DSK Bank EAD

Unconsolidated Financial Statements

For the year ended December 31, 2014

and independent auditor's report

KPMG

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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 2014, 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 2014, 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 2014. 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 17 March 2015.

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

Dobrina Kaloyanova
Authorized representative

Krassimir Hadjidinev
Registered auditor

KPMG Bulgaria OOD

Sofia, 17 March 2015

Statement of profit or loss

For the year ended 31 December

In thousands of BGN	Note	2014	2013
Interest income		592 776	611 595
Interest expense		(97 790)	(141 551)
Net interest income	4	**494 986**	**470 044**
Fee and commission income		125 540	118 575
Fee and commission expense		(15 846)	(13 607)
Net fee and commission income	5	**109 694**	**104 968**
Net trading income	6	29 865	11 575
Net operating income	7	(7 149)	25 023
Operating income		**22 716**	**36 598**
Personnel expenses	8	(84 872)	(83 256)
Depreciation and amortisation	17, 18	(35 179)	(31 328)
Impairment losses	9	(131 129)	(156 153)
Other expenses	10	(125 122)	(125 593)
Profit before tax		**251 094**	**215 280**
Income tax expense	11	(25 068)	(21 489)
Profit for the year		**226 026**	**193 791**

The statement of profit or loss is to be read in conjunction with the notes from 1 to 29 forming an integral part of the unconsolidated financial statements.

The unconsolidated financial statements were authorised for issue on behalf of DSK Bank EAD on 17 March 2015.

Банка ДСК ЕАД
София
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2115

Violina Marinova
Chief Executive Director

Dorothea Nikolova
Executive Director

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Statement of comprehensive income

For the year ended 31 December

In thousands of BGN	**2014**	**2013**
Profit after tax	**226 026**	**193 791**
Items that may be reclassified to profit or loss		
Change in fair value of available for sale investments, net of tax	(542)	935
	(542)	935
Items that will never be reclassified to profit or loss		
Revaluation of property, plant and equipment, net of tax	-	-
Remeasurements of defined benefit liability	(34)	(266)
	(34)	(266)
Total comprehensive income	**225 450**	**194 460**

The statement of comprehensive income is to be read in conjunction with the notes from 1 to 29 forming an integral part of the unconsolidated financial statements.

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Statement of financial position

In thousands of BGN	Note	31-Dec-2014	31-Dec-2013
Assets			
Cash and current accounts with domestic and foreign banks	12	375 534	262 145
Financial assets held for trading	13	66 984	236 920
Loans and advances to banks and balances with the Central Bank	14	2 471 442	1 465 236
Loans and advances to other customers	15	6 245 811	6 223 272
Investments available for sale and held to maturity	16	445 867	312 541
Current tax assets		182	212
Property, plant and equipment	17	316 867	323 784
Intangible assets	18	29 759	26 144
Other assets	19	23 122	30 542
Total assets		**9 975 568**	**8 880 796**
Liabilities			
Deposits from banks	20	232 120	168 389
Loans from banks and financial institutions	20	61 572	123 761
Deposits from other customers	21	8 016 960	6 998 934
Current tax liabilities		1 687	3 198
Deferred tax liabilities	22	8 195	9 005
Provisions for liabilities	23	11 551	10 082
Other and trading liabilities	24	82 109	74 503
Total liabilities		**8 414 194**	**7 387 872**
Shareholders' equity			
Share capital	25	153 984	153 984
Reserves	25	1 078 505	1 079 723
Retained earnings	25	328 885	259 217
Total shareholders' equity		**1 561 374**	**1 492 924**
Total liabilities and shareholders' equity		**9 975 568**	**8 880 796**

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Statement of cash flows

For the year ended 31 December

In thousands of BGN	Note	2014	2013
Net cash flow from operating activities			
Profit before taxation		251 094	215 280
Increase in impairment losses of bad and doubtful debts and other assets	9	131 129	156 153
Depreciation and amortization	17, 18	35 179	31 328
Net effect from operations with investments		2 438	4 956
Net effect from foreign exchange rate revaluation		25 066	(4 498)
Net interest income		(494 986)	(470 044)
Loss from disposal of noncurrent assets		519	579
Increase in provisions for liabilities		3 363	2 886
Dividends received		641	617
Other non cash changes		6 864	7 264
Net cash flow from operating activities before changes in operating assets and liabilities		**(38 693)**	**(55 479)**
Change in operating assets			
Decrease / (increase) in securities held for trading		167 802	(130 624)
Decrease / (increase) in loans and advances to banks		(1 896)	39 520
Decrease / (increase) in loans and advances to other customers		(151 342)	152 165
Decrease / (increase) in other assets		3 213	(5 147)
Change in operating liabilities			
Increase / (decrease) in deposits from banks		63 737	(38 439)
Increase / (decrease) in loans from banks and financial institutions		(62 307)	86 786
Increase in deposits from other customers		995 246	384 679
(Decrease) in other liabilities		(3 225)	(18 098)
Interest received		598 765	620 342
Interest (paid)		(108 402)	(147 220)
Net cash flow from operating activities		**1 462 898**	**888 485**
Cash flow from investing activities			
(Acquisition) of property, plant and equipment, net		(32 327)	(38 138)
(Increase) in investments		(128 189)	(46 635)
Net cash flow from investing activities		**(160 516)**	**(84 773)**
Cash flow from financing activities			
Dividends (paid)		(157 000)	(150 000)
(Decrease) in subordinated debt		-	(293 374)
Net cash flow from financing activities		**(157 000)**	**(443 374)**
Prepaid tax		(28 073)	(31 373)
Net increase in cash and cash equivalents		**1 117 309**	**328 965**
Cash and cash equivalents at the beginning of period	27	**1 727 106**	**1 398 141**
Cash and cash equivalents at the end of period	27	**2 844 415**	**1 727 106**

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Специализирано одиторско предприятие
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Statement of changes in equity

In thousands of BGN	Share capital	Retained earnings	General and other reserve	Revaluation reserve	Total
Balance as of 1 January 2013	**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**
Total comprehensive income					
Net profit for the year	-	226 026	-	-	226 026
Other comprehensive income					
Change in fair value of available for sale investments, net of tax	-	-	-	(542)	(542)
Remeasurements of defined benefit liability	-	-	(34)	-	(34)
Total other comprehensive income	-	-	(34)	(542)	(576)
Total comprehensive income	**-**	**226 026**	**(34)**	**(542)**	**225 450**
Decrease in revaluation reserve from fully depreciated or disposal of land and buildings, net of tax	-	642	-	(642)	-
Contributions by and distributions to owners					
Dividends paid	-	(157 000)	-	-	(157 000)
Balance as of 31 December 2014	**153 984**	**328 885**	**981 908**	**96 597**	**1 561 374**

The statement of changes in equity is to be read in conjunction with the notes from 1 to 29 forming an integral part of the unconsolidated financial statements.

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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 17 March 2015.

(c) Basis of measurement

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

(d) Functional and presentation currency

These financial statements are presented in BGN, which is the Bank's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

(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.

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.

(1) *Judgements*

Information about judgements made in applying accounting policies that have the most significant effect on the amounts recognised in the unconsolidated financial statements is set out below.

(2) *Assumptions and estimation uncertainty*

Information about assumptions and estimation uncertainties that have a significant risk of resulting in an adjustments in the year ending 31 December 2015 is set out below in relation to the impairment of financial instruments and in the following notes in relation to other areas:

- Note 3 (f) – determination of the fair value of financial instruments with significant unobservable inputs;
- Note 8 – measurement of defined benefit obligations: key actuarial assumptions;
- Note 18 – determination of the fair value of investment property and land and buildings: significant unobservable inputs;
- Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 2 e *(7)*.

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.

(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 2014:

(1) Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)

(2) Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

(3) IFRS 10 Consolidated Financial Statement; IFRS 11 Joint Arrangements and IFRS 12 Disclosures of interests in Other entities

(4) Novation of derivatives and continuation of hedge accounting

(5) IFRIC 21 Levies

(1) Disclosures of recoverable amount for non-financial assets

As a result of the amendments to IAS 36, the Bank has expanded its disclosures of recoverable amounts when they are based on fair value less costs of disposals and recognized impairment.

(2) Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

As a result of the amendments to IAS 32, the Bank has change its accounting policy for offsetting financial assets and financial liabilities. The amendments clarify when an entity currently has a legal enforceable right to set-off and when gross settlement is equivalent to net settlement.

The change did not have a material impact on the Bank's financial statements.

(3) IFRS 10 Consolidated Financial Statement; IFRS 11 Joint Arrangements and IFRS 12 Disclosures of interests in Other entities

As a result of the adoption of IFRS 10, the Bank has changed its accounting policy with respect to determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 introduces a new control model that focuses on whether the Bank has power over an investee, exposure or right to variable returns from its involvement with the investee and ability to use its power to affect those returns.

In accordance with the transitional provisions of IFRS 10, the Bank re-assessed the control conclusion for its investees at 1 January 2014. The change did not have a material impact on the Bank's financial statements.

(4) Novation of derivatives and continuation of hedge accounting

The change did not have an impact on the Bank's financial statements.

(5) FRIC 21 Levies

As a result of IFRIC 21 Levies, the Bank has changed its accounting policy on accounting for a liability to pay a levy that is a liability in the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

The change did not have a material impact on the Bank's financial statements.

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.

(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 (see 3 (f) (*1*)).

(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. In this respect, the Bank regards a decline in fair value in excess of 20% to be 'significant' and a decline in a quoted market price that persisted for nine months or longer to be 'prolonged'.

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, and makes an adjustments if 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 initial 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".

(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, where upon 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 loans and advances to customers.

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"), 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 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 non-collectable loans 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 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) Impairment of non-financial assets

At each reporting date, the Bank reviews the carrying amounts of its non-financial assets (other than land and buildings) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(m) 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.

(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

Deposits 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"), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Bank's financial statements.

Deposits are initially measured at fair value minus incremental direct costs, and subsequently measured at their amortised cost using the effective interest rate method.

(p) Off-balance sheet commitments

In the ordinary course of its business, the Bank enters into off-balance sheet commitments such as guarantees and letters of credit. The Bank recognises provision for impairment on off-balance sheet commitments when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation, and reliable estimate can be made of the obligation.

(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.

(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 2014, 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

- Annual improvements to IFRSs 2010-2012 and 2011-2013 Cycles. The improvements introduce eleven amendments to nine standards and consequential amendments to other standards and interpretations. None of these amendments are expected to have a significant impact on the financial statements of the Bank;
- Amendments to IAS 19 – Defined benefit plans: Employee contributions. The Bank does not expect the Amendments to have any impact on the financial statements since it does not have any defined benefit plans that involve contributions from employees or third parties.

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 instrument (issued 24 July 2014).

- IFRS 14 Regulatory Deferral Accounts (issued 30 January 2014);
- IFRS 15 Revenue from contracts with customers (issued 28 May 2014);
- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (issued on 18 December 2014);
- Amendments to IAS 1 Disclosure initiative (issued 18 December 2014);
- Annual improvements to IFRSs 2012-2014 Cycle (issued 25 September 2014)

- Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associated or jointly controlled investee (issued 11 September 2014);
- Amendments to IAS 27 – Equity method in separate financial statements (issued 12 August 2014);
- Amendments to IAS 16 and IAS 38 – Clarification for acceptable methods of depreciation and amortization (issued 12 May 2014);
- Amendments to IFRS 11 – Accounting for acquisitions of interests in joint operations (issued 6 May 2014).

3. Risk management disclosures

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

(a) Liquidity risk

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

DSK Bank maintains active trading positions in a limited number of derivative and non-derivative financial instruments. Most of DSK Bank's derivative trading activities are aimed at offering products to corporate clients at competitive prices. DSK Bank uses money and capital market 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-2014	**31-Dec-2013**
Liquidity ratio	28,83%	25,17%

To analyse 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 2014

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	**232 120**	**232 133**	231 266	-	867	-	-
Loans from banks and financial institutions	**61 572**	**64 256**	4 153	-	5 594	17 489	37 020
Deposits from other customers	**8 016 960**	**8 075 694**	5 717 134	738 664	1 522 017	97 879	-
Current tax liabilities	**1 687**	**1 687**	-	1 687	-	-	-
Deferred tax liabilities	**8 195**	**8 195**	-	-	-	8 195	-
Provisions for liabilities	**11 551**	**11 551**	-	6 667	4 884	-	-
Other and trading liabilities	**82 109**	**82 109**	61 604	10 010	1 285	8 918	292
Total liabilities	**8 414 194**	**8 475 625**	**6 014 157**	**757 028**	**1 534 647**	**132 481**	**37 312**
Unused loan commitments	-	643 996	66 549	67 388	354 914	107 263	47 882
Total liabilities and commitments	**8 414 194**	**9 119 621**	**6 080 706**	**824 416**	**1 889 561**	**239 744**	**85 194**

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 liabilities	**10 082**	**10 082**	-	600	5 902	3 580	-
Other and trading liabilities	**74 503**	**74 503**	57 691	630	14 135	2 023	24
Total liabilities	**7 387 872**	**7 474 015**	**4 987 338**	**747 133**	**1 575 972**	**151 111**	**12 461**
Unused loan commitments	-	563 902	86 427	46 951	236 222	142 577	51 725
Total liabilities and commitments	**7 387 872**	**8 037 917**	**5 073 765**	**794 084**	**1 812 194**	**293 688**	**64 186**

The tables below set out the remaining expected maturities of the Bank's financial assets and liabilities based on their balance sheet amount as at 31 December 2014 and 31 December 2013.

Maturity table of assets and liabilities as of 31 December 2014

In thousands of BGN	Carrying amount	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
Liabilities							
Deposits from banks	**232 120**	231 259	-	861	-	-	-
Loans from banks and financial institutions	**61 572**	4 129	-	5 169	17 044	35 230	-
Deposits from other customers	**8 016 960**	2 284 605	730 517	1 500 155	3 501 683	-	-
Current tax liabilities	**1 687**	-	1 687	-	-	-	-
Deferred tax liabilities	**8 195**	-	-	-	8 195	-	-
Provisions for liabilities	**11 551**	-	6 667	4 884	-	-	-
Other and trading liabilities	**78 885**	60 216	9 956	602	8 111	-	-
Total liabilities	**8 410 970**	**2 580 209**	**748 827**	**1 511 671**	**3 535 033**	**35 230**	**-**
Unused loan commitments	-	66 549	67 388	354 914	107 263	47 882	-
Positive/(negative) maturity mismatch	**8 410 970**	**2 646 758**	**816 215**	**1 866 585**	**3 642 296**	**83 112**	**-**
Derivatives liabilities							
Trading:	3 224						
Outflow	-	(820 136)	(10 879)	(39 939)	(11 764)	(3 912)	-
Inflow	-	818 584	10 820	39 708	11 398	3 912	-
Total derivatives	**3 224**	**(1 552)**	**(59)**	**(231)**	**(366)**	**-**	**-**
Assets							
Cash and current accounts with domestic and foreign banks	**375 534**	375 534	-	-	-	-	-
Financial assets held for trading	**65 385**	234	18 427	19 693	14 767	12 264	-
Loans and advances to banks and balances with the Central Bank	**2 471 442**	2 469 676	-	1 579	187	-	-
Loans and advances to other customers	**6 245 811**	108 404	137 706	870 356	2 017 588	3 111 757	-
Investments available for sale and held to maturity	**445 867**	30 938	940	3 761	339 390	28 234	42 604
Current tax assets	**182**	182	-	-	-	-	-
Property, plant and equipment	**316 867**	-	-	-	-	-	316 867
Intangible assets	**29 759**	-	-	-	-	-	29 759
Other assets	**23 122**	20 152	372	2 432	166	-	-
Total assets	**9 973 969**	**3 005 120**	**157 445**	**897 821**	**2 372 098**	**3 152 255**	**389 230**
Derivatives assets							
Trading:	1 599						
Outflow	-	(504 172)	(22 375)	(63 173)	(11 030)	-	-
Inflow	-	505 070	22 494	63 781	11 148	-	-
Total derivatives	**1 599**	**898**	**119**	**608**	**118**	**-**	**-**

Maturity table of assets and liabilities as of 31 December 2013

In thousands of BGN	Carrying amount	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
Liabilities							
Deposits from banks	**168 389**	167 522	-	867	-	-	-
Loans from banks and financial institutions	**123 761**	81 168	400	4 426	26 032	11 735	-
Deposits from other customers	**6 998 934**	1 758 432	730 311	1 514 090	2 996 101	-	-
Current tax liabilities	**3 198**	-	3 198	-	-	-	-
Deferred tax liabilities	**9 005**	-	-	-	9 005	-	-
Provisions for liabilities	**10 082**	-	600	5 902	3 580	-	-
Other and trading liabilities	**73 881**	57 590	526	14 122	1 643	-	-
Total liabilities	**7 387 250**	**2 064 712**	**735 035**	**1 539 407**	**3 036 361**	**11 735**	**-**
Unused loan commitments	-	86 427	46 951	236 222	142 577	51 725	-
Positive/(negative) maturity mismatch	**7 387 250**	**2 151 139**	**781 986**	**1 775 629**	**3 178 938**	**63 460**	**-**
Derivatives liabilities							
Trading:	622						
Outflow	-	(7 852)	(10 249)	-	(2 465)	(3 912)	-
Inflow	-	7 751	10 143	-	2 497	3 912	-
Total derivatives	**622**	**(101)**	**(106)**	**-**	**32**	**-**	**-**
Assets							
Cash and current accounts with domestic and foreign banks	**262 145**	262 145	-	-	-	-	-
Financial assets held for trading	**236 493**	434	16 236	39 550	168 228	12 045	-
Loans and advances to banks and balances with the Central Bank	**1 465 236**	1 465 236	-	-	-	-	-
Loans and advances to other customers	**6 223 272**	98 884	161 552	872 805	1 987 862	3 102 169	-
Investments available for sale and held to maturity	**312 541**	2 647	10 784	8 270	216 755	44 535	29 550
Current tax assets	**212**	212	-	-	-	-	-
Property, plant and equipment	**323 784**	-	-	-	-	-	323 784
Intangible assets	**26 144**	-	-	-	-	-	26 144
Other assets	**30 542**	27 507	450	2 341	244	-	-
Total assets	**8 880 369**	**1 857 065**	**189 022**	**922 966**	**2 373 089**	**3 158 749**	**379 478**
Derivatives assets							
Trading:	427						
Outflow	-	(100 358)	(29 689)	(119 306)	-	-	-
Inflow	-	146 670	29 861	119 536	-	-	-
Total derivatives	**427**	**46 312**	**172**	**230**	**-**	**-**	**-**

In addition to monitoring the liquidity position, the Bank also analyses the stability of the funds attracted from various sources in order to define the expected cash outflows. The analysis is prepared on a regular basis and the information about the changes of depositors' behaviour is reported to the management of the Bank.

The Bank's expected cash flows on some financial assets and financial liabilities vary significantly from the contractual cash flows. The principal differences are as follows:

- demand deposits from customers are expected to remain stable or increase
- retail mortgage loans have an average original contractual maturity 25 years but an average expected maturity of 9 years because customers take advantage of early repayment options

As part of the management of liquidity risk, the Bank holds liquid assets comprising cash and cash equivalents and debt securities, which can be readily sold to meet liquidity requirements:

Liquidity reserves

In thousands of BGN	**31-Dec-2014**	**31-Dec-2013**
Balances with Central bank	415 840	624 826
Cash and balances with other banks	1 939 096	1 102 455
Unencumbered debt securities	45 048	110 387
Total liquidity assets	**2 399 984**	**1 837 668**

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

Market risk is the risk that changes in market prices – such as interest rates, equity prices, foreign exchange rates – will affect the Bank's income or the value of its holdings of financial instruments.

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.

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 analyses 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.

Exposure to interest rate risk as of 31 December 2014

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	**10 787**	**-**	**-**	**-**	**-**	**364 747**	**375 534**
Fixed rate	1 011	-	-	-	-	-	1 011
Floating rate	9 776	-	-	-	-	-	9 776
Non-interest bearing	-	-	-	-	-	364 747	364 747
Financial assets held for trading	**176**	**18 113**	**19 419**	**2 149**	**25 528**	**1 599**	**66 984**
Fixed rate	176	18 113	19 419	2 149	25 528	-	65 385
Floating rate	-	-	-	-	-	-	-
Non-interest bearing	-	-	-	-	-	1 599	1 599
Loans and advances to banks and balances with the Central Bank	**2 053 706**	**-**	**-**	**-**	**-**	**417 736**	**2 471 442**
Fixed rate	2 053 706	-	-	-	-	-	2 053 706
Floating rate	-	-	-	-	-	-	-
Non-interest bearing	-	-	-	-	-	417 736	417 736
Loans and advances to other customers	**5 620 280**	**10 732**	**40 088**	**61 638**	**298 031**	**215 042**	**6 245 811**
Fixed rate	2 119	10 732	40 088	61 638	298 031	-	412 608
Floating rate	5 618 161	-	-	-	-	-	5 618 161
Non-interest bearing	-	-	-	-	-	215 042	215 042
Investment securities	**43 136**	**-**	**2 213**	**211 669**	**146 245**	**42 604**	**445 867**
Fixed rate	29 021	-	2 012	211 669	146 245	-	388 947
Floating rate	14 115	-	201	-	-	-	14 316
Non-interest bearing	-	-	-	-	-	42 604	42 604
Total interest sensitive assets	**7 728 085**	**28 845**	**61 720**	**275 456**	**469 804**	**1 041 728**	**9 605 638**
Fixed rate	2 086 033	28 845	61 519	275 456	469 804	-	2 921 657
Floating rate	5 642 052	-	201	-	-	-	5 642 253
Non-interest bearing	-	-	-	-	-	1 041 728	1 041 728
Deposits from banks	**227 747**	**-**	**860**	**-**	**-**	**3 513**	**232 120**
Fixed rate	227 287	-	860	-	-	-	228 147
Floating rate	460	-	-	-	-	-	460
Non-interest bearing	-	-	-	-	-	3 513	3 513
Loans from banks and financial institutions	**26 342**	**35 230**	**-**	**-**	**-**	**-**	**61 572**
Fixed rate	-	-	-	-	-	-	-
Floating rate	26 342	35 230	-	-	-	-	61 572
Non-interest bearing	-	-	-	-	-	-	-
Deposits from other customers	**7 770 121**	**238 780**	**50**	**-**	**-**	**8 009**	**8 016 960**
Fixed rate	650 310	238 780	50	-	-	-	889 140
Floating rate	7 119 811	-	-	-	-	-	7 119 811
Non-interest bearing	-	-	-	-	-	8 009	8 009
Total interest sensitive liabilities	**8 024 210**	**274 010**	**910**	**-**	**-**	**11 522**	**8 310 652**
Fixed rate	877 597	238 780	910	-	-	-	1 117 287
Floating rate	7 146 613	35 230	-	-	-	-	7 181 843
Non-interest bearing	-	-	-	-	-	11 522	11 522

Exposure to interest rate risk 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 interest sensitive 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 interest sensitive 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

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

The management of interest rate risk is supplemented by monitoring the sensitivity of the Group's financial assets and financial liabilities to interest rate scenarios. A change of 200 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2013.

	Profit or loss		**Equity**	
	200 bp increase	**200 bp decrease**	**200 bp increase**	**200 bp decrease**
Effect in thousands of BGN				
31 December 2014				
As at 31 December	21 182	(21 182)	(1 963)	1 963
Average for the period	15 788	(15 788)	(2 046)	2 046
Maximum for the period	23 027	(6 961)	(545)	4 094
Minimum for the period	6 961	(23 027)	(4 094)	545
31 December 2013				
As at 31 December	12 104	(12 104)	(9 282)	9 282
Average for the period	14 016	(14 016)	(4 977)	4 977
Maximum for the period	15 529	(12 104)	(635)	9 282
Minimum for the period	12 104	(15 529)	(9 282)	635

(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 2014 and 2013 are as follows:

In thousands of BGN	**2014**	**2013**
At 31 December	29	17
Average for the period	41	16
Maximum for the period	75	81
Minimum for the period	4	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.

For monetary assets and liabilities denominated in foreign currencies that are not hedged, DSK Bank manages 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.

The table below sets out information about maximum exposure to credit risk:

	Loans and advances to other customers		**Loans and advances to banks and balances with the Central bank**		**Investmentsand financial assets held for trading**		**Off balance sheet commitments**	
	31-Dec-2014	**31-Dec-2013**	**31-Dec-2014**	**31-Dec-2013**	**31-Dec-2014**	**31-Dec-2013**	**31-Dec-2014**	**31-Dec - 2013**
In thousands of BGN								
Carrying amount	6 245 811	6 223 272	2 471 442	1 465 236	512 851	549 461		
Amount committed/ guaranteed							916 433	769 212

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.

Loans and advances to banks and other customers – not impaired

In thousands of BGN	**31-Dec-2014**		**31-Dec-2013**	
	to customers*	**to banks***	**to customers***	**to banks***
Past due 0 days	2 301 087	2 471 442	2 398 856	1 465 236
Past due up to 30 days	352 385	-	407 425	-
Past due 31-60 days	74 165	-	87 071	-
Past due 61-90 days	53 429	-	71 786	-
Past due over 90 days	32 574	-	38 228	-
Total	**2 813 640**	**2 471 442**	**3 003 366**	**1 465 236**

*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-2014**		**31-Dec-2013**	
	to customers**	**Net value*****	**to customers****	**Net value*****
Past due 0 days	2 924 228	2 790 214	2 616 962	2 489 436
Past due up to 30 days	335 943	297 663	391 489	357 246
Past due 31-60 days	79 850	55 263	51 870	39 949
Past due 61-90 days	39 697	22 922	26 801	20 132
Past due over 90 days	922 611	266 109	1 026 518	313 143
Total	**4 302 329**	**3 432 171**	**4 113 640**	**3 219 906**
incl. individually impaired due to:				
Past due	992 155	338 047	1 174 061	435 969
Financial instability	267 336	145 856	152 431	84 552
	1 259 491	**483 903**	**1 326 492**	**520 521**

**The table above sets 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 2014	2013
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	100

* 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 sets out information about collateral of loans and receivable to banks and other customers that have not been impaired, measured at fair value set in accordance with Bank policy up 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-2014	31-Dec-2013
Loans and advances not past due		
Mortgage	1 919 992	2 075 375
Cash collateral	10 528	10 577
Securities	1 259 076	21 551
Other types of collateral	288 009	179 226
	3 477 605	**2 286 729**
Loans and advances past due		
Mortgage	460 472	575 351
Cash collateral	833	1 324
Other types of collateral	33 605	9 118
	494 910	**585 793**
Total	**3 972 515**	**2 872 522**

Translated from Bulgarian

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

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

In thousands of BGN	31-Dec-2014	31-Dec-2013
Mortgage	952 495	1 024 515
Cash collateral	522	617
Other types of collateral	3 013 874	2 779 169
Total	**3 966 891**	**3 804 301**

The table below sets out information about collateral of loans and receivable to banks and other customers both impaired and not impaired, measured at fair value determined in accordance with Bank policy up 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-2014	31-Dec-2013
Secured by mortgages	3 332 959	3 675 241
Cash collateral	11 883	12 518
Other types of collateral*	4 594 564	2 989 064
Without collateral	1 648 005	1 905 419
Total	**9 587 411**	**8 582 242**

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

Repurchase agreements

In thousands of BGN	31-Dec-2014		31-Dec-2013	
	Carrying amount	Collateral	Carrying amount	Collateral
Advances to banks	1 272 153	1 258 518	-	-
Advances to financial institutions	-	-	1 004	974
Total	**1 272 153**	**1 258 518**	**1 004**	**974**

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 market value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral.

In thousands of BGN	31-Dec-2014	31-Dec-2013
Loan to value (LTV) ratio based on market value		
LTV ≤ 50 %	372 809	380 517
50 % < LTV ≤ 70 %	559 971	562 073
70 % < LTV ≤ 90 %	618 685	662 356
90 % < LTV ≤ 100 %	146 077	176 803
100 % < LTV	629 049	695 804
Total	**2 326 591**	**2 477 553**

As of December 31, 2014 and December 31, 2013 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 analysis 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 analysed.

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.

For the purpose of disclosures in these financial statements 'restructured loans' are defined as loans that have been renegotiated due to a deterioration in the borrower's financial position, for which the Bank has made concessions by agreeing to terms and conditions that are more favourable for the borrowers than the Bank had provided initially and that it would not otherwise consider.

Restructured loans

Type of restructuring	31-Dec-2014 gross value	31-Dec-2014 impairment loss	31-Dec-2013 gross value	31-Dec-2013 impairment loss
In thousands of BGN				
Mortgage Loans to individuals				
Combination	2 648	1 319	2 944	944
Debt consolidation loan with mortgage	9 950	2 533	9 692	2 562
Other	205 246	50 918	188 094	50 049
Prolongation	30 965	14 665	37 277	15 156
Suspension	201 704	96 764	234 280	103 677
Consumer Loans to individuals				
Combination	524	75	695	62
Debt consolidation loan with mortgage	25 643	5 598	26 449	5 855
Other	74 537	19 547	76 659	20 649
Prolongation	5 102	1 216	7 512	2 112
Suspension	13 296	3 714	16 754	4 695
Loans to corporate customers				
Combination	11 825	8 146	11 810	6 077
Debt consolidation loan with mortgage	4 778	1 835	6 195	1 825
Other	247 947	149 940	231 790	138 521
Prolongation	45 821	15 756	40 926	12 692
Suspension	9 781	6 360	10 620	6 422
Total	**889 767**	**378 386**	**901 697**	**371 298**

DSK Bank applies 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).

Quality of the loans and advances to other customers neither past due nor impaired

In thousands of BGN	31-Dec-2014	31-Dec-2013
PD category boundaries		
$PD \leq 0.01$	749 741	729 863
$0.01 < PD \leq 0.05$	1 033 528	1 119 266
$0.05 < PD \leq 0.10$	282 147	301 262
$0.10 < PD \leq 0.20$	87 653	98 823
$0.20 < PD \leq 0.30$	31 383	25 977
$0.30 < PD \leq 0.50$	16 897	11 667
$0.50 < PD$	19 504	23 525
not rated	80 234	88 473
Total	**2 301 087**	**2 398 856**

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		Investmentsand financial assets held for trading	
	31-Dec-2014	31-Dec-2013	31-Dec-2014	31-Dec-2013	31-Dec-2014	31-Dec-2013
In thousands of BGN						
Sovereign	-	-	-	-	298 613	437 882
State Budget	8 561	12 327	-	-	-	-
International banks for development	-	-	-	-	2 012	2 067
Banks, incl. the Central Bank	-	-	2 471 442	1 465 236	174 662	38 791
Manufacturing	688 602	623 937	-	-	-	-
Construction	185 811	224 701	-	-	-	-
Agriculture and forestry	138 263	114 006	-	-	-	-
Transport and communications	62 757	66 517	-	-	-	46 109
Trade and services	502 881	449 849	-	-	-	-
Hotels and catering	138 968	137 360	-	-	-	-
Financial and insurance activities	38 281	64 319	-	-	-	-
Real estate activities	361 346	293 623	-	-	-	-
Other industry sectors	136 604	121 968	-	-	135	223
Individuals	4 853 895	5 008 399	-	-	-	6
Equity investments	-	-	-	-	42 604	29 549
Total	**7 115 969**	**7 117 006**	**2 471 442**	**1 465 236**	**518 026**	**554 627**
Impairment for uncollectability	(870 158)	(893 734)	-	-	(5 175)	(5 166)
Total	**6 245 811**	**6 223 272**	**2 471 442**	**1 465 236**	**512 851**	**549 461**
Geographical analysis						
Europe	6 244 333	6 221 620	2 469 135	1 461 566	512 711	549 338
Asia	1 368	1 521	-	-	-	-
Africa	2	-	-	-	-	-
North America	65	81	2 307	3 670	140	123
South America	43	50	-	-	-	-
Total	**6 245 811**	**6 223 272**	**2 471 442**	**1 465 236**	**512 851**	**549 461**

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-2014	31-Dec-2013
Government bonds		
Rated Baa2	32 928	101 174
Rated Baa3	32 457	89 210
Corporate bonds		
Rated Ba3	-	-
Not rated	-	46 109
Fair value of derivatives		
Credit institutions	1 464	198
Other counterparties	135	229
Total	**66 984**	**236 920**

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 2014

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	234	20	19 540	6 288	6 846	-	32 928
Turkey	-	18 407	153	8 479	5 418	-	32 457
Derivative instruments							
Bulgaria	7	-	101	27	-	-	135
France	16	-	-	-	-	-	16
Hungary	1 030	112	306	-	-	-	1 448
Total	**1 287**	**18 539**	**20 100**	**14 794**	**12 264**	**-**	**66 984**
Investments							
Investments available for sale							
Government securities							
Bulgaria	30 936	940	-	165 570	28 234	-	225 680
Floating incom corporate equity investments							
Bulgaria	-	-	-	-	-	42 416	42 416
USA	-	-	-	-	-	140	140
Belgium	-	-	-	-	-	48	48
Corporate debt securities							
Hungary	-	-	1 670	166 353	-	-	168 023
European Investment Bank	-	-	2 012	-	-	-	2 012
Total	**30 936**	**940**	**3 682**	**331 923**	**28 234**	**42 604**	**438 319**
Investments held to maturity							
Government securities							
Bulgaria	2	-	79	7 467	-	-	7 548
Total	**2**	**-**	**79**	**7 467**	**-**	**-**	**7 548**
Total assets	**32 225**	**19 479**	**23 861**	**354 184**	**40 498**	**42 604**	**512 851**

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**

(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" Department (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.

Translated from Bulgarian

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 (Early Warning Signal Models)

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 and control. 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.

Additionally, the actual level of operational risk is monitored based on Key Risk Indicator system which covered the main risk factors caused the essential operational risk losses and interruption in the critical business processes.

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 analysing 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 requirements of EU and Bulgarian legislation, 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 2014 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.

The proof of the achieved adequate level of management of operational risk from DSK Bank was the received from National Bank of Hungary and Bulgarian National Bank Join Decision which approved DSK Bank to apply the Advance Measurement Approach for the capital calculation purposes on the individual and also on the consolidated base. The decision was in force from the beginning of 2014.

During the 2014 year there are no registered events, which could potentially threaten the Bank activity.

(e) Capital Management

Since 01 January 2014 the so-called CRD IV package which transposes – via Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms (CRR) and Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (CRD IV)- the new global standards on bank capital (the Basel III agreement) into EU law, enters into force.

As a result, the Bank's regulatory capital requirements were based on Basel II in 2013 and on CRD IV in 2014.

(1) Regulatory capital

The Bank's regulatory capital consists of the sum of the following elements:

- Tier I capital (all qualifies as Common Equity Tier 1 (CET 1) capital) which includes ordinary share capital, related share premiums, and reserves and deductions for goodwill, intangible assets and other regulatory adjustments relating to items that are included in equity or assets but are treated differently for capital adequacy purposes.
- Tier II capital: revaluation reserves from premises used for banking activity and deductions for regulatory adjustments relating to items that are included in equity or assets but are treated differently for capital adequacy purposes.

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 11.5 %. The total capital adequacy ratio should be higher than 13.5 %.

(2) *Capital ratios*

Total own funds for solvency purposes

In thousands of BGN	**Basel III 2014**	**Basel III Estimated 2013**	**Basel II As Reported 2013**
Common equity Tier 1 capital			
Ordinary share capital	153 984	153 984	153 984
Reserves	982 208	982 208	982 208
Deductions from Common equity Tier 1 capital			
Intangble assets	(29 759)	(26 144)	(26 144)
Accumulated other comprehensive income	(673)	(2 482)	(2 482)
CET1 instruments of financial sector entities where the institution has a significant investment	(14 998)	(7 173)	(5 977)
Qualifying holdings outside the financial sector			(5 550)
Tier 2 instruments of financial sector entities where the institution does not have a significant investment	(23 579)		
Specific provisions			(39 314)
	1 067 183	**1 100 393**	**1 056 725**
Tier 2 capital			
Accumulated other comprehensive income	63 730	64 976	81 220
Deductions from Tier 2 capital			
CET1 instruments of financial sector entities where the institution has a significant investment	(9 998)	(4 782)	(5 978)
Qualifying holdings outside the financial sector			(5 550)
Tier 2 instruments of financial sector entities where the institution does not have a significant investment	(35 368)		
Specific provisions			(39 313)
	18 364	**60 194**	**30 379**
Own funds	**1 085 547**	**1 160 587**	**1 087 104**

Capital ratios

	31-Dec-2014	31-Dec-2013
Solvency ratio (%)	18,03%	16,36%
Tier 1 capital ratio (%)	17,72%	15,90%

The policy of the Bank management and allocation of capital is determined by Management 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) 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.

(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 not 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-2014				
Financial assets held for trading	65 385	1 599	-	66 984
incl. derivatives	-	1 599	-	1 599
Investments available for sale	395 715	438	-	396 153
Total	**461 100**	**2 037**	**-**	**463 137**
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	-	268 957
Total	**458 911**	**46 966**	**-**	**505 877**

Equity instruments at the amount of 42 166 thousands of BGN as of 31 December 2014 and 29 119 thousands of BGN as of 31 December 2013 are 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	-	375 534	-	**375 534**	**375 534**
Loans and advances to banks and balances with the Central Bank	-	2 471 442	-	**2 471 442**	**2 471 442**
Loans and advances to other customers	-	-	6 378 105	**6 378 105**	**6 245 811**
Investments held to maturity	8 040	401	-	**8 441**	**7 548**
Liabilities					
Deposits from banks	-	232 120	-	**232 120**	**232 120**
Loans from banks and financial institutions	-	61 572	-	**61 572**	**61 572**
Deposits from other customers	-	8 025 940	-	**8 025 940**	**8 016 960**

The fair value of Cash equivalents, loans and receivables from 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 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 customers 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	2014	2013
Interest income		
Loans and advances to banks	17 933	16 683
Loans and advances to other customers	553 812	583 753
Investments available for sale	20 585	10 414
Investments held to maturity	446	745
Total	**592 776**	**611 595**
Interest expense		
Deposits from banks	(166)	(245)
Loans from banks and financial institutions	(982)	(992)
Subordinated debt	-	(6 655)
Deposits from other customers	(96 642)	(133 659)
Total	**(97 790)**	**(141 551)**
Net interest income	**494 986**	**470 044**

The effect from interest income on individually impaired loans and advances to customers in the income statement is BGN 8 712 thousand for 2014 and BGN 12 615 thousand for 2013.

5. Net fee and commission income

In thousands of BGN	2014	2013
Fee and commission income		
In Bulgarian Leva		
Payment and settlement transactions	37 588	33 073
Credit related deals	21 790	24 434
Deposit related deals	32 136	28 647
Other	8 657	8 238
	100 171	**94 392**
In foreign currencies		
Payment and settlement transactions	13 216	10 408
Credit related deals	9 116	11 204
Deposit related deals	1 254	1 228
Other	1 783	1 343
	25 369	**24 183**
Total	**125 540**	**118 575**
Fee and commission expense		
In Bulgarian Leva	(13 391)	(11 530)
In foreign currencies	(2 455)	(2 077)
Total	**(15 846)**	**(13 607)**
Net fee and commission income	**109 694**	**104 968**

6. Net trading income

In thousands of BGN	2014	2013
Interest rate instruments	5 759	4 041
Foreign exchange trading	24 894	7 914
Other	(788)	(380)
Total	**29 865**	**11 575**

7. Net operating income

In thousands of BGN	2014	2013
Net income of available-for-sale securities		
Government bonds	(20)	115
Corporate bonds	(9)	32
Dividends	641	617
Foreign exchange gain	(16 013)	788
Sale of financial assets	5 648	20 510
Other	2 604	2 961
Total	**(7 149)**	**25 023**

The income from sale of financial assets amounting to BGN 5 648 thousand and BGN 20 510 thousand for 2014 and 2013 respectively are result from sell of problem loan portfolio.

8. Personnel expenses

In thousands of BGN	2014	2013
Wages and salaries	(65 980)	(65 296)
Compulsory obligations	(16 644)	(15 911)
Provisions on pension severance payments under Labour Code	(704)	(668)
Other	(1 544)	(1 381)
Total	**(84 872)**	**(83 256)**

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.

The estimated amount of the obligation as at each reporting date and the expenses for retirement compensations recognised are based on an actuarial report (see below information on actuarial assumptions).

In thousands of BGN	**2014**
Defined benefit obligations at 1 January	4 780
Benefits paid by the plan	(634)
Current service costs	490
Interest cost	203
Remeasurements:	
Experience adjustments	(14)
Actuarial (gains) losses from changes in demographic assumptions	5
Actuarial (gains) losses from changes in financial assumptions	54
Defined benefit obligations at 31 December	**4 884**

Expense recognized in statement of profit or loss

In thousands of BGN	**2014**
Current service costs	490
Interest on obligation	203
Actuarial (gains) losses	11
Total	**704**

Actuarial assumptions

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages):

	2014
Discount rate at 31 December	3,80%
Future salary increases	3%
Future pension increases	3%

The average staff in the Bank is 3 630 for 2014 and 3 702 for 2013.

9. Impairment losses

In thousands of BGN	**2014**	**2013**
Impairment losses for loans and advances to customers and other assets	(656 720)	(635 840)
Reversals of impairment losses of loans and advances to customers and other assets	528 913	479 992
Impairment loss of materials	(3 322)	(305)
Total (notes 15 and 19)	**(131 129)**	**(156 153)**

10. Other expenses

In thousands of BGN	2014	2013
Materials, rent, audit and other services	(74 153)	(73 654)
Operating lease expenses	(642)	(911)
Deposits Guarantee Fund instalment	(32 353)	(31 857)
Tax expenses	(12 730)	(13 743)
Provisions for contingent liabilities	(2 625)	(1 939)
Other expenses	(2 619)	(3 489)
Total	**(125 122)**	**(125 593)**

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	2014	2013
Current tax expense	(25 818)	(21 613)
Deferred tax income related to origination and reversal of temporary tax differences	750	124
Total	**(25 068)**	**(21 489)**

In thousands of BGN	2014	2013
Net income before income tax	251 094	215 280
Income tax using the statutory corporate tax rate	(25 109)	(21 528)
Tax on permanent tax differences	41	39
Income tax expense	**(25 068)**	**(21 489)**
Effective tax rate	9,98%	9,98%

Current taxes are calculated using a tax rate of 10 % for 2014 and 2013.

12. Cash and current accounts with domestic and foreign banks

In thousands of BGN	31-Dec-2014	31-Dec-2013
Cash on hand		
In Bulgarian Leva	294 963	206 028
In foreign currencies	67 807	45 082
Current accounts with domestic and foreign banks		
In Bulgarian Leva	957	382
In foreign currencies	11 807	10 653
Total	**375 534**	**262 145**

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-2014**	**31-Dec-2013**
Government securities – Republic of Bulgaria denominated in Bulgarian Leva	272	22 030
incl. pledged assets	-	17 834
Government securities – Republic of Bulgaria denominated in foreign currencies	32 656	79 144
incl. pledged assets	-	61 045
Domestic issuers debt securities denominated in foreign currencies	-	46 109
Foreign issuers debt securities denominated in foreign currencies	32 457	89 210
Positive fair value of derivatives	1 599	427
Total	**66 984**	**236 920**

Government securities issued by the Bulgarian government comprise securities denominated in BGN and EUR. The BGN denominated government securities earn interest between 1.5 % and 4.25 % and government securities denominated in EUR earn interest between 2.95 % and 4.5 %. Foreign issuers securities denominated in USD earn interest of 7.25 % and denominated in EUR earn interest between 4.35 % and 5.875 %.

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

(a) Analysis by type

In thousands of BGN	**31-Dec-2014**	**31-Dec-2013**
Balances with Central Bank		
In Bulgarian Leva	413 071	622 321
In foreign currencies	2 769	2 505
Deposits with domestic and foreign banks		
In Bulgarian Leva	300	100
In foreign currencies	783 149	840 310
Loans under repurchase agreements	1 272 153	-
Total	**2 471 442**	**1 465 236**

(b) Geographical analysis

In thousands of BGN	**31-Dec-2014**	**31-Dec-2013**
Domestic banks	415 840	624 826
Foreign banks	2 055 602	840 410
Total	**2 471 442**	**1 465 236**

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 613 718 thousand and BGN 552 505 thousand as of 31 December 2014 and 2013 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 2014 and 31 December 2013 the residual term of repurchase of open repurchase transactions is twelve days.

15. Loans and advances to other customers

In thousands of BGN	**31-Dec-2014**	**31-Dec-2013**
Individuals		
In Bulgarian Leva		
Consumer loans	2 060 458	1 979 254
Mortgage loans	1 271 332	1 326 720
In foreign currencies		
Consumer loans	466 846	551 592
Mortgage loans	1 055 259	1 150 833
Companies		
In Bulgarian Leva		
Working capital loans	577 999	527 346
Investment loans	292 336	241 606
In foreign currencies		
Working capital loans	490 368	497 244
Investment loans	892 810	829 080
Loans under repurchase agreements	-	1 004
State Budget		
In Bulgarian Leva	7 108	9 514
In foreign currencies	1 453	2 813
Less impairment allowances	(870 158)	(893 734)
Total loans and advances to other customers	**6 245 811**	**6 223 272**

Impairment allowances of loans and advances to other customers

In thousands of BGN	**31-Dec-2014**	**31-Dec-2013**
Balance at 1 January	**893 734**	**879 424**
Net change for the year through profit or loss	126 764	155 871
Decrease	(150 340)	(141 561)
Balance at 31 December	**870 158**	**893 734**

The interest rates on receivables from loans as at 31 December 2014 are ranged as follows: receivables from individuals from 5.14 % to 41.14 %; receivables from companies from 0.25 % to 15.00 %; receivables from State Budget from 0.73 % to 7.82 %.

In accordance with the policy of DSK Bank in 2014 the sales of problem loans amount to the gross value of BGN 34 178 thousand and impairment allowance of BGN 33 816 thousand respectively.

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

In thousands of BGN	31-Dec-2014	31-Dec-2013
Investments in subsidiaries and associated companies	36 096	23 055
Other equity investments	6 508	6 494
Bulgarian debt securities available for sale	225 680	233 033
Government debt securities included	225 680	233 033
Foreign debt securities available for sale	175 210	40 660
Total investments available for sale	**443 494**	**303 242**
Impairment loss of investment available for sale	(5 175)	(5 166)
Balance amount of investment available for sale	**438 319**	**298 076**
Bulgarian debt securities held to maturity	7 548	14 465
Government debt securities included	7 548	14 465
Total investments held to maturity	**7 548**	**14 465**
Total	**445 867**	**312 541**

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

Debt securities held to maturity represent bonds denominated in EUR earning interest at 6.00 %, and denominated in USD earning interest at 0.32865 %. 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 from 0.02 % to 0.04 %.

Domestic debt securities available for sale represent bonds: denominated in BGN earning interest between 1.5 – 5 %; denominated in EUR earning interest between 0.395 – 5.75 %, and denominated in USD earning interest between 0.32865 – 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 2014 are blocked in favour of Ministry of Finance on deposits from the State Budget at the amount of BGN 223 120 thousand.

17. Property, plant and equipment

Movement of property, plant and equipment during the year 2014

In thousands of BGN	Land and buildings	IT equipment	Office equipment	Other equipment	Total
Cost or revalued amount					
As of 31 December 2013	309 775	109 199	74 634	24 043	517 651
Additions	185	-	16	19 616	19 817
Disposals	(2 360)	(14 891)	(2 751)	(1 663)	(21 665)
Transfers	8 080	8 660	8 238	(24 978)	-
Cost or revalued amount as of 31 December 2014	**315 680**	**102 968**	**80 137**	**17 018**	**515 803**
Depreciation					
As of 31 December 2013	56 033	93 429	43 946	459	193 867
Charge for the period	5 461	9 138	9 095	41	23 735
Disposals	(1 225)	(14 871)	(2 500)	(70)	(18 666)
Depreciation as of 31 December 2014	**60 269**	**87 696**	**50 541**	**430**	**198 936**
Net book value 31 December 2014	**255 411**	**15 272**	**29 596**	**16 588**	**316 867**
Net book value 31 December 2013	**253 742**	**15 770**	**30 688**	**23 584**	**323 784**

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**

In “Land and buildings” are included leasehold improvements to the amount of BGN 2 669 thousand as of 31 December 2014 and BGN 1 630 thousand as of 31 December 2013.

In “Other equipment” are included property, plant and equipment under construction to the amount of BGN 16 264 thousand as of 31 December 2014 and BGN 23 520 thousand as of 31 December 2013.

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 2014 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 2014

In thousands of BGN	**Intangible assets**	**Assets under construction**	**Total**
Cost or revalued amount			
As of 31 December 2013	85 443	8 508	93 951
Additions	-	15 064	15 064
Disposals	(8 190)	(5)	(8 195)
Transfers	12 431	(12 431)	-
Cost or revalued amount as of 31 December 2014	**89 684**	**11 136**	**100 820**
Depreciation			
As of 31 December 2013	67 807	-	67 807
Charge for the period	11 444	-	11 444
Disposals	(8 190)	-	(8 190)
Depreciation as of 31 December 2014	**71 061**	**-**	**71 061**
Net book value 31 December 2014	**18 623**	**11 136**	**29 759**
Net book value 31 December 2013	**17 636**	**8 508**	**26 144**

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**

19. Other assets

In thousands of BGN	31-Dec-2014	31-Dec-2013
Deferred expenses	3 046	3 534
Materials, spare parts	2 687	1 664
Deficiencies in assets	520	2 308
Receivables in litigation	1 234	1 539
Acquired collaterals	5 460	4 556
Clearing and bank settlement assets	1 319	3 559
Other assets	12 242	18 313
Impairment allowances	(3 386)	(4 931)
Total	**23 122**	**30 542**

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

In thousands of BGN	31-Dec-2014	31-Dec-2013
Deposits from banks		
Term deposits	226 839	162 693
Current accounts	5 281	5 696
Total deposits from banks	**232 120**	**168 389**
Loans from banks		
Short term loans and loans under repurchase agreements	-	77 730
Long term loans	26 342	34 283
Loans from financial institutions		
Long term loans	35 230	11 748
Total loans from banks and financial institutions	**61 572**	**123 761**

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, 2013 the loan is fully disbursed and the interest rates of the two tranches are 2.929 % and 2.8095 %. As of December 31, 2014 the interest rate of the loan is 2.903 %.

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 %. As of December 31, 2014 the interest rate of the loan is 3.153 %

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. As of December 31, 2014 EUR 1 714 thousand are disbursed and the interest rate is 3.053 %.

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, 2013 the loan is fully disbursed. As of December 31, 2014 the loan is fully repaid.

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. As of December 31, 2014 there are no such deals.

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 %. As of December 31, 2014 EUR 18 000 thousand are disbursed and the interest rate is 0.833 %.

The Bank has not had any defaults of principal or interest or other breaches with respect to its liabilities during the periods 2013 and 2014.

21. Deposits from other customers

In thousands of BGN	**31-Dec-2014**	**31-Dec-2013**
Individuals		
In Bulgarian Leva		
Term deposits	1 868 641	1 888 755
Demand deposits	2 703 337	2 187 286
In foreign currencies		
Term deposits	1 081 498	999 509
Demand deposits	779 874	584 660
Companies		
In Bulgarian Leva		
Term deposits	108 668	138 147
Demand deposits	642 863	459 436
In foreign currencies		
Term deposits	123 741	153 454
Demand deposits	334 070	170 761
State Budget		
In Bulgarian Leva		
Term deposits	8 282	2 269
Demand deposits	169 267	162 764
In foreign currencies		
Term deposits	11 989	11 800
Demand deposits	22 723	8 685
Financial institutions		
In Bulgarian Leva		
Term deposits	83 516	53 023
Demand deposits	31 439	73 459
In foreign currencies		
Term deposits	20 632	9 350
Demand deposits	26 420	95 576
Total	**8 016 960**	**6 998 934**

The interest rates on deposits as at 31 December 2014 are ranged as follows: deposits from individuals from 0 % to 8.50 %; deposits from companies from 0 % to 4.25 %; deposits from State Budget from 0 % to 3.01 %; deposits from financial institutions from 0 % to 3.25 %.

22. Deferred Tax Liabilities

Deferred income taxes for 2014 are calculated on all temporary differences under the liability method using a tax rate of 10 %.

Deferred income tax balances are attributable to the following items:

	Assets		**Liabilities**		**Net**	
In thousands of BGN	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Pension severance payments under Labour Code and other personnel liabilities	(1 254)	(1 303)	-	-	(1 254)	(1 303)
Financial assets available for sale	(854)	(276)	1 287	709	433	433
Fixed assets	(145)	(145)	10 471	10 929	10 326	10 784
Contingent liabilities	(734)	(597)	-	-	(734)	(597)
Unused annual leave and other	(576)	(312)	-	-	(576)	(312)
Net deferred tax (assets)/liabilities	**(3 563)**	**(2 633)**	**11 758**	**11 638**	**8 195**	**9 005**

Movement in temporary differences during the year:

In thousands of BGN	**Balance as of 31 December 2013**	**Recognised in the income statement 2014**	**Recognised in equity 2014**	**Balance as of 31 December 2014**
Pension severance payments under Labour Code and other personnel liabilities	(1 303)	49	-	(1 254)
Financial assets available for sale	433	-	-	433
Fixed assets	10 784	(398)	(60)	10 326
Contingent liabilities	(597)	(137)	-	(734)
Unused annual leave and other	(312)	(264)	-	(576)
Total	**9 005**	**(750)**	**(60)**	**8 195**

23. Provisions for liabilities

In thousands of BGN	**31-Dec-2014**	**31-Dec-2013**
Pension severance payments under Labour Code	4 884	4 780
Provisions for contingent liabilities	6 667	5 302
Total	**11 551**	**10 082**

24. Other and trading liabilities

In thousands of BGN	31-Dec-2014	31-Dec-2013
Liabilities for centralisation of State Budget with BNB	29 244	18 380
Liabilities to personnel and management	10 035	11 268
Money transfers for execution	17 779	6 149
Negative Fair value of derivatives	3 224	622
Deferred income	9 615	2 930
Other	12 212	35 154
Total	**82 109**	**74 503**

25. Shareholders' equity

(a) Face value of registered shares

In thousands of BGN	31-Dec-2014	31-Dec-2013
Ordinary registered voting shares	153 984	153 984

OTP Bank, incorporated in Hungary, is the owner of 100% of the share capital of DSK Bank.

The ultimate shareholders with over 5 % stake of OTP Bank are as follows:

Name	Number of shares	Ownership	Voting rights
Megdet, Timur and Ruszlan Rahimkulov	24 891 495	8,89%	9,01%
Hungarian Oil and Gas Company (MOL)	24 000 000	8,57%	8,69%
Groupama	23 206 741	8,29%	8,40%
Hungarian National Asset Management Inc.	14 091 903	5,03%	5,10%

(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.

26. Contingent liabilities and commitments

(a) Off balance sheet liabilities and commitments

In thousands of BGN	31-Dec-2014	31-Dec-2013
Litigation against the Bank and other contingent liabilities	6 788	5 461
Bank guarantees and letters of credit		
in Bulgarian Leva	166 611	142 785
in foreign currencies	105 826	62 525
	272 437	**205 310**
Commitments for undrawn credit facilities		
in Bulgarian Leva	455 572	388 777
in foreign currencies	188 424	175 125
	643 996	**563 902**
Forward and spot deals - sell		
in Bulgarian Leva	101 052	205 367
in foreign currencies	1 457 792	230 994
	1 558 844	**436 361**
Other	234	499
Total	**2 482 299**	**1 211 533**

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 are expected to expire without being advanced in whole or in part. Therefore, the amounts are not expected to 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 6 788 thousand (principal and accrued interest) as of December 31, 2014. 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 6 667 thousand (note 23) are allocated.

(d) Assets pledged as collateral

As of 31 December 2014 DSK Bank has pledged Government bonds to the amount of BGN 223 120 thousand as collaterals for funds due to the State Budget. The pledge is registered in the Central Bank in favour of Ministry of Finance under the Low for State Budget of Republic of Bulgaria.

27. Cash and cash equivalents

In thousands of BGN	31-Dec-2014	31-Dec-2013
Cash on hand	362 770	251 110
Balances with the Central Bank	415 840	624 826
Receivables from bank with maturity up to 3 months	2 065 805	851 170
Total	**2 844 415**	**1 727 106**

28. 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, 31.12.2014
DSK Tours EOOD	100,00%	8 491
DSK Rodina Pension Company AD	99,75%	10 972
DSK Assets Management AD	66,00%	12 061
DSK Bul-Project OOD	74,90%	120
DSK Trans Security EOOD *	100,00%	2 225
DSK Leasing AD	60,02%	1 962
Total		**35 831**

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

On 30 September 2014 the General Meeting of the shareholders of DSK Bul-Project took decision for cessation of the company and opened liquidation proceedings.

Controlled companies without equity investment

Since 2012 DSK Bank includes in its consolidated financial statements OTP Factoring Bulgaria EAD. The Bank controls OTP Factoring Bulgaria EAD, because the Group is exposed to variability of returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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, 31.12.2014**
Cash Services Company AD	20,00%	2 490
Total		**2 490**

Net asset value

In thousands of BGN	**31-Dec-2014**	**31-Dec-2013**
Cash Services Company AD	13 576	12 813

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

29. 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 2014 are as follows:

In thousands of BGN

Related party	Type of transaction	2014	2013
Employees	Loans extended	55 594	57 858
Directors and executive officers	Loans extended	6 891	8 006
Subsidiaries	Current and deposit accounts with DSK Bank	12 254	18 258
Subsidiaries	Liabilities	1 124	189
Subsidiaries	Other receivables	1 446	2 317
Subsidiaries	Interest expense	229	446
Subsidiaries	Services expense	9 305	8 436
Subsidiaries	Services income	11	8
Subsidiaries	Rentals received	187	257
Subsidiaries	Rentals paid	20	20
Subsidiaries	Fees received	422	294
Associates	Current and deposit accounts with DSK Bank	503	579
Associates	Interest expense	3	48
Associates	Fees received	-	37
Associates	Granted bank guarantee	-	91
Associates	Services expense	1 233	1 336
OTP Bank	Current and deposit accounts in OTP Bank	2 055 503	839 778
OTP Bank	Bond issued by OTP Bank	168 023	33 427
OTP Bank	Current and deposit accounts in DSK Bank	207	140
OTP Bank	Fair value of derivatives	(1 439)	489
OTP Bank	Other liabilities	61	-
OTP Bank	Interest income	30 855	18 110
OTP Bank	Interest expense	323	-
OTP Bank	Fees paid	24	143
OTP Bank	Fees received	64	64
OTP Bank	Liabilities for currency exchange contracts	1 499 487	163 522
OTP Bank	Receivables for currency exchange contracts	1 499 177	164 606
OTP Bank	Off balance liability on overdraft	1 600	1 600
Other Group members	Current and deposit accounts in Group members	264	23
Other Group members	Receivables	-	71
Other Group members	Liabilities	848	567
Other Group members	Current and deposit accounts in DSK Bank	1 999	1 481
Other Group members	Loans extended	23 569	40 530
Other Group members	Off balance liability on granted credit line	-	10 175
Other Group members	Interest income	1 518	2 435
Other Group members	Interest expense	3	6 760
Other Group members	Fees received	152	301
Other Group members	Fees paid	6 174	4 897
Other Group members	Rentals received	124	78
Other Group members	Services expense	-	268
Other Group members	Income from sale of loans	5 164	16 838

The remuneration of the key management personnel for 2014 includes current income amounting to BGN 2 706 thousand (2013: BGN 3 189 thousand).

DSK BANK EAD

Report on the Management and Activity of DSK Bank EAD for the year ending 31 December 2014

Summary

In 2014, Bulgarian economy continued to be influenced by the effects of the unstable international situation. There was a still weak economic activity tending to slow recovery. This uncertain environment continued to impact on the activity of the whole Banking system, including those of DSK Bank EAD. The lending potential remained severely limited during 2014, which further strengthened the highly competitive environment on the Bulgarian market, but through keeping normal market approaches of the Banks. In addition to the unstable economic situation, the Banking market during the year was also strongly affected by Corporate Commercial Bank's insolvency, but the behavior and results of the other Banks showed that the existing tension did not threaten the stability of the System. As a proof for the retained confidence on the banking sector, a large part of the guaranteed deposits from Corporate Commercial Bank, paid back by the Deposit Insurance Fund have been returned in the banking system. The payments were conducted through several banks, chosen by the Fund. They showed proficient organization and operation, which contributed to a calm payment process, without affecting the daily activities and other bank clients. The strong and adequate capital and liquidity position of the banking system was preserved, but the management of the loan portfolio quality continued, still being strongly influenced by the unfavorable environment.

In 2014 DSK Bank EAD 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 2014 the Bank takes the second position on the lending market with a share of 12.8% compared to 12.2% by the end of 2013. However, it has to be considered that during the year the Bank wrote-off BGN 126 million sold about BGN 29 million 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 12.5% compared to 11.2% by the end of 2013. Should be considered that the annual growth of the total loans and deposits market share was mainly affected by the elimination of Corporate Commercial Bank from banking statistics published by the Bulgarian National Bank. This equally impacted the levels of positions and the market distribution between all banks. Due to the still limited potential of the lending market, during 2014 DSK Bank EAD continued to optimize the cost of funding. 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 in attracting funds. Thus, the Bank kept its stable interest spread of 5.5% (2013: 5.2%) 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 an increase of 2.6% compared to 2013 due to an increase in net interest and commission income.

In 2014 profit grew by 16.6% mainly as a result of lower impairment costs which decreased considerably compared to 2013. 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 2014 allocated impairment for loan loss generated a reasonable buffer in the provision to non-performing loans.

The successful management of the operating expenses also contributed to the good performance. The cost-to-income ratio was 38.2% by the end of 2014, 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.

In 2014 the asset quality continued to deteriorate, which reflected the weak positive economic changes in the operating environment of the Bank during the year. Despite this the Bank considered the management of the loan portfolio in 2013 as successful, taking into account the observed tendencies and the achieved results, by continuing to follow relatively more conservative provisioning policy compared to other banks on the market and the achieved high coverage of 91.1% on the non-performing loans. The Bank was able to undertake unexpected unfavorable changes on a regional or product level or in a particular risk exposure.

In 2014 DSK Bank EAD continued to offer mainly traditional loan products to households, keeping its leadership position in the banking system with 28.1% market share in consumer and 25.0% in mortgage loans.

Market and credit risks are regularly monitored and evaluated by the respective and responsible units. DSK Bank EAD 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 timely 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 EAD 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 EAD has a two-tier management system. The Governing bodies are: General Assembly, Supervisory Board (SB) and Management Board (MB).

In 2014 DSK Bank EAD was managed by a Supervisory Board and a 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
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
Diana Miteva - Member of the Management Board and Executive Director
Dorothea Nikolova – Member of the Management Board and Executive Director
Yuriy Genov – Member of the Management Board and Executive Director
Boyan Stefov – Head of division
Margarita Petrova-Karidi – 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 EAD is 19 Moskovska str., 1036 Sofia.

As at the end of 31 December 2014 DSK Bank EAD has 9 regional centers, 61 financial centers, 93 branches, 95 affiliated offices and 127 bank offices.

Financial result and profitability

For 2014 DSK Bank EAD reported BGN 251.1 million profit before tax and increases (17%) compared to 2013 mainly due to lower impairment expenses.

The profit after tax for 2014 was BGN 226.0 million.

The net interest income amounted to BGN 495.0 million and was lower by BGN 24.9 million compared to 2013 mainly resulted from cost of funding optimization. Interest income decreased by BGN 18.8 million year-on-year, interest income from loans to individuals decreased year-on-year by BGN 23.2 million, and by BGN 9 million decreased those on company portfolio. An essential part of this negative effect was the stagnating portfolio volume, as well as the continuing decrease of average benchmark interest rates and strong competition on the credit market. 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 43.8 m as a result of the measures taken to reduce cost of funds.

Net non-interest income for 2014 amounted to BGN 132.4 million (a decrease of 6.5% or BGN 9.2 million compared to 2013), which is a result of the decrease in net operating income by BGN 32.2 million. The net fee and commission income increased by BGN 4.7 million.

The operating expenses stood at BGN 245.1 million, which is higher by BGN 5 million or 2.08% compared to 2013. The increase is due to the depreciation costs (increase of BGN 3.9 million, because of accelerating depreciation of certain assets) and due to the personnel expenses (increase of 1.6 million).

The headcount of the Bank as of 31st December was 3 729 (2013:3 678).

The assets per employee ratio registered an increased from BGN 2.415 million as of the end of 2013 to 2.675 million as of the end of 2014. The profit per employee ratio increased from BGN 52.7 thousand by the end of 2013 to BGN 60.6 thousand by the end of 2014.

Balance sheet indicators

The total assets of DSK Bank EAD as at 31 December 2014 amounted to BGN 9 975.6 million and increased by BGN 1 094.8 million compared to 2013.

The market share of DSK Bank EAD as of 31 December 2014 in the total banking assets in the country was 11.7%. (2013: 10.4%), as the increase is mainly affected by the elimination of Corporate Commercial Bank from the banking statistics, published by Bulgarian National Bank.

Interest bearing assets comprised 85.8% relative share of the Bank's total assets.

The net loan portfolio of the Bank amounted to BGN 6 245.8 million and compared to 2013 reported an increase of BGN 22.5 million or 0.4%.

Loans to individuals amounted to BGN 4 853.9 million and reported a decrease of BGN 154.5 million (3.1%) compared to the previous year (mainly as a result of the portfolio of problem loans which were written-off or sold to the factoring company OTP Factoring Bulgaria).

At the end of 2014 the market share of the Bank in terms of household loans was 27.3%, in consumer loans – 30.4%, and in mortgage loans – 24.1%. In 2013 they were respectively 27.6%, 29.9% and 25.3%. The market share decrease is mainly driven by the written-off and sold loans to OTP Factoring Bulgaria.

Company loans amounted to BGN 2 253.5 million and reported an increase of BGN 157.2 million (7.5%) compared to 2013.

Loans to the budget were BGN 8.6 million and decreased by BGN 3.8 million compared to 2013.

Impairment allowance of the loan portfolio amounted to BGN 870.2 million and decreased by BGN 23.6 million compared to the previous year, also due to the written-off problem loans.

Customer deposits amounted to BGN 8 017.0 million. This represented an annual growth of 14.5% or BGN 1 018.0 million.

Household deposits as at the end of 2014 were BGN 6 433.4 million and increased by BGN 773.1 million or 13.7%.

The market share of the Bank in terms of household deposits as at the end of 2014 was 16.8% (2013: 15.3%). The increase is mainly related to the elimination of Corporate Commercial Bank from the banking statistics, published by Bulgarian National Bank.

Company deposits increased by BGN 287.5 million and by the end of the year amounted to BGN 1 209.3 million

Deposits from the budget were BGN 212.3 million and increased by BGN 26.7 million in 2014.

Deposits from financial institutions amounted to BGN 162.0 million, decreasing by BGN 69.4 million compared to 2013.

Card transactions

The issued cards by the Bank as of 31.12.2014 were 1 464.3 thousand and increased by 125 thousand compared to 2013. The debit cards amounted to 1 363.5 thousand and the credit cards were 87.9 thousand.

As of December 2014 the Bank operates with 883 ATM devices and 4 936 POS devices. During the year the Bank installed 10 units of ATM devices and 596 POS devices.

Capital adequacy

The Bank constantly keeps a level of total capital adequacy, sufficient in order to cover the risks from its activity and to comply with the regulatory requirements. As of December 2014 the total capital adequacy ratio was 18.03%. In 2014 DSK Bank EAD provided free capital of BGN 273 m above the minimal capital adequacy requirements and the both capital buffers - capital conservation buffer (BGN 150.6 million) and the systemic risk buffer (BGN 180.7 million).

Credit risk

The main credit risk, to which DSK Bank EAD 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 (68.2%), company loans (31.7%) and loans to the budget (0.1%). Within household loans the credit risk is well allocated between consumer loans (52.1%) and housing loans collateralized with mortgage.

DSK Bank EAD measures credit risk in compliance with IFRS requirements (officially accepted by the Bulgarian legislation) 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 2014 was as follows:

Total loan portfolio – 12.23%

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

- „regular" - 1,70%
- „watch" – 7,19%
- „non-performing" – 31,85%
- „loss" – 70,28%

The coverage of the „non-performing" and „loss" exposures with allocated loan loss impairment was 77.3%, increasing by 2.2 pp compared to 2013. 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.

As of the end of 2014 the regularly performing credit exposures (incl. related exposures) are 78.4%, as the distribution by products was as follows:

Consumer loans to individuals– 91%, mortgage loans to individuals – 68%, loans to small and medium enterprises – 59% and loans to corporate clients – 79%.

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 35.7 million, reporting a decrease of BGN 4.9 million compared to previous year.

The investments in IT projects during the year were BGN 21.1 million, as their share in the total investments was 59% (for 2013 the share was 48.9%).

The capital investments during the year were BGN 14.6 million.

Investments of BGN 11.9 million were made in construction related activities aiming at optimization and improvement of the branch network strategic locations, BGN 1.1 million - in office equipment and BGN 1.3 million - in bank security.

Major goals for 2015

The Bank has defined the following priorities for the business year 2015:

- Continuing the development of the company business after the launched in 2014 restructuring of the management in this segment aiming at strengthening the market position.
- Expedient management of the sales process in terms of strong competition and decreasing margins including the refinancing process and early repayment of existing portfolio of the Bank

Meanwhile the Bank will continue the effective management of the following processes:

- Activities related to the quality management of the loan portfolio as well as improving of the measures and methods within the cooperation with "OTP Factoring Bulgaria".
- Adequate cost of funds management related to the ongoing weak potential on the lending market and declining market interest rates.

- Continuous improvement of the customer service quality;
- Continuous enhancement of the information systems covering all processes in the Bank related to the customer service and to the administrative, reporting and controlling functions internally committed in the institution.

The key issue in 2015 remains the management of the free liquidity, which is forecasted to continue to increase during the next year and results to erosion of net interest margin.

The Report on the Management and the Activity of DSK Bank EAD in 2014 is approved by the Management Board with protocol No.10 on 17.03.2015.

Violina Marinova	Dorothea Nikolova
Chief Executive Director	*Executive Director*