DSK Bank EAD

Separate Financial Statements

For the year ended December 31, 2011

and auditor's report

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INDEPENDENT AUDITORS' REPORT

To the shareholders
DSK Bank EAD

Report on the Unconsolidated Financial Statements

We have audited the accompanying unconsolidated financial statements of DSK Bank EAD ("the Bank") which comprise the unconsolidated statement of financial position as at 31 December 2011, the unconsolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Unconsolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the unconsolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the unconsolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the unconsolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the unconsolidated 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 unconsolidated financial statements give a true and fair view of the unconsolidated financial position of the Bank as at 31 December 2011, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

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

As required under the Accountancy Act, we report that the historical financial information disclosed in the unconsolidated annual report of the activities of the Bank, prepared by Management as required under article 33 of the Accountancy Act, is consistent, in all material aspects, with the unconsolidated financial information disclosed in the audited unconsolidated financial statements of the Bank as of and for the year ended 31 December 2011. Management is responsible for the preparation of the unconsolidated annual report of the activities of the Bank which was approved by the Management Board of the Bank on 28 February 2012.

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

Tzvetelinka Koleva
Authorised representative

Margarita Goleva
Registered auditor

KPMG Bulgaria OOD

29 February 2012

Income statement for the year ended 31 December 2011

In thousands of BGN	Note	2011	2010
Interest income		730 080	738 914
Interest expense		(209 409)	(243 864)
Net interest income	4	**520 671**	**495 050**
Fee and commission income		112 014	112 554
Fee and commission expense		(7 945)	(8 191)
Net fee and commission income	5	**104 069**	**104 363**
Net trading income	6	11 475	8 402
Net operating income	7	7 611	8 101
Operating income		**19 086**	**16 503**
Personnel expenses	8	(77 511)	(74 526)
Depreciation and amortisation	17, 18	(35 194)	(34 235)
Impairment losses	9	(323 951)	(252 991)
Other expenses	10	(111 497)	(109 187)
Profit before tax		**95 673**	**144 977**
Income tax expense	11	(10 342)	(14 612)
Profit for the year		**85 331**	**130 365**

The income statement is to be read in conjunction with the notes from 1 to 30 forming an integral part of the unconsolidated financial statements.

The unconsolidated financial statements were approved on behalf of DSK Bank EAD on 28 February 2012.

Violina Marinova
Chief Executive Director

Dorothea Nikolova
Executive Director

KPMG Bulgaria OOD

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Translated from Bulgarian

Statement of comprehensive income for the year ended 31 December 2011

In thousands of BGN	2011	2010
Profit after tax	**85 331**	**130 365**
Revaluation at fair value of securities available for sale, net of tax	(3 312)	3 190
Total comprehensive income	**82 019**	**133 555**

The statement of comprehensive income is to be read in conjunction with the notes from 1 to 30 forming an integral part of the unconsolidated financial statements.

The unconsolidated financial statements were approved on behalf of DSK Bank EAD on 28 February 2012.

Violina Marinova
Chief Executive Director

Dorothea Nikolova
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Банка ДСК ЕАД
София

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Statement of financial position as of 31 December 2011

In thousands of BGN	Note	31-Dec-2011	31-Dec-2010
Assets			
Cash and current accounts with domestic and foreign banks	12	248 197	274 719
Financial assets held for trading	13	46 208	80 680
Loans and advances to banks and balances with the Central Bank	14	1 051 555	792 935
Loans and advances to other customers	15	6 697 470	6 868 855
Investment available for sale and held to maturity	16	171 725	225 713
Current tax assets		4 843	2 301
Tangible assets	17	291 025	274 788
Intangible assets	18	29 551	30 465
Other assets	19	17 679	11 198
Total assets		**8 558 253**	**8 561 654**
Liabilities			
Deposits from banks	20	10 596	224 460
Loans from banks	20	33 742	38 791
Subordinated debt	21	686 923	686 586
Deposits from other customers	22	6 441 466	5 994 022
Current tax liabilities		494	778
Deferred tax liabilities	23	8 621	9 107
Provisions for contingent and future liabilities	24	6 630	8 410
Other and trading liabilities	25	48 306	58 650
Total liabilities		**7 236 778**	**7 020 804**
Shareholders' equity			
Share capital	26	153 984	153 984
Reserves	26	1 058 935	1 062 249
Retained earnings	26	108 556	324 617
Total shareholders' equity		**1 321 475**	**1 540 850**
Total liabilities and shareholders' equity		**8 558 253**	**8 561 654**

The Statement of financial position is to be read in conjunction with the notes from 1 to 30 forming an integral part of the unconsolidated financial statements.

The unconsolidated financial statements were approved on behalf of DSK Bank EAD on 28 February 2012.

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Cash flow statement for the year ended 31 December 2011

In thousands of BGN	Note	2011	2010
Net cash flow from operating activities			
Profit before taxation		95 673	144 977
Increase in impairment losses of bad and doubtful debts and other assets	9, 19	323 951	252 991
Depreciation and amortization	17, 18	35 194	34 235
Net effect of operations with investments		(2 284)	(4 113)
Net effect of foreign exchange rate revaluation		6 385	11 251
Loss from disposal of noncurrent assets		366	160
Increase / (decrease) in provisions for liabilities		(707)	2 439
Dividends received		559	16
Other non cash changes		7 362	5 481
Net cash flow from operating activities before changes in operating assets and liabilities		**466 499**	**447 437**
Change in operating assets			
Decrease / (increase) in securities held for trading		36 903	(62 193)
(Increase) in loans to customers		(156 089)	(117 977)
Decrease / (increase) in other assets		716	(5 744)
Change in operating liabilities			
(Decrease) in deposits from banks		(218 811)	(462 443)
Increase in amounts due under deposits from other customers		440 059	146 645
(Decrease) in other liabilities		(23 926)	(8 768)
Net cash flow from operating activities		**545 351**	**(63 043)**
Cash flow from investing activities			
(Acquisition) of property, plant and equipment, net		(50 867)	(39 505)
Decrease in investments		48 713	81 105
Net cash flow from investing activities		**(2 154)**	**41 600**
Cash flow from financing activities			
Dividends paid		(298 221)	-
Net cash flow from financing activities		**(298 221)**	-
Prepaid tax		(13 001)	(10 041)
Net increase / (decrease) in cash and cash equivalents		**231 975**	**(31 484)**
Cash and cash equivalents at the beginning of period	28	**1 067 615**	**1 099 099**
Cash and cash equivalents at the end of period	28	**1 299 590**	**1 067 615**

The cash flow statement is to be read in conjunction with the notes from 1 to 30 forming an integral part of the unconsolidated financial statements.

The unconsolidated financial statements were approved on behalf of DSK Bank EAD on 28 February 2012.

Банка ДСК ЕАД София 2115

Violina Marinova
Chief Executive Director

Dorothea Nikolova
Executive Director

KPMG Bulgaria OOD

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

Tzvetelinka Koleva
Authorised Representative

Margarita Goleva
Registered Auditor

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Statement of changes in shareholder's equity for the year ended 31 December 2011

In thousands of BGN	Share capital	Retained earnings	General and other reserve	Revaluation reserve	Total
Balance as of 1 January 2010	**153 984**	**194 251**	**982 208**	**76 852**	**1 407 295**
Total comprehensive income					
Net profit for the year	-	130 365	-	-	130 365
Other comprehensive income					
Revaluation at fair value of securities available for sale, net of tax	-	-	-	3 190	3 190
Total other comprehensive income	-	-	-	3 190	3 190
Total comprehensive income	**-**	**130 365**	**-**	**3 190**	**133 555**
Decrease in revaluation reserve from fully depreciated or disposal of fixed assets, net of tax	-	1	-	(1)	-
Balance as of 31 December 2010	**153 984**	**324 617**	**982 208**	**80 041**	**1 540 850**
Total comprehensive income					
Net profit for the year	-	85 331	-	-	85 331
Other comprehensive income					
Revaluation at fair value of securities available for sale, net of tax	-	-	-	(3 312)	(3 312)
Total other comprehensive income	-	-	-	(3 312)	(3 312)
Total comprehensive income	**-**	**85 331**	**-**	**(3 312)**	**82 019**
Prior year correction	-	(3 173)	-	-	(3 173)
Decrease in revaluation reserve from fully depreciated or disposal of fixed assets, net of tax	-	2	-	(2)	-
Contributions by and distributions to owners					
Dividends paid	-	(298 221)	-	-	(298 221)
Balance as of 31 December 2011	**153 984**	**108 556**	**982 208**	**76 727**	**1 321 475**

The statement of changes in shareholder's equity is to be read in conjunction with the notes from 1 to 30 forming an integral part of the unconsolidated financial statements.

The unconsolidated financial statements were approved on behalf of DSK Bank EAD on 28 February 2012.

Violina Marinova
Chief Executive Director

Банка ДСК ЕАД София 27 2115

Dorothea Nikolova
Executive Director

KPMG Bulgaria OOD

Tzvetelinka Koleva
Authorised Representative

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

Margarita Goleva
Registered Auditor

Translated from Bulgarian

1. Basis of preparation and legal status

(a) Legal status

DSK Bank EAD as the former State Savings Bank was incorporated on 2 March 1951 in Bulgaria as a centralised deposit accepting institution. Since 1998, when the Act on DSK transformation has been passed, DSK Bank EAD (The "Bank") was transformed into a commercial bank and is allowed to conduct all the transactions stated in art.1, par.2 from the Banking Law. Later the Bank receives a full banking license to operate as a commercial bank (by order No. 220882 of 26 September 2002 issued by the Bulgarian National Bank).

On 26 January 1999 Sofia City Court registered the State Savings Bank as a solely owned joint stock company "DSK Bank", 100% owned by the state. In 2001, pursuant to a court decision the Bank has been transformed to a joint stock company with its capital divided between the Council of Ministers – 75%, and the Bank Consolidation Company AD – 25 %.

On 29 November 2002 following a decision of the Sofia City Court the Bank Consolidation Company acquired 100% of the share capital of DSK Bank EAD.

On 29 October 2003 following a decision of the Sofia City Court OTP Bank, incorporated in Hungary, acquired 100% of the share capital of DSK Bank EAD.

(b) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and adopted by the Commission of European Union.

These financial statements have been prepared on unconsolidated basis according to Accountancy Act. The unconsolidated financial statements have to be treated as integral part of the consolidated financial statements of the Bank, approved by the Management Board on 28 February 2012.

(c) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the derivative financial instruments, trading financial assets and liabilities and available-for-sale financial assets that are measured at fair value.

(d) Functional and presentation currency

The financial statements are presented in thousands Bulgarian Leva (BGN), which is the Bank's functional currency.

(e) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

2. Significant accounting policies

(a) Interest income and expenses recognition

Interest income and expenses are recognised in the income statement using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes all fees paid or received as well as discount and premiums which are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

In the Income Statement interest income and expense include:

- interest on financial assets and liabilities at amortised cost calculated on an effective interest basis;
- interest on available-for-sale investment securities calculated on an effective interest basis.

(b) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, and stated at historical cost, are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost are reported at the foreign exchange rate ruling at the date of the transaction.

(c) Fees and commission

Other fees and commission income, including account servicing fees, investment management fees, sales commission, guarantees and letter of credit fees, are recognised as the related services are performed.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

(d) Net trading income

Net trading income comprises gains net from losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest and foreign exchange differences. Net trading income includes foreign currency exchange differences on investment financial assets.

(e) Financial instruments

The financial instruments are reported as financial assets held for trading, available for sale, held to maturity and loans and advances to banks and other customers in the statement of financial position of DSK Bank.

(1) Classification

Detailed explanation of financial assets and liabilities classification is represented in note 2 Significant accounting policies – p. (f), (g), (h), (i).

(2) Recognition

The Bank recognizes financial assets for trading and investments, loans and advances of the Bank and financial liabilities at amortised cost on settlement date. All other financial assets and liabilities are recognized on the trade date when the Bank becomes a party to the contract for the financial instrument. From this date the Bank recognizes all income and expense connected with the fair value change of the financial instruments.

A financial asset or financial liability is initially measured at fair value, where for items not subsequently measured at fair value through profit or loss transaction costs that are directly attributable to its acquisition or issue.

(3) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(4) Fair value measurement principles

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, DSK Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair value reflects the credit risk of the instrument and includes adjustments to take account of the credit risk of the Bank and counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

(5) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if it does not retain control over the asset. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers in which control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised in its entirety if it meets the criteria for derecognition. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the service.

(6) Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(7) Impairment

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and advances and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment on portfolio basis by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics. In assessing collective impairment the Bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. The defaulted assets, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows decreased with risk percent according to their classification group discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised directly in equity to profit or loss. The cumulative loss that is written off the equity and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand and cash deposited with the Central Bank, nostro accounts and short term highly liquid receivables from banks with maturity of up to three months.

(g) Financial assets and liabilities held for trading

Trading assets are those assets that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit.

Trading assets and liabilities are initially recognised at fair value in the statement of financial position with transaction costs taken directly to profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition except they are no longer held for the purpose of being sold or repurchased in the near future and the following conditions are met: if the financial asset would have met the definition of loans and receivables, then it may be reclassified if the Bank has the intention and ability to hold the financial assets for foreseeable future or until maturity; if the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in "rare circumstances".

The Bank has not reclassified trading assets in other categories of assets during the statement period.

(h) Investments

Investment securities are initially measured at fair value where for investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity or available-for-sale.

(1) Held-to-maturity investments

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification of all held-to-maturity investments: sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value; sales or reclassifications after the Bank has collected substantially all of the asset's original principal; sales or reclassifications attributable to non-recurring isolated events beyond the Bank's control that could not have been reasonably anticipated.

(2) Available for sale investments

Available-for-sale investments are non-derivative investments that are not classified as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

Other fair value changes are recognised directly in equity until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in equity are recognised in profit or loss.

(i) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. They include loans and advances to banks and clients different from bought from the Bank loans acquired at the emission.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo" or "stock borrowing"), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the statement of financial position.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(j) Fixed assets

The Bank applies a policy to carry property, plant and equipment at revalued amount under the allowed alternative approach in IAS 16, Property, plant and equipment.

Items of land and buildings are stated at fair value determined periodically by a professional registered valuer. Fair value of other fixed assets is their market value. The revaluation of fixed assets is carried asset by asset based on proportional calculation of the book value of the asset and the accumulated for it depreciation as of the date of revaluation. When the carrying amount of assets is increased as a result of revaluation, the increase is credited directly to equity as revaluation reserve. When the carrying amount of assets is decreased as a result of revaluation, the decrease is recognized as a decrease of previous revaluation reserve and any excess is recognized as an expense in the income statement. Revaluations of land and buildings have been performed in 2002 and 2005.

Items of fixtures and fittings and other tangible assets are stated in the statement of financial position at their acquisition cost less accumulated depreciation.

Depreciation is provided on a straight-line basis at prescribed rates designed to write down the cost of fixed assets over their expected useful life.

The following are approximations of the annual depreciation rates used:

	%
• Buildings	2 - 15
• Machines and equipment	30
• Motor cars	25
• Vehicles (without motor cars)	10
• Computers, according to class and useful life	12.5 - 50
• Fixtures and fitting and other depreciable fixed assets	10 - 15

Assets are depreciated from the date they are brought into use.

(k) Intangible assets

Intangible assets, which are acquired by DSK Bank, are stated at cost less accumulated amortisation and any impairment losses.

Amortization is calculated on a straight-line basis over the expected useful life of the asset. The annual rates of amortization are as follows:

	%
• Computer software, according to class and useful life	20 - 50

(l) Leased assets

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

Assets under contracts of financial leases are reported in statement of financial position as fixed assets and lease liability. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term.

(m) Financial leases contracts

Leases in terms of which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

(n) Provisions

A provision is recognised in the statement of financial position when the Bank has a legal obligation as a result of past events or there is present obligation, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(o) Deposits and subordinated liabilities

Deposits and subordinated liabilities are the Bank's sources of debt funding.

When the Bank sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date ("repo" or "stock lending"), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Bank's financial statements.

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Deposits and subordinated liabilities are initially measured at fair value plus directly attributable transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(p) Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable).

(q) Taxation

Tax on the profit for the year comprises current tax and deferred tax. Income tax is recorded in the income statement except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity. Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates effective or enacted by the statement date, and any adjustment of tax payable for previous years.

Deferred tax is provided using the statement of financial position liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is calculated on the basis of the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. The effect on deferred tax of any changes in tax rates is charged to the income statement, except to the extent that it relates to items previously charged or credited directly to equity.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income taxes levied by the same tax authority on the same taxable entities.

(r) Employee benefits

(1) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. The Government of Bulgaria is responsible for providing pensions in Bulgaria under a defined contribution pension plan. The Bank's contributions to the defined contribution pension plan are recognised as an employee benefit expense in income statement in the periods during which services are rendered by employees.

(2) *Defined benefit plans*

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Bank's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, that benefit is discounted to determine its present value.

The Bank has obligation to pay certain amounts to each employee who retires with the Bank in accordance with Art.222, § 3 of the Labour Code. According to these regulations in the LC, when a labour contract of a company's employee, who has acquired a pension right, is ended, the Bank is obliged to pay compensations amounted to two gross monthly salaries. In case the employee's length of service in the company equals to or is greater than 10 or more years, as at retirement date, then the compensation amounts to six gross monthly salaries. The Management of the Bank estimates the approximate amount of the potential expenditures for every employee based on a calculation performed by a qualified actuary using the projected unit credit method as at the statement date. The estimated amount of the obligation and the main assumptions, on the base of which the estimation of the obligation has been made, is disclosed to the financial statements in note 8.

The Bank recognises all actuarial gains and losses arising from defined benefit plans in personnel expenses for the period in the income statement.

(3) *Termination benefits*

Termination benefits are recognised as an expense when the Bank is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Bank has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(4) *Short-term employee benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

The Bank recognises as a liability the undiscounted amount of the estimated costs related to annual leave expected to be paid in exchange for the employee's service for the period completed.

(s) **International Financial Reporting Standards (IFRS) and interpretations adopted from European Commission not yet effective as of the date of the Statement.**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2011, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Bank.

Standards, amendments to standards and interpretations that are not effective and have not been applied earlier – endorsed by the EC.

- Amendments to IFRS 7 Disclosures – Transfers of Financial Assets (issued October 2010) – effective from the first financial year that starts after 1 July 2011.
- Improvements to IFRSs 2010 (issued May 2010), various effective dates, generally 1 January 2011.

(t) **IASB/IFRIC documents not yet endorsed by EC:**

Management believes that it is appropriate to disclose that the following new or revised standards, new interpretations and amendments to current standards, which are already issued by the International Accounting Standards Board (IASB), are not yet endorsed for adoption by the European Commission, and therefore are not taken into account in preparing these financial statements. The actual effective dates for them will depend on the endorsement decision by the EC.

- IFRS 9 Financial Instruments (issued November 2009 and Additions to IFRS 9 issued October 2010) has an effective date 1 January 2015 and could change the classification and measurement of financial instruments.

- In May 2011 the IASB issued IFRS 10 Consolidated Financial Statements, IFRS 11 Joint arrangements, IFRS 12 Disclosures of Interests in Other Entities and IFRS 13 Fair Value Measurement, which all have an effective date of 1 January 2013. The IASB also issued IAS 27 Separate Financial Statements (2011) which supersedes IAS 27 (2008) and IAS 28 Investments in Associates and Joint Ventures (2011) which supersedes IAS 28 (2008). All of these standards have an effective date of 1 January 2013.
- Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets (issued December 2010) has an effective date 1 January 2012.
- Amendments to IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (issued December 2010) has an effective date 1 July 2012.
- In June 2011 the IASB issued Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) with an effective date of 1 July 2012.
- In June 2011 the IASB issued an amended IAS 19 Employee Benefits with an effective date of 1 January 2013.
- In December 2011 the IASB issued amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities with an effective date of 1 January 2013.
- In December 2011 the IASB issued amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities with an effective date of 1 January 2014.

3. Risk management disclosures

Below are represented the various risks on which DSK Bank is exposed to as well as the approaches taken to manage those risks.

(a) Liquidity risk

Liquidity risk occurs as a result of the necessity to provide general funding for DSK Bank's activities and the management of its positions. It includes both the risk of being unable to settle liabilities and the risk of a financial loss caused by forced sale of assets in order to provide liquidity.

DSK Bank maintains active trading positions in a limited number of derivative and non-derivative financial instruments. Most of DSK Bank's derivative trading activities are aimed at offering products to corporate clients at competitive prices. DSK Bank uses money and capital market instrumentarium to maintain liquidity and to maximize net trading income.

The goal of liquidity risk management of the Bank is to ensure that it will always have sufficient level of liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses from selling liquid assets or expensive financing.

The executive Body, responsible for managing the liquidity is the Asset and Liability Committee (ALCO). The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to the total amount of deposits from customers.

	31-Dec-2011	31-Dec-2010
Liquidity ratio	18.74%	16.85%

To analyze the liquidity, the Bank prepares a maturity table for assets and liabilities, in which the cash flows of different assets and liabilities are distributed in different time bands, according to their payment date.

The following table presents the financial liabilities of DSK Bank distributed by their remaining term to maturity into relevant maturity zones based on undiscounted cash outflows.

Residual contractual maturities of financial liabilities as of 31 December 2011

In thousands of BGN	Carrying amount	Gross nominal flow	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years
Liabilities							
Deposits from banks	**10 596**	**10 596**	9 716	-	880	-	-
Loans from banks	**33 742**	**36 051**	4	-	2 180	23 477	10 390
Subordinated debt	**686 923**	**747 471**	3 098	-	400 294	344 079	-
Deposits from other customers	**6 441 466**	**6 514 561**	3 944 354	896 576	1 561 391	112 240	-
Current tax liabilities	**494**	**494**	494	-	-	-	-
Deferred tax liabilities	**8 621**	**8 621**	-	-	-	8 621	-
Provisions for contingent and future liabilities	**6 630**	**6 630**	-	600	3 479	2 551	-
Other liabilities	**48 306**	**48 306**	39 277	-	9 029	-	-
Total liabilities	**7 236 778**	**7 372 730**	**3 996 943**	**897 176**	**1 977 253**	**490 968**	**10 390**
Unused loan commitments	-	439 215	439 215	-	-	-	-
Total liabilities and commitments	**7 236 778**	**7 811 945**	**4 436 158**	**897 176**	**1 977 253**	**490 968**	**10 390**

Residual contractual maturities of financial liabilities as of 31 December 2010

In thousands of BGN	Carrying amount	Gross nominal flow	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years
Liabilities							
Deposits from banks	**224 460**	**224 460**	223 577	-	883	-	-
Loans from banks	**38 791**	**40 995**	-	115	2 061	22 240	16 579
Subordinated debt	**686 586**	**767 156**	2 582	-	18 072	442 800	303 702
Deposits from other customers	**5 994 022**	**6 049 874**	3 640 618	845 498	1 545 998	17 760	-
Current tax liabilities	**778**	**778**	778	-	-	-	-
Deferred tax liabilities	**9 107**	**9 107**	-	-	-	9 107	-
Provisions for contingent and future liabilities	**8 410**	**8 410**	-	600	5 473	2 337	-
Other liabilities	**58 650**	**58 650**	49 826	-	8 824	-	-
Total liabilities	**7 020 804**	**7 159 430**	**3 917 381**	**846 213**	**1 581 311**	**494 244**	**320 281**
Unused loan commitments	-	393 739	393 739	-	-	-	-
Total liabilities and commitments	**7 020 804**	**7 553 169**	**4 311 120**	**846 213**	**1 581 311**	**494 244**	**320 281**

In addition to monitoring the liquidity position, the Bank also analyzes the stability of the funds attracted from various sources in order to define the effective cash outflows. The analysis is prepared on a regular basis and the information about the changes of depositors' behaviour is reported to the management of the Bank. The analyses show that funds attracted from individuals demonstrate high level of roll-overs.

In order to provide for its liquidity imbalance DSK Bank maintains a portfolio of liquid assets. The liquidity ratio between liquid assets and total liabilities is managed at reasonable levels.

Responsible liquidity management requires avoiding concentration of attracted funds from large depositors. Analysis of attracted funds is made periodically and diversification in the general portfolio of liabilities is observed.

(b) Market risk

All trading instruments are subject to market risk, as a result of future changes in market conditions, which may decrease the market value of the instruments. The instruments are valued at fair value, and all changes in market conditions directly affect the net trading income.

DSK Bank manages its use of trading instruments in response to the changing market conditions. Exposure to market risk is managed in accordance with risk limits set by senior management.

(1) Interest rate risk

DSK Bank's activities are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or undergo changes in their interest rates at different times and to a different degree. In cases of assets and liabilities with floating interest rates, DSK Bank is exposed to a risk of adverse changes in the basis interest rates (Libor, Euribor, Sofibor), which serve to determine the final interest rates of the customers and the relations with other banks. Risk management activities are aimed at optimizing net interest income and reaching market interest rate levels consistent with DSK Bank's business strategy.

Interest rate risk management activities are conducted in the context of DSK Bank's sensitivity to interest rate changes. The actual effect will depend on a number of factors, including the degree to which repayments are made earlier or later than the contracted dates as well as variations in the interest rate, caused by the sensitivity to different periods and currencies.

DSK Bank analyzes the interest risk, by classifying its financial assets and liabilities in time areas according to their sensitivity to the changes of interest rates in different currencies.

Interest sensitivity table as of 31 December 2011

In thousands of BGN	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 2 years	Over 2 years	Non-interest-bearing	Total
Cash and current accounts with domestic and foreign banks	**7 349**	**-**	**-**	**-**	**-**	**240 848**	**248 197**
Fixed rate	7	-	-	-	-	-	7
Variable rate	7 342	-	-	-	-	-	7 342
Non-interest bearing	-	-	-	-	-	240 848	240 848
Financial assets held for trading	**6 328**	**-**	**5 915**	**-**	**32 010**	**1 955**	**46 208**
Fixed rate	501	-	5 915	-	32 010	-	38 426
Variable rate	5 827	-	-	-	-	-	5 827
Non-interest bearing	-	-	-	-	-	1 955	1 955
Loans and advances to banks and balances with the Central Bank	**560 848**	**-**	**-**	**-**	**-**	**490 707**	**1 051 555**
Fixed rate	560 848	-	-	-	-	-	560 848
Variable rate	-	-	-	-	-	-	-
Non-interest bearing	-	-	-	-	-	490 707	490 707
Loans and advances to other customers	**6 126 480**	**8 302**	**69 450**	**39 078**	**249 756**	**204 404**	**6 697 470**
Fixed rate	43 886	8 302	69 450	39 078	249 756	-	410 472
Variable rate	6 082 594	-	-	-	-	-	6 082 594
Non-interest bearing	-	-	-	-	-	204 404	204 404
Investment securities	**15 950**	**5 012**	**11 521**	**4 116**	**105 608**	**29 518**	**171 725**
Fixed rate	1 933	-	11 191	4 116	105 608	-	122 848
Variable rate	14 017	5 012	330	-	-	-	19 359
Non-interest bearing	-	-	-	-	-	29 518	29 518
Total assets	**6 716 955**	**13 314**	**86 886**	**43 194**	**387 374**	**967 432**	**8 215 155**
Fixed rate	607 175	8 302	86 556	43 194	387 374	-	1 132 601
Variable rate	6 109 780	5 012	330	-	-	-	6 115 122
Non-interest bearing	-	-	-	-	-	967 432	967 432
Deposits from banks	**2 589**	**-**	**880**	**-**	**-**	**7 127**	**10 596**
Fixed rate	2 543	-	880	-	-	-	3 423
Variable rate	46	-	-	-	-	-	46
Non-interest bearing	-	-	-	-	-	7 127	7 127
Loans from banks	**21 960**	**-**	**11 782**	**-**	**-**	**-**	**33 742**
Fixed rate	20 000	-	-	-	-	-	20 000
Variable rate	1 960	-	11 782	-	-	-	13 742
Non-interest bearing	-	-	-	-	-	-	-
Subordinated debt	**295 495**	**-**	**391 428**	**-**	**-**	**-**	**686 923**
Fixed rate	-	-	-	-	-	-	-
Variable rate	295 495	-	391 428	-	-	-	686 923
Non-interest bearing	-	-	-	-	-	-	-
Deposits from other customers	**3 937 641**	**890 498**	**1 524 244**	**24 353**	**59 127**	**5 603**	**6 441 466**
Fixed rate	810 291	366 986	1 845	-	-	-	1 179 122
Variable rate	3 127 350	523 512	1 522 399	24 353	59 127	-	5 256 741
Non-interest bearing	-	-	-	-	-	5 603	5 603
Total liabilities	**4 257 685**	**890 498**	**1 928 334**	**24 353**	**59 127**	**12 730**	**7 172 727**
Fixed rate	832 834	366 986	2 725	-	-	-	1 202 545
Variable rate	3 424 851	523 512	1 925 609	24 353	59 127	-	5 957 452
Non-interest bearing	-	-	-	-	-	12 730	12 730

Interest sensitivity table as of 31 December 2010

In thousands of BGN	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 2 years	Over 2 years	Non-interest-bearing	Total
Cash and current accounts with domestic and foreign banks	**23 930**	**-**	**-**	**-**	**-**	**250 789**	**274 719**
Fixed Rate	6	-	-	-	-	-	6
Variable Rate	23 924	-	-	-	-	-	23 924
Non-interest- Bearing	-	-	-	-	-	250 789	250 789
Financial assets held for trading	**7 775**	**-**	**977**	**6 252**	**65 448**	**228**	**80 680**
Fixed Rate	465	-	977	6 252	65 448	-	73 142
Variable Rate	7 310	-	-	-	-	-	7 310
Non-interest- Bearing	-	-	-	-	-	228	228
Loans and advances to banks and balances with the Central Bank	**313 023**	**-**	**-**	**-**	**-**	**479 912**	**792 935**
Fixed Rate	313 023	-	-	-	-	-	313 023
Variable Rate	-	-	-	-	-	-	-
Non-interest- Bearing	-	-	-	-	-	479 912	479 912
Loans and advances to other customers	**6 393 043**	**5 564**	**47 697**	**28 564**	**285 318**	**108 669**	**6 868 855**
Fixed Rate	29 796	5 564	47 697	28 564	285 318	-	396 939
Variable rate	6 363 247	-	-	-	-	-	6 363 247
Non-interest-bearing	-	-	-	-	-	108 669	108 669
Investment securities	**30 627**	**11 885**	**7 862**	**32 415**	**112 929**	**29 995**	**225 713**
Fixed Rate	13 707	6 853	7 491	32 415	112 929	-	173 395
Variable Rate	16 920	5 032	371	-	-	-	22 323
Non-interest-bearing	-	-	-	-	-	29 995	29 995
Total assets	**6 768 398**	**17 449**	**56 536**	**67 231**	**463 695**	**869 593**	**8 242 902**
Fixed Rate	356 997	12 417	56 165	67 231	463 695	-	956 505
Variable Rate	6 411 401	5 032	371	-	-	-	6 416 804
Non-interest-bearing	-	-	-	-	-	869 593	869 593
Deposits from banks	**216 655**	**-**	**883**	**-**	**-**	**6 922**	**224 460**
Fixed Rate	216 530	-	883	-	-	-	217 413
Variable Rate	125	-	-	-	-	-	125
Non-interest-bearing	-	-	-	-	-	6 922	6 922
Loans from banks	**20 000**	**5 063**	**13 728**	**-**	**-**	**-**	**38 791**
Fixed Rate	20 000	5 063	-	-	-	-	25 063
Variable Rate	-	-	13 728	-	-	-	13 728
Non-interest-bearing	-	-	-	-	-	-	-
Subordinated debt	**295 205**	**-**	**391 381**	**-**	**-**	**-**	**686 586**
Fixed Rate	-	-	-	-	-	-	-
Variable Rate	295 205	-	391 381	-	-	-	686 586
Non-interest-bearing	-	-	-	-	-	-	-
Deposits from other customers	**5 860 570**	**78 172**	**55 072**	**-**	**208**	**-**	**5 994 022**
Fixed Rate	141 509	78 172	55 072	-	208	-	274 961
Variable Rate	5 719 061	-	-	-	-	-	5 719 061
Non-interest-bearing	-	-	-	-	-	-	-
Total liabilities	**6 392 430**	**83 235**	**461 064**	**-**	**208**	**6 922**	**6 943 859**
Fixed Rate	378 039	83 235	55 955	-	208	-	517 437
Variable Rate	6 014 391	-	405 109	-	-	-	6 419 500
Non-interest-bearing	-	-	-	-	-	6 922	6 922

Financial assets and liabilities in the table above are grouped by the earlier of the next contractual re-pricing date or maturity date.

(2) *Exchange rate risk*

DSK Bank is exposed to exchange rate risk when conducting transactions with financial instruments denominated in foreign currencies.

As a result of the implementation of Currency Board in Bulgaria, the Bulgarian currency rate to the Euro is fixed at 1.95583. The national reporting currency is the Bulgarian lev therefore DSK Bank's financial results are affected by volatilities in the exchange rates between the Bulgarian lev and currencies outside the Euro-zone.

The risk management policy is aimed at limiting the possible losses from negative volatilities of foreign currencies rates different from Euro. DSK Bank sets limits on maximum open positions, stop-loss and VaR (Value at Risk) to manage the Bank's exchange rate risk. Bank's strategy is to minimize the influence arising from the changes of exchange rates on financial results. The net open currency positions are reported to management on a daily basis. The limits for restricting the exchange rate risk are periodically renewed based on analysis of market information and the inner needs of the Bank.

The Bank applies VaR methodology to measure the exchange rate risk. Basic characteristics of this model are: parametric, 99 % level of confidence and 1 day holding period. To work out the correlation matrix the Bank uses historical observations of currency rates movement for 251 working days. To weight the observations, is used the so called model "Risk Metrics for weighting the observations", according to which the last changes receive bigger weight.

The statistics of the model for 2011 and 2010 are as follows:

In thousands of BGN	**2011**	**2010**
At 31 December	9	28
Average for the period	8	19
Maximum for the period	31	56
Minimum for the period	1	6

VaR model has some limitations such as the possibility of losses with greater frequency and with bigger amount, than the expected. For this purpose the quality of the VAR model is continuously monitored through back-testing the VAR results. To value the currency risk in extreme conditions, stress test is used, based on potential changes of the currency rates. The results from the back test during 2011 and 2010 are in acceptable frames.

For monetary assets and liabilities denominated in foreign currencies that are not hedged, DSK Bank maintains reasonable net exposure by buying and selling foreign currencies at spot rates when considered appropriate.

(3) *Equity Price Risk*

To regulate trading with shares DSK Bank developed special rules for managing the risk caused by investing in shares. Limits for positions, restricting the losses and VaR are applied. The limits are prepared, based on analysis of liquidity and the level of market risk of the companies listed on Bulgarian Stock Exchange.

The assessment of effectiveness from investments is prepared, based on a special benchmark, made for the Bank's needs, including the portfolio of the possible investments.

The statistics of VaR of the portfolio of shares is as follows:

In thousands of BGN	2011	2010
At 31 December	-	6
Average for the period	9	10
Maximum for the period	12	18
Minimum for the period	1	6

The used model is parametric with 99 % level of confidence and 1 day holding period. The model is back tested periodically. Additional analysis is made for the possible expenses for liquidation of particular positions and parts of the portfolio.

In 2011 DSK Bank restrained from active trading, and making significant portfolio of equity investments.

(c) Credit risk

(1) Credit risk management processes and strategies

DSK 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 DSK Bank's counterparty and clients risk management procedures.

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, DSK Bank deals with counterparties with credit rating, which is acceptable to the Bank. A system of counterparty limits has been created and is applied.

DSK Bank's primary exposure to credit risk arises from its loans and advances to customers. The amount of credit exposure in this regard is represented by the carrying amounts of the assets in the statement of financial position. In addition, DSK Bank is exposed to off balance sheet credit risk through commitments to extend credit and guarantees and letters of credit issued. The Bank applies a system for determining client's limits with the aim to reduce the risk. Every risk taking is approved from executive officer or collective body which has the competence to approve the collective exposure toward the client or the client's group. The risk taken depends on the client rating or the assessment of the specific deal using basically statistical models. When statistical models are not applicable expert models for assessment are used too.

Loans and advances - not impaired

In thousands of BGN	31-Dec-2011		31-Dec-2010	
	to customers	**to banks**	**to customers**	**to banks**
Past due 0 days	2 717 492	1 051 555	2 811 394	792 935
Past due up to 30 days	422 852	-	501 632	-
Past due 31-60 days	146 875	-	143 644	-
Past due 61-90 days	83 032	-	87 882	-
Past due over 90 days	91 325	-	85 477	-
Total	**3 461 576**	**1 051 555**	**3 630 029**	**792 935**

Loans and advances – impaired

In thousands of BGN	31-Dec-2011		31-Dec-2010	
	Gross value	**Net value**	**Gross value**	**Net value**
Past due 0 days	2 501 669	2 412 899	2 543 927	2 459 423
Past due up to 30 days	373 117	342 689	409 452	383 060
Past due 31-60 days	161 401	138 189	173 392	155 850
Past due 61-90 days	40 982	31 926	45 448	37 804
Past due over 90 days	1 144 121	310 191	741 394	202 689
Total	**4 221 290**	**3 235 894**	**3 913 613**	**3 238 826**
incl. individually impaired due to:				
Past due	1 329 723	506 165	1 101 762	511 468
Financial weakness	151 334	66 633	18 033	8 809
	1 481 057	**572 798**	**1 119 795**	**520 277**

The policy of DSK Bank is to require that prior to drawdown customers ensure compliance with the conditions precedent and provide collateral/ support. Letters of Credit and Letters of Guarantee are also subject to preliminary analysis. The risk assumption contracts specify the parameters of the individual deals (such as amount, tenor, conditions precedent, price, etc.). The collateral coverage for LGs and LCs usually comes to at least 100% of the amount of principal and a year interest and the higher risk requires a higher level of collateral coverage and/or requirement for granting more liquid collaterals.

Collateral held against loans and advances not impaired

In thousands of BGN	**31-Dec-2011**	**31-Dec-2010**
Loans and advances not past due		
Mortgage	2 440 804	2 544 126
Cash collateral	14 886	17 985
Securities	21	45
Other types of collateral	147 351	130 700
	2 603 062	**2 692 856**
Loans and advances past due		
Mortgage	699 925	773 780
Cash collateral	501	390
Other types of collateral	12 234	11 603
	712 660	**785 773**
Total	**3 315 722**	**3 478 629**

Collateral held against impaired loans and advances

In thousands of BGN	**31-Dec-2011**	**31-Dec-2010**
Mortgage	844 285	589 461
Cash collateral	135	111
Other types of collateral	3 174 376	3 181 019
Total	**4 018 796**	**3 770 591**

Loans and advances to customers by type of collateral

In thousands of BGN	31-Dec-2011	31-Dec-2010
Secured by mortgages	3 985 014	3 907 367
Cash collateral	15 522	18 486
Other types of collateral *	3 333 982	3 323 367
Without collateral	348 348	294 422
Total	**7 682 866**	**7 543 642**

* Other types of collateral comprise securities, tangible collateral, guaranties from credit institutions pledge over receivable and personal guarantees for consumer loans.

DSK Bank provides credits after credibility analysis of the client. It is the Bank's policy that risk assumption is preceded by careful analysis of the inherent risks. The goal is to assume risks to clients, who are expected to be able to generate the necessary cash flows for servicing the debt throughout the lifetime of the risk assumption. The collateral is considered to be a second option, while the main factor is related to the customer's ability to repay the exposure. In cases when the Bank accepts physical or financial collateral it strives to ensure that the liquidation value of the collateral covers at least 100 % of the principal and all other payables related to it for a period of one year. In cases when the Bank accepts personal guarantees/support, the ability of such persons to service the debt, has to be analyzed.

For existing exposures the risks that a default event may occur are subject to ongoing monitoring. If real or potential problems are identified the Bank prepares an action plan and takes measures to handle any possible undesirable consequences.

DSK Bank applies improved internal systems and methodologies, which would allow it to concentrate on deals and customers, which/who are expected to generate profit during the lifetime of the exposure. An important part of the assessment of the expected profit is played by the calculations of the probability of default (PD) and consequent expected losses (EL).

Quality of the loans and advances neither past due nor impaired

In thousands of BGN	31-Dec-2011	31-Dec-2010
PD category boundaries		
$PD \leq 0.01$	858 513	754 131
$0.01 < PD \leq 0.05$	1 046 608	1 064 640
$0.05 < PD \leq 0.10$	245 112	267 305
$0.10 < PD \leq 0.20$	184 040	220 903
$0.20 < PD \leq 0.30$	71 767	113 237
$0.30 < PD \leq 0.50$	39 917	108 295
$0.50 < PD$	34 780	59 502
not rated	236 755	223 381
Total	**2 717 492**	**2 811 394**

DSK Bank diversifies the undertaken credit risks through the application of sector risk limits. The sector risk limits system is based on a methodology, which takes into account the historical data related to the development of the respective industries. Despite this the methodology for determining of sector limits provides top limit of the maximum share of the total business portfolio which could be allowed as risk in certain industry sector. This limits the concentration risk. Reaching the maximum share leads to decrease of credits in certain industry sector.

Loans and advances to customers by industry sector

	Loans and advances to customers		Loans and advances to banks		Investments	
In thousands of BGN	31-Dec-2011	31-Dec-2010	31-Dec-2011	31-Dec-2010	31-Dec-2011	31-Dec-2010
Sovereign	-	-	-	-	177 344	252 684
International banks for development	-	-	-	-	8 089	14 929
Banks, incl. the Central Bank	-	-	1 051 555	792 935	7 046	6 435
Manufacturing	542 390	471 230	-	-	-	-
Construction	230 880	233 181	-	-	-	-
Agriculture and forestry	94 307	75 630	-	-	-	-
Transport and communications	81 263	79 289	-	-	-	-
Trade and services	440 589	474 660	-	-	-	-
Hotels and catering	163 578	161 447	-	-	-	-
Financial and insurance activities	49 771	86 448	-	-	-	-
Real estate activities	495 524	406 134	-	-	-	-
Other industry sectors	60 457	58 629	-	-	1 087	7 491
Individuals	5 524 107	5 496 994	-	-	-	3
Equity investments	-	-	-	-	29 518	31 788
Total	**7 682 866**	**7 543 642**	**1 051 555**	**792 935**	**223 084**	**313 330**
Impairment for uncollectability	(985 396)	(674 787)	-	-	(5 151)	(6 937)
Total	**6 697 470**	**6 868 855**	**1 051 555**	**792 935**	**217 933**	**306 393**
Geographical analysis						
Europe	6 694 893	6 866 292	1 050 736	791 750	217 802	306 265
Asia	2 187	2 498	-	-	-	-
North America	365	65	819	1 185	131	128
Africa	25	-	-	-	-	-
Total	**6 697 470**	**6 868 855**	**1 051 555**	**792 935**	**217 933**	**306 393**

The Bank holds trading assets including derivative assets with the aim to manage the risk. In the table below is represented the credit quality of the maximum credit exposure, on the basis of the ratings issued from Standard&Poor's:

In thousands of BGN	31-Dec-2011	31-Dec-2010
Government bonds and treasury bills		
Rated BBB or BBB+	44 253	80 452
Fair value of derivatives		
Credit institutions	868	225
Other counterparties	1 087	3
Total	**46 208**	**80 680**

In the tables below are represented the trading portfolio assets and investments of the Bank according to their maturity and country of registration of the issuer.

Maturity analysis of investments according to country of the issuer as of 31 December 2011

In thousands of BGN	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Without maturity	Total
Financial assets held for trading							
Government securities							
Bulgaria	678	326	5 871	19 416	17 962	-	44 253
Corporate derivative instruments							
Bulgaria	225	370	492	-	-	-	1 087
Hungary	48	603	217	-	-	-	868
Total	**951**	**1 299**	**6 580**	**19 416**	**17 962**	-	**46 208**
Investments							
Investments available for sale							
Government securities							
Bulgaria	1 214	695	2 940	54 213	49 835	-	108 897
Variable incom corporate equity investments							
Bulgaria	-	-	-	-	-	29 339	29 339
USA	-	-	-	-	-	131	131
Belgium	-	-	-	-	-	48	48
Corporate debt securities							
Bulgaria	-	-	4	1 023	-	-	1 027
European Investment Bank	-	3	1 044	7 042	-	-	8 089
Total	**1 214**	**698**	**3 988**	**62 278**	**49 835**	**29 518**	**147 531**
Investments held to maturity							
Government securities							
Bulgaria	1 938	170	7 222	6 618	8 246	-	24 194
Total	**1 938**	**170**	**7 222**	**6 618**	**8 246**	-	**24 194**
Total assets	**4 103**	**2 167**	**17 790**	**88 312**	**76 043**	**29 518**	**217 933**

Maturity analysis of investments according to country of the issuer as of 31 December 2010

In thousands of BGN	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Without maturity	Total
Financial assets held for trading							
Government securities							
Bulgaria	1 329	516	1 003	11 591	66 013	-	80 452
Corporate derivative instruments							
Bulgaria	-	3	-	-	-	-	3
Hungary	15	210	-	-	-	-	225
Total	**1 344**	**729**	**1 003**	**11 591**	**66 013**	-	**80 680**
Investments							
Investments available for sale							
Government securities							
Bulgaria	10 088	298	58	92 352	37 820	-	140 616
Variable incom corporate equity investments							
Bulgaria	-	-	-	-	-	29 818	29 818
USA	-	-	-	-	-	128	128
Belgium	-	-	-	-	-	48	48
Corporate debt securities							
Bulgaria	-	-	7 495	1 063	-	-	8 558
European Investment Bank	-	6 856	23	8 050	-	-	14 929
Total	**10 088**	**7 154**	**7 576**	**101 465**	**37 820**	**29 994**	**194 097**
Investments held to maturity							
Government securities							
Bulgaria	7 324	170	79	15 569	8 474	-	31 616
Total	**7 324**	**170**	**79**	**15 569**	**8 474**	-	**31 616**
Total assets	**18 756**	**8 053**	**8 658**	**128 625**	**112 307**	**29 994**	**306 393**

(2) *Structure and functions of the Credit Risk Management Unit*

The credit risk management of DSK Bank EAD is the responsibility of a unit which is independent from the business units and is managed by an Executive Director. The various credit risk management functions are distributed among the following sub-units:

- "Corporate Credit Approval" Directorate (having functions related to approval of exposures to corporate clients);
- "Analysis and Approval" Directorate (having functions related to management of the process of centralized approval of all types of retail loans and approval of valuation and revaluation of residential real estate);
- "Credit Policy and Portfolio Management" Directorate (having functions related to the development and validation of models for credit risk assessment, credit portfolio analysis, methodologies development, credit portfolio reporting);
- "Problem Loans" Department (having functions related to organization and coordination of problem receivables management);
- "Credit Monitoring" Department (having functions related to implementation of current monitoring of business clients) and
- "Control and Administration of Credit Deals to Business Clients" Department (having functions related to implementation of credit utilization control of business clients)

(3) *Nature and scope of the systems for risk assessment – models for credit risk assessment*

When determining the credit risk of a deal, DSK Bank EAD uses statistical and/or expert models to assess the credibility of the client, thus providing a common standard for credit risk assessment. Based on the result from the application of such models, the client or the deal is classified in a certain risk pool.

The credit risk assessment models are developed taking into account the specifics of each customer segment, based mainly on the application of statistical approaches. For client segments, where historical data and/or volumes are insufficient, the Bank uses expert models for credit risk assessment. The responsibility for the modelling is with the Credit and Operational Risk Management Division, which is independent from the business divisions.

Currently the models developed and used in the risk management process of DSK Bank are three major types:

- Application PD models

The purpose of application PD models is to provide a reliable tool (quantitative measurement) for prediction of the future debt service by customers applying for credit. The Application PD model uses client data, which is available at the point of loan application, such as demographic data, working experience, banking history for individuals or financial data for companies. It is required that all the parameters are subject to collection, when the customer applies for a credit.

Calculated PD value represents the probability of default as a percentage from 0 % to 100 % during the 12 month period following the approval.

The application PD models are used for the assessment of the following client segments:

- Individuals, requesting mass products in the retail banking – mortgage backed loans, revolving loans, consumer loans, POS loans

- Retail business clients (standard SMEs)
- Corporate clients - non-standard SMEs and corporate customers

- Behaviour PD models

The purpose of the behaviour PD model is to provide a reliable tool (quantitative measurement) for prediction of the future debt servicing based on the client's behaviour, when using the products of the Bank and servicing its debt obligations.

Based on the calculated PD result, which represents the probability of default during the 12 month-period following the calculation, the credits are distributed into pre-defined pools. The probability is expressed as a percentage from 0% to 100%.

The behaviour models have to be used as an analytical tool helping to assess the PD at a portfolio level. It can also be used to identify early warning signals.

The Bank has developed behaviour models for the individuals using mass products in the retail banking – mortgage loans, revolving loans, consumer loans and POS loans. The Bank enforces these types of models for managing of the loan portfolio.

- Collection score card

The purpose of the collection score card model is to distinguish between loans, for which the probability to improve without strong interference from the Bank, is high and the loans where such probability is low and the Bank should interfere. DSK Bank applies two collection score card models. One of them is used to determine priority in the management of problem loans, which are overdue up to 30 days. The other one supports the management process for loans overdue by more than 30 days.

The expert models for assessment of customers applying for credits are based on the experts' expectations regarding the reasonable parameters to be used, their weights and cut-off levels. Finally a matrix is determined, which provides the basis for pooling the customers into risk groups. The Bank uses expert models, when it is impossible to develop a statistical model due to insufficient transactions and/or defaults as well as when brand new products are created or a new segment becomes a target.

DSK Bank has an expert model for the municipalities segment, the public sector entities segment and the specialized lending segment. Specialized lending segment model is developed from OTP Bank and approved for all of its subsidiaries.

The credit risk assessment models are subject to periodical review and are updated on an ongoing basis.

(d) Operational risk

Operational risk is the risk of direct or indirect losses, resulting from inadequate or failed internal processes, people and systems errors. Operational risk could be risk of operations, risk of information systems, external and internal law system risk, human resources risk.

Operational risk management of DSK Bank EAD is the responsibility of a unit which is independent from the business units and is managed by an Executive Director.

DSK Bank has a special system to manage operational risk, by gathering data for the operational events. The management of the Bank receives periodically information about the level of operational risk. The methodology for potential risk identification is based on decentralised assessment of different units which use the methodological support of Management of Operational Risk Department. The developed rules and systems are with accordance with the recommendations of Basel Committee and BNB.

Operational risk management includes activities such as identifying and registering the bearers of this risk, assessing their size and determining the capital needed to cover the risk of eventual loss. Currently DSK Bank risk exposure to operational risk is monitored both by type of the risk events and by different products.

DSK Bank has Business Continuity Plan for reaction in the event of unexpected circumstances, which purpose is to guarantee the recovery for the most important business processes to the preliminary defined level based on the Bank needs.

During the year there are no registered events, which could threaten the Bank activity.

(e) Capital Management

Bulgarian National Bank as the local regulatory authority sets out the general requirements regarding the amount, elements and structure of the total own funds for solvency purposes and of the minimum capital requirements to cover the risks taken by the Bank.

(1) Regulatory capital

The statutory capital is formed as a total of tier I (primary) and tier II (Additional) less specific discounts.

Tier I (Primary) capital: paid-up share capital and reserves accumulated from profits after taxation. The book value of intangible assets and unrealised losses arising from the fair valuation of financial instruments held as available for sale are deducted.

Tier II (Additional): capital: revaluation reserves from premises used for banking activity and qualifying subordinated term debt capital and hybrid debt capital instruments.

OTP Financing Netherlands B.V. granted two loan facilities in the form of subordinated term debt. The loan granted on 19 December 2007 amounts to 200 million euros and the loan granted on 20 October 2008 amounts to 150 million euros. To become part of Tier II capital the subordinated term debt should meet regulatory requirements and have to be confirmed by receiving permission from the Central Bank. Each year in the last 5 years to maturity the amount of term debt recognised in Tier II capital is reduced by 20 percent. The total amount of Additional capital should not exceed 50 percent of Tier I capital. As of 31 December 2011 the total amount of subordinated term debt recognized as an element of Tier II capital is BGN 234 700 thousand.

Deductions from regulatory capital are: holdings in other credit and financial institutions, which are not consolidated and are amounting to more than 10% of their capital, participations held in insurance undertakings, reinsurance undertakings and insurance holding companies amounting to more than 20 % of their capital and country-specific deductions: holdings in non-financial institutions, which are not consolidated and are amounting to more than 10 % of their capital; specific provisions. The deductions are made 50 % from Tier I and 50 % from Tier II capital.

In 2011 the Bank has accrued specific provisions for credit risk on the amount of 49 927 thousands BGN according to Ordinance 9 of BNB on the evaluation and classification of risk exposures of banks and the allocation of specific provisions for credit risk.

The Bank calculates the total capital adequacy (the 'Basel ratio') as a ratio between total own funds for solvency purposes and the total of the risk-weighted assets for credit, market and operational risks. Tier I capital adequacy is the ratio between the Tier I capital and the risk-weighted assets and should be higher than 6%. The total capital adequacy ratio should be higher than 12%.

(2) Capital ratios

Total own funds for solvency purposes

In thousands of BGN	31-Dec-2011	31-Dec-2010
Original own funds	**1 103 896**	**1 104 711**
Paid up capital	153 984	153 984
Reserves	960 214	960 214
Valuation differences in AFS debt securities	(2 745)	(1 016)
Funds for general banking risks	21 994	21 994
Intangible assets	(29 551)	(30 465)
Additional own funds	**306 316**	**443 098**
Revaluation reserves from premises used for banking activity	71 616	71 490
Subordinated Debt - maximum 50 % of Original own funds	234 700	371 608
Deductions from original and additional own funds	**(72 982)**	**(22 991)**
Holdings in other credit and financial institutions amounting to more than 10% of their capital	(11 955)	(11 891)
Country-specific deductions from original and additional own funds	(11 100)	(11 100)
Specific provisions	(49 927)	-
Equal distribution of deductions		
Of which: from original own funds	(36 491)	(11 495)
Of which: from additional own funds	(36 491)	(11 496)
Total original own funds for general solvency purposes	**1 067 405**	**1 093 216**
Total additional own funds for general solvency purposes	**269 825**	**431 602**
Total own funds for solvency purposes	**1 337 230**	**1 524 818**

Capital ratios

	31-Dec-2011	31-Dec-2010
Solvency ratio (%)	20.62%	23.70%
Original own funds ratio (%)	16.46%	16.99%

The Management board of DSK Bank allocates the capital amongst various banking activities by maintaining a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. The Bank Asset and Liabilities Committee reviews the level and trend of credit, market and operational risks and their effects on capital levels on a regular basis. Together with OTP Bank Hungary the Bank's risk profile is assessed in order to determine whether the Bank holds sufficient capital against the various risks and to assess future capital requirement. Capital needs are taken into account in the strategic plan on group level.

(f) Use of estimates and judgements

Management discusses with the Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial risk management.

The Bank operates in the dynamic environment of a global financial and economic crisis which at the end of 2008 and the whole 2009 is affecting adversely the Bulgarian market. Such environment has an impact on the results and the risk position of the Bank during the last years too. The measures taken by the management on the eve of these events lead to very good results as the Bank managed to maintain its stability and positive development. Considering the short-term expectations for a still unstable economic environment, the main priorities for the current and the following years will remain the maintenance of stable liquid and capital position of the Bank as well as flexible and adequate behaviour towards market potential and changing customer demands. Constant improvement of evaluation methods, control and quality management of the loan portfolio remains a process that is necessarily following the major guidelines of the Bank's development.

Key sources of estimation uncertainty

(1) Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy.

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about the counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances and held-to-maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances and held-to-maturity investment securities, but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

(2) Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in the accounting policy. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See also "Valuation of financial instruments" below.

Critical accounting judgements in applying the Bank's accounting policies

Critical accounting judgements made in applying the Bank's accounting policies include:

(1) Valuation of financial instruments

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument;
- Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data;
- Level 3: Valuation techniques using significant unobservable inputs. In addition in this level are included investments in subsidiaries, associates and other equity shares stated at cost, that does hot have reliable market value.

The fair values of financial assets and financial liabilities which are traded on active markets and for which market information is available are based on quoted market prices or closing prices. The use of real market prices and information reduces the necessity for management assessment and assumptions as well as the uncertainty related to the determination of the fair value. The availability of real market prices and information varies depending on the products and markets and changes based on the specific events and the general financial markets environment. For part of the other financial instruments the Bank defines fair value using a measurement method based on net present value (NPV). The calculation of the NPV is based on market yield curves and credit spreads where it is required for the corresponding instrument. The aim of the measurement methods is to define the fair value which reflects the value of the financial instrument as of the reporting date, which would have been defined by direct market players. For equity shares with no observable market prices the Bank accepts that the fair value is the purchase value.

The Bank has an established control environment with regard to the fair value measurement. The fair value of the financial instruments is determined independently from the front office by a unit for control of the market risk and the counterparty risk, reporting directly to the CFO. The specific controls consist of: control of the real price information and performing second measurement using different methods; process of revision and approving of new methods and changes in methods including measurement and back-testing of methods based on real market deals; analysis and research of significant daily dynamics as a result of assessments; revision of significant inside data which is not observed on the market.

The table below analyses financial instruments carried at fair value, by valuation method.

In thousands of BGN	Level 1: Quoted market prices in active markets	Level 2: Valuation techniques - observable inputs	Level 3: Valuation techniques - unobservable inputs	Total
31-Dec-2011				
Financial assets held for trading	38 426	7 782	-	46 208
incl. derivatives	-	1 955	-	1 955
Investments available for sale	105 406	12 998	29 127	147 531
Total	**143 832**	**20 780**	**29 127**	**193 739**
31-Dec-2010				
Financial assets held for trading	80 452	228	-	80 680
incl. derivatives	-	228	-	228
Investments available for sale	156 480	8 557	29 060	194 097
Total	**236 932**	**8 785**	**29 060**	**274 777**

The following table represents financial assets and liabilities of the Bank at their fair value. The fair value of the investments held to maturity is determined on the basis of their market value as of the statement date.

The management of the Bank considers that the fair value of the other financial instruments is approximately equal to their fair value.

Fair value of financial instruments

In thousands of BGN	31-Dec-2011 Carrying amount	31-Dec-2011 Fair value	31-Dec-2010 Carrying amount	31-Dec-2010 Fair value
Assets				
Cash and current accounts with domestic and foreign banks	248 197	248 197	274 719	274 719
Financial assets held for trading	46 208	46 208	80 680	80 680
Loans and advances to banks and balances with the Central Bank	1 051 555	1 051 555	792 935	792 935
Loans and advances to other customers	6 697 470	6 697 470	6 868 855	6 868 855
Investment securities	171 725	172 470	225 713	226 013
Total	**8 215 155**	**8 215 900**	**8 242 902**	**8 243 202**
Liabilities				
Deposits from banks	10 596	10 596	224 460	224 460
Loans from banks	33 742	33 742	38 791	38 791
Subordinated debt	686 923	686 923	686 586	686 586
Deposits from other customers	6 441 466	6 441 466	5 994 022	5 994 022
Total	**7 172 727**	**7 172 727**	**6 943 859**	**6 943 859**

(2) Financial asset and liability classification

The Bank's accounting policy provides scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances:

- In classifying financial assets or liabilities as "trading", the Bank has determined that it meets the description of trading assets and liabilities set out in accounting policy.
- In classifying financial assets as held-to-maturity, the Bank has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by accounting policy.

4. Net interest income

In thousands of BGN	2011	2010
Interest income		
Loans and advances to banks	6 283	5 366
Loans and advances to other customers	717 119	720 232
Investments available for sale	5 615	11 973
Investments held to maturity	1 063	1 343
Total	**730 080**	**738 914**
Interest expense		
Deposits from banks	(1 094)	(1 679)
Loans from banks	(1 363)	(4 045)
Subordinated debt	(22 062)	(18 357)
Deposits from other customers	(184 890)	(219 783)
Total	**(209 409)**	**(243 864)**
Net interest income	**520 671**	**495 050**

The effect from interest income on individually impaired loans and advances to customers in the income statement is BGN 32 920 thousand for 2011 and BGN 27 975 thousand for 2010.

5. Net fee and commission income

In thousands of BGN	2011	2010
Fee and commission income		
In Bulgarian Leva		
Payment and settlement transactions	31 193	30 742
Credit related deals	25 282	28 633
Deposit related deals	22 460	22 003
Other	6 784	5 618
	85 719	**86 996**
In foreign currencies		
Payment and settlement transactions	9 829	10 180
Credit related deals	13 551	12 790
Deposit related deals	1 102	1 060
Other	1 813	1 528
	26 295	**25 558**
Total	**112 014**	**112 554**
Fee and commission expense		
In Bulgarian Leva	(6 440)	(6 399)
In foreign currencies	(1 505)	(1 792)
Total	**(7 945)**	**(8 191)**
Net fee and commission income	**104 069**	**104 363**

6. Net trading income

In thousands of BGN	2011	2010
Interest rate instruments	4 714	1 409
Foreign exchange trading	6 757	6 993
Other	4	-
Net trading income	**11 475**	**8 402**

7. Net operating income

In thousands of BGN	2011	2010
Net income of available-for-sale securities		
Government bonds	3 087	(436)
Corporate bonds	166	(28)
Equities	(13)	4 171
Dividends on available-for-sale equity securities	559	16
Foreign exchange gain	1 149	175
Sale of financial assets	1 009	1 654
Other	1 654	2 549
Other operating income	**7 611**	**8 101**

8. Personnel expenses

In thousands of BGN	2011	2010
Wages and salaries	(60 762)	(58 657)
Compulsory obligations	(14 623)	(13 741)
Provisions on pension severance payments under Labour Code	(791)	(777)
Other	(1 335)	(1 351)
Administrative expenses	**(77 511)**	**(74 526)**

According to the pension insurance legislation and the Labour Code after termination of a labour contract of an employee liable to retirement the Bank is obliged to pay a severance payment equal to two gross monthly salaries. If the employee has been working continuously for the Bank for certain period the Collective Labour Contract adopts the next compensations: five years - the severance payment is two gross monthly salaries: from five to ten years - the severance payment is three gross monthly salaries: from ten to fifteen years - the severance payment is seven gross monthly salaries: more than fifteen years - the severance payment is eight gross monthly salaries.

On the basis of an actuarial valuation the Bank forms liabilities for the stated severance payments according to the Labour Code on the amount of BGN 791 thousand for 2011 and BGN 777 thousand for 2010 and includes them in the financial statements according to IAS 19. Employee benefits.

The average staff in the Bank is 3 560 for 2011 and 3543 for 2010.

9. Impairment losses

In thousands of BGN	**2011**	**2010**
Impairment loss charge of loans and advances to customers and other assets	(900 780)	(762 034)
Release of impairment loss charges of loans and advances to customers and other assets	576 829	509 043
Net impairment losses	**(323 951)**	**(252 991)**

10. Other expenses

In thousands of BGN	**2011**	**2010**
Materials, rent, audit and other services	(68 993)	(66 255)
Operating lease expenses	(988)	(1 075)
Deposits Guarantee Fund instalment	(28 803)	(26 307)
Tax expenses	(11 210)	(11 122)
Provisions for contingent liabilities	1 498	(1 662)
Other expenses	(3 001)	(2 766)
Total	**(111 497)**	**(109 187)**

The Bank accrues provisions on some of the potential contingent liabilities. The management takes into account the possibility of negative outcome for some of the litigations against the Bank.

11. Taxation

In thousands of BGN	**2011**	**2010**
Current tax expense	(10 460)	(15 176)
Deferred tax income related to origination and reversal of temporary tax differences	118	564
Income tax expense	**(10 342)**	**(14 612)**

In thousands of BGN	**2011**	**2010**
Net income before income tax	95 673	144 977
Income tax using the statutory corporate tax rate	(9 567)	(14 498)
Tax on permanent tax differences	(775)	(905)
Prior year deferred tax	-	791
Income tax expense	**(10 342)**	**(14 612)**
Effective tax rate	10.81%	10.08%

Current taxes are calculated using a tax rate of 10 % for 2011 and 2010.

12. Cash and current accounts with domestic and foreign banks

In thousands of BGN	31-Dec-2011	31-Dec-2010
Cash on hand		
In Bulgarian Leva	177 984	174 964
In foreign currencies	58 556	71 016
Current accounts with domestic and foreign banks		
In Bulgarian Leva	276	252
In foreign currencies	11 381	28 487
Total	**248 197**	**274 719**

Included in cash on hand are cash in transfer balanced and cash at ATM's.

13. Financial assets held for trading

In thousands of BGN	31-Dec-2011	31-Dec-2010
Government securities – Republic of Bulgaria denominated in Bulgarian Leva	22 154	47 054
Government securities – Republic of Bulgaria denominated in foreign currencies	22 099	33 398
Positive fair value of derivatives	1 955	228
Total	**46 208**	**80 680**

Government securities issued by the Bulgarian government comprise coupon and discount securities denominated in BGN and EUR. The BGN denominated securities earn interest between 3.45 % and 5.20 % and securities denominated in EUR earn interest between 1.53 % and 7.50 %.

14. Loans and advances to banks and balances with the Central Bank

(a) Analysis by type

In thousands of BGN	31-Dec-2011	31-Dec-2010
Deposits with domestic and foreign banks		
In Bulgarian Leva	80 004	102 406
In foreign currencies	425 964	178 899
Balances with Central Bank		
In Bulgarian Leva	488 139	476 336
In foreign currencies	2 568	3 576
Loans under repurchase agreements	54 880	31 718
Total	**1 051 555**	**792 935**

(b) Geographical analysis

In thousands of BGN	31-Dec-2011	31-Dec-2010
Domestic banks	625 591	610 326
Foreign banks	425 964	182 609
Total	**1 051 555**	**792 935**

The current account with the Central Bank is used for direct participation in the money and securities markets and for settlement purposes. Balances with the Central Bank cover a part of minimum required reserves amounting to BGN 514 380 thousand and BGN 470 272 thousand as of 31 December 2011 and 2010 respectively. Minimum reserves are non-interest bearing and are regulated on a monthly basis. Daily fluctuations are allowed. Shortages on monthly basis bear penalty interest.

The Bank purchases financial instruments under agreements to resell them at future dates ("reverse repurchase agreements") and are presented as part of loans and advances to banks. As of 31 December 2011 and 31 December 2010 the term of repurchase of open repurchase transactions is seven days.

15. Loans and advances to other customers

In thousands of BGN	**31-Dec-2011**	**31-Dec-2010**
Individuals		
In Bulgarian Leva		
Consumer loans	2 311 924	2 427 753
Mortgage loans	1 449 461	1 536 431
In foreign currencies		
Consumer loans	583 019	479 709
Mortgage loans	1 179 703	1 053 101
Companies		
In Bulgarian Leva		
Working capital loans	460 879	457 186
Investment loans	198 625	207 351
In foreign currencies		
Working capital loans	480 816	503 569
Investment loans	1 004 746	860 257
State Budget		
In Bulgarian Leva	10 353	14 657
In foreign currencies	3 340	3 628
Less impairment allowances	(985 396)	(674 787)
Total loans and advances to other customers	**6 697 470**	**6 868 855**

Impairment allowances of loans and advances to other customers

In thousands of BGN	**31-Dec-2011**	**31-Dec-2010**
Balance at 1 January	**674 787**	**446 378**
Net change for the year	324 399	251 689
Write-offs	(13 790)	(23 280)
Balance at 31 December	**985 396**	**674 787**

The interest rates on receivables from loans as at 31 December 2011 are ranged as follows: receivables from individuals from 5.00 % to 22.95 %; receivables from companies from 0.97 % to 16.40 %; receivables from State Budget from 0.92 % to 8.22 %.

In accordance with the adopted policy of DSK Bank for problem loans sale in 2011 the Bank has sold loans with gross value of BGN 22 525 thousand and accrued provision of BGN 13 481 thousand respectively.

16. Investments available for sale and held-to-maturity

In thousands of BGN	31-Dec-2011	31-Dec-2010
Investments in subsidiaries and associated companies	23 055	22 991
Other equity investments	6 463	8 797
Bulgarian debt securities available for sale	109 925	149 174
Government debt securities included	108 897	140 616
Foreign debt securities available for sale	13 239	20 072
Total investments available for sale	**152 682**	**201 034**
Impairment loss of investment available for sale	(5 151)	(6 937)
Balance amount of investment available for sale	**147 531**	**194 097**
Bulgarian debt securities held to maturity	24 194	31 616
Government debt securities included	24 194	31 616
Total investments held to maturity	**24 194**	**31 616**
Total investments	**171 725**	**225 713**

The assets in the investment portfolio consist of investments held-to-maturity and investments available for sale.

Government debt securities held to maturity represent long term bonds denominated in EUR earning interest between 2.00 % and 6.00 %, and denominated in USD earning interest at 0.44 %. In this group are included securities with floating rate issued by government. Government debt securities issued by Ministry of Finance denominated in BGN earn interest between 3.00 – 4.45 %.

The equity investments represent shares in domestic companies, financial institutions, Bulgarian Stock Exchange, and also participations in subsidiaries and associates. For valuation purposes these assets are classified as available for sale. The investments classified as equity investments and other non-fixed income instruments available for sale are stated at cost, when their fair value cannot be measured reliably.

Impairment losses for available for sale securities include impairment loss for equity investments quoted active market and debt securities issued by foreign companies.

Securities held-to-maturity and available for sale pledged as collateral as of 31 December 2011 are blocked in favour of Ministry of Finance on deposits from the State Budget at the amount of BGN 139 074 thousand.

The fair value of the investments as at 31 December 2011 is as follows:

In thousands of BGN	Carrying amount of securities	Fair value	Difference
Investments in subsidiaries and associated companies	23 055	23 055	-
Other equity investments	6 463	6 463	-
Bulgarian debt securities available for sale	109 925	109 925	-
Foreign debt securities available for sale	8 088	8 088	-
Bulgarian debt securities held to maturity	24 194	24 939	745
Total investments	**171 725**	**172 470**	**745**

17. Tangible assets

Movement of tangible assets during the year 2011

In thousands of BGN	Land and buildings	IT equipment	Office equipment	Other equipment	Total
Cost or revalued amount					
As of 31 December 2010	234 322	102 837	53 699	18 389	409 247
Additions	1 823	-	987	38 608	41 418
Disposals	(436)	(4 059)	(1 315)	(767)	(6 577)
Transfers	14 466	5 240	8 007	(27 713)	-
Cost or revalued amount as of 31 December 2011	**250 175**	**104 018**	**61 378**	**28 517**	**444 088**
Depreciation					
As of 31 December 2010	35 606	75 719	22 478	656	134 459
Charge for the period	6 058	10 580	7 203	29	23 870
Disposals	(50)	(4 029)	(1 015)	(172)	(5 266)
Depreciation as of 31 December 2011	**41 614**	**82 270**	**28 666**	**513**	**153 063**
Net book value 31 December 2011	**208 561**	**21 748**	**32 712**	**28 004**	**291 025**
Net book value 31 December 2010	**198 716**	**27 118**	**31 221**	**17 733**	**274 788**

Movement of tangible assets during the year 2010

In thousands of BGN	Land and buildings	IT equipment	Office equipment	Other equipment	Total
Cost or revalued amount					
As of 31 December 2009	205 888	102 217	43 770	34 312	386 187
Additions	-	-	-	29 981	29 981
Disposals	(617)	(5 110)	(1 099)	(95)	(6 921)
Transfers	29 051	5 730	11 028	(45 809)	-
Cost or revalued amount as of 31 December 2010	**234 322**	**102 837**	**53 699**	**18 389**	**409 247**
Depreciation					
As of 31 December 2009	29 939	68 797	17 173	720	116 629
Charge for the period	5 803	11 865	6 205	29	23 902
Disposals	(136)	(4 943)	(900)	(93)	(6 072)
Depreciation as of 31 December 2010	**35 606**	**75 719**	**22 478**	**656**	**134 459**
Net book value 31 December 2010	**198 716**	**27 118**	**31 221**	**17 733**	**274 788**
Net book value 31 December 2009	**175 949**	**33 420**	**26 597**	**33 592**	**269 558**

In "Land and buildings" are included reconstruction expences for long term rented buildings on the amount of BGN 3 321 thousand as of 31 December 2011 and BGN 4 803 thousand as of 31 December 2010.

In "Other equipment" are included tangible assets under construction on the amount of BGN 27 915 thousand as of 31 December 2011 and BGN 17 615 thousand as of 31 December 2010.

18. Intangible assets

Movement of intangible assets during the year 2011

In thousands of BGN	Intangible assets	Assets under construction	Total
Cost or revalued amount			
As of 31 December 2010	78 740	4 676	83 416
Additions	1	10 421	10 422
Disposals	(4 856)	-	(4 856)
Transfers	10 332	(10 332)	-
Cost or revalued amount as of 31 December 2011	**84 217**	**4 765**	**88 982**
Depreciation			
As of 31 December 2010	52 951	-	52 951
Charge for the period	11 324	-	11 324
Disposals	(4 844)	-	(4 844)
Depreciation as of 31 December 2011	**59 431**	**-**	**59 431**
Net book value 31 December 2011	**24 786**	**4 765**	**29 551**
Net book value 31 December 2010	**25 789**	**4 676**	**30 465**

Movement of intangible assets during the year 2010

In thousands of BGN	Intangible assets	Assets under construction	Total
Cost or revalued amount			
As of 31 December 2009	66 484	6 761	73 245
Additions	-	10 222	10 222
Disposals	(51)	-	(51)
Transfers	12 307	(12 307)	-
Cost or revalued amount as of 31 December 2010	**78 740**	**4 676**	**83 416**
Depreciation			
As of 31 December 2009	42 669	-	42 669
Charge for the period	10 333	-	10 333
Disposals	(51)	-	(51)
Depreciation as of 31 December 2010	**52 951**	**-**	**52 951**
Net book value 31 December 2010	**25 789**	**4 676**	**30 465**
Net book value 31 December 2009	**23 815**	**6 761**	**30 576**

19. Other assets

In thousands of BGN	31-Dec-2011	31-Dec-2010
Deferred expenses	3 689	3 885
Materials, spare parts	3 105	1 257
Deficiencies in assets	2 169	2 054
Receivables in litigation	1 404	1 366
Clearing and bank settlement assets	1 986	702
Other assets	8 972	6 029
Impairment allowances	(3 646)	(4 095)
Total	**17 679**	**11 198**

20. Deposits and loans from banks

In thousands of BGN	31-Dec-2011	31-Dec-2010
Deposits from banks		
Term deposits	3 423	217 414
Current accounts	7 173	7 046
Total deposits from banks	**10 596**	**224 460**
Loans from banks		
Short term loans	1 956	-
Long term loans	31 786	38 791
Total loans from banks	**33 742**	**38 791**

On 30 January 2009 Bulgarian Development Bank AD granted DSK Bank a 10-year loan to the amount of BGN 20 000 thousand for long and short term investment landing for small and medium-sized enterprises. The interest rate on the loan is 5.00 % and the loan is disbursed.

On 08 June 2009 Bulgarian Development Bank AD granted DSK Bank a 5-year loan to the amount of BGN 10 000 thousand for working capital landing for agricultural producers. The interest rate on the loan is 5.00 %. As of 31 December 2009 the loan is disbursed. In 2010 a tranche for BGN 5 000 thousand is paid off. As of 31 December 2011 the loan is fully paid off.

On 05 October 2006 the European Investment Bank granted DSK Bank a 10-year loan to the amount of EUR 30 000 thousand 10 000 thousand of which for Municipality Financing Scheme. The disbursement began in 2007. The interest rate as of 31 December 2010 on the loan is 1.152 % and the due principal is EUR 7 000 thousand. As of December 31, 2011 the interest rate of the loan is 1.717 %. After the pay off of an year instalment of EUR 1 000 thousand the due amount is EUR 6 000 thousand.

On 28 April 2011 EBRD granted DSK Bank 5-year credit line for energy efficiency and renewable energy to the amount of EUR 10 000 thousand. As of December 31, 2011 the interest rate of the loan is 3.8276 % and the used amount is EUR 1 000 thousand.

21. Subordinated debt

On 20 October 2008 OTP Financing Netherlands BV granted DSK Bank 8-year subordinated debt to the amount of EUR 150 000 thousand. The interest rate on the loan is 3-month EURIBOR plus 2.5 points. As of 31 December 2010 the loan is disbursed.

On 19 December 2007 OTP Financing Netherlands BV granted DSK Bank 5-year subordinated debt to the amount of EUR 200 000 thousand. The interest rate on the loan is 3/6-month EURIBOR plus 1.15 points. As of 31 December 2010 the loan is disbursed.

22. Deposits from other customers

In thousands of BGN	**31-Dec-2011**	**31-Dec-2010**
Individuals		
In Bulgarian Leva		
Term deposits	1 914 231	1 777 817
Demand deposits	1 676 530	1 449 469
In foreign currencies		
Term deposits	1 154 166	1 253 747
Demand deposits	505 454	415 817
Companies		
In Bulgarian Leva		
Term deposits	235 049	153 361
Demand deposits	361 322	305 865
In foreign currencies		
Term deposits	151 040	129 514
Demand deposits	117 486	131 722
State Budget		
In Bulgarian Leva		
Term deposits	1 431	1 495
Demand deposits	123 351	129 130
In foreign currencies		
Term deposits	20 560	11 070
Demand deposits	3 341	2 573
Financial institutions		
In Bulgarian Leva		
Term deposits	132 412	143 426
Demand deposits	10 779	11 120
In foreign currencies		
Term deposits	12 084	63 617
Demand deposits	22 230	14 279
Total	**6 441 466**	**5 994 022**

The interest rates on deposits as at 31 December 2011 are ranged as follows: deposits from individuals from 0.10 % to 10.50 %; deposits from companies from 0.19 % to 9.10 %; deposits from State Budget from 0.20 % to 3.50 %; deposits from financial institutions from 0.20 % to 7.00 %.

23. Deferred Tax Liabilities

Deferred income taxes for 2011 are calculated on all temporary differences under the liability method using a tax rate of 10 %.

Deferred income tax balances are attributable to the following items:

	Assets		Liabilities		Net	
In thousands of BGN	2011	2010	2011	2010	2011	2010
Pension severance payments under Labour Code and other personnel liabilities	(1 137)	(876)	-	-	(1 137)	(876)
Financial assets available for sale	(305)	(113)	738	729	433	616
Fixed assets	(190)	(190)	10 274	10 546	10 084	10 356
Contingent liabilities	(429)	(655)	-	-	(429)	(655)
Unused annual leave and other	(330)	(334)	-	-	(330)	(334)
Net deferred tax (assets)/liabilities	**(2 391)**	**(2 168)**	**11 012**	**11 275**	**8 621**	**9 107**

Movement in temporary differences during the year:

In thousands of BGN	Balance as of 31 December 2010	Recognised in the income statement 2011	Recognised in equity 2011	Balance as of 31 December 2011
Pension severance payments under Labour Code and other personnel liabilities	(876)	(261)	-	(1 137)
Financial assets available for sale	616	185	(368)	433
Fixed assets	10 356	(272)	-	10 084
Contingent liabilities	(655)	226	-	(429)
Unused annual leave and other	(334)	4	-	(330)
Total	**9 107**	**(118)**	**(368)**	**8 621**

24. Provisions for liabilities

In thousands of BGN	31-Dec-2011	31-Dec-2010
Pension severance payments under Labour Code	3 751	3 537
Provisions on contingent liabilities	2 879	4 873
Total	**6 630**	**8 410**

25. Other and trading liabilities

In thousands of BGN	31-Dec-2011	31-Dec-2010
Liabilities for centralisation of State Budget with BNB	627	2 323
Liabilities to personnel and management	3 317	8 838
Money transfers for execution	5 059	28 244
Negative Fair value of derivatives	1 830	209
Other	37 473	19 036
Total	**48 306**	**58 650**

26. Shareholders' equity

(a) Face value of registered shares

In thousands of BGN	31-Dec-2011	31-Dec-2010
Ordinary registered voting shares	153 984	153 984

(b) Retained earnings

Retained earnings comprise accumulated profit from prior periods.

In 2011 has been made correction (decrease) of the retained earnings for the amount of BGN 3 173 thousand for personnel expense which refers to 2010.

(c) Revaluation reserve

The revaluation reserves comprise the revaluation surplus of assets, net of the related deferred tax liabilities.

(d) General reserve

General reserve includes statutory reserve according to local regulation and profits transferred as general reserve according to decisions of the General Assembly of shareholders.

27. Contingent liabilities and commitments

(a) Off balance sheet liabilities and commitments

In thousands of BGN	31-Dec-2011	31-Dec-2010
Litigation against the Bank and other contingent liabilities	3 384	5 669
Bank guarantees and letters of credit		
in Bulgarian Leva	159 403	146 406
in foreign currencies	56 254	113 753
	215 657	**260 159**
Commitments for undrawn credit facilities		
in Bulgarian Leva	250 780	224 325
in foreign currencies	188 435	169 414
	439 215	**393 739**
Forward and spot deals - sell		
in Bulgarian Leva	290	196
in foreign currencies	134 001	28 014
	134 291	**28 210**
Total	792 547	687 777

(b) Contingent liabilities on guarantees and letters of credit

The DSK Bank provides financial guarantees and letters of credit to guarantee the performance of commitments of its customers to third parties. These agreements have fixed limits and fixed term.

The amounts represented in the table as guarantees and letters of credit represent the maximum accounting loss that would be recognized in the statement of financial position if counterparties failed completely to perform their obligations as contracted.

These commitments and contingent liabilities have off balance sheet credit risk and only fees and accruals for probable losses are recognized on the statement of financial position until the commitments are fulfilled or expire. 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.

(c) Legal claims and other contingent liabilities

The Legal claims against DSK Bank amount to BGN 1 305 thousand (principal and accrued interest) as of December 31, 2011. For part of these legal claims and contingent liabilities the Bank's management believes that exists an opportunity for a negative result, due to which provision at the amount of BGN 2 879 thousand (note 24) are allocated.

(d) Assets pledged as collateral

As of 31 December 2011 DSK Bank has pledged Government bonds including bonds acquired under repurchase agreements to the amount of BGN 171 074 thousand as collaterals for funds due to the State Budget. The pledge is registered in BNB in favour of Ministry of Finance under the Low for State Budget of Republic of Bulgaria.

28. Cash and cash equivalents

In thousands of BGN	31-Dec-2011	31-Dec-2010
Cash on hand	236 540	245 980
Balances with the Central Bank	490 707	479 912
Receivables from bank with maturity up to 3 months	572 343	341 723
Total	**1 299 590**	**1 067 615**

29. Subsidiaries and associated companies

Subsidiaries are those enterprises controlled by the Bank. Associates are the enterprises where the Bank has significant influence, but not control over the financial and operating policies.

In thousands of BGN	% ownership	Balance value, 31.12.2011
Subsidiaries:		
DSK Tours EOOD	100.00%	8 491
DSK Rodina Pension Company AD	99.75%	10 972
DSK Assets Management AD	66.00%	858
DSK BUL-PROJECT OOD	74.90%	120
DSK Trans Security EOOD *	100.00%	2 225
Associates:		
DSK Leasing AD	49.10%	125
Cash Services Company AD	20.00%	2 490
Total		**25 281**

* DSK Trans Security EOOD is 100 % owned by DSK Tours EOOD.

Subsidiaries and associates are presented as part of equity investments available for sale within the investments category (see note 16).

30. Related party transactions

DSK Bank has a related party relationship with its employees, directors, executive officers, as well as with its subsidiaries and associates, the owner OTP Bank and the other companies within OTP Group. Transactions are performed at approximately market conditions.

The related party transactions as of and for the year ended 31 December 2011 are as follows:

In thousands of BGN

Related party	Type of transaction	Amount
Employees	Loans extended	58 216
Directors and executive officers	Loans extended	11 048
Subsidiaries	Current and deposit accounts with DSK Bank	12 342
Subsidiaries	Liabilities	789
Subsidiaries	Other receivables	2 226
Subsidiaries	Granted bank guarantee	3
Subsidiaries	Interest expense	433
Subsidiaries	Services expense	7 597
Subsidiaries	Services income	142
Subsidiaries	Rentals received	149
Subsidiaries	Rentals paid	19
Subsidiaries	Fees received	46
Associates	Current and deposit accounts with DSK Bank	4 232
Associates	Interest expense	77
Associates	Fees received	19
Associates	Granted bank guarantee	80
Associates	Services expense	857
OTP Bank	Current and deposit accounts in OTP	425 604
OTP Bank	Current and deposit accounts in DSK Bank	6 035
OTP Bank	Liabilities	208
OTP Bank	Fair value of derivatives	(168)
OTP Bank	Interest income	5 858
OTP Bank	Fees paid	13
OTP Bank	Interest expense	490
OTP Bank	Fees received	1 073
OTP Bank	Liabilities for currency exchange contracts	72 767
OTP Bank	Receivables for currency exchange contracts	72 358
OTP Bank	Off balance liability on overdraft	1 600
OTP Bank	Granted guarantee	3 301
Other Group members	Current and deposit accounts in Group members	110
Other Group members	Loans received	686 923
Other Group members	Receivables	321
Other Group members	Current and deposit accounts in DSK Bank	23 881
Other Group members	Loans extended	767
Other Group members	Liabilities	5 092
Other Group members	Off balance liability on granted credit line	4 233
Other Group members	Interest income	31
Other Group members	Interest expense	22 503
Other Group members	Fees received	364
Other Group members	Fees paid	155
Other Group members	Rentals received	42
Other Group members	Income from sale of loans	1 099
Other Group members	Services expense	35

The remuneration of the key management personnel for 2011 includes current income amounting to BGN 3 018 thousand (2010: BGN 2 394).

DSK BANK EAD

Report on the Management and Activity

of DSK Bank EAD

for the year ending 31 December 2011

Summary

In 2011 Bulgarian economy started slowly to recover, although still influenced by the uncertain international environment. The unstable environment continued to have an impact on the activity of the whole banking system, including DSK Bank. The banks were still interested in optimal use of the limited potential on the lending market, keeping their market approaches and highly competitive environment typical for the Bulgarian market. The strong and adequate capital and liquid position of the banking system was preserved, but the management of the loan portfolio quality strongly influenced by the unfavourable environment, continued to be of high priority.

In 2011 DSK Bank managed to keep its leadership positions both in retail loan and deposit portfolios, as well as its stable liquid and capital position. As at the end of 2011 the Bank takes a second position on the lending market with a share of 14.0% compared to 14.2% by the end of 2010. On the deposit market the Bank also holds a second place in the banking system with a share of 11.6% compared to 12.1% at the end of 2010. In 2011 due to still limited potential on the lending market, DSK Bank continued to optimize the cost of funding allowing a decrease of about 0.54 pp of its deposit market share. Such policy was followed by most of the big banks on the market, which had a strong liquid position and lost some market share on the account of banks with more aggressive price behaviour. Thus, the Bank kept its stable interest spread and managed to compensate the negative impact on the profitability of the still slowed down lending activity. Despite the decrease of the interest bearing assets by 1.7% and the growth of the deposit base by 7.5% the net income from banking activity increased by 4.5% compared to 2010. The main reason for the decrease of the profit by 34.5% compared to the previous year were the higher impairment costs.

The net interest income continued to be the main driver of the net income from banking activity for 2011 and increased by 5.2% compared to 2010. The average annual interest spread increased up to 5.79% (2010: 5.63%). The net non-interest income also improved compared to 2010 and increased by 1.9%.

The successful management of the operating expenses also contributed to the good performance. The cost-to-income ratio is 34.8% by the end of 2011 compared to 35.4% by the end of 2010. As at the end of 2011 DSK Bank reported the lowest cost-to-income ratio (operating expenses/ gross operating income) in the first group of banks in the banking system of the country. This is a result of the continuing work efficiency improvement, good management of the investment policy and control over the current expenses.

The asset quality has deteriorated compared to 2010 which reflects the economic changes in the operating environment of the Bank during the year. The coverage ratio of the loan portfolio with allowances for impairment was 12.83% as at the end of December 2011 compared to 8.95% in 2010.

Despite this the Bank considers the management of the loan portfolio in 2011 as successful, having in mind the observed tendencies and the achieved results, following relatively more conservative provisioning policy compared to other banks on the market and the achieved high coverage of 73% on the non-performing loans. The Bank is able to undertake unexpected unfavorable changes on a regional or product level or in a particular risk exposure.

In 2011 DSK Bank continued to offer mainly traditional loan products to households, keeping its leadership position in the banking system with 33.4% market share in consumer and 27.1% in mortgage loans.

The Bank has D+ rating for financial stability from Moody's Investors Services with negative perspective. The local currency deposit rating is Baa 3/Prime-3 and foreign currency deposit rating is also Baa 3/Prime-3.

Market and credit risks are regularly monitored and evaluated by the respective and responsible units. DSK Bank complies with internal risk regulations, as well as with regulations imposed by external authorities. There is no indication for risk increase in any of the profit centers or products, as well as regarding the balance sheet of the bank in terms of assets quality, liquidity, FX position, trading limits and capital adequacy above the level which the Bank is able to meet.

The performance of the administrative functions is strictly monitored (particularly those related to the interaction with external parties). Procurement is ensured for the entire branch network, whereas most of the supplier contracts are centralized and the orders, supplies and the respective expenses are closely monitored by the Head office. Reports and other obligations toward external authorities and regulatory bodies are prepared and delivered on time and the compliance with all legislative requirements are monitored by Finance and Planning Division, and Legal and Compliance Departments. The operational risk is monitored and regularly reports are prepared and submitted to ORMC (Operational Risk Management Committee) measuring the events and the realized losses and the corresponding potential losses, as well as giving proposals for diminishing the operational risk.

General information about the Management and the Structure of the Bank

DSK Bank is a fully licensed bank authorized to conduct all banking operations according to the Bulgarian legislation. It is a universal commercial bank with prevailing activity in retail banking.

DSK Bank has a two-tier management system. The Governing bodies are: General Assembly, Supervisory Board (SB) and Management Board (MB).

In 2011 DSK Bank was managed by a seven-member Supervisory Board and a six-member Management Board respectively with the following members:

Supervisory Board

Dr.Sándor Csányi – Chairman and Chief Executive Officer of OTP Bank
László Wolf - Deputy Chairman and Deputy Chief Executive Officer of OTP Bank
László Bencsik - Deputy Chairman and Chief Financial Officer of OTP Bank
Dr. Frigyes Hárshegyi – Member of the Supervisory Board
Csaba Nagy – Member of the Supervisory Board
András Takács – Member of the Supervisory Board
Gábor Kuncze – Member of the Supervisory Board from 23.12.2011

Management Board

Violina Marinova - Chairperson of the Management Board and Chief Executive Officer
Andrey Nikolov - Member of the Management Board and Executive Director
Diana Miteva - Member of the Management Board and Executive Director
Dorothea Nikolova – Member of the Management Board and Executive Director
Miroslav Vichev - Member of the Management Board and Executive Director
Nikolay Borisov - Member of the Management Board and Executive Director

Participation of Management and Supervisory Board members in the share capital

The Members of the Management and Supervisory Board do not participate in the share capital and do not have any rights to acquire shares and bonds of the company. The remunerations received during the year are according to the management contracts. The Management and Supervisory Board's members do not have any additional contracts with the Bank other than those for management. Information about the participation of Management Board's members in other companies or in their management is collected by the Internal Audit Division and is presented to the Supervisory Board.

The address of the Head Office of DSK Bank is 19 Moskovska str., 1036 Sofia.

As at the end of 31 December 2011 DSK Bank has 9 regional centers, 46 financial centers, 91 branches, 93 affiliated offices, 147 bank offices and 909 representative offices in the country.

Financial result and profitability

The profit before tax amounted to BGN 95.7 m and was by BGN 49.3 m lower (34%) compared to 2010.

The profit after tax for the period ending 2011 was BGN 85.3 m.

Net interest income amounted to BGN 520.7 m and was by BGN 25.6 m higher compared to 2010. Interest income decreased by BGN 8.8 m. Interest income from loans to individuals decreased by BGN 14 m mainly from lower sales and average interest levels on consumer loans. Interest income from big corporate loans increased by BGN 17 m due to higher average volumes compared to 2010. The interest expenses decreased by BGN 34.5 m as a result of lower interest rate levels compared to 2010.

Net non-interest income amounted to BGN 123.2 m for 2011 (an increase of 1.9% or BGN 2.3 m compared to 2010). The increase was due to revenues from trading portfolio.

The operating expenses stood at BGN 224.2 m, which was by BGN 6.3 m or 2.9 % higher than 2010. The increase was mainly a result of higher staff costs – BGN 3 m, depreciation costs – BGN 1 m, an increase of the annual deposit guarantee fund payment - BGN 2.5 m, etc.

The average staff number of the Bank at the end of December 2011 was 3 578 (2010: 3 560).

The assets per employee ratio decreased from BGN 2.405 m as at the end of 2010 to BGN 2.392 m as at the end of 2011. The profit per employee ratio decreased from BGN 36.6 thousand by the end of 2010 to BGN 23.8 thousand by the end of 2011.

Balance sheet indicators

The total assets of DSK Bank as at 31 December 2011 amounted to BGN 8 558.3 m and decreased by BGN 3.4 m compared to 2010.

The market share of DSK Bank as of 31 December 2011 in the total banking assets in the country was 11.0% (2010: 11.6%).

Interest bearing assets comprised 84.7% of the Bank's total assets.

The net loan portfolio of the Bank amounted to BGN 6 697.5 m, which was by BGN 171.4 m or 2.5% lower than in 2010.

Loans to individuals amounted to BGN 5 524 m and grew by BGN 27.1 m (0.5%) compared to the previous year.

At the end of 2011 the market share of the Bank in terms of household loans was 30.3%, in consumer loans - 33.4% and in mortgage loans – 27.1%. In 2010 they were 29.9%, 32.6% and 27.1% respectively.

Company loans amounted to BGN 2 145.1 m and increased by BGN 116.7 m (5.8%) compared to 2010.

Loans to the budget were BGN 13.7 m and decreased by BGN 4.6 m compared to 2010.

Impairment allowance of the loan portfolio amounted to BGN 985.4 m and increased by BGN 310.6 m compared to the previous year.

Customer deposits amounted to BGN 6 441.5 m. This represented an annual growth of 7.5% (BGN 447.4 m).

Household deposits as at the end of 2011 were BGN 5 250.4 m and increased by BGN 353.5 m or 7.2%.

The market share of the Bank in terms of household deposits as at the end of 2011 was 17.3% (2010: 18.2%).

Company deposits increased by BGN 144.4 m and at the end of the year stood at BGN 864.9 m.

Deposits from the budget were BGN 148.7 m and grew by BGN 4.4 m in 2011.

Deposits from financial institutions amounted to BGN 177.5 m and decreased by BGN 54.9 m compared to 2010.

DSK Bank has credit line agreements with the Bulgarian Development Bank upon company financing programs. The utilized funds are directed purposefully, used and managed in compliance with the terms set in the contracts. The related data are strictly and comprehensively reported to the creditor Bulgarian Development Bank, and the collaterals are valid set and up to the stipulated amount.

Card transactions

The issued cards by the Bank as of 31.12. 2011 were 1 227.9 thousand and increased by 32 thousand compared to 2010. The debit cards amounted to 1 166.8 thousand and the credit cards were 55.5 thousand.

In 2011 10 new ATM devices were installed. As of December 2011 the Bank operates with 890 ATM and 4 178 POS devices.

Capital adequacy

The Bank constantly keeps a sufficient level of total capital adequacy in order to cover the risks from its activity and to comply with the regulatory requirements. As of December 2011 the total capital adequacy ratio was 20.62%. The attracted funds in the form of subordinated loan from OTP Bank (EUR 350 m), as well as the capitalized profit from previous years up to 2008 (including) ensure a capital buffer of BGN 559 m above the requirements of the Bulgarian National Bank.

Credit risk

The main credit risk, to which DSK Bank is exposed, results from the granted loans to clients. As of the end of the year the loan portfolio of the Bank comprised loans to individuals (71.9%), loans to companies (27.9%) and loans to the budget (0.2%). Within household loans the credit risk is well allocated between consumer loans (52.4%), which carry a higher risk for the Bank, but also a higher yield and loans collateralized with mortgage.

DSK Bank measures credit risk in compliance with IFRS requirements (officially accepted by the Bulgarian legislation), with Ordinance 9 by the Bulgarian National Bank and according to the internal regulations for assessment and classification of risk exposures and allocation of provisions for impairment loss.

The coverage ratio (ratio of coverage of the loan portfolio with allocated loan loss impairment) as of December 2011 was as follows:

Total loan portfolio – 12.83%

- „regular" - 1.35%
- „watch" - 4.49%
- „non-performing" - 18.76%
- „loss"- 72.00%

The coverage of the „non-performing" and „loss" exposures with allocated loan loss impairment was above 73%. The total coverage ratio grew by 3.88 pp on an annual basis, following the negative trend of deteriorating portfolio quality influenced by the unstable economic environment. Respectively, the percentage ratio of the separate classification groups to the total portfolio also reported a tendency of increasing portfolio risk. The relative share of the non-performing and loss loans at the end of 2011 increased by 2.12 pp compared to 2010 and the growth of the watch loans was 0.79 pp. The risk coming

from the activity of the Bank mainly in retail banking is well diversified by product types, collateral types and risk exposures. The relation between the separate exposures is monitored and according to their quality, corrective measures are taken in order to limit the increase of concentration risk.
The introduced sector limits for company loans aim at additional improvement of risk portfolio diversification. The Credit committee monitors on a monthly basis the limits compliance and imposes limitations and recommends measures in case of limit violations or indications for such.

The share of non-performing and loss mortgage loans to individuals increased by 7.17 pp compared to 2010. Concerning the consumer loans the increase in the same category was 3.87 pp. The share of non-performing and loss loans to small and medium-sized enterprises and big corporate customers grew respectively by 10.20 pp and 4.65 pp.

During the entire year continued the work on taking intensified measures for improvement of the process of the monitoring and management of the portfolio quality, including improvement in the procedures for monitoring and analysis of problem loans, improvement of the work of the inspectors for problem loans in the branch network, early identification of problem exposures and undertaking intensive actions on determination of the reasons and finding solutions in line with the changed circumstances considering at the same time the interest of the Bank, as well as of the borrowers.

Investment program

In 2011 in accordance with its investment programme, the Bank made capital investments, investments in IT projects and other tangible and intangible assets at the amount of BGN 49 m. They increased by 22% or BGN 9 m compared to the previous year.

The investments in IT projects during the year were BGN 19 m, as their share in the total investments was 39.4 % (for 2010 the share was 47.8 %).

The capital investments during the year were BGN 29.7 m., as BGN 25.7 m were invested in construction related activities, BGN 1.1 m - in office equipment and BGN 2.9 m - in bank security.

Major goals for 2011

In 2012 the Bank will face again the challenge to operate in unstable macroeconomic environment. Despite the slight optimistic views for economic development, a very slow recovery of the lending activity and the deterioration of the receivables collection is expected.

In 2012 the Management of DSK Bank sets the following priorities in the activity:

- Constant improvement of the quality of the provided services.
- Keeping the strong market position, stable liquidity and capital position as well as excellent efficiency.

- Reconsidering the segmentation of the client portfolio and development of products and packages aiming to intensify the penetration in definite segments.
- Continuing the work on effective management of the loan portfolio quality as well as improvement of the measures and methods.
- Improvement of the information systems related to the activity of the Bank, client servicing as well as to the administrative, reporting and controlling processes within the institution.

The Report on the Management and the Activity of DSK Bank EAD in 2011 is approved by the Management Board with protocol 10 on 28.02.2012.

Violina Marinova	Dorothea Nikolova
Chief Executive Director	*Executive Director*