DSK Bank EAD

Separate Financial Statements

For the year ended December 31, 2013

and auditor's report

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INDEPENDENT AUDITORS' REPORT

To the shareholders of
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 2013, the unconsolidated income statement, 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 Bank'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.

KPMG

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 2013, 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 unconsolidated historical financial information disclosed in the 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 2013. Management is responsible for the preparation of the annual report of the activities of the Bank which was approved by the Management Board of the Bank on 5 March 2014.

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

Dobrina Kaloyanova
Authorized representative

Margarita Goleva
Registered auditor

KPMG Bulgaria OOD

Sofia, 05 March 2014

Income statement for the year ended 31 December 2013

In thousands of BGN	Note	2013	2012
Interest income		611 595	688 759
Interest expense		(141 551)	(188 121)
Net interest income	4	**470 044**	**500 638**
Fee and commission income		118 575	113 987
Fee and commission expense		(13 607)	(10 462)
Net fee and commission income	5	**104 968**	**103 525**
Net trading income	6	11 575	13 688
Net operating income	7	25 023	58 830
Operating income		**36 598**	**72 518**
Personnel expenses	8	(83 256)	(79 205)
Depreciation and amortisation	17, 18	(31 328)	(40 968)
Impairment losses	9	(156 153)	(222 319)
Other expenses	10	(125 593)	(120 803)
Profit before tax		**215 280**	**213 386**
Income tax expense	11	(21 489)	(21 533)
Profit for the year		**193 791**	**191 853**

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 authorised for issue on behalf of DSK Bank EAD on 5 March 2014.

Violina Marinova
Chief Executive Director

Dorothea Nikolova
Executive Director

Банка ДСК ЕАД София 2115 51

KPMG Bulgaria OOD

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Translated from Bulgarian

Statement of comprehensive income for the year ended 31 December 2013

In thousands of BGN	**2013**	**2012**
Profit after tax	**193 791**	**191 853**
Items *that may be reclassified to profit or loss*		
Change in fair value of available for sale investments, net of tax	935	8 291
	935	8 291
Items *that will never be reclassified to profit or loss*		
Revaluation of property, plant and equipment, net of tax	-	11 860
Remeasurements of defined benefit liability	(266)	-
	(266)	11 860
Total comprehensive income	**194 460**	**212 004**

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.

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Statement of financial position as of 31 December 2013

In thousands of BGN	Note	31-Dec-2013	31-Dec-2012
Assets			
Cash and current accounts with domestic and foreign banks	12	262 145	249 393
Financial assets held for trading	13	236 920	108 027
Loans and advances to banks and balances with the Central Bank	14	1 465 236	1 187 426
Loans and advances to other customers	15	6 223 272	6 544 600
Investments available for sale and held to maturity	16	312 541	266 198
Current tax assets		212	-
Property, plant and equipment	17	323 784	319 615
Intangible assets	18	26 144	23 769
Other assets	19	30 542	27 292
Total assets		**8 880 796**	**8 726 320**
Liabilities			
Deposits from banks	20	168 389	206 837
Loans from banks and financial institutions	20	123 761	37 281
Subordinated debt	21	-	294 776
Deposits from other customers	22	6 998 934	6 625 278
Current tax liabilities		3 198	12 545
Deferred tax liabilities	23	9 005	9 021
Provisions for liabilities	24	10 082	7 648
Other and trading liabilities	25	74 503	84 471
Total liabilities		**7 387 872**	**7 277 857**
Shareholders' equity			
Share capital	26	153 984	153 984
Reserves	26	1 079 723	1 079 064
Retained earnings	26	259 217	215 415
Total shareholders' equity		**1 492 924**	**1 448 463**
Total liabilities and shareholders' equity		**8 880 796**	**8 726 320**

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 authorised for issue on behalf of DSK Bank EAD on 5 March 2014.

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Statement of cash flows for the year ended 31 December 2013

In thousands of BGN	Note	2013	2012
Net cash flow from operating activities			
Profit before taxation		215 280	213 386
Increase in impairment losses of bad and doubtful debts and other assets	9	156 153	222 319
Depreciation and amortization	17, 18	31 328	40 968
Net effect from operations with investments		4 956	(5 097)
Net effect from foreign exchange rate revaluation		(4 498)	1 113
Loss from disposal of noncurrent assets		579	539
Increase / (decrease) in provisions for liabilities		2 886	1 332
Dividends received		617	563
Other non cash changes		7 264	6 987
Net cash flow from operating activities before changes in operating assets and liabilities		**414 565**	**482 110**
Change in operating assets			
(Increase) in securities held for trading		(130 624)	(57 896)
Decrease / (increase) in loans and advances to banks		39 520	(39 520)
Decrease / (increase) in loans and advances to other customers		152 165	(76 269)
Decrease / (increase) in other assets		3 584	(4 869)
Change in operating liabilities			
Increase / (decrease) in deposits from banks		(38 439)	196 243
Increase in loans from banks and financial institutions		86 786	3 044
Increase in deposits from other customers		384 679	187 818
Increase / (decrease) in other liabilities		(23 751)	26 668
Net cash flow from operating activities		**888 485**	**717 329**
Cash flow from investing activities			
(Acquisition) of property, plant and equipment, net		(38 138)	(50 652)
(Increase) in investments		(46 635)	(85 282)
Net cash flow from investing activities		**(84 773)**	**(135 934)**
Cash flow from financing activities			
Dividends paid		(150 000)	(85 016)
(Decrease) in subordinated debt		(293 374)	(391 166)
Net cash flow from financing activities		**(443 374)**	**(476 182)**
Prepaid tax		(31 373)	(6 662)
Net increase in cash and cash equivalents		**328 965**	**98 551**
Cash and cash equivalents at the beginning of period	28	**1 398 141**	**1 299 590**
Cash and cash equivalents at the end of period	28	**1 727 106**	**1 398 141**

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 authorised for issue on behalf of DSK Bank EAD on 5 March 2014.

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Statement of changes in shareholder's equity for the year ended 31 December 2013

In thousands of BGN	Share capital	Retained earnings	General and other reserve	Revaluation reserve	Total
Balance as of 1 January 2012	**153 984**	**108 556**	**982 208**	**76 727**	**1 321 475**
Total comprehensive income					
Net profit for the year	-	191 853	-	-	191 853
Other comprehensive income					
Change in fair value of available for sale investments, net of tax	-	-	-	8 291	8 291
Revaluation of property, plant and equipment, net of tax	-	-	-	11 860	11 860
Total other comprehensive income	-	-	-	**20 151**	**20 151**
Total comprehensive income	-	191 853	-	20 151	212 004
Decrease in revaluation reserve from fully depreciated or disposal of land and buildings, net of tax	-	22	-	(22)	-
Contributions by and distributions to owners					
Dividends paid	-	(85 016)	-	-	(85 016)
Balance as of 31 December 2012	**153 984**	**215 415**	**982 208**	**96 856**	**1 448 463**
Total comprehensive income					
Net profit for the year	-	193 791	-	-	193 791
Other comprehensive income					
Change in fair value of available for sale investments, net of tax	-	-	-	935	935
Remeasurements of defined benefit liability	-	-	(266)	-	(266)
Total other comprehensive income	-	-	(266)	935	669
Total comprehensive income	-	**193 791**	**(266)**	**935**	**194 460**
Decrease in revaluation reserve from fully depreciated or disposal of land and buildings, net of tax	-	11	-	(10)	1
Contributions by and distributions to owners					
Dividends paid	-	(150 000)	-	-	(150 000)
Balance as of 31 December 2013	**153 984**	**259 217**	**981 942**	**97 781**	**1 492 924**

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 authorised for issue on behalf of DSK Bank EAD on 5 March 2014.

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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 of 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 in force as of the date of transformation. 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 Group, approved by the Management Board on 5 March 2014.

(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 thousand 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.

(f) Changes in accounting policies

The Bank has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

- Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)(1)
- IFRS 13 *Fair Value Measurement* (2)
- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) (3)
- IAS 19 *Employee Benefits (2012)* (4)

(1) Offsetting of financial assets and financial liabilities

As a result of the amendments to IFRS 7, the Bank has expanded its disclosures about offsetting of financial assets and financial liabilities.

(2) Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such disclosures are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7. As a result the Bank has included additional disclosures in this regard.

In accordance with the transitional provisions of IFRS 13, the Bank has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Bank's assets and liabilities.

(3) Presentation of items of Other Comprehensive Income

As a result of the amendments to IAS 1, the Bank has modified the presentation of items of other comprehensive income in its statement of profit or loss and other comprehensive income, to present separately items that would be reclassifies to profit or loss in the future from those that would never be.

(4) Defined benefit plans

As a result of changes in IAS 19 *Employee Benefits (2012)*, the Bank has changed its accounting policy in respect of actuarial gains and losses to recognising all actuarial gains and losses in other comprehensive income.

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.

The interest income related to loans with repayment delay over 180 days are reported as off balance receivables and are not relevant to the formation of the current financial result (the policy change is effective since October 12, 2012).

(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 – point (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. For items not subsequently measured at fair value through profit or loss transaction costs that are directly attributable to its acquisition or issue are included in the fair value at initial recognition.

(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, less principal repayments, adjusted with the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, less any reduction for impairment.

(4) *Fair value measurement principles*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(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 decreased, 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 and liabilities that are measured at fair value through profit or loss are those instruments 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 and subsequently accounted for depending on their classification as either held-to-maturity or available-for-sale. For investment securities measured subsequently not at fair value through profit or loss, incremental direct transaction costs are included in the fair value at initial measurement.

(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.

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 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) Property, plant and equipment

The Bank applies a policy to measure subsequently land and buildings from 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. The revaluation of 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, 2005 and 2012.

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

Assets acquired by the Bank against noncollectable loans in 2013 are represented in the statement of financial position at lower of cost and net realisable value.

Depreciation is provided on a straight-line basis at prescribed rates designed to write down the cost of property, plant and equipment over their expected useful life.

The following are approximations of the annual rates of depreciation used:

	%
• Buildings	2 - 15
• Machines and equipment	30
• Motor cars	25
• Vehicles (without motor cars)	10
• Computers, according to their class and useful life	12.5 - 100
• 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 amortization 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 - 100

(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 property, plant and equipment 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 current year 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.

Since 2013 the Bank recognises actuarial gain or loss, arising from defined benefit plans in the statement of comprehensive income. As actuarial gain or loss for 2012 is immaterial (BGN 279 thousand) it is recognised in other comprehensive income in 2013.

(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) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations, endorsed by the EC, are available for early adoption in the annual period ended 31 December 2013, although they are not yet mandatory until a later period. These changes to IFRS have not been applied in preparing these financial statements. The Bank does not plan to adopt these standards early.

Standards, Interpretations and amendments to published Standards that are not yet effective and have not been early adopted – endorsed by the EC

- IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosures of Interests in Other Entities, 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) shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Bank does not expect IAS 27 (2011) to have material impact on the financial statements, since it does not results in a change in the entity's accounting policy.
- Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Bank does not expect the Amendments to have any impact on the financial statements since the Bank does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.

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.

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 instruments 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 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-2013	31-Dec-2012
Liquidity ratio	25.17%	20.49%

To analyze the liquidity, the Bank prepares a maturity table for assets and liabilities, in which the cash flow 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 2013

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	**168 389**	**168 400**	167 522	-	878	-	-
Loans from banks and financial institutions	**123 761**	**126 111**	81 215	450	4 766	27 243	12 437
Deposits from other customers	**6 998 934**	**7 082 716**	4 680 910	742 255	1 550 291	109 260	-
Current tax liabilities	**3 198**	**3 198**	-	3 198	-	-	-
Deferred tax liabilities	**9 005**	**9 005**	-	-	-	9 005	-
Provisions for contingent liabilities	**10 082**	**10 082**	-	600	5 902	3 580	-
Other and trading liabilities	**74 503**	**74 503**	57 715	630	14 135	2 023	-
Total liabilities	**7 387 872**	**7 474 015**	**4 987 362**	**747 133**	**1 575 972**	**151 111**	**12 437**
Unused loan commitments	-	563 902	563 902	-	-	-	-
Total liabilities and commitments	**7 387 872**	**8 037 917**	**5 551 264**	**747 133**	**1 575 972**	**151 111**	**12 437**

Residual contractual maturities of financial liabilities as of 31 December 2012

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	**206 837**	**206 853**	205 963	-	890	-	-
Loans from banks	**37 281**	**41 900**	33	550	2 677	30 340	8 300
Subordinated debt	**294 776**	**325 059**	1 980	-	5 941	317 138	-
Deposits from other customers	**6 625 278**	**6 732 675**	4 163 171	858 835	1 592 992	117 677	-
Current tax liabilities	**12 545**	**12 545**	460	12 085	-	-	-
Deferred tax liabilities	**9 021**	**9 021**	-	-	-	9 021	-
Provisions for contingent liabilities	**7 648**	**7 648**	-	600	4 069	2 979	-
Other and trading liabilities	**84 471**	**84 471**	70 112	-	12 254	2 105	-
Total liabilities	7 277 857	7 420 172	**4 441 719**	**872 070**	**1 618 823**	**479 260**	**8 300**
Unused loan commitments	-	395 152	395 152	-	-	-	-
Total liabilities and commitments	7 277 857	**7 815 324**	**4 836 871**	**872 070**	**1 618 823**	**479 260**	**8 300**

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.

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 2013

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	**9 853**	**-**	**-**	**-**	**-**	**252 292**	**262 145**
Fixed rate	33	-	-	-	-	-	33
Floating rate	9 820	-	-	-	-	-	9 820
Non-interest bearing	-	-	-	-	-	252 292	252 292
Financial assets held for trading	**-**	**14 659**	**37 873**	**13 377**	**170 584**	**427**	**236 920**
Fixed rate	-	14 659	37 873	13 377	170 584	-	236 493
Floating rate	-	-	-	-	-	-	-
Non-interest bearing	-	-	-	-	-	427	427
Loans and advances to banks and balances with the Central Bank	**840 410**	**-**	**-**	**-**	**-**	**624 826**	**1 465 236**
Fixed rate	840 410	-	-	-	-	-	840 410
Floating rate	-	-	-	-	-	-	-
Non-interest bearing	-	-	-	-	-	624 826	624 826
Loans and advances to other customers	**5 619 008**	**38 128**	**34 306**	**28 491**	**216 093**	**287 246**	**6 223 272**
Fixed rate	898	38 128	34 306	28 491	216 093	-	317 916
Floating rate	5 618 110	-	-	-	-	-	5 618 110
Non-interest bearing	-	-	-	-	-	287 246	287 246
Investment securities	**16 051**	**9 844**	**7 860**	**30 071**	**219 165**	**29 550**	**312 541**
Fixed rate	-	9 844	7 614	30 071	219 165	-	266 694
Floating rate	16 051	-	246	-	-	-	16 297
Non-interest bearing	-	-	-	-	-	29 550	29 550
Total assets	**6 485 322**	**62 631**	**80 039**	**71 939**	**605 842**	**1 194 341**	**8 500 114**
Fixed rate	841 341	62 631	79 793	71 939	605 842	-	1 661 546
Floating rate	5 643 981	-	246	-	-	-	5 644 227
Non-interest bearing	-	-	-	-	-	1 194 341	1 194 341
Deposits from banks	**161 861**	**-**	**867**	**-**	**-**	**5 661**	**168 389**
Fixed rate	161 826	-	867	-	-	-	162 693
Floating rate	35	-	-	-	-	-	35
Non-interest bearing	-	-	-	-	-	5 661	5 661
Loans from banks and financial institutions	**112 013**	**11 748**	**-**	**-**	**-**	**-**	**123 761**
Fixed rate	82 737	-	-	-	-	-	82 737
Floating rate	29 276	11 748	-	-	-	-	41 024
Non-interest bearing	-	-	-	-	-	-	-
Deposits from other customers	**6 733 782**	**254 251**	**1 416**	**-**	**-**	**9 485**	**6 998 934**
Fixed rate	589 079	254 251	1 416	-	-	-	844 746
Floating rate	6 144 703	-	-	-	-	-	6 144 703
Non-interest bearing	-	-	-	-	-	9 485	9 485

Total liabilities	**7 007 656**	**265 999**	**2 283**	**-**	**-**	**15 146**	**7 291 084**
Fixed rate	833 642	254 251	2 283	-	-	-	1 090 176
Floating rate	6 174 014	11 748	-	-	-	-	6 185 762
Non-interest bearing	-	-	-	-	-	15 146	15 146

Interest sensitivity table as of 31 December 2012

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	**9 444**	**-**	**-**	**-**	**-**	**239 949**	**249 393**
Fixed rate	7	-	-	-	-	-	7
Floating rate	9 437	-	-	-	-	-	9 437
Non-interest bearing	-	-	-	-	-	239 949	239 949
Financial assets held for trading	**-**	**-**	**-**	**37 148**	**68 821**	**2 058**	**108 027**
Fixed rate	-	-	-	37 148	68 821	-	105 969
Floating rate	-	-	-	-	-	-	-
Non-interest bearing	-	-	-	-	-	2 058	2 058
Loans and advances to banks and balances with the Central Bank	**622 730**	**38 497**	**-**	**-**	**-**	**526 199**	**1 187 426**
Fixed rate	622 730	-	-	-	-	-	622 730
Floating rate	-	38 497	-	-	-	-	38 497
Non-interest bearing	-	-	-	-	-	526 199	526 199
Loans and advances to other customers	**5 804 099**	**5 734**	**92 929**	**71 687**	**259 800**	**310 351**	**6 544 600**
Fixed rate	7 871	5 734	92 929	71 687	259 800	-	438 021
Floating rate	5 796 228	-	-	-	-	-	5 796 228
Non-interest bearing	-	-	-	-	-	310 351	310 351
Investment securities	**18 803**	**47 523**	**1 306**	**17 752**	**151 273**	**29 541**	**266 198**
Fixed rate	-	3 063	1 017	17 752	151 273	-	173 105
Floating rate	18 803	44 460	289	-	-	-	63 552
Non-interest bearing	-	-	-	-	-	29 541	29 541
Total assets	**6 455 076**	**91 754**	**94 235**	**126 587**	**479 894**	**1 108 098**	**8 355 644**
Fixed rate	630 608	8 797	93 946	126 587	479 894	-	1 339 832
Floating rate	5 824 468	82 957	289	-	-	-	5 907 714
Non-interest bearing	-	-	-	-	-	1 108 098	1 108 098
Deposits from banks	**195 694**	**-**	**875**	**-**	**-**	**10 268**	**206 837**
Fixed rate	195 663	-	875	-	-	-	196 538
Floating rate	31	-	-	-	-	-	31
Non-interest bearing	-	-	-	-	-	10 268	10 268
Loans from banks	**27 493**	**-**	**9 788**	**-**	**-**	**-**	**37 281**
Fixed rate	25 507	-	-	-	-	-	25 507
Floating rate	1 986	-	9 788	-	-	-	11 774
Non-interest bearing	-	-	-	-	-	-	-
Subordinated debt	**294 776**	**-**	**-**	**-**	**-**	**-**	**294 776**
Fixed rate	-	-	-	-	-	-	-
Floating rate	294 776	-	-	-	-	-	294 776
Non-interest bearing	-	-	-	-	-	-	-
Deposits from other customers	**6 277 198**	**343 143**	**1 501**	**-**	**-**	**3 436**	**6 625 278**
Fixed rate	754 864	343 143	1 501	-	-	-	1 099 508
Floating rate	5 522 334	-	-	-	-	-	5 522 334
Non-interest bearing	-	-	-	-	-	3 436	3 436

Total liabilities	**6 795 161**	**343 143**	**12 164**	**-**	**-**	**13 704**	**7 164 172**
Fixed rate	976 034	343 143	2 376	-	-	-	1 321 553
Floating rate	5 819 127	-	9 788	-	-	-	5 828 915
Non-interest bearing	-	-	-	-	-	13 704	13 704

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 fluctuations 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 fluctuations of foreign currencies rates different from Euro. DSK Bank senior management 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 impact 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 2013 and 2012 are as follows:

In thousands of BGN	**2013**	**2012**
At 31 December	17	59
Average for the period	16	10
Maximum for the period	81	59
Minimum for the period	1	1

VaR model has some limitations such as the possibility of losses with greater frequency and with larger amount, than the expected ones. 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 2013 and 2012 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.

(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. 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 to banks and other customers - not impaired

In thousands of BGN	31-Dec-2013		31-Dec-2012	
	to customers*	**to banks***	**to customers***	**to banks***
Past due 0 days	2 398 856	1 465 236	2 453 161	1 148 929
Past due up to 30 days	407 425	-	478 058	-
Past due 31-60 days	87 071	-	116 654	-
Past due 61-90 days	71 786	-	70 519	-
Past due over 90 days	38 228	-	51 224	-
Total	**3 003 366**	**1 465 236**	**3 169 616**	**1 148 929**

*The table above set out information about loans and advances carried at amortised cost.

Loans and advances to banks and other customers – impaired

In thousands of BGN	31-Dec-2013		31-Dec-2012	
	to banks**	**Net value*****	**to banks****	**Net value*****
Past due 0 days	-	-	39 587	38 497
	to customers**	**Net value*****	**to customers****	**Net value*****
Past due 0 days	2 616 962	2 489 436	2 640 074	2 540 228
Past due up to 30 days	391 489	357 246	484 053	441 768
Past due 31-60 days	51 870	39 949	58 485	48 096
Past due 61-90 days	26 801	20 132	36 985	26 818
Past due over 90 days	1 026 518	313 143	1 034 811	318 074
Total	**4 113 640**	**3 219 906**	**4 254 408**	**3 374 984**

incl. individually impaired due to:				
Past due	1 174 061	435 969	1 298 887	553 111
Financial instability	152 431	84 552	120 034	65 407
	1 326 492	**520 521**	**1 418 921**	**618 518**

**The table above set out information about loans and advances carried at amortised cost.
*** Included in the column *Net value* are loans and receivables carried at amortised cost net of impairment allowance.

The policy of DSK Bank is to require that prior to disbursement of loans 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 credit exposures

Type of credit exposure	**Principal type of collateral**	**Percentage of exposure, subject to an agreement, requiring collateral 2013**	**2012**
Advances to banks and other financial institutions			
Repurchase agreements	Quoted securities	over 50	over 50
Loans and advances to banks	None	-	-
Loans to individuals			
Mortgage Loans	Residential or non-residential property	100	100
Consumer Loans	Mortgage, cash and other collateral*	100	100
Credit cards	None	-	-
Loans to corporate customers			
Corporate loans	Mortgage, pledge of whole enterprise, pledge of prperty, plant and equipment, pledge of goods in turnover, pledge of short-term assets, cash, financial and other collateral*	100	100
	Guaranteed on National Guarantee Fund schemes	100	up to 50

* Other collateral includes: promissory note; warranty; pledge of receivable on employment, freelance and other assimilated to them contracts; pledge of receivable on accounts; life insurance

The table below set out information about collateral of loans and receivable to banks and other customers that have not been impaired, measured at value set in accordance with Bank policy to the amount of loans extended.

Collateral held against loans and advances to banks and other customers not impaired

In thousands of BGN	**31-Dec-2013**	**31-Dec-2012**
Loans and advances not past due		
Mortgage	2 075 375	2 147 160
Cash collateral	10 577	16 846
Securities	21 551	26 568
Other types of collateral	179 226	166 735
	2 286 729	**2 357 309**
Loans and advances past due		
Mortgage	575 351	680 054
Cash collateral	1 324	507
Other types of collateral	9 118	12 506
	585 793	**693 067**
Total	**2 872 522**	**3 050 376**

The table below set out information about collateral of loans and receivable to banks and other customers that have been impaired, measured at value set in accordance with Bank policy to the amount of loans extended.

Collateral held against impaired loans and advances to banks and other clients

In thousands of BGN	**31-Dec-2013**	**31-Dec-2012**
Mortgage	1 024 515	1 010 936
Cash collateral	617	717
Other types of collateral	2 779 169	2 975 601
Total	**3 804 301**	**3 987 254**

The table below set out information about collateral of loans and receivable to banks and other customers both impaired and not impaired, measured at value determined in accordance with Bank policy to the amount of loans extended as well as the amortised cost of loans that have no collateral.

Loans and advances to banks and other customers by type of collateral

In thousands of BGN	**31-Dec-2013**	**31-Dec-2012**
Secured by mortgages	3 675 241	3 838 150
Cash collateral	12 518	18 070
Other types of collateral*	2 989 064	3 181 410
Without collateral	1 905 419	1 574 910
Total	**8 582 242**	**8 612 540**

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

Included in loans and advances and collaterals held are the receivables on repurchase agreements. The table below represents the carrying amount of repurchase agreements and the collateral held.

Repurchase agreements

In thousands of BGN	31-Dec-2013		31-Dec-2012	
	Carrying amount	**Collateral**	**Carrying amount**	**Collateral**
Advances to banks	-	-	26 143	25 705
Advances to financial institutions	1 004	974	-	-
Total	**1 004**	**974**	**26 143**	**25 705**

Residential mortgage lending

The table below represents credit exposures from housing and mortgage loans to individual customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral.

In thousands of BGN	31-Dec-2013	31-Dec-2012
Loan to value (LTV) ratio		
LTV ≤ 50 %	324 175	362 165
50 % < LTV ≤ 70 %	446 935	521 887
70 % < LTV ≤ 90 %	686 949	707 830
90 % < LTV ≤ 100 %	208 337	212 021
100 % < LTV	811 157	749 863
Total	**2 477 553**	**2 553 766**

As of December 31, 2013 and December 31, 2012 the commitments to extend housing or mortgage loans are not significant and therefore ratios are not calculated.

DSK Bank provides credits after credibility analysis of the client. It is the Bank's policy that risk assumption is based on detailed anlysis of inherent risks. The goal is to assume risks to clients, who are expected to be able to generate the sufficient cash flows for servicing the debt throughout the lifetime of the loans. 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, debt restructuring including.

Restructured loans

Type of restructuring	31-Dec-2013 gross value	31-Dec-2013 impairment loss	31-Dec-2012 gross value	31-Dec-2012 impairment loss
In thousands of BGN				
Mortgage Loans to individuals				
Combination	2 944	944	2 122	407
Debt consolidation loan with mortgage	9 692	2 562	8 258	1 705
Other	188 094	50 049	150 167	43 067
Prolongation	37 277	15 156	43 220	12 865
Suspension	234 280	103 677	249 975	96 294
Consumer Loans to individuals				
Combination	695	62	1 077	375
Debt consolidation loan with mortgage	26 449	5 855	26 105	6 306
Other	76 659	20 649	90 491	33 329
Prolongation	7 512	2 112	10 388	3 675
Suspension	16 754	4 695	27 827	11 087
Loans to corporate customers				
Combination	11 810	6 077	11 224	5 640
Debt consolidation loan with mortgage	6 195	1 825	6 994	1 760
Other	231 790	138 521	314 087	132 986
Prolongation	40 926	12 692	40 050	4 877
Suspension	10 620	6 422	11 205	6 014
Total	**901 697**	**371 298**	**993 190**	**360 387**

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 to other customers neither past due nor impaired

In thousands of BGN	31-Dec-2013	31-Dec-2012
PD category boundaries		
PD ≤ 0.01	729 863	622 186
0.01 < PD ≤ 0.05	1 119 266	1 061 673
0.05 < PD ≤ 0.10	301 262	307 484
0.10 < PD ≤ 0.20	98 823	181 157
0.20 < PD ≤ 0.30	25 977	61 245
0.30 < PD ≤ 0.50	11 667	53 076
0.50 < PD	23 525	30 389
not rated	88 473	135 951
Total	**2 398 856**	**2 453 161**

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-2013	31-Dec-2012	31-Dec-2013	31-Dec-2012	31-Dec-2013	31-Dec-2012
Sovereign	-	-	-	-	437 882	257 927
State Budget	12 327	13 752	-	-	-	-
International banks for development	-	-	-	-	2 067	7 146
Banks, incl. the Central Bank	-	-	1 465 236	1 188 516	38 791	8 213
Manufacturing	623 937	644 036	-	-	-	-
Construction	224 701	240 653	-	-	-	-
Agriculture and forestry	114 006	100 992	-	-	-	-
Transport and communications	66 517	72 703	-	-	46 109	39 440
Trade and services	449 849	471 554	-	-	-	-
Hotels and catering	137 360	148 354	-	-	-	-
Financial and insurance activities	64 319	83 055	-	-	-	37 096
Real estate activities	293 623	312 703	-	-	-	-
Other industry sectors	121 968	175 698	-	-	223	16
Individuals	5 008 399	5 160 524	-	-	6	4
Equity investments	-	-	-	-	29 549	29 541
Total	**7 117 006**	**7 424 024**	**1 465 236**	**1 188 516**	**554 627**	**379 383**
Impairment for uncollectability	(893 734)	(879 424)	-	(1 090)	(5 166)	(5 158)
Total	**6 223 272**	**6 544 600**	**1 465 236**	**1 187 426**	**549 461**	**374 225**

Geographical analysis

	Loans and advances to customers 31-Dec-2013	Loans and advances to customers 31-Dec-2012	Loans and advances to banks 31-Dec-2013	Loans and advances to banks 31-Dec-2012	Investments 31-Dec-2013	Investments 31-Dec-2012
Europe	6 221 620	6 542 772	1 461 566	1 177 558	549 338	374 096
Asia	1 521	1 664	-	-	-	-
North America	81	112	3 670	9 868	123	129
South America	50	52	-	-	-	-
Total	**6 223 272**	**6 544 600**	**1 465 236**	**1 187 426**	**549 461**	**374 225**

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 Moody`s:

In thousands of BGN	31-Dec-2013	31-Dec-2012
Government bonds		
Rated Baa2	101 174	68 873
Rated Baa3	89 210	-
Corporate bonds		
Rated Ba3	-	37 096
Not rated	46 109	-
Fair value of derivatives		
Credit institutions	198	2 038
Other counterparties	229	20
Total	**236 920**	**108 027**

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 2013

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	434	47	1 365	91 900	7 428	-	101 174
Romania	-	185	38 021	11 982	-	-	50 188
Turkey	-	15 276	141	18 988	4 617	-	39 022
Corporate debt securities							
Bulgaria	-	728	-	45 381	-	-	46 109
Derivative instruments							
Bulgaria	192	125	-	-	-	-	317
Great Britain	1	-	-	-	-	-	1
Denmark	1	-	-	-	-	-	1
Hungary	13	42	53	-	-	-	108
Total	**641**	**16 403**	**39 580**	**168 251**	**12 045**	-	**236 920**
Investments							
Investments available for sale							
Government securities							
Bulgaria	2 644	4 018	7 614	175 472	43 285	-	233 033
Floating incom corporate equity investments							
Bulgaria	-	-	-	-	-	29 378	29 378
USA	-	-	-	-	-	123	123
Belgium	-	-	-	-	-	48	48
Corporate debt securities							
Hungary	-	-	364	33 063	-	-	33 427
European Investment Bank	-	-	13	2 054	-	-	2 067
Total	**2 644**	**4 018**	**7 991**	**210 589**	**43 285**	**29 549**	**298 076**

Investments held to maturity							
Government securities							
Bulgaria	3	6 766	79	6 367	1 250	-	14 465
Total	**3**	**6 766**	**79**	**6 367**	**1 250**	**-**	**14 465**
Total assets	**3 288**	**27 187**	**47 650**	**385 207**	**56 580**	**29 549**	**549 461**

Maturity analysis of investments according to country of the issuer as of 31 December 2012

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	352	-	1 008	58 874	8 639	-	68 873
Corporate debt securities							
The Netherlands	-	748	-	36 348	-	-	37 096
Derivative instruments							
Bulgaria	1	4	15	-	-	-	20
Hungary	55	47	1 936	-	-	-	2 038
Total	**408**	**799**	**2 959**	**95 222**	**8 639**	**-**	**108 027**
Investments							
Investments available for sale							
Government securities							
Bulgaria	1 728	4 030	7	134 920	33 585	-	174 270
Floating incom corporate equity investments							
Bulgaria	-	-	-	-	-	29 364	29 364
USA	-	-	-	-	-	129	129
Belgium	-	-	-	-	-	48	48
Corporate debt securities							
Bulgaria	-	619	1 017	38 821	-	-	40 457
European Investment Bank	-	1	5 032	2 113	-	-	7 146
Total	**1 728**	**4 650**	**6 056**	**175 854**	**33 585**	**29 541**	**251 414**
Investments held to maturity							
Government securities							
Bulgaria	6	110	79	6 940	7 649	-	14 784
Total	**6**	**110**	**79**	**6 940**	**7 649**	**-**	**14 784**
Total assets	**2 142**	**5 559**	**9 094**	**278 016**	**49 873**	**29 541**	**374 225**

(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 performed by 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 met, 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

- Behavioural PD models

The purpose of the behavioural PD model is to provide a reliable tool 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.

- Models assisting preliminary identification of potential problem loans

The purpose of the model is to distinguish potentially problem loans worsening of which as a result of particular events could probably lead to subsequent deterioration of the exposure of the Bank. When on the basis of the model high probability for deterioration of certain exposures is estimated, the Bank undertakes action connected with more intensive monitoring aiming minimisation of risk.

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 and communications, legal risk, human resources risk.

The management of operational risk at DSK Bank is coordinated by Operational Risk Management Committee (ORMC). It involves the heads of the major departments of DSK Bank Head Office. The meetings are held at the end of each quarter, as on these meetings a report is being presented for consideration for the level of operational risk and the planed measures for mitigation of operational risks, identified in the previous quarter. The main focus of ORMC activity is the prevention of operational risks by implementing a comprehensive approach, aiming at limiting preconditions, leading to operational events occurrence.

The responsibility for the development of the Operational risk management system is assigned to Operational Risk Management Department, an independent from the business units Department within the Credit and Risk management Division, headed 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 system is based on the so-called Risk responsible employees on management positions at Head office and branch network, which are responsible for the management of operational risk in their units, following the decentralized approach of operational risk management at OTP Group.

The methodology for potential risk identification is based on decentralised assessment performed by different units, using the methodological support from the Operational Risk Management Department. As part of this process, the so-called scenario analysis are prepared, aimed to assess the potential effect of the occurrence of rare events with adverse effects on the Bank's business.

Methodology for stress testing analyzing based on Monte Carlo simulations, which helps the assessment of the capital adequacy sufficiency of DSK Bank is developed and implemented.

The developed rules and procedures for monitoring and evaluation of operational risk are in line with the recommendations of the Bulgarian National Bank (BNB), the standards of the OTP Group and best banking practice in operational risk management

Operational risk management includes activities such as identifying and registering the bearers of the operational 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.

The operational risk management system is subject to regular inspections by the "Banking Supervision" Directorate of BNB, "Internal control and audit" Directorate of DSK Bank and specialized audits, initiated and implemented as a program of OTP Bank. For the 2013 the conclusions in all audit reports are that there is an established organization, procedures and controls for operational risk management, which are adequate to the scale of the activity, the constantly changing environment and the development of the Bank.

During the 2013 year there are no registered events, which could potentially 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.

On 20 October 2008 OTP Financing Netherlands B.V. granted a loan facility amounts to EUR 150 million in the form of subordinated term debt that is fully repaid in October 2013. 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 2012 the subordinated debt recognised as Tier II capital amounts to BGN 176 025 thousand. As of 31 December 2013 subordinated term debt is fully repaid.

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 2013 the Bank has accrued specific provisions for credit risk on the amount of 78 627 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-2013	31-Dec-2012
Original own funds	**1 107 566**	**1 110 874**
Paid up capital	153 984	153 984
Reserves	960 214	960 214
Valuation differences in AFS debt securities	(2 482)	(1 549)
Funds for general banking risks	21 994	21 994
Intangible assets	(26 144)	(23 769)
Additional own funds	**81 220**	**257 168**
Revaluation reserves from premises used for banking activity	81 220	81 143
Subordinated Debt - maximum 50 % of Original own funds	-	176 025
Deductions from original and additional own funds	**(101 682)**	**(106 090)**
Holdings in other credit and financial institutions amounting to more than 10% of their capital	(11 955)	(11 955)
Country-specific deductions from original and additional own funds	(11 100)	(11 100)
Specific provisions	(78 627)	(83 035)
Proportionate distribution of deductions		
Of which: from original own funds	(50 841)	(53 045)
Of which: from additional own funds	(50 841)	(53 045)
Total original own funds for general solvency purposes - Tier I Capital	**1 056 725**	**1 057 829**
Total additional own funds for general solvency purposes- Tier II Capital	**30 379**	**204 123**
Total own funds for solvency purposes	**1 087 104**	**1 261 952**

Capital ratios

	31-Dec-2013	31-Dec-2012
Solvency ratio (%)	16.36%	18.89%
Original own funds ratio (%)	15.90%	15.83%

The policy of the Bank management and allocation of capital is determined by Managament Board. Allocation of capital between different operations and activities aims to optimise the profitability of the allocated capital. The process is managed by ALCO by reviewing the level of credit, market and operational risks undertaken by the Bank. The Bank together with OTP perform internal analysis of the size, type and allocation of the required capital and assess the need of increase in regulatory required capital.

(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 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. 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 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 (Level 2) 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 (Level 3) 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. 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-2013				
Financial assets held for trading	190 384	46 536	-	236 920
incl. derivatives	-	427	-	427
Investments available for sale	268 527	430	29 119	298 076
Total	**458 911**	**46 966**	**29 119**	**534 996**
31-Dec-2012				
Financial assets held for trading	68 873	39 154	-	108 027
incl. derivatives	-	2 058	-	2 058
Investments available for sale	181 416	40 873	29 125	251 414
Total	**250 289**	**80 027**	**29 125**	**359 441**

The movement of the Level 3 financial instruments during six-month period ended 31 December 2013 is as follows:

In thousands of BGN	**Financial assets available for sale**
Balance at 1 January 2013	**29 125**
Decrease	
Losses recognised in profit or loss	(6)
Balance at 31 December 2013	**29 119**

Level 3 includes equity instruments at the amount of 29 119 measured at cost, since their fair values could not be reliably determined

The following table analyses the fair values of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised:

In thousands of BGN	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Total carrying amount**
Assets					
Cash and current accounts with domestic and foreign banks	-	262 145	-	262 145	262 145
Loans and advances to banks and balances with the Central Bank	-	1 465 236	-	1 465 236	1 465 236
Loans and advances to other customers	-	-	6 340 436	6 340 436	6 223 272
Investments held to maturity	14 861	518	-	15 379	14 465
Liabilities					
Deposits from banks	-	168 389	-	168 389	168 389
Loans from banks and financial institutions	-	123 761	-	123 761	123 761
Deposits from other customers	-	6 999 274	-	6 999 274	6 998 934

The fair value of Cash equivalents, loans and receivables to banks, loans and deposits from banks is approximately equal to their carrying value because of their short-term maturity.

The fair value of loans to non-financial institutions and other customers is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes expected lifetime credit losses, market interest rates and forecast analyses.

To improve the accuracy of the valuation estimate loans are grouped into portfolios with similar characteristics such as product type, borrower type, maturity, currency, collateral type.

The fair value of deposits form banks and other financial institutions, deposits from non-financial institutions and other customers and other borrowed funds is estimated using discounted cash flow techniques, applying the rates that are currently offered in the country for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

(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	2013	2012
Interest income		
Loans and advances to banks	16 683	29 145
Loans and advances to other customers	583 753	651 521
Investments available for sale	10 414	7 192
Investments held to maturity	745	901
Total	**611 595**	**688 759**
Interest expense		
Deposits from banks	(245)	(957)
Loans from banks and financial institutions	(992)	(1 294)
Subordinated debt	(6 655)	(18 998)
Deposits from other customers	(133 659)	(166 872)
Total	**(141 551)**	**(188 121)**
Net interest income	**470 044**	**500 638**

The effect from interest income on individually impaired loans and advances to customers in the income statement is BGN 12 615 thousand for 2013 and BGN 17 213 thousand for 2012.

5. Net fee and commission income

In thousands of BGN	2013	2012
Fee and commission income		
In Bulgarian Leva		
Payment and settlement transactions	33 073	32 519
Credit related deals	24 434	22 378
Deposit related deals	28 647	26 229
Other	8 238	8 066
	94 392	**89 192**
In foreign currencies		
Payment and settlement transactions	10 408	9 791
Credit related deals	11 204	12 608
Deposit related deals	1 228	1 166
Other	1 343	1 230
	24 183	**24 795**
Total	**118 575**	**113 987**
Fee and commission expense		
In Bulgarian Leva	(11 530)	(8 692)
In foreign currencies	(2 077)	(1 770)
Total	**(13 607)**	**(10 462)**
Net fee and commission income	**104 968**	**103 525**

6. Net trading income

In thousands of BGN	2013	2012
Interest rate instruments	4 041	5 915
Foreign exchange trading	7 914	7 777
Other	(380)	(4)
Net trading income	**11 575**	**13 688**

7. Net operating income

In thousands of BGN	2013	2012
Net income of available-for-sale securities		
Government bonds	115	53
Corporate bonds	32	8
Dividends	617	563
Foreign exchange gain	788	3 673
Sale of financial assets	20 510	42 756
Other	2 961	11 777
Other operating income	**25 023**	**58 830**

The income from sale of financial assets amounting to BGN 20 510 thousand and BGN 42 756 thousand for 2013 and 2012 respectively are result from sell of problem loan portfolio.

8. Personnel expenses

In thousands of BGN	2013	2012
Wages and salaries	(65 296)	(62 128)
Compulsory obligations	(15 911)	(14 892)
Provisions on pension severance payments under Labour Code	(668)	(731)
Other	(1 381)	(1 454)
Administrative expenses	**(83 256)**	**(79 205)**

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 which in 2013 increase with BGN 668 thousand and with BGN 731 thousand for 2012 and includes them in the financial statements according to IAS 19, Employee benefits.

The average staff in the Bank is 3 702 for 2013 and 3 656 for 2012.

9. Impairment losses

In thousands of BGN	2013	2012
Impairment losses for loans and advances to customers and other assets	(635 840)	(812 821)
Reversals of impairment losses of loans and advances to customers and other assets	479 992	590 502
Impairment loss of materials	(305)	-
Net impairment losses (notes 14, 15 и 19)	**(156 153)**	**(222 319)**

10. Other expenses

In thousands of BGN	2013	2012
Materials, rent, audit and other services	(73 654)	(72 167)
Operating lease expenses	(911)	(1 030)
Deposits Guarantee Fund instalment	(31 857)	(29 854)
Tax expenses	(13 743)	(13 868)
Provisions for contingent liabilities	(1 939)	(601)
Other expenses	(3 489)	(3 283)
Total	**(125 593)**	**(120 803)**

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	2013	2012
Current tax expense	(21 613)	(23 345)
Deferred tax income related to origination and reversal of temporary tax differences	124	1 812
Income tax expense	**(21 489)**	**(21 533)**

In thousands of BGN	**2013**	**2012**
Net income before income tax	215 280	213 386
Income tax using the statutory corporate tax rate	(21 528)	(21 339)
Tax on permanent tax differences	39	(194)
Income tax expense	**(21 489)**	**(21 533)**
Effective tax rate	9.98%	10.09%

Current taxes are calculated using a tax rate of 10 % for 2013 and 2012.

12. Cash and current accounts with domestic and foreign banks

In thousands of BGN	**31-Dec-2013**	**31-Dec-2012**
Cash on hand		
In Bulgarian Leva	206 028	196 184
In foreign currencies	45 082	41 951
Current accounts with domestic and foreign banks		
In Bulgarian Leva	382	158
In foreign currencies	10 653	11 100
Total	**262 145**	**249 393**

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-2013**	**31-Dec-2012**
Government securities – Republic of Bulgaria denominated in Bulgarian Leva	22 030	3 408
incl. pledged assets	17 834	-
Government securities – Republic of Bulgaria denominated in foreign currencies	79 144	65 465
incl. pledged assets	61 045	-
Domestic issuers debt securities denominated in foreign currencies	46 109	-
Foreign issuers debt securities denominated in foreign currencies	89 210	37 096
Positive fair value of derivatives	427	2 058
Total	**236 920**	**108 027**

Government securities issued by the Bulgarian government comprise coupon and discount securities denominated in BGN and EUR. The BGN denominated government securities earn interest between 4.25 % and 5.00 % and government securities denominated in EUR earn interest between 3.50 % and 4.25 %. Interest income from domestic issuers debt securities in EUR is 6 %. Foreign issuers securities denominated in USD earn interest of 7.25 % and denominated in EUR earn interest between 3.25 % and 6.5 %.

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

(a) Analysis by type

In thousands of BGN	31-Dec-2013	31-Dec-2012
Balances with Central Bank		
In Bulgarian Leva	622 321	524 187
In foreign currencies	2 505	2 012
Deposits with domestic and foreign banks		
In Bulgarian Leva	100	-
In foreign currencies	840 310	596 587
Loans under repurchase agreements	-	26 143
Loans to foreign banks	-	39 587
Impairment loss of loans to banks	-	(1 090)
Total	**1 465 236**	**1 187 426**

(b) Geographical analysis

In thousands of BGN	31-Dec-2013	31-Dec-2012
Domestic banks	624 826	552 342
Foreign banks	840 410	635 084
Total	**1 465 236**	**1 187 426**

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 552 505 thousand and BGN 510 740 thousand as of 31 December 2013 and 2012 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 sell them at future dates ("reverse repurchase agreements") and are presented as part of loans and advances to banks. As of 31 December 2013 and 31 December 2012 the term of repurchase of open repurchase transactions is seven days.

During 2012 the Bank extended a loan of EUR 20 000 thousand, which represents a part of a syndicated loan granted to OTP Bank. The loan is fully repaid on May 20, 2013.

15. Loans and advances to other customers

In thousands of BGN	31-Dec-2013	31-Dec-2012
Individuals		
In Bulgarian Leva		
Consumer loans	1 979 254	1 968 665
Mortgage loans	1 326 720	1 358 982
In foreign currencies		
Consumer loans	551 592	638 093
Mortgage loans	1 150 833	1 194 784
Companies		
In Bulgarian Leva		
Working capital loans	527 346	528 204
Investment loans	241 606	200 850
In foreign currencies		
Working capital loans	497 244	541 478
Investment loans	829 080	979 217
Loans under repurchase agreements	1 004	-
State Budget		
In Bulgarian Leva	9 514	10 665
In foreign currencies	2 813	3 086
Less impairment allowances	(893 734)	(879 424)
Total loans and advances to other customers	**6 223 272**	**6 544 600**

Impairment allowances of loans and advances to other customers

In thousands of BGN	31-Dec-2013	31-Dec-2012
Balance at 1 January	**879 424**	**985 396**
Net change for the year through profit or loss	155 871	221 011
Decrease	(141 561)	(326 983)
Balance at 31 December	**893 734**	**879 424**

The interest rates on receivables from loans as at 31 December 2013 are ranged as follows: receivables from individuals from 5.30 % to 34.81 %; receivables from companies from 0.23 % to 15.00 %; receivables from State Budget from 0.72 % to 7.82 %.

In accordance with the policy of DSK Bank in 2013 the sales of problem loans amount to the gross value of BGN 146 602 thousand and impairement allowance of BGN 142 720 thousand respectively.

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

In thousands of BGN	31-Dec-2013	31-Dec-2012
Investments in subsidiaries and associated companies	23 055	23 055
Other equity investments	6 494	6 486
Bulgarian debt securities available for sale	233 033	214 727
Government debt securities included	233 033	174 270
Foreign debt securities available for sale	40 660	12 304
Total investments available for sale	**303 242**	**256 572**
Impairment loss of investment available for sale	(5 166)	(5 158)
Balance amount of investment available for sale	**298 076**	**251 414**
Bulgarian debt securities held to maturity	14 465	14 784
Government debt securities included	14 465	14 784
Total investments held to maturity	**14 465**	**14 784**
Total investments	**312 541**	**266 198**

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

Government debt securities held to maturity represent bonds denominated in EUR earning interest at 6.00 %, and denominated in USD earning interest at 0.44555 %. 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 at 4.45 %.

Domestic debt securities available for sale represent bonds: denominated in BGN earning interest between 3.00 – 5.20 %; denominated in EUR earning interest between 0.33 - 5.75 %, and denominated in USD earning interest between 0.44555 - 8.25 %. Foreign issuers debt securities represent bonds denominated in EUR earning interest at 3.125 % and OTP Bank bonds earning interest at 5.875 %.

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 debt securities issued by foreign companies.

Securities held-to-maturity and available for sale pledged as collateral as of 31 December 2013 are blocked in favour of Ministry of Finance on deposits from the State Budget at the amount of BGN 211 661 thousand.

17. Property, plant and equipment

Movement of property, plant and equipment during the year 2013

In thousands of BGN	**Land and buildings**	**IT equipment**	**Office equipment**	**Other equipment**	**Total**
Cost or revalued amount					
As of 31 December 2012	287 837	106 664	70 187	29 860	494 548
Additions	2 067	-	-	29 311	31 378
Disposals	(2 448)	(2 176)	(1 162)	(2 489)	(8 275)
Transfers	22 319	4 711	5 609	(32 639)	-
Cost or revalued amount as of 31 December 2013	**309 775**	**109 199**	**74 634**	**24 043**	**517 651**
Depreciation					
As of 31 December 2012	51 154	87 133	36 196	450	174 933
Charge for the period	5 409	8 433	8 741	9	22 592
Disposals	(530)	(2 137)	(991)	-	(3 658)
Depreciation as of 31 December 2013	**56 033**	**93 429**	**43 946**	**459**	**193 867**
Net book value 31 December 2013	**253 742**	**15 770**	**30 688**	**23 584**	**323 784**
Net book value 31 December 2012	**236 683**	**19 531**	**33 991**	**29 410**	**319 615**

Movement of property, plant and equipment during the year 2012

In thousands of BGN	**Land and buildings**	**IT equipment**	**Office equipment**	**Other equipment**	**Total**
Cost or revalued amount					
As of 31 December 2011	250 175	104 018	61 378	28 517	444 088
Additions	2 834	-	-	40 516	43 350
Disposals	(1 812)	(6 683)	(1 203)	(705)	(10 403)
Transfers	19 127	9 329	10 012	(38 468)	-
Revaluation	17 513	-	-	-	17 513
Cost or revalued amount as of 31 December 2012	**287 837**	**106 664**	**70 187**	**29 860**	**494 548**
Depreciation					
As of 31 December 2011	41 614	82 270	28 666	513	153 063
Charge for the period	5 900	11 520	8 301	20	25 741
Disposals	(330)	(6 657)	(771)	(83)	(7 841)
Revaluation	3 970	-	-	-	3 970
Depreciation as of 31 December 2012	**51 154**	**87 133**	**36 196**	**450**	**174 933**
Net book value 31 December 2012	**236 683**	**19 531**	**33 991**	**29 410**	**319 615**
Net book value 31 December 2011	**208 561**	**21 748**	**32 712**	**28 004**	**291 025**

In "Land and buildings" are included leasehold improvements to the amount of BGN 1 630 thousand as of 31 December 2013 and BGN 1 980 thousand as of 31 December 2012.

In "Other equipment" are included property, plant and equipment under construction to the amount of BGN 23 520 thousand as of 31 December 2013 and BGN 29 337 thousand as of 31 December 2012.

The fair value of land and buildings was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. As at 31 December 2013 the fair value of land and buildings is not significantly different than their book value as at the same date. The fair value of land and buildings is categorized as Level 3 based on the inputs of the valuation technique used.

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Depreciated replacement method The method is based on construction expenses. The value of the property is evaluated as a sum of land value including buildings equipment and infrastructure on it. The value of the land is evaluated on the market analogues adjusting for comparable market costs. The share of the land in the total value depends on its location, possible and actual construction and depreciation of the buildings. The new investment value of buildings is evaluated through adjustment of common production cost for a unit of area with ratios for: physical obsolescence, removable construction defects and damages, functional obsolescence, economic impairment/overestimation, supplement for luxury. *Capitalisation of income method* The fair value is defined from the ability of the property to generate future benefits. The value is estimated through adjustment of the market net annual rental income with a rate for payback period. *Comparative value method* The depreciated recoverable amount is determined using market adjustments by means of factors for economic impairment/overestimation based on the market price of property in particular built-up area and the level of supply and demand. The information used is for selling price of property adjusted with factors for location, size, state etc.	1. Costs of administering the property as percentage of its gross annual income; 2. Rate of return on income from property; 3. Adjusting factors in terms of similar market transactions.	The estimated fair value would increase (decrease) if: • the percentage of administering costs is decreased (increased); • the rates of return are decreased (increased); • the adjusting factors are increased (decreased).

18. Intangible assets

Movement of intangible assets during 2013

In thousands of BGN	Intangible assets	Assets under construction	Total
Cost or revalued amount			
As of 31 December 2012	80 715	7 033	87 748
Additions	-	11 133	11 133
Disposals	(4 909)	(21)	(4 930)
Transfers	9 637	(9 637)	-
Cost or revalued amount as of 31 December 2013	**85 443**	**8 508**	**93 951**
Depreciation			
As of 31 December 2012	63 979	-	63 979
Charge for the period	8 736	-	8 736
Disposals	(4 908)	-	(4 908)
Depreciation as of 31 December 2013	**67 807**	**-**	**67 807**
Net book value 31 December 2013	**17 636**	**8 508**	**26 144**
Net book value 31 December 2012	**16 736**	**7 033**	**23 769**

Movement of intangible assets during 2012

In thousands of BGN	Intangible assets	Assets under construction	Total
Cost or revalued amount			
As of 31 December 2011	84 217	4 765	88 982
Additions	-	9 508	9 508
Disposals	(10 742)	-	(10 742)
Transfers	7 240	(7 240)	-
Cost or revalued amount as of 31 December 2012	**80 715**	**7 033**	**87 748**
Depreciation			
As of 31 December 2011	59 431	-	59 431
Charge for the period	15 227	-	15 227
Disposals	(10 679)	-	(10 679)
Depreciation as of 31 December 2012	**63 979**	**-**	**63 979**
Net book value 31 December 2012	**16 736**	**7 033**	**23 769**
Net book value 31 December 2011	**24 786**	**4 765**	**29 551**

19. Other assets

In thousands of BGN	31-Dec-2013	31-Dec-2012
Deferred expenses	3 534	3 617
Materials, spare parts	1 664	2 202
Deficiencies in assets	2 308	2 339
Receivables in litigation	1 539	1 430
Acquired collaterals	4 556	-
Clearing and bank settlement assets	3 559	4 219
Other assets	18 313	17 349
Impairment allowances	(4 931)	(3 864)
Total	**30 542**	**27 292**

20. Deposits from banks and loans from banks and financial institutions

In thousands of BGN	31-Dec-2013	31-Dec-2012
Deposits from banks		
Term deposits	162 693	196 538
Current accounts	5 696	10 299
Total deposits from banks	**168 389**	**206 837**
Loans from banks		
Short term loans and loans under repurchase agreements	77 730	1 956
Long term loans	34 283	35 325
Loans from financial institutions		
Long term loans	11 748	-
Total loans from banks and financial institutions	**123 761**	**37 281**

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. As of December 31, 2012 the interest rate of the loan is 0.391 %. After the pay off of an year instalment of EUR 1 000 thousand the outstanding amount is EUR 5 000 thousand. As of December 31, 2013 the loan is repaid.

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. As of December 31, 2012 the interest rate of the loan is 5.00 %. As of December 31, 2013 the loan is repaid.

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, with two year disbursement term. As of December 31, 2012 the interest rate of the loan is 3.348 % and the outstanding amount is EUR 1 000 thousand. As of December 31, 2013 the loan is fully disbursed and the interest rates of the two tranches are 2.929 % and 2.8095 %.

On 20 April 2012 EBRD granted DSK Bank a loan for Residential Energy Efficiency Project to the amount of EUR 5 000 thousand. The loan is fully disbursed during 2013 and the interest rate as of December 31, 2013 is 3.048 %.

On 25 April 2012 EBRD granted DSK Bank a loan for SME's Energy Efficiency Project to the amount of EUR 10 000 thousand. As of December 31, 2013 the loan is not disbursed.

On 09 May 2012 Bulgarian Development Bank AD granted DSK Bank a 5-year loan to the amount of BGN 5 000 thousand, divided to two BGN 2 500 thousand tranches. The purpose of the loan is financing the commercial banks for SME's support. The interest rate of the loan is 4.00 %. As of December 31, 2012 the loan is fully disbursed.

DSK Bank sells financial instruments and with a contract is obliged to repurchase them on fixed date (repo-deals). The agreements are represented as loans from banks. As of December 31, 2013 the term for repurchase is up to seven days.

On 05 August 2013 DSK Bank and European Investment Fund (EIF) signed a loan contract for EUR 20 000 thousand. The purpose of the loan is granting preferential interest loans to SME's. As of December 31, 2013 EUR 6 000 thousand are disbursed and the interest rate is 0.975 %.

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 December 31, 2013 the loan is fully repaid.

22. Deposits from other customers

In thousands of BGN	**31-Dec-2013**	**31-Dec-2012**
Individuals		
In Bulgarian Leva		
Term deposits	1 888 755	1 999 369
Demand deposits	2 187 286	1 889 516
In foreign currencies		
Term deposits	999 509	1 046 984
Demand deposits	584 660	484 452
Companies		
In Bulgarian Leva		
Term deposits	138 147	201 127
Demand deposits	459 436	393 931
In foreign currencies		
Term deposits	153 454	116 634
Demand deposits	170 761	90 724
State Budget		
In Bulgarian Leva		
Term deposits	2 269	3 281
Demand deposits	162 764	160 788
In foreign currencies		
Term deposits	11 800	29 378
Demand deposits	8 685	5 919

Financial institutions		
In Bulgarian Leva		
Term deposits	53 023	119 228
Demand deposits	73 459	65 174
In foreign currencies		
Term deposits	9 350	12 474
Demand deposits	95 576	6 299
Total	**6 998 934**	**6 625 278**

The interest rates on deposits as at 31 December 2013 are ranged as follows: deposits from individuals from 0.10 % to 8.50 %; deposits from companies from 0.10 % to 7.30 %; deposits from State Budget from 0.10 % to 3.01 %; deposits from financial institutions from 0.10 % to 3.40 %.

23. Deferred Tax Liabilities

Deferred income taxes for 2013 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:

In thousands of BGN	**Assets** 2013	2012	**Liabilities** 2013	2012	**Net** 2013	2012
Pension severance payments under Labour Code and other personnel liabilities	(1 303)	(1 222)	-	-	(1 303)	(1 222)
Financial assets available for sale	(276)	(143)	709	576	433	433
Fixed assets	(145)	(150)	10 929	10 714	10 784	10 564
Contingent liabilities	(597)	(414)	-	-	(597)	(414)
Unused annual leave and other	(312)	(340)	-	-	(312)	(340)
Net deferred tax (assets)/liabilities	**(2 633)**	**(2 269)**	**11 638**	**11 290**	**9 005**	**9 021**

Movement in temporary differences during the year:

In thousands of BGN	**Balance as of 31 December 2012**	**Recognised in the income statement 2013**	**Recognised in equity 2013**	**Balance as of 31 December 2013**
Pension severance payments under Labour Code and other personnel liabilities	(1 222)	(81)	-	(1 303)
Financial assets available for sale	433	(103)	103	433
Fixed assets	10 564	215	5	10 784
Contingent liabilities	(414)	(183)	-	(597)
Unused annual leave and other	(340)	28	-	(312)
Total	**9 021**	**(124)**	**108**	**9 005**

24. Provisions for liabilities

In thousands of BGN	31-Dec-2013	31-Dec-2012
Pension severance payments under Labour Code	4 780	4 179
Provisions for contingent liabilities	5 302	3 469
Total	**10 082**	**7 648**

25. Other and trading liabilities

In thousands of BGN	31-Dec-2013	31-Dec-2012
Liabilities for centralisation of State Budget with BNB	18 380	29 094
Liabilities to personnel and management	11 268	11 371
Money transfers for execution	6 149	13 893
Negative Fair value of derivatives	622	59
Deferred income	2 930	2 930
Other	35 154	27 124
Total	**74 503**	**84 471**

26. Shareholders' equity

(a) Face value of registered shares

In thousands of BGN	31-Dec-2013	31-Dec-2012
Ordinary registered voting shares	153 984	153 984

(b) Retained earnings

Retained earnings comprise accumulated profit from prior periods.

(c) Revaluation reserve

The revaluation reserves comprise the revaluation surplus of assets, available for sale and property, 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 and reserve on remeasurements of defined benefit liability.

27. Contingent liabilities and commitments

(a) Off balance sheet liabilities and commitments

In thousands of BGN	**31-Dec-2013**	**31-Dec-2012**
Litigation against the Bank and other contingent liabilities	5 461	3 617
Bank guarantees and letters of credit		
in Bulgarian Leva	142 785	160 430
in foreign currencies	62 525	66 342
	205 310	**226 772**
Commitments for undrawn credit facilities		
in Bulgarian Leva	388 777	266 156
in foreign currencies	175 125	128 996
	563 902	**395 152**
Forward and spot deals - sell		
in Bulgarian Leva	205 367	180 139
in foreign currencies	230 994	379 463
	436 361	**559 602**
Total	**1 211 034**	**1 185 143**

Off balance sheet liabilities on forward and spot sells include currency exchange deals and securities deals.

(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 connected with legal proceedings

The Legal claims against DSK Bank and other commitment liabilities connected with legal proceedings amount to BGN 5 461 thousand (principal and accrued interest) as of December 31, 2013. For part of these legal claims and contingent liabilities the Bank's management believes that exists the likelihood of unfavourable outcome is probable so provisions at the amount of BGN 5 302 thousand (note 24) are allocated.

(d) Assets pledged as collateral

As of 31 December 2013 DSK Bank has pledged Government bonds to the amount of BGN 211 661 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.

Securities to the amount of BGN 78 879 thousand are pledged as collateral on repurchase agreements.

28. Cash and cash equivalents

In thousands of BGN	31-Dec-2013	31-Dec-2012
Cash on hand	251 110	238 135
Balances with the Central Bank	624 826	526 199
Receivables from bank with maturity up to 3 months	851 170	633 807
Total	**1 727 106**	**1 398 141**

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.

Subsidiaries

In thousands of BGN	% ownership	Balance value, 31.12.2013
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
Total		**22 666**

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

Controlled companies without equity investment

Since 2012 DSK Bank includes in its consolidated financial statements OTP Factoring Bulgaria EAD. The Bank excersices control on operational activity without having any equity investment in the capital of the company.

OTP Factoring was incorporated in 2010. The main activity is factoring, including buying and collecting of receivables. The sole owner of the capital (BGN 250 thousand) is OTP Faktoring Zrt, Hungary that is owed from OTP Bank, Hungary.

Associates

In thousands of BGN	**% ownership**	**Balance value, 31.12.2013**
DSK Leasing AD	49.10%	125
Cash Services Company AD	20.00%	2 490
Total		**2 615**

Net asset value

In thousands of BGN	**31-Dec-2013**	**31-Dec-2012**
DSK Leasing AD	5 099	4 206
Cash Services Company AD	12 813	12 366

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. The related party transactions as of and for the year ended 31 December 2013 are as follows:

In thousands of BGN

Related party	Type of transaction	Amount
Employees	Loans extended	57 858
Directors and executive officers	Loans extended	8 006
Subsidiaries	Current and deposit accounts with DSK Bank	18 258
Subsidiaries	Liabilities	189
Subsidiaries	Other receivables	2 317
Subsidiaries	Interest expense	446
Subsidiaries	Services expense	8 436
Subsidiaries	Services income	8
Subsidiaries	Rentals received	257
Subsidiaries	Rentals paid	20
Subsidiaries	Fees received	294
Associates	Current and deposit accounts with DSK Bank	579
Associates	Interest expense	48
Associates	Fees received	37
Associates	Granted bank guarantee	91
Associates	Services expense	1 336

OTP Bank	Current and deposit accounts in OTP Bank	839 778
OTP Bank	Bond issued by OTP Bank	33 427
OTP Bank	Current and deposit accounts in DSK Bank	140
OTP Bank	Fair value of derivatives	489
OTP Bank	Interest income	18 110
OTP Bank	Fees paid	143
OTP Bank	Fees received	64
OTP Bank	Liabilities for currency exchange contracts	163 522
OTP Bank	Receivables for currency exchange contracts	164 606
OTP Bank	Off balance liability on overdraft	1 600
Other Group members	Current and deposit accounts in Group members	23
Other Group members	Receivables	71
Other Group members	Liabilities	567
Other Group members	Current and deposit accounts in DSK Bank	1 481
Other Group members	Loans extended	40 530
Other Group members	Off balance liability on granted credit line	10 175
Other Group members	Interest income	2 435
Other Group members	Interest expense	6 760
Other Group members	Fees received	301
Other Group members	Fees paid	4 897
Other Group members	Rentals received	78
Other Group members	Services expense	268
Other Group members	Income from sale of loans	16 838

The remuneration of the key management personnel for 2013 includes current income amounting to BGN 3 189 thousand (2012: BGN 3 000 thousand).

DSK BANK EAD

Report on the Management and Activity

of DSK Bank

for the year ending 31 December 2013

Summary

In 2013 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 liquidity position of the banking system was preserved, but the management of the loan portfolio quality strongly influenced by the unfavorable environment, continued to be of high priority.

In 2013 DSK Bank managed to keep its leadership positions both in retail loan and deposit portfolios, as well as its stable liquidity and capital position. As at the end of 2013 the Bank takes a second position on the lending market with a share of 12.2% compared to 12.8% by the end of 2012. However, it has to be considered that during the year the Bank sold about BGN 132 m problem loans to the company OTP Factoring Bulgaria for the purpose of improving the process of problem loan management. On the deposit market the Bank also holds a second place in the banking system with a share of 11.3% compared to 11.5% at the end of 2012. In 2013 due to still limited potential on the lending market, DSK Bank continued to optimize the cost of funding allowing a decrease of about 0.2 pp of its deposit market share. Such policy was followed by most of the big banks on the market, which had a strong liquidity position and lost some market share on the account of banks with more aggressive price behavior. Thus, the Bank kept its stable interest spread and managed to compensate to a great extend the negative impact on the profitability of the still slowed down lending activity. The net income from banking activity registered a slight decrease of 9.6% compared to 2012 due to a decrease in net interest income and operating income. Net interest income and net fee and commission income dropped slightly compared to previous year due to the negative impact of the macro environment whereby the reasons are concentrated in the following major factors:

- Part of the negative effect from the sharp decrease of benchmark interest rates, which was observed during 2012, reflected in 2013 as a decrease in the interest income on yearly base, mainly in the net margin of the company loan portfolio
- The weak market potential for growing of the loan portfolio and at the same time the stable increase of the deposit market which released further free liquidity maintained at a negative margin
- Some changes in the accounting policy in regard to the balance sheet accrual of interest income on non-performing loans, effective from October 2012.

The Bank succeeded to compensate to a great extent these negative impacts through adequate and duly measures:

- Cost of funds management with a reasonable market share loss according to targets
- Pricing actualizations in the transactional services

In 2013 profit grew by 1.0% mainly as a result of lower impairment costs which decreased considerably compared to 2012. As a result of the continuously improving problem loans management process, the Bank succeeded to significantly improve the loan quality dynamic

and reported by the end of the year a better than the plan quality. At the same time the highly conservative impairment policy was preserved and the 2013 allocated impairment for loan loss generated a reasonable buffer in the provision to non-performing loans.

The cumulative interest spread was 5.2% (2012: 5.4%).

The successful management of the operating expenses also contributed to the good performance. The cost-to-income ratio was 39.3% by the end of 2013, which was much below the average of 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 2012 which reflects the weak positive economic changes in the operating environment of the Bank during the year. The coverage ratio of the loan portfolio with allowances for impairment was 12.56% as at the end of December 2013 compared to 11.85% in 2012.

Despite this the Bank considers the management of the loan portfolio in 2013 as successful, considering 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 83.9% on the non-performing loans including classified related exposures with no delay. The Bank is able to undertake unexpected unfavorable changes on a regional or product level or in a particular risk exposure.

In 2013 DSK Bank continued to offer mainly traditional loan products to households, keeping its leadership position in the banking system with 31.7% market share in consumer and 25.3% in mortgage loans.

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 2013 DSK Bank was managed by a six-member Supervisory Board and a six-member Management Board respectively with the following members:

Supervisory Board

László Bencsik - Deputy Chairman and Chief Financial Officer of OTP Bank
László Wolf - Member of the Supervisory Board
Dr. Frigyes Hárshegyi – Member of the Supervisory Board
András Takács – Member of the Supervisory Board
Gábor Kuncze – Member of the Supervisory Board
Zoltan Dencs – Member of the Supervisory Board

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 2013 DSK Bank has 9 regional centers, 41 financial centers, 93 branches, 93 affiliated offices, 136 bank offices and 914 representative offices in the country.

Financial result and profitability

The profit before tax amounted to BGN 215.3 m and reported a slight increase (1%) compared to 2012 mostly due to lower impairment expenses.

The profit after tax for the period ending 2013 was BGN 193.8 m.

The net interest income amounted to BGN 470.0 m and was lower than 2012 by BGN 30.6 m. Interest income decreased by BGN 77.2 m. Interest income from loans to individuals decreased year-on-year by BGN 45.5 m. Interest income from company loans decreased year-on-year by BGN 20 m. An essential part of this negative effect was the change in accounting policy in October 2012, when the Bank suspended the balance sheet accrual of interest income on loans with more than 180 days overdue. Other reasons for the interest income decrease were the stagnating portfolio volume, as well as the decrease of average benchmark interest rates in 2012 and 2013. A positive effect from the interest income decrease was the smaller amount of accrued penalty interests due to a slowdown in portfolio deterioration, which leads to less impairment expenses. Interest expenses decreased year-on-year by BGN 46.6 m as a result of the measures taken to reduce cost of funds.

Net non-interest income amounted to BGN 141.6 m for 2013 (a decrease of 19.6% or BGN 34.5 m compared to 2012).

The operating expenses stood at BGN 240.2 m, which was by BGN 0.8 m or 0.3% lower than 2012. The decrease was a result of lower depreciation costs (by BGN 9.6 m). An increase was registered in personnel expenses (by BGN 4.1 m), and in the annual deposit guarantee fund payment (increase of BGN 2.0 m).

The headcount of the Bank as of 31st December was 3 678 (2012: 3 690).

The assets per employee ratio increased from BGN 2.365 m as of the end of 2012 to BGN 2.415 m as of the end of 2013. The profit per employee ratio increased from BGN 52.0 thousand by the end of 2012 to BGN 52.7 thousand by the end of 2013.

Balance sheet indicators

The total assets of DSK Bank as at 31 December 2013 amounted to BGN 8 880.8 m and increased by BGN 154.5 m compared to 2012.

The market share of DSK Bank as of 31 December 2013 in the total banking assets in the country was 10.4% (2012: 10.6%)

Interest bearing assets comprised 83.7% of the Bank's total assets.

The net loan portfolio of the Bank amounted to BGN 6 223.3 m, which was by BGN 321.3 m or 4.9% lower than 2012.

Loans to individuals amounted to BGN 5 008.4 m and decreased by BGN 152.1 m (2.9%) compared to the previous year (mainly as a result of the portfolio of problem loans sold to the factoring company OTP Factoring Bulgaria).

At the end of 2013 the market share of the Bank in terms of household loans was 27.6%, in consumer loans – 29.9% and in mortgage loans – 25.3%. In 2012 they were respectively 28.6%, 31.4% and 25.8%. The market share decrease is mainly driven by the sold loans to OTP Factoring Bulgaria.

Company loans amounted to BGN 2 096.3 m. They decreased by BGN 153.5 m (6.8%) compared to 2012.

Loans to the budget were BGN 12.3 m and decreased by BGN 1.4 m compared to 2012.

Impairment allowance of the loan portfolio amounted to BGN 893.7 m and decreased by BGN 14.3 m compared to the previous year (the effect of net decrease is a result of the written-off impairment allocated to the portfolio of problem loans sold to OTP Factoring Bulgaria).

Customer deposits amounted to BGN 6 998.9 m. This represented an annual growth of 5.6% (BGN 373.6 m).

Household deposits as at the end of 2013 were BGN 5 660.2 m and increased by BGN 239.9 m or 4.4%.

The market share of the Bank in terms of household deposits as at the end of 2013 was 15.3% (2012: 16.0%).

Company deposits increased by BGN 119.4 m and at the end of the year amounted to BGN 921.8 m.

Deposits from the budget were BGN 185.5 m and decreased by BGN 13.8 m in 2013.

Deposits from financial institutions amounted to BGN 231.4 m and increased by BGN 28.2 m compared to 2012.

Card transactions

The issued cards by the Bank as of 31.12.2013 were 1 339.4 thousand and increased by 109 thousand compared to 2012. The debit cards amounted to 1 256.3 thousand and the credit cards were 75.2 thousand.

As of December 2013 the Bank operates with 873 ATM devices and 4 396 POS devices. During the year the Bank reported an increase in ATM devices by 5 units. 200 new POS devices were installed.

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 2013 the total capital adequacy ratio was 16.36%. In 2013 DSK Bank provided additional capital buffer of BGN 289 m above the requirements of the Bulgarian National Bank, despite the early repayment of the subordinated loan to OTP (EUR 150 m).

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 (70.4%), loans to companies (29.5%) and loans to the budget (0.2%). Within household loans the credit risk is well allocated between consumer loans (50.5%), which carry a higher risk for the Bank, but also a higher yield and housing 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 2013 was as follows:

Total loan portfolio – 12.56%

On the basis of related-parties classification of the quality:

- „regular" - 1.60%
- „watch" - 6.55%
- „non-performing" - 29.85%
- „loss"- 68.24%

The coverage of the „non-performing" and „loss" exposures with allocated loan loss impairment was 75.1%. The total coverage ratio increase by 0.82 pp on an annual basis. The coverage ratio of the non-performing and loss loans at the end of 2013 increased by 1.30 pp compared to 2012. 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 Centralized Commission for Problem Loans monitors on a monthly basis the limits compliance and imposes limitations and recommends measures in case of limit violations or indications for such.
The coverage ratio of non-performing and loss mortgage loans to individuals increased by 3.88 pp compared to 2012. Concerning the consumer loans the decrease in the same category was 5.51 pp. The coverage ratio of small and medium-sized enterprises and big corporate customers grew respectively by 7.82 pp and 0.29 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. For this purpose the Bank cooperates actively with the factoring company OTP Factoring Bulgaria where the process of the management of the non-performing loans continues after they purchased from the Bank.

Investment program

During the year the Bank made investments for BGN 40.6 m, a decrease of BGN 9.9 m compared to the previous year.

The investments in IT projects during the year were BGN 19.9 m, as their share in the total investments was 48.9 % (for 2012 the share was 37.4 %).

The capital investments during the year were BGN 20.7 m. Investments of BGN 17.7 m were made in construction related activities aiming at optimization and improvement of the branch network strategic locations, BGN 1.1 m - in office equipment and BGN 1.8 m - in bank security.

Major goals for 2014

In 2014 the Bank will face again the challenge to operate in an uncertain macroeconomic environment, which is additionally threatened by the unstable political situation in the country. Despite the slight optimistic views for economic development, a very slow recovery of the lending activity is expected whereby the deterioration of the creditworthiness of the existing portfolio will remain a risk to keep focus on, although 2013 was considerably optimistic in this respect.

In 2014 the Management of DSK Bank sets the following priorities in the activity:

- Keeping the strong market position, stable liquidity and capital position as well as excellent efficiency.
- Continuing the work on effective management of the loan portfolio quality as well as improvement of the measures and methods in cooperation with OTP Factoring Bulgaria.
- Priority will remain also the adequate management of cost of funds with respect of the expectation for continuing weak credit market potential.
- Constant improvement of the quality of the provided services.
- Restructuring of the company business aiming at strengthening the market position in this segment. This process includes re-segmentation of the current portfolio, new service model formation, new products and packages.
- Continuously 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 2013 is approved by the Management Board with protocol 68 on 05.03.2014.

Violina Marinova
Chief Executive Director

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