 3,700 | 3,678 | 52 | 3.77% | 16/02/2010 |
| Interest-bearing securities in EUR | <u>4,890</u> | <u>5,714</u> | <u>353</u> | 6.42% | 15/01/2013 |
| Total | <u>10,973</u> | <u>11,776</u> | <u>416</u> | | |

As at 31 December 2006 r., the amount of securities blocked as collateral against lines for borrowing of deposits from other banks is BGN 7,674 thousand, stated at their fair value, including the accrued interest (2005: BGN 8,061 thousand).

14. LOANS AND ADVANCES TO CUSTOMERS

| <i>In thousands of BGN</i> | 31 December 2006 | 31 December 2005 |
|---|-------------------------|-------------------------|
| Loans | 37,327 | 36,860 |
| Allowances for loan impairment and uncollectability | (364) | (403) |
| | <u>36,963</u> | <u>36,457</u> |

A. Analysis of loans by type of customers

| <i>In thousands of BGN</i> | 31 December 2006 | 31 December 2005 |
|---|-------------------------|-------------------------|
| Individuals | | |
| - Consumer loans | 606 | 384 |
| - Mortgage backed consumer loans | 801 | 585 |
| - Others | 112 | 88 |
| Private companies | | |
| - Trading loans | 35,732 | 35,735 |
| - Other | - | - |
| Total loans and advances (principle) | <u>37,251</u> | <u>36,792</u> |
| Accrued income | 76 | 68 |
| Allowances for loan impairment and uncollectability | <u>(364)</u> | <u>(403)</u> |
| Total | <u>36,963</u> | <u>36,457</u> |

B. Analysis of loans by maturity

| <i>In thousands of BGN</i> | 31 December 2006 | 31 December 2005 |
|----------------------------|-------------------------|-------------------------|
| - From 1 to 3 months | 389 | 290 |
| - From 3 months to 1 year | 3,675 | 4,609 |
| - From 1 to 3 years | 19,969 | 25,019 |
| - From 3 to 5 years | 10,996 | 5,258 |
| - Over 5 years | <u>2,298</u> | <u>1,684</u> |
| Total | <u>37,327</u> | <u>36,860</u> |

Loans to customers earn interest at the rate of 8% - 15% (loans in BGN) and 6%-12% (loans in foreign currency).

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006

C. Movement in the allowances for loan impairment and uncollectability

| <i>In thousands of BGN</i> | 2006 | 2005 |
|--|---------------------|---------------------|
| Balance at 1 January | <u>(403)</u> | <u>(398)</u> |
| Allowance for loan impairment for the year | 230 | 329 |
| Write offs | <u>(269)</u> | <u>(324)</u> |
| Balance at 31 December | <u>(364)</u> | <u>(403)</u> |

15. SECURITIES AVAILABLE-FOR-SALE

| <i>In thousands of BGN</i> | 31 December 2006 | 31 December 2005 |
|---|-------------------------|-------------------------|
| Government securities – Republic of Bulgaria - Mid-Term denominated in BGN | 10,212 | 3,995 |
| Government securities – Republic of Turkey - Mid-Term denominated in EUR | 1,095 | 1,146 |
| Equity Investments denominated in BGN | <u>4</u> | <u>4</u> |
| Total | <u>11,311</u> | <u>5,145</u> |

Equity investments in other companies at the amount of BGN 4 thousand represent shares in the capital of Bulgarian Stock Exchange – Sofia AD. Each share is at the nominal amount of BGN 1. As at 31 December 2006 the minority interest equity investment is reported in the balance sheet at acquisition cost (Note 2 (w)).

Movement in securities available-for-sale

| <i>In thousands of BGN</i> | 2006 | 2005 |
|--|----------------------|---------------------|
| At 1 January | 5,145 | 4 |
| Additions (purchases) | 8,470 | 5,840 |
| Disposals (sales and maturity) | (2,116) | (726) |
| Net gain on remeasurement of securities available-for-sale | <u>(188)</u> | <u>27</u> |
| At 31 December | <u>11,311</u> | <u>5,145</u> |

Fair value of securities available-for-sale

| <i>In thousands of BGN</i> | Nominal value | Fair value | Accrued interest as at 31 Dec 2006 | Effective interest rate | Maturity |
|------------------------------------|----------------------|----------------------|---|--------------------------------|-----------------|
| Interest-bearing securities in BGN | 2,800 | 2,705 | 49 | 3.62% | 18/02/2007 |
| | 3,700 | 3,573 | 49 | 3.11% | 16/02/2010 |
| | 3,700 | 3,763 | 74 | 4.18% | 12/01/2015 |
| Interest-bearing securities in EUR | <u>978</u> | <u>1,038</u> | <u>56</u> | 6.12% | 15/01/2013 |
| Total | <u>11,178</u> | <u>11,079</u> | <u>228</u> | | |

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006

16. PROPERTY AND EQUIPMENT

| <i>In thousands of BGN</i> | Bank equipment and computers | Furniture and fixtures | Motor Vehicles | Leasehold improve- ments | Other Assets | Total |
|---------------------------------|---|---------------------------------------|---------------------------|---|-------------------------|--------------|
| Book value (cost) | | | | | | |
| At 1 January 2006 | 1,162 | 1,169 | 342 | 1,090 | 226 | 3,989 |
| Additions | 79 | 36 | 4 | 24 | 5 | 148 |
| Disposals | (555) | (154) | (28) | - | (2) | (739) |
| At 31 December 2006 | 686 | 1,051 | 318 | 1,114 | 229 | 3,398 |
| Accumulated depreciation | | | | | | |
| At 1 January 2006 | 939 | 988 | 187 | 845 | 73 | 3,032 |
| Charge for the year | 86 | 114 | 65 | 111 | 77 | 453 |
| Disposals | (555) | (154) | (23) | - | (2) | (734) |
| At 31 December 2006 | 470 | 948 | 229 | 956 | 148 | 2,751 |
| Net book value | | | | | | |
| At 31 December 2006 | 216 | 103 | 89 | 158 | 81 | 647 |
| At 1 January 2006 | 223 | 181 | 155 | 245 | 153 | 957 |

The book value of the fully depreciated property and equipment by group of assets, which is used in the Bank's activity, amounts to BGN 1,735 thousand (31.12.2005: BGN 1,405 thousand).

17. INTANGIBLE ASSETS

| <i>In thousands of BGN</i> | Licenses | Computer software | Total |
|---------------------------------|-----------------|--------------------------|--------------|
| Book value (cost) | | | |
| At 1 January 2006 | 142 | 239 | 381 |
| Additions | - | - | - |
| Disposals | - | (24) | (24) |
| At 31 December 2006 | 142 | 215 | 357 |
| Accumulated amortisation | | | |
| At 1 January 2006 | 119 | 176 | 295 |
| Charge for the year | 9 | 22 | 31 |
| Disposals | - | (24) | (24) |
| At 31 December 2006 | 128 | 174 | 302 |
| Net book value | | | |
| At 31 December 2006 | 14 | 41 | 55 |
| At 1 January 2005 | 23 | 63 | 86 |

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NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006

18. OTHER ASSETS

| <i>In thousands of BGN</i> | 31 December 2006 | 31 December 2005 |
|----------------------------|------------------|------------------|
| Deferred expense | 55 | 47 |
| Income tax receivables | 17 | - |
| Other assets | 34 | 107 |
| Total | 106 | 154 |

19. DEFERRED TAX ASSETS

Deferred income taxes as at December 31 are related to the following balance sheet items:

| <i>In thousands of BGN</i> | <i>Temporary difference</i> | <i>Tax</i> | <i>Temporary difference</i> | <i>Tax</i> |
|--|---------------------------------|---------------------|---------------------------------|---------------------|
| | 31 December 2006 | 31 December 2006 | 31 December 2005 | 31 December 2005 |
| <i>Description of items</i> | | | | |
| Accruals for unused annual paid leaves | 70 | 7 | 59 | 9 |
| Provisions court case | 87 | 9 | - | - |
| Remeasurement of financial assets | 161 | 16 | - | - |
| Loss carried forward from previous years | - | - | 231 | 34 |
| <i>Total deferred tax assets</i> | <u>318</u> | <u>32</u> | <u>290</u> | <u>43</u> |
| Property and equipment | (150) | (15) | (2) | - |
| <i>Total deferred tax liabilities</i> | <u>(150)</u> | <u>(15)</u> | <u>(2)</u> | <u>-</u> |
| Deferred income tax assets, net | 168 | 17 | 288 | 43 |

20. DUE TO OTHER BANKS

| <i>In thousands of BGN</i> | 31 December 2006 | 31 December 2005 |
|----------------------------|---------------------|---------------------|
| Demand deposits of banks | | |
| - In foreign currencies | 644 | 639 |

The average interest rates applied to current accounts are:

| | 2006 | | 2005 | |
|-----|------|-----|------|-----|
| | from | to | from | to |
| USD | | 2 | | 2 |
| EUR | 0.4 | 2.5 | 0.4 | 2.5 |
| BGN | | 0.3 | | 0.3 |

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006

21. DUE TO OTHER CUSTOMERS

A. Analysis by type of customer

| <i>In thousands of BGN</i> | 31 December 2006 | 31 December 2005 |
|--|-------------------------|-------------------------|
| Individuals | | |
| - Time deposits | 4,427 | 6,604 |
| - Current accounts | 2,714 | 96 |
| - Saving accounts | 370 | 1,349 |
| Private companies and other financial institutions | | |
| - Time deposits | 32,660 | 4,614 |
| - Current accounts | 138,021 | 48,758 |
| Total | 178,192 | 61,421 |

B. Maturity of deposits

| <i>In thousands of BGN</i> | 31 December 2006 | 31 December 2005 |
|----------------------------|-------------------------|-------------------------|
| Demand deposits | | |
| - In Bulgarian Leva | 99,851 | 10,920 |
| - In foreign currencies | 41,254 | 39,283 |
| Time deposits | | |
| Up to 1 month | | |
| - In Bulgarian Leva | 3,707 | 2,018 |
| - In foreign currencies | 3,774 | 5,634 |
| from 1 to 3 months | | |
| - In Bulgarian Leva | 112 | 16 |
| - In foreign currencies | 593 | 976 |
| From 3 months to 1 year | | |
| - In Bulgarian Leva | 27,102 | 637 |
| - In foreign currencies | 1,799 | 1,937 |
| Total | 178,192 | 61,421 |

The demand deposits include customer blocked accounts at the amount of BGN 444 thousand (2005: BGN 53 thousand) used as collaterals for bank guarantees as well as special terms accounts: VAT accounts amounting to BGN 789 thousand (2005: BGN 1,294 thousand) and cumulative accounts amounting to BGN 4,342 thousand (2005: BGN 235 thousand).

C. Interest rates

The interest rates applied to the customers' accounts in the years 2006 and 2005 are:

| <i>For 2006</i> | BGN | EUR | USD |
|-------------------------|------------|------------|------------|
| Current accounts | 0.30 | 0.40 | 0.20 |
| Time deposits | | | |
| Up to 1 month | 3.00 | 2.75 | 2.75 |
| Up to 3 months | 3.50 | 3.00 | 3.00 |
| Up to 6 months | 3.75 | 3.25 | 3.25 |
| Up to 1 year | 4.75 | 4.00 | 4.00 |

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**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006**

For 2005

| | | | |
|-------------------------|------|------|------|
| Current accounts | 0.30 | 0.40 | 0.20 |
| Time deposits | | | |
| Up to 1 month | 3.00 | 2.75 | 2.75 |
| Up to 3 months | 3.50 | 3.00 | 3.00 |
| Up to 6 months | 3.75 | 3.25 | 3.25 |
| Up to 1 year | 4.75 | 4.00 | 4.00 |

22. DUE TO CUSTOMERS ON SECURITIES BORROWED

Liaibilities in trading portfolio in the bank's balance sheet as at 31 December 2005 comprise Bulgarian Government Securities borrowed from a Bank's client with face value EUR 500 thousand, stated at quoted market prices. During year 2006 the deal is settled and this position was closed.

23. OTHER LIABILITIES

| | 31 December 2006 | 31 December 2005 |
|---|-------------------------|-------------------------|
| <i>In thousands of BGN</i> | | |
| Unsettled transfers | 505 | 2,349 |
| Payables to personnel and for social security | 70 | 80 |
| Management commissions for LC and LG prepaid | 34 | 39 |
| Tax payables | 7 | 39 |
| Accruals | 88 | 24 |
| Other payables | 64 | 6 |
| Total | 768 | 2,537 |

24. CAPITAL AND RESERVES

(a) Number and face value of registered shares as at 31 December 2006

| <i>Number of shares/In thousands of BGN</i> | Number of shares | Face value |
|---|-------------------------|-------------------|
| Ordinary personal voting shares | <u>20,000</u> | <u>20,000</u> |

As at 31 December 2005 the registered share capital amounts to BGN 20,000 thousand and comprises of 20,000 ordinary personal voting shares of BGN 1,000 nominal value each.

(b) Number and face value of registered shares as at 31 December 2005, continued

| <i>Shareholder's name</i> | Shares hold at 31.12.2006 | Percent | Shares hold at 31.12.2005 | Percent |
|------------------------------------|------------------------------|------------|------------------------------|------------|
| Mr. Fuat Guven | 20,000 | 100 | - | - |
| Mrs. Isil Dogan | - | - | 10,000 | 50.00 |
| Mr. Halit Cingillioglu | - | - | 8,000 | 40.00 |
| Mrs. Arzuhan Yalcindag | - | - | 500 | 2.50 |
| Mrs. Vuslat Sabanci | - | - | 500 | 2.50 |
| Ms. Hanzade Vasfiye Dogan | - | - | 500 | 2.50 |
| Ms. Yasar Begumhan Dogan Faralyali | - | - | 500 | 2.50 |
| Total | 20,000 | 100 | 20,000 | 100 |

In 2006 following a permission of BNB, all shares of the Bank were transferred to Mr. Fuat Guven, who purchased all shares of the former shareholders and become the sole owner of the Bank.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006

(c) **Reserves**

Statutory Reserve (Statutory Reserve Fund) - as per the special requirements of the Law on Banks, in force till 31 December 2006, the Bank is obliged to allocate at least one fifth of its profit, after taxation, for setting aside "Statutory Reserve Fund" until the funds in the Fund reach 1.25% of the total amount of all assets as per the balance sheet and off-balance sheet engagements, including for distributing dividends. The Bank can use the funds from the "Reserve Fund" for covering current or prior period losses; however the funds can not be used for distributing dividends without BNB's permission.

The new Law on Credit Institutions in force as of 1 January 2007 does not provide for special rules regarding allocation of "Reserve Fund". This means that the Bank shall follow the general rules of the Commercial Act, in particular: at least one tenth of profit after taxation, funds paid in excess of the nominal value of issued capital, the amount of additional payments made by the shareholders for privileges on the acquired shares, other sources specified in the Articles of Association or upon a resolution of the General Meeting of Shareholders, until the funds in the "Reserve Fund" reach up to one tenth of the capital indicated in the Articles of Association, unless in the Articles of Association provide for more restrictive rules. In addition, under this law the banks shall not pay dividends before the required by law or by the Articles of Association minimum reserves amount has been accumulated, or in case that by paying dividends the compliance with the regulatory ratios for general capital adequacy are breached.

The revaluation reserve - AFS has been formed from the unrealised gains and/or losses from subsequent measurement of available-for-sale securities at fair value. It is presented in the balance sheet as a separate component of equity, net of deferred tax effects.

Uncovered losses – include the accumulated losses until year 2002, including.

25. **CONTINGENT LIABILITIES**

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to one year. Expirations are not concentrated in any period.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

| <i>In thousands of BGN</i> | 31 December 2006 | 31 December 2005 |
|---------------------------------------|-------------------------|-------------------------|
| Bank guarantees and letters of credit | | |
| - In Bulgarian Leva | 4,567 | 2,804 |
| - In foreign currencies | 4,361 | 6,812 |
| | <u>8,928</u> | <u>9,616</u> |
| Credit commitments | | |
| - In Bulgarian Leva | 4,024 | 4,365 |
| - In foreign currencies | 4,965 | 1,748 |
| | <u>8,989</u> | <u>6,113</u> |
| Total | <u><u>17,917</u></u> | <u><u>15,729</u></u> |

These commitments and contingent liabilities have off balance-sheet credit risk because only organisation fees and accruals for probable losses are recognised in the balance sheet until the commitments are fulfilled or expire. Many of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows. At 31 December 2006 the extent of collateral held for guarantees and letters of credit is 100 percent and represents deposits blocked at the Bank, mortgages of real estate, bank guarantees issued by other banks and promissory notes.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006

26. CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents comprises the following balances:

| <i>In thousands of BGN</i> | 31 December 2006 | 31 December 2005 |
|--|-------------------------|-------------------------|
| Cash on hand | | |
| - In Bulgarian Leva | 1,389 | 1,807 |
| - In foreign currencies | 1,381 | 2,999 |
| Current accounts and amounts with banks with original maturity of less than 3 months | | |
| - In Bulgarian Leva | 74,025 | - |
| - In foreign currencies | 42,764 | 15,258 |
| | <hr/> | <hr/> |
| Cash and cash equivalents | 119,559 | 20,064 |
| | <hr/> | <hr/> |

27. TRUST ACTIVITIES

The Bank provides trust services to its customers whereby it holds and manages Bulgarian government securities at their direction. The Bank receives fee income for providing these services. Trust assets are not assets of the Bank and are not recognised in the Bank's balance sheet. The Bank is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

28. BANK REGULATORS IN ACCORDANCE WITH THE BULGARIAN LEGISLATION

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

Total capital adequacy ratio

The Bank calculates its total capital adequacy ratio as a percentage of its net capital base to the total risk weighted assets. The capital base includes the registered share capital, the Reserve Fund and the other reserves up to a particular amount. The total risk weighted assets include the balance sheet and off-balance sheet exposures (items) as reported, weighted in accordance with their risk. The reported capital adequacy ratio level at 31 December 2006 is 26,82 % (2005: 36,38 %). The minimum capital adequacy ratio required by law is 12 %.

Minimum share capital

As at 31 December 2006, the Bank's share capital is BGN 20,000 thousand (2005: BGN 20,000 thousand) and it has met the Central Bank (BNB) requirements for a minimum capital of BGN 10,000 thousand.

Other regulatory ratios

Capital base to open foreign currency positions - the maximal ratio is up to 30% for all foreign currency positions and respectively, up to 15% for each foreign currency position with the exception of those in EUR;

Capital base to large risk exposures - the total amount of all large loans cannot exceed 8 times the Bank's capital base. The exposure to a borrower or related parties cannot exceed 25% of the Bank's capital base

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006**

Liquid assets to net cash flows - the Central Bank (BNB) monitors the amount and composition of the Banks' liquid assets and when necessary, determines minimal liquidity ratio for each bank, which shall be reached within a defined term as a percentage of the liquid assets to the funds attracted;

Capital base to the amount of property, equipment and shares in non-financial institutions - the investments cannot exceed the Bank's capital base while only those in property and equipment can amount up to 50% of the capital base.

As at 31 December 2006 the Bank has complied with all regulatory requirements of the Central Bank and Bulgarian legislation.

29. RISK MANAGEMENT DISCLOSURES

In the ordinary course of business, the Bank is exposed to a variety of risks the most important of which are credit risk, market risk and liquidity risk. These risks are identified, measured and monitored through various control mechanisms in order to price facilities and bank products on a risk adjusted basis and to prevent undue risk concentrations. The Bank manages its trading activities by type of risk involved and on the basis of the categories of trading instruments held.

(1) Credit risk

The risk that counterparties to trading instruments might default on their obligations is monitored on an ongoing basis. In monitoring credit risk exposure, consideration is given to trading instruments with a positive fair value and to the volatility of the fair value of trading instruments. To manage the level of credit risk, the Bank deals with counterparties of good credit standing, enters into master netting agreements whenever possible, and when appropriate, obtains collateral. Master netting agreements provide for the net settlement of contracts with the same counter party in the event of default.

(2) Market risk

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

All trading instruments are subject to market risk, the risk that future changes in market conditions may make an instrument less valuable or more onerous. The instruments are recognised at fair value, and all changes in market conditions directly affect net trading income.

The Bank manages its use of trading instruments in response to changing market conditions. Exposure to market risk is formally managed in accordance with risk limits set by senior management by buying or selling instruments or entering into offsetting positions.

(1.1.) Credit risk

The Bank is subject to credit risk through its trading, lending, and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees.

Credit risk associated with trading and investing activities is managed through the Bank's market risk management process. The risk that counterparties to both derivative and other instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Bank deals with counterparties of good credit standing.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006

The Bank's primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. In addition, the Bank is exposed to off balance sheet credit risk through commitments to extend credit and guarantees issued.

Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for Banks of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The major concentrations of credit risk arise by location and type of customer in relation to the Bank's investments, loans and advances, commitments to extend credit and guarantees issued.

Concentrations of credit risk in the balance, by economic sectors, are as follows:

| <i>In thousands of BGN</i> | 2006 | 2005 |
|-----------------------------|---------------|---------------|
| Manufacturing | 9,756 | 7,758 |
| Insurance, lease activities | 108 | 5,649 |
| Trade and services | 20,657 | 19,856 |
| Transport and communication | 144 | 480 |
| Construction | 4,843 | 1,803 |
| Agriculture and forestry | 300 | 252 |
| Public loans | 1,519 | 1,062 |
| Impairment loss | (364) | (403) |
| | 36,963 | 36,457 |

The Bank's policy is to require suitable collateral to be provided by its customers prior to the disbursement of approved loans. It is the Bank's policy that the total amount of loans outstanding be collateralised. Guarantees and letters of credit are also subject to strict credit assessments before being provided. The agreements specify monetary limits to the Bank's obligations. The extent of collateral held for guarantees and letters of credit is usually at 100 percent.

Collateral for loans, guarantees, and letters of credit is usually in the form of cash, inventory, listed investments, or other property and bank counter guarantees.

The table below presents the total amount of loans granted to non-financial institutions and other clients, as well as the type of collateral.

| <i>In thousands of BGN</i> | 2006 | 2005 |
|----------------------------|---------------|---------------|
| Collateral with mortgage | 16,421 | 13,662 |
| Cash collateral | 281 | 777 |
| Other collateral | 20,261 | 22,018 |
| | 36,963 | 36,457 |

Other collateral include pledge on movable property and promissory notes.

(2.) Market risk

(2.1.) Interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or reprice at different times or in differing amounts.

In the case of floating rate assets and liabilities the Bank is also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices, such as the savings rate and six months LIBOR and different types of interest. Risk management activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Bank's business strategies.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006

Interest rate risk management activities related to the balance between attracted and leased resources are conducted in the context of the Bank's sensitivity to interest rate fluctuation. The actual effect depends on number of factors including the extent of the payments made at earlier of later date from the date of the contract and the variation of the Bank's sensitivity to interest rates during the refunding and according to different currencies.

The table below summarises the sensitivity of the Bank's assets and liabilities as at the 31 December 2006

| | Total | Floating interest rate instruments | Fixed interest rate instruments | | | | |
|---|----------------|--|---------------------------------|--------------|-----------------|---------------|----------------------|
| | | | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | More than 5 years |
| Assets | | | | | | | |
| Due from other banks | 118,465 | 198 | 118,267 | - | - | - | - |
| Receivables under repurchase agreements | 1,960 | - | 1,960 | - | - | - | - |
| Securities held for trading | 12,192 | 2,395 | 9,797 | - | - | - | - |
| Loans and advances to customers | 36,963 | 11,395 | 1,277 | 3,139 | 5,184 | 15,266 | 702 |
| Securities available-for-sale | 11,307 | - | 10,212 | 1,095 | - | - | - |
| Non-interest bearing assets | 18,383 | - | - | - | - | - | - |
| Total assets | 119,270 | 13,988 | 141,513 | 4,234 | 5,184 | 15,266 | 702 |
| Liabilities | | | | | | | |
| Due to other banks | 641 | - | 641 | - | - | - | - |
| Due to customers | 178,177 | - | 149,105 | 1,141 | 27,931 | - | - |
| Due to customers on securities borrowed | - | - | - | - | - | - | - |
| Non-interest bearing liabilities | 786 | - | - | - | - | - | - |
| Total liabilities | 179,604 | - | 149,746 | 1,141 | 27,931 | - | - |
| Interest sensitivity gap | 19,666 | 13,988 | (8,233) | 3,093 | (22,747) | 15,266 | 702 |

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006

The table below summarises the sensitivity of the Bank's assets and liabilities as at the 31 December 2005

| | Total | Floating interest rate instruments | Fixed interest rate instruments | | | | |
|---|---------------|--|---------------------------------|--------------|---------------|--------------|----------------------|
| | | | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | More than 5 years |
| Assets | | | | | | | |
| Due from other banks | 16,481 | - | 16,481 | - | - | - | - |
| Receivables under repurchase agreements | 1,958 | - | 1,958 | - | - | - | - |
| Securities held for trading | 12,724 | 2,437 | 10,287 | - | - | - | - |
| Loans and advances to customers | 36,457 | 11,630 | 242 | 3,267 | 11,370 | 9,174 | 774 |
| Securities available-for-sale | 5,141 | - | 5,141 | - | - | - | - |
| Non-interest earning assets | 12,446 | - | - | - | - | - | - |
| Total assets | 85,207 | 14,067 | 34,109 | 3,267 | 11,370 | 9,174 | 774 |
| Liabilities | | | | | | | |
| Due to other banks | 633 | - | 633 | - | - | - | - |
| Due to other customers | 58,945 | - | 56,861 | 1,202 | 1,487 | 578 | - |
| Liabilities in trading portfolio | 1,285 | - | 1,285 | - | - | - | - |
| Due to customers on securities borrowed | 2,836 | - | - | - | - | - | - |
| Total liabilities | 65,882 | - | 59,779 | 1,202 | 1,487 | 578 | - |
| Interest sensitivity gap | 19,325 | 14,067 | (25,670) | 2,065 | 9,883 | 8,596 | 774 |

(2.2.) Currency risk

The currency risk is the risk of adverse impact of fluctuations in the prevailing foreign currency exchange rates on the Bank's financial position and cash flows. The net position in any currency is monitored on a continuous basis by the Bank's management and the Head of Liquidity Department as well as by the members of the Liquidity Committee.

As a result of the currency Board in place in Bulgaria, the Bulgarian currency is pegged to the Euro. As the currency in which the Bank presents its financial statements is the Bulgarian lev, the Bank's financial statements are affected by movements in the exchange rates between the currencies different to the Euro and the lev.

The Bank's transactional exposures give rise to foreign currency gains and losses that are recognised in the income statement. These exposures comprise the monetary assets and monetary liabilities of the Bank that are not denominated in the measurement currency of the Bank. These exposures were as follows:

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006

| <i>In thousands of BGN</i> | 31 December 2006 | 31 December 2005 |
|---------------------------------------|-------------------------|-------------------------|
| Assets | | |
| Bulgarian leva and euro | 168,081 | 65,577 |
| US dollars | 30,976 | 19,437 |
| Other | 213 | 193 |
| | <hr/> | <hr/> |
| | 199,270 | 85,207 |
| Liabilities | | |
| Bulgarian leva and euro | 147,779 | 34,872 |
| US dollars | 31,645 | 30,864 |
| Other | 180 | 146 |
| | <hr/> | <hr/> |
| | 179,604 | 65,882 |
| Net position | | |
| Bulgarian leva and euro | 20,302 | 30,705 |
| US dollars | (669) | (11,427) |
| Other | 33 | 47 |
| Total | 19,666 | 19,325 |
| Net off-balance sheet position | | |
| Bulgarian leva and euro | (587) | (11,148) |
| US dollars | 585 | 11,227 |
| Other | - | - |
| Total | (2) | 79 |

In respect of monetary assets and liabilities in foreign currencies that are not economically hedged, the Bank ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate.

(3.) *Liquidity risk*

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

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

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched. An unmatched position potentially enhances profitability, but also increases the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates. To manage this risk, the Bank maintains at all times highly liquid assets in different currencies. The overall liquidity control and monitoring are performed by the Bank's Liquidity Committee.

In addition the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

The following table provides an analysis of the financial assets and liabilities of the Bank into relevant maturity groupings based on the remaining periods to repayment.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006

Maturities of assets and liabilities as at 31 December 2006

| <i>In thousands of BGN</i> | Up to 1 month | 1 - 3 months | 3 -12 months | 1 - 5 years | Over 5 years | Undefined maturity | Total |
|---|----------------------|---------------------|---------------------|--------------------|---------------------|---------------------------|----------------|
| Assets | | | | | | | |
| Cash and balances with Central Bank | 16,276 | - | - | - | - | - | 16,276 |
| Loans and advances to banks | 119,743 | - | - | - | - | - | 119,743 |
| Receivables under repurchase agreements | 1,960 | - | - | - | - | - | 1,960 |
| Securities held for trading | 12,192 | - | - | - | - | - | 12,192 |
| Due from other banks | 1,723 | 3,732 | 15,009 | 14,339 | 2,160 | - | 36,963 |
| Securities available-for-sale | - | - | - | 3,622 | 7,685 | 4 | 11,311 |
| Property and equipment | - | - | - | - | - | 647 | 647 |
| Intangible assets | - | - | - | - | - | 55 | 55 |
| Other assets | 59 | 47 | - | - | - | - | 106 |
| Deferred Tax Assets | - | - | 17 | - | - | - | 17 |
| Total Assets | 151,953 | 3,779 | 15,026 | 17,961 | 9,845 | 706 | 199,270 |
| Liabilities | | | | | | | |
| Due to other banks | 644 | - | - | - | - | - | 644 |
| Due to customers | 128,421 | 1,137 | 2,927 | 45,707 | - | - | 178,192 |
| Other liabilities | 768 | - | - | - | - | - | 768 |
| Total Liabilities | 129,833 | 1,137 | 2,927 | 45,707 | - | - | 179,604 |
| Net liquidity gap | 22,122 | 2,642 | 12,099 | (27,746) | 9,845 | 706 | 19,666 |
| Contingent liabilities | - | 593 | 7,725 | 434 | - | - | 8,752 |

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**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006**

Maturities of assets and liabilities as at 31 December 2005

| <i>In thousands of BGN</i> | Up to 1 month | 1 - 3 months | 3 -12 months | 1 - 5 years | Over 5 years | Undefined maturity | Total |
|---|--------------------------|-------------------------|-------------------------|------------------------|-------------------------|-------------------------------|---------------|
| Assets | | | | | | | |
| Cash and balances with Central Bank | 9,333 | - | - | - | - | - | 9,333 |
| Due from other banks | 18,350 | - | - | - | - | - | 18,350 |
| Receivables under repurchase agreements | 1,958 | - | - | - | - | - | 1,958 |
| Securities held for trading | 12,724 | - | - | - | - | - | 12,724 |
| Loans and advances to clients | 1,868 | 5,075 | 18,161 | 9,749 | 1,604 | - | 36,457 |
| Securities available- for-sale | - | 132 | - | 5,009 | - | 4 | 5,145 |
| Property and equipment | - | - | - | - | - | 957 | 957 |
| Intangible assets | - | - | - | - | - | 86 | 86 |
| Other assets | 83 | 47 | 24 | - | - | - | 154 |
| Deferred Tax Asset | - | - | 43 | - | - | - | 43 |
| Total Assets | 44,316 | 5,254 | 18,228 | 14,758 | 1,604 | 1,047 | 85,207 |
| Liabilities | | | | | | | |
| Due to banks and other financial institutions | 639 | - | - | - | - | - | 639 |
| Due to other customers | 56,924 | 1,122 | 1,549 | 826 | - | - | 61,421 |
| Liabilities in trading portfolio | - | - | 1,285 | - | - | - | 1,285 |
| Other liabilities | 2,537 | - | - | - | - | - | 2,537 |
| Total Liabilities | 61,100 | 1,122 | 2,834 | 826 | - | - | 65,882 |
| Net liquidity gap | (16,784) | 4,132 | 15,394 | 13,932 | 1,604 | 1,047 | 19,325 |
| Contingent liabilities | - | 180 | 939 | 463 | - | - | 1,582 |

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**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006**

30. RELATED PARTY TRANSACTIONS

(a) Type of relatedness

| Related party | Type of relatedness |
|---|---|
| As at 31 December 2006 | |
| Fuat Guven | Shareholder |
| Stoyan Alexandrov | Key management personnel |
| Elenka Manova | Key management personnel |
| Bahattin Gurbuz | Key management personnel |
| Aksit Ozkural | Key management personnel |
| Radka Nikodimova | Key management personnel |
| Mumtaz Malik Agim | Key management personnel |
| Elkabel AD | Enterprise under common control by the sole owner |
| Varna Moda AD | Enterprise under common control by the sole owner |
| Gama Invest AD | Enterprise under common control by the sole owner |
| Magazin Shipka Fuat Guven ET | Enterprise under common control by the sole owner |
| Magazin Shipka Fuat Guven EOOD | Enterprise under common control by the sole owner |
| Emelda EOOD | Enterprise under common control by the sole owner |
| Emelda Deri Ve Tekstil Sanayi Dis Ticaret Limited Sirketi, Turkey | Enterprise under common control by the sole owner |
| Trakya 97 EOOD | Enterprise under common control by the sole owner |
| Stil 93 EOOD | Enterprise under common control by the sole owner |
| Eleforce EOOD | Enterprise under common control by the sole owner |
| Fortera EAD | Enterprise under common control by the sole owner |
| Stolichen meditsinski holding EAD | Participation of key management personnel in the managing bodies |
| Rinimex AD | Participation of key management personnel in the managing bodies |
| Radino AD | Participation of key management personnel in the managing bodies |
| Kramex AD | Participation of key management personnel in the managing bodies |
| Professional Sport Club Stovi EAD | Participation of key management personnel in the managing bodies |
| Koraboremonten zavod Odessos AD | Participation of key management personnel in the managing bodies |
| Zemedelska kooperatsia "Land o lake" | Participation of key management personnel in the managing bodies |
| Geneva Group International – Bulgaria OOD | Participation of key management personnel in the managing bodies |
| Aidatour AD | Participation of key management personnel in the managing bodies |
| Elkabel Ko EOOD | Participation of key management personnel in the managing bodies |
| Alexandrov i Sie EOOD | Participation in the capital of key management personnel and participation of key management personnel in the managing bodies |
| Until November 2006 | |
| Isil Dogan | Shareholder |
| Halit Cingillioglu | Shareholder |
| Arzuhan Yalcindag | Shareholder |
| Vuslat Sabaci | Shareholder |
| Hanzade Vasfiye Dogan | Shareholder |
| Yasar Begumhan Dogan Faraliali | Shareholder |
| Mevlut Tufan Darbaz | Key management personnel |
| Dinc Uner | Key management personnel |
| Tayfun Bayazit | Key management personnel |
| Huseyn Faik Acikalin | Key management personnel |
| Ahmet Izzet Karacahisarli | Key management personnel |
| Ismail Hasan Akcakayalioglu | Key management personnel |
| Ognyan Yordanov | Key management personnel |
| Sinan Kircali | Key management personnel |
| Aydin Dogan | Considerable influence in Demir Halk Bank and through members of his family – main shareholders in D Commerce Bank |

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**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006**

| | |
|---|--|
| Demir Halk Bank, Nederland | Enterprise under common control by a shareholder |
| Demir Kazakhstan Bank | Enterprise under common control by a shareholder |
| Disbank, Turkey | Enterprise under common control by a shareholder |
| Bankpositif, Turkey | Enterprise under common control by a shareholder |
| Cingilli Holding, Turkey | Enterprise under common control by a shareholder |
| C Yatirim Holding, Turkey | Enterprise under common control by a shareholder |
| C Factoring, Turkey | Enterprise under common control by a shareholder |
| HSBG Holding BV, Turkey | Enterprise under common control by a shareholder |
| Celik Halat Ve Tel Sanayii Anonim Sirketi, Turkey | Enterprise in which key management personnel possess managing powers |

(b) Balances with related parties

In thousand of BGN

| Type of account | Type of relatedness | 31 December 2006 | 31 December 2005 |
|--|--|------------------|------------------|
| Current accounts | Shareholder | 752 | - |
| Current accounts | Key management personnel | 712 | 493 |
| Loans granted | Key management personnel | 30 | 26 |
| Deposits, current accounts and escrow accounts | Enterprise under common control by the sole owner | 56,562 | - |
| Deposit received | Enterprise under common control by a shareholder | 597 | 611 |
| Deposit placed | Enterprise under common control by a shareholder | 85 | 5,338 |
| Current account | Enterprise under common control by a shareholder | 4 | 4 |
| Loans granted | Enterprise in which key management personnel possess managing powers | - | 1,324 |
| | | 58,742 | 7,796 |

(c) Transactions with related parties

Interest Income

In thousand of BGN

| Type of relatedness | 2006 | 2005 |
|--|------------|-----------|
| Key management personnel | - | 2 |
| Enterprise under common control by a shareholder | 81 | 29 |
| Enterprise in which key management personnel possess managing powers | 23 | 23 |
| | 104 | 54 |

Interest expenses

In thousand of BGN

| Type of relatedness | 2006 | 2005 |
|---|------------|----------|
| Shareholder | 1 | 1 |
| Key management personnel | - | - |
| Enterprise under common control by the sole owner | 167 | 0 |
| Enterprise under common control by a shareholder | 3 | 3 |
| Enterprise under common control by a shareholder | - | - |
| | 171 | 4 |

Commissions income

In thousand of BGN

| Type of relatedness | 2006 | 2005 |
|---|----------|----------|
| Enterprise under common control by the sole owner | 8 | 0 |

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006

(d) Remunerations of the key management personnel

| <i>In thousand of BGN</i> | 2006 | 2005 |
|--|-------------|-------------|
| Remunerations of the key management personnel | 987 | 761 |

30. POST BALANCE SHEET EVENTS

- (a) On 14 March 2007 the Bank concluded Subordinated Loan Agreement with a foreign person – lender „Emelda Deri Ve Tekstil Sanayi Dis Ticaret Limited Sirketi”, Turkey.

The purpose is that the borrowed amount to be used for the purposes of Regulation No. 8 on the capital adequacy of credit institutions issued by BNB for increasing the own capital of the Bank through including the loaned sum in the second rank capital (additional capital) of the Bank as subordinated loan after obtaining permission from BNB.

The essential parameters of the agreement are as follows: borrowed amount is 10 000 000 (ten million) BGN; term – 6 years; interest rate - 5 % fixed interest rate p. a.; redemption of the principal – at the maturity date 14 March 2013; interest payments - quarterly.

- (b) The realized profit of the Bank in 2006 will be used for partial recovery of the loss from the past periods. Based on the goals putted in the strategy and the budget growth of the profit for year 2007, the uncovered loss from the past periods is planned to be covered fully in the following reporting period.

- (c) As of the date of drawing up the present report the following changes concerning the court registration of the Bank have occurred:

1. Upon decision № 34 dd. 09 January 2007 Fuat Guven (Fuat Husniev Osmanov) has been deleted as member of the Supervisory Board of the Bank and two new members of the Supervisory Board have been registered, namely: Valery Borissov Borissov and Emel Guven.

2. Upon decision № 35 dd. 08 March 2007 amendments and supplements to the Articles of association of the Bank have been entered as well as a change in the management and representation of the Bank (without registering personal changes in the membership of the Managing Board). The change is that the Bank is represented by collectively by the he following three members of the Managing Board – Muammer Aksit Ozkural – member of the Managing Board, Radka Boneva Nikodimova – member of the Managing Board, and Mumtaz Malik Agim - member of the Managing Board or jointly from the two of the following three executive directors – jointly: Muammer Aksit Ozkural – Chief executive director, Radka Boneva Nikodimova – Executive director, and Mumtaz Malik Agim – Executive director.

- (d) As at the date of the approval of this report, the Management Board of the Bank put for discussion in front of the Supervisory Board the project for opening of two new offices – in „Elcabel” AD - Burgas and in Svilengrad.