DSK Bank EAD

Unconsolidated Financial Statements

For the year ended December 31, 2015

and independent auditor's report

ANNUAL SEPARATE UNCONSOLIDATED REPORT ON THE ACTIVITIES

FOR 2015

DSK BANK EAD
Report on the Management and Activity
of DSK Bank EAD
for the year ending 31 December 2015

Summary

In 2015 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 very limited also during 2015 which further strengthened the severe competitive environment on the Bulgarian market, whereby banks continued to use their common market approaches. The strong and adequate capital and liquidity position of the banking system was preserved. However, the management of the loan portfolio quality continued, still being strongly influenced by the unfavorable environment, although there are already some indications for a slow recovery.

In 2015 DSK Bank EAD managed to keep its leadership positions both in retail loan and retail deposit portfolio, as well as its stable liquidity and capital position. As at the end of 2015 the Bank takes the second position on the lending market with a share of 13.2% compared to 12.8% by the end of 2014. However, it has to be considered that during the year the Bank wrote-off BGN 50 million and sold about BGN 26 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 13.5% compared to 12.5% by the end of 2014. Due to the still limited potential of the lending market, in 2015 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 5.6% (2014: 5.4%), 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 reported an increase of 10.3% compared to 2014 due to an increase in net interest and commission income.

In 2015 profit grew by 35.3% as a result of higher net income from banking activity and lower impairment costs which decreased considerably compared to 2014. 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 whereby the allocated impairment for loan loss as of the end of 2015 includes a reasonable buffer in the coverage of the non-performing loans.

The successful management of the operating expenses also contributed to the good performance of the Bank. The cost-to-income ratio (operating expenses/gross operating income) was 36.4% by the end of 2015, which was much below the average level of this ratio 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 2015 the asset quality continued to deteriorate, however with considerably slower rates, which reflected the weak positive economic changes in the operating environment of the Bank during the year, as well as the effective risk management. The Bank considered the management of the loan portfolio in 2015 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 95.6%. The Bank was able to undertake unexpected unfavorable changes on a regional or product level or in a particular risk exposure.

In 2015 DSK Bank EAD continued to offer mainly traditional loan and deposit products to households, keeping its leadership positions in this segment.

Market and credit risks are regularly monitored and evaluated by the respective and responsible units. DSK Bank EAD complies with regulations imposed by external authorities, as well as with internal risk regulations. 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, Legal, and Compliance Departments. The operational risk is monitored and regularly reports are prepared and submitted to the Operational Risk Management Committee measuring the events and the realized losses and the corresponding potential losses, as well as proposing measures for minimization of 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 (GA), Supervisory Board (SB) and Management Board (MB).

In 2015 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 SB
András Takács - Member of the SB
Gábor Kuncze - Member of the SB
Zoltan Dencs - Member of the SB

Management Board

Violina Marinova - Chairperson of the Management Board and Chief Executive Officer
Diana Miteva - Member of the MB and Executive Director
Dorothea Nikolova - Member of the MB and Executive Director
Yuriy Genov - Member of the MB and Executive Director
Boyan Stefov - Head of division
Margarita Petrova-Karidi - Member of the MB 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 2015 DSK Bank EAD has 9 regional centers, 60 financial centers, 93 branches, 98 affiliated offices and 123 bank offices.

Financial result and profitability

For 2015 DSK Bank reported BGN 339.7 million profit before tax. The increase of 35% compared to 2014 was mainly due to lower impairment expenses and interest expenses, as well as higher fee income.

The profit after tax for 2015 was BGN 305.8 million.

The net interest income amounted to BGN 552.2 million and was higher by BGN 57.3 or 11.6% compared to 2014, mainly due to cost of funds optimization. The interest income decreased by BGN 0.9 million year-on-year, as interest income from loans to individuals decreased by BGN 26.5 million and those of corporate clients – by BGN 2.7 million. 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 lending market. The interest expenses decreased year-on-year by BGN 58.2 million as a result of the measures taken to reduce cost of funds.

The net non-interest income for 2015 amounted to BGN 139.7 million. The increase of 5.5% or BGN 7.2 million compared to 2014 was due to the higher net operating income and net fee and commission income.

The operating expenses stood at BGN 251.6 million, which is higher by BGN 6.4 million or 2.6% compared to 2014. The increase was due to the personnel expenses (an increase of BGN 3.3 million) and to the annual installment paid to the Bank Resolution Fund (BGN 5.37 million), which was introduced for the first time in 2015.

The headcount of the Bank as of 31st December 2015 was 3 788 (2014: 3 729).

The assets per employee ratio increased from BGN 2.748 million as of the end of 2014 to BGN 2.965 million as of the end of 2015. The profit per employee ratio increased also from BGN 62.3 thousand for 2014 to BGN 81.6 thousand for 2015.

Balance sheet indicators

The total assets of DSK Bank EAD as at 31 December 2015 amounted to BGN 11 112.0 million and increased by BGN 1 136.5 million (or 11.4%) compared to 2014.

The market share of the Bank as of 31 December 2015 in the total banking assets in the country was 12.7% (2014: 11.7%).

Interest bearing assets comprised 76.8% relative share of the Bank's total assets.

The net loan portfolio of DSK Bank amounted to BGN 6 242.4 million and reported a decrease of BGN 3.4 million or 0.1% compared to 2014.

Loans to individuals amounted to BGN 4 798.3 million and decreased by BGN 55.5 million (1.1%) compared to the previous year (mainly as a result of the problem loans portfolio, which was written-off or sold to the factoring company OTP Factoring Bulgaria).

At the end of 2015 the market share of the Bank in terms of household loans was 27.2%, in consumer loans and overdrafts – 30.5%, and in mortgage loans – 23.8%. In 2014 the market shares were respectively – 27.3%, 30.4% and 24.1%.

Company loans amounted to BGN 2 329.6 million and increased by BGN 76.0 million (3.4%) compared to 2014.

Loans to the state budget were BGN 9.7 million and grew by BGN 1.2 million compared to 2014.

Impairment allowance of the loan portfolio amounted to BGN 895.2 million, which is an increase of BGN 25.0 million compared to the previous year.

Customer deposits amounted to BGN 9 321.9 million. This represented an annual growth of 16.3% or BGN 1 304.9 million.

Household deposits as at the end of 2015 were BGN 7 107.2 million and increased by BGN 673.9 million or 10.5%.

The market share of the Bank in terms of household deposits as at the end of 2015 was 17.1% (2014: 16.8%).

Company deposits increased by BGN 558.9 million and by the end of the year amounted to BGN 1 768.2 million.

Deposits from the state budget were BGN 143.7 million and decreased by BGN 68.6 million in 2015.

Deposits from financial institutions amounted to BGN 302.8 million, increasing by BGN 140.8 million compared to 2014.

Card transactions

The number of electronic cards issued by DSK Bank as of 31.12.2015 was 1 381.2 thousand. The debit cards amounted to 1 267.9 thousand and the credit cards were 97.0 thousand.

As of December 2015 the Bank operated with 874 ATM devices and 5 207 POS devices. During the year the Bank installed 271 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 2015 the total capital adequacy ratio was 17.26%. In 2015 DSK Bank EAD provided free capital of 237 million above the minimal capital adequacy requirements and the both capital buffers – capital conservation buffer (BGN 160.3 million) and the systemic risk buffer (BGN 192.3 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 households (67.2%), company loans (32.6%) and loans to the state budget (0.1%). Within household loans the credit risk is well allocated between consumer loans (52.9%) and mortgage loans.

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 total loan portfolio with allocated loan loss impairment) as of December 2015 was as follows:

Total loan portfolio – 12.54%

By portfolio quality groups on the basis of related-parties classification:

- „regular " – 1.42%
- „watch " – 12.54%
- „non-performing " – 29.13%
- „loss " – 76.83%

The coverage of the „non-performing" and „loss" exposures with total allocated loan loss impairment was 84.6%, increasing by 7.3 pp compared to 2014. 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 2015 the regularly performing credit exposures (incl. related exposures) were 79.5%, as the distribution by products was as follows:

Consumer loans to individuals – 90%, mortgage loans to individuals – 70%, loans to small and medium-sized enterprises – 68% and loans to corporate clients – 80%.

During the entire year continued the work on taking intensified measures for improvement of the process of 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 non-performing loans management continues after they are purchased from the Bank.

Investment program

The investments of DSK Bank during the year amounted to BGN 34.6 million, reporting a decrease of BGN 1.1 million compared to the previous year.

The investments in IT projects were BGN 22.2 million, as their share in the total investments of the Bank was 64% (for 2014 this share was 59 %).

The capital investments during the year were BGN 12.4 million. Investments of BGN 9 million were made in construction related activities aiming at optimization and improvement of the branch network strategic locations, BGN 1.1 million – in visual communication and BGN 0.7 million - in bank security.

Major goals for 2016

The Bank has defined the following priorities for the business year 2016:

- Continuing the development of the company business activity after the launched in 2014 restructuring of the management in this segment aiming at strengthening the market position
- Expedient management of the sales process with regard to the strong competitive environment and the further decreasing margins
- Development of new sales channels
- Introducing a strategy for attracting young customers.

The Bank will continue as well the effective management of the following processes:

- Activities related to the management of the loan portfolio quality as well as improving 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
- Constant improvement of the customer service quality
- Constant enhancement of the information systems covering all processes in the Bank related to the customer service as well as to the internal administrative, reporting and controlling functions of the institution.

The key issue in 2016 remains the management of the excess liquidity, which is expected to continue to increase during the next year and leads to a deterioration of the net interest margin.

The Report on the Management and the Activity of DSK Bank EAD in 2015 is approved by the Management Board with a protocol №13 on 08.03.2016.

Банка ДСК ЕАД
София
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2115

Violina Marinova	Dorothea Nikolova
Chief Executive Director	*Executive Director*

INDEPENDENT AUDITOR'S REPORT AND ANNUAL SEPARATE UNCONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder of
DSK Bank EAD

Report on the Separate Unconsolidated Financial Statements

We have audited the accompanying separate financial statements of DSK Bank EAD ("the Bank"), which comprise the separate unconsolidated statement of financial position as at December 31, 2015, and the separate unconsolidated statement of comprehensive income, separate unconsolidated statement of changes in equity and separate unconsolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Separate Unconsolidated Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate unconsolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the separate unconsolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparations and fair presentation of the separate 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 policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the separate unconsolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the separate unconsolidated financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2015, and of its financial performance and its cash flows for the year then ended in accordance with IFRS, as adopted by the European Union.

Other

The separate unconsolidated financial statements of the Bank as of and for the year ended December 31, 2014 were audited by another auditor who expressed an unmodified opinion, dated March 17, 2015.

Other Reports on Legal and Regulatory Requirements - Annual separate unconsolidated management report on the activities of the Bank according to the Accountancy Act

Pursuant to the requirements of the Bulgarian Accountancy Act, we have read the accompanying Annual separate unconsolidated report on the activities of the Bank, prepared by the Bank's management. The Annual separate unconsolidated report on the activities of the Bank is not a part of the separate unconsolidated financial statements. The historical financial information presented in the Annual separate unconsolidated report on the activities of the Bank, prepared by the management, is consistent, in all material respects, with the financial information disclosed in the annual separate unconsolidated financial statements of the Bank as of December 31, 2015, prepared in accordance with IFRS, as adopted by the European Union. Management is responsible for the preparation of the Annual separate unconsolidated report on the activities of the Group dated March 08, 2016.

Deloitte Audit OOD

Deloitte Audit OOD

София
Рег. №033
"Делойт Одит" ООД

Vasko Raichev
Registered auditor
Proxy of the Statutory Manager Assen Dimov

March 08, 2016
Sofia

Statement of profit or loss

For the year ended 31 December

In thousands of BGN	Note	2015	2014
Interest income		591 867	592 776
Interest expense		(39 619)	(97 790)
Net interest income	4	**552 248**	**494 986**
Fee and commission income		140 834	125 540
Fee and commission expense		(16 084)	(15 846)
Net fee and commission income	5	**124 750**	**109 694**
Net trading income	6	(1 966)	29 865
Net operating income	7	16 866	(7 149)
Operating income		**14 900**	**22 716**
Personnel expenses	8	(88 165)	(84 872)
Depreciation and amortisation	17, 18	(35 047)	(35 179)
Impairment losses	9	(100 556)	(131 129)
Other expenses	10	(128 401)	(125 122)
Profit before tax		**339 729**	**251 094**
Income tax expense	11	(33 925)	(25 068)
Profit for the year		**305 804**	**226 026**

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 8 March 2016.

Violina Marinova
Chief Executive Director

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Dorothea Nikolova
Executive Director

Deloitte Audit OOD
Vasko Raichev
Registered Auditor
8 March 2016

Специализирано одиторско предприятие
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Translated from Bulgarian

Statement of comprehensive income

For the year ended 31 December

In thousands of BGN	2015	2014
Profit after tax	305 804	226 026
Items that may be reclassified to profit or loss		
Change in fair value of available for sale investments, net of tax	19 272	(542)
	19 272	(542)
Items that will never be reclassified to profit or loss		
Remeasurements of defined benefit liability	(1 094)	(34)
	(1 094)	(34)
Total comprehensive income	**323 982**	**225 450**

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.

The unconsolidated financial statements were authorised for issue on behalf of DSK Bank EAD on 8 March 2016.

Violina Marinova
Chief Executive Director

Dorothea Nikolova
Executive Director

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Vasko Raichev
Registered Auditor
8 March 2016

Statement of financial position

In thousands of BGN	Note	31-Dec-2015	31-Dec-2014
Assets			
Cash and current accounts with domestic and foreign banks	12	371 113	375 534
Financial assets held for trading	13	78 168	66 984
Loans and advances to banks and balances with the Central Bank	14	3 177 879	2 471 442
Loans and advances to other customers	15	6 242 423	6 245 811
Investments available for sale and held to maturity	16	868 995	445 867
Current tax assets		-	182
Property, plant and equipment	17	310 381	316 867
Intangible assets	18	34 057	29 759
Other assets	19	29 010	23 122
Total assets		**11 112 026**	**9 975 568**
Liabilities			
Deposits from banks	20	54 343	232 120
Loans from banks and financial institutions	20	39 071	61 572
Deposits from other customers	21	9 321 869	8 016 960
Current tax liabilities		5 147	1 687
Deferred tax liabilities	22	7 808	8 195
Provisions for liabilities	23	12 734	11 551
Other and trading liabilities	24	74 198	82 109
Total liabilities		**9 515 170**	**8 414 194**
Shareholders' equity			
Share capital	25	153 984	153 984
Reserves	25	1 096 590	1 078 505
Retained earnings	25	346 282	328 885
Total shareholders' equity		**1 596 856**	**1 561 374**
Total liabilities and shareholders' equity		**11 112 026**	**9 975 568**

The statement of financial position 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 cash flows

For the year ended 31 December

In thousands of BGN	Note	2015	2014
Net cash flow from operating activities			
Profit before taxation		339 729	251 094
Increase in impairment losses of bad and doubtful debts and other assets	9	100 556	131 129
Depreciation and amortization	17, 18	35 047	35 179
Net effect from operations with investments		11 100	2 438
Net effect from foreign exchange rate revaluation		44 775	25 066
Net interest income		(552 248)	(494 986)
Loss from disposal of noncurrent assets		89	519
Increase in provisions for liabilities		2 806	3 363
Dividends received		589	641
Other non cash changes		6 061	6 864
Net cash flow from operating activities before changes in operating assets and liabilities		**(11 496)**	**(38 693)**
Change in operating assets			
Decrease / (increase) in securities held for trading		(3 977)	167 802
(Increase) in loans and advances to banks		(1 103 492)	(1 896)
(Increase) in loans and advances to other customers		(105 049)	(151 342)
Decrease / (increase) in other assets		(5 995)	3 213
Change in operating liabilities		-	
Increase / (decrease) in deposits from banks		(177 768)	63 737
(Decrease) in loans from banks and financial institutions		(22 170)	(62 307)
Increase in deposits from other customers		1 266 820	995 246
(Decrease) in other liabilities		(34 291)	(3 225)
Interest received		572 992	598 765
Interest (paid)		(54 979)	(108 402)
Net cash flow from operating activities		**320 595**	**1 462 898**
Cash flow from investing activities			
(Acquisition) of property, plant and equipment, net		(32 927)	(32 327)
(Increase) in investments		(392 436)	(128 189)
Net cash flow from investing activities		**(425 363)**	**(160 516)**
Cash flow from financing activities			
Dividends (paid)		(288 500)	(157 000)
Net cash flow from financing activities		**(288 500)**	**(157 000)**
Prepaid tax		(32 817)	(28 073)
Net increase in cash and cash equivalents		**(426 085)**	**1 117 309**
Cash and cash equivalents at the beginning of period	27	**2 844 415**	**1 727 106**
Cash and cash equivalents at the end of period	27	**2 418 330**	**2 844 415**

The statement of cash flows 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 8 March 2016.

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Translated from Bulgarian

8 March 2016

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 2014	**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**
Total comprehensive income					
Net profit for the year	-	305 804	-	-	305 804
Other comprehensive income					
Change in fair value of available for sale investments, net of tax	-	-	-	19 272	19 272
Remeasurements of defined benefit liability	-	-	(1 094)	-	(1 094)
Total other comprehensive income	-	-	(1 094)	19 272	18 178
Total comprehensive income	**-**	**305 804**	**(1 094)**	**19 272**	**323 982**
Decrease in revaluation reserve from fully depreciated or disposal of land and buildings, net of tax	-	93	-	(93)	-
Contributions by and distributions to owners					
Dividends paid	-	(288 500)	-	-	(288 500)
Balance as of 31 December 2015	**153 984**	**346 282**	**980 814**	**115 776**	**1 596 856**

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.

The unconsolidated financial statements were authorised for issue on behalf of DSK Bank EAD on 8 March 2016.

Violina Marinova
Chief Executive Director

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Executive Director

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8 March 2016

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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 8 March 2016.

(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 adjustment in the year ending 31 December 2016 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 and receivables

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.

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 discounts 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 converted 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 rate 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 expenses related 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 rate differences. Net trading income includes foreign currency exchange rate 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 that date the Bank recognizes all income and expenses related with the fair value changes 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 the market participants would take into account when 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.

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 on 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 activities.

(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 on both specific and collective asset 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 these 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 subsequently to their initial recognition except the Bank assesses that they are no longer held for the purpose of being sold or repurchased in the near future and if 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 Bank 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 future 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.

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 tax 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 obligations to pay any 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 with respect to 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 in Bulgaria. 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.

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) Initial application of new amendments to the existing Standards and Interpretations effective for the current financial period

The following new amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current financial period:

- Amendments to various standards "Improvements to IFRSs (cycle 2011-2013)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on December 18, 2014 (amendments are to be applied for annual periods beginning on or after January 1, 2015),
- IFRIC 21 "Levies" adopted by the EU on June 13, 2014 (effective for annual periods beginning on or after June 17, 2014).

The adoption of these amendments to the existing standards and interpretation has not led to any material changes in the Bank's financial statements.

Amendments to the existing Standards issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements the following amendments to the existing standards issued by IASB and adopted by the EU were in issue but not yet effective:

- Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)" resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on December 17, 2014 (amendments are to be applied for annual periods beginning on or after February 1, 2015),

- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” - Clarification of Acceptable Methods of Depreciation and Amortisation - adopted by the EU on December 2, 2015 (effective for annual periods beginning on or after January 1, 2016),
- Amendments to IAS 19 “Employee Benefits” - Defined Benefit Plans: Employee Contributions - adopted by the EU on December 17, 2014 (effective for annual periods beginning on or after February 1, 2015),
- Amendments to IFRS 11 “Joint Arrangements” – Accounting for Acquisitions of Interests in Joint Operations adopted by the EU on November 24, 2015 (effective for annual periods beginning on or after January 1, 2016).
- Amendments to IAS 1 “Presentation of Financial Statements” - Disclosure Initiative – adopted by the EU on December 18, 2015 (effective for annual periods beginning on or after January 1, 2016),
- Amendments to IAS 27 “Separate Financial Statements” - Equity Method in Separate Financial Statements - adopted by the EU on December 18, 2015 (effective for annual periods beginning on or after January 1, 2016),
- Amendments to various standards “Improvements to IFRSs (cycle 2012-2014)” resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on December 15, 2015 (amendments are to be applied for annual periods beginning on or after January 1, 2016).

New Standards and amendments to the existing Standards issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the IASB except from the following new standards and amendments to the existing standards, which were not endorsed for use in EU:

- IFRS 9 Financial Instruments (effective for annual periods beginning on or after January 1, 2018);
- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after January 1, 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- IFRS 15 “Revenue from Contracts with Customers” and further amendments (effective for annual periods beginning on or after January 1, 2018),
- IFRS 16 “Leases” (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after January 1, 2016),
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures” - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after January 1, 2016).

The Bank anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the financial statements of the Bank in the period of initial application, except for the noted below which might have material effect on the financial statements:

- IFRS 9 “Financial Instruments” uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how the Bank manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in IAS 39;

- IFRS 15 “Revenue from Contracts with Customers” which specifies how and when an IFRS reporter will recognise revenue from contracts with customers, different from financial instruments and other contractual rights or obligations within the scope of IFRS 9, lease and insurance contracts, and other scope exceptions, as well as the required disclosures;
- IFRS 16 “Leases”, under which a lessee recognises a right-of-use asset, treated similarly to other non-financial assets and depreciated accordingly and a lease liability.

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.

According to the Bank’s estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: Financial Instruments: Recognition and Measurement, would not impact the financial statements, if applied as at the reporting date.

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 financial 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-2015	**31-Dec-2014**
Liquidity ratio	28.27%	28.83%

To analyse the liquidity, the Bank prepares a maturity table for assets and liabilities, in which the cash flow from 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 2015

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	**54 343**	**54 349**	54 349	-	-	-	-
Loans from banks and financial institutions	**39 071**	**40 295**	37	14 453	92	489	25 224
Deposits from other customers	**9 321 869**	**9 351 489**	7 109 718	701 627	1 482 569	57 575	-
Current tax liabilities	**5 147**	**5 147**	-	5 147	-	-	-
Deferred tax liabilities	**7 808**	**7 808**	-	-	-	7 808	-
Provisions for liabilities	**12 734**	**12 734**	-	6 551	1 920	4 263	-
Other and trading liabilities	**74 198**	**74 198**	40 493	2 786	9 259	21 648	12
Total liabilities	**9 515 170**	**9 546 020**	**7 204 597**	**730 564**	**1 493 840**	**91 783**	**25 236**
Unused loan commitments	-	834 637	83 037	71 524	380 264	213 876	85 936
Total liabilities and commitments	**9 515 170**	**10 380 657**	**7 287 634**	**802 088**	**1 874 104**	**305 659**	**111 172**

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**

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 2015 and 31 December 2014.

Maturity table of assets and liabilities as of 31 December 2015

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	**54 343**	54 343	-	-	-	-	-
Loans from banks and financial institutions	**39 071**	27	14 453	-	-	24 591	-
Deposits from other customers	**9 321 869**	7 106 598	698 713	1 470 321	46 237	-	-
Current tax liabilities	**5 147**	-	5 147	-	-	-	-
Deferred tax liabilities	**7 808**	-	-	-	7 808	-	-
Provisions for liabilities	**12 734**	-	6 551	1 920	4 263	-	-
Other and trading liabilities	**74 198**	40 493	2 786	9 259	21 648	12	-
Total liabilities	**9 515 170**	**7 201 461**	**727 650**	**1 481 500**	**79 956**	**24 603**	**-**
Unused loan commitments	-	83 037	71 524	380 264	213 876	85 936	-
Positive/(negative) maturity mismatch	**9 515 170**	**7 284 498**	**799 174**	**1 861 764**	**293 832**	**110 539**	**-**
Derivatives liabilities							
Trading:	20 834						
Outflow	-	(14 841)	(10 101)	(5 574)	(660 857)	-	-
Inflow	-	14 761	9 750	5 191	630 898	-	-
Total derivatives	**20 834**	**(80)**	**(351)**	**(383)**	**(29 959)**	**-**	**-**
Assets							
Cash and current accounts with domestic and foreign banks	**371 113**	371 113	-	-	-	-	-
Financial assets held for trading	**78 168**	754	3 381	1 947	45 632	26 454	-
Loans and advances to banks and balances with the Central Bank	**3 177 879**	2 056 981	-	23 677	1 097 221	-	-
Loans and advances to other customers	**6 242 423**	71 731	168 327	954 618	2 004 079	3 043 668	-
Investments available for sale and held to maturity	**868 995**	21 819	29 123	186 576	415 299	160 990	55 188
Other assets	**29 010**	25 034	224	2 667	1 085	-	-
Total assets	**10 767 588**	**2 547 432**	**201 055**	**1 169 485**	**3 563 316**	**3 231 112**	**55 188**
Derivatives assets							
Trading:	9 119						
Outflow	-	(77 965)	(121 994)	(230 001)	(296 084)	-	-
Inflow	-	78 480	122 923	231 371	301 182	-	-
Total derivatives	**9 119**	**515**	**929**	**1 370**	**5 098**	**-**	**-**

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	-	-	-	-	-
Other assets	**23 122**	20 152	372	2 432	166	-	-
Total assets	**9 627 343**	**3 005 120**	**157 445**	**897 821**	**2 372 098**	**3 152 255**	**42 604**
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**	**-**	**-**

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 24 years but an average expected maturity of 5 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-2015**	**31-Dec-2014**
Balances with Central bank	1 557 225	415 840
Cash and balances with other banks	860 637	1 939 096
Unencumbered debt securities	253 428	45 048
Total liquidity assets	**2 671 290**	**2 399 984**

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 2015

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	**33 789**	**-**	**-**	**-**	**-**	**337 324**	**371 113**
Fixed rate	22 311	-	-	-	-	-	22 311
Floating rate	11 478	-	-	-	-	-	11 478
Non-interest bearing	-	-	-	-	-	337 324	337 324
Financial assets held for trading	**-**	**1 993**	**183**	**27 143**	**39 730**	**9 119**	**78 168**
Fixed rate	-	1 993	183	27 143	39 730	-	69 049
Floating rate	-	-	-	-	-	-	-
Non-interest bearing	-	-	-	-	-	9 119	9 119
Loans and advances to banks and balances with the Central Bank	**499 757**	**195 588**	**23 677**	**901 632**	**-**	**1 557 225**	**3 177 879**
Fixed rate	499 757	195 588	23 677	901 632	-	-	1 620 654
Floating rate	-	-	-	-	-	-	-
Non-interest bearing	-	-	-	-	-	1 557 225	1 557 225
Loans and advances to other customers	**5 579 846**	**8 926**	**65 541**	**14 654**	**326 251**	**247 205**	**6 242 423**
Fixed rate	2 330	8 926	65 541	14 654	326 251	-	417 702
Floating rate	5 577 516	-	-	-	-	-	5 577 516
Non-interest bearing	-	-	-	-	-	247 205	247 205
Investment securities	**29 704**	**24 913**	**186 263**	**95 172**	**477 755**	**55 188**	**868 995**
Fixed rate	17 545	24 913	186 110	95 172	477 755	-	801 495
Floating rate	12 159	-	153	-	-	-	12 312
Non-interest bearing	-	-	-	-	-	55 188	55 188
Total interest sensitive assets	**6 143 096**	**231 420**	**275 664**	**1 038 601**	**843 736**	**2 206 061**	**10 738 578**
Fixed rate	541 943	231 420	275 511	1 038 601	843 736	-	2 931 211
Floating rate	5 601 153	-	153	-	-	-	5 601 306
Non-interest bearing	-	-	-	-	-	2 206 061	2 206 061
Deposits from banks	**50 569**	**-**	**-**	**-**	**-**	**3 774**	**54 343**
Fixed rate	50 516	-	-	-	-	-	50 516
Floating rate	53	-	-	-	-	-	53
Non-interest bearing	-	-	-	-	-	3 774	3 774
Loans from banks and financial institutions	**-**	**-**	**39 071**	**-**	**-**	**-**	**39 071**
Fixed rate	-	-	-	-	-	-	-
Floating rate	-	-	39 071	-	-	-	39 071
Non-interest bearing	-	-	-	-	-	-	-
Deposits from other customers	**7 138 967**	**688 060**	**1 438 849**	**43 818**	**2 406**	**9 769**	**9 321 869**
Fixed rate	929 312	688 060	1 438 849	43 818	2 406	-	3 102 445
Floating rate	6 209 655	-	-	-	-	-	6 209 655
Non-interest bearing	-	-	-	-	-	9 769	9 769
Total interest sensitive liabilities	**7 189 536**	**688 060**	**1 477 920**	**43 818**	**2 406**	**13 543**	**9 415 283**
Fixed rate	979 828	688 060	1 438 849	43 818	2 406	-	3 152 961
Floating rate	6 209 708	-	39 071	-	-	-	6 248 779
Non-interest bearing	-	-	-	-	-	13 543	13 543

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

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 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 2014.

	Profit or loss		**Equity**	
	200 bp increase	**200 bp decrease**	**200 bp increase**	**200 bp decrease**
Effect in thousands of BGN				
31 December 2015				
As at 31 December	586	(586)	(58 436)	58 436
Average for the period	(368)	368	(51 437)	51 437
Maximum for the period	6 421	13 451	(42 252)	58 436
Minimum for the period	(13 451)	(6 421)	(58 436)	42 252
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

(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, the so called model "Risk Metrics for weighting the observations" is used, according to which the last changes receive bigger weight.

The statistics of the model for 2015 and 2014 are as follows:

In thousands of BGN	**2015**	**2014**
At 31 December	109	29
Average for the period	145	41
Maximum for the period	278	75
Minimum for the period	26	4

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**	
In thousands of BGN	**31-Dec-2015**	**31-Dec-2014**	**31-Dec-2015**	**31-Dec-2014**	**31-Dec-2015**	**31-Dec-2014**	**31-Dec-2015**	**31-Dec-2014**
Carrying amount	6 242 423	6 245 811	3 177 879	2 471 442	947 163	512 851		
Amount committed/ guaranteed							1 134 045	916 433

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-2015**		**31-Dec-2014**	
	to customers*	**to banks***	**to customers***	**to banks***
Past due 0 days	2 306 388	3 177 879	2 301 087	2 471 442
Past due up to 30 days	270 250	-	352 385	-
Past due 31-60 days	60 543	-	74 165	-
Past due 61-90 days	33 896	-	53 429	-
Past due over 90 days	21 660	-	32 574	-
Total	**2 692 737**	**3 177 879**	**2 813 640**	**2 471 442**

*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-2015**		**31-Dec-2014**	
	to customers**	**Net value*****	**to customers****	**Net value*****
Past due 0 days	3 144 143	3 004 436	2 924 228	2 790 214
Past due up to 30 days	308 719	277 600	335 943	297 663
Past due 31-60 days	50 006	36 453	79 850	55 263
Past due 61-90 days	27 446	19 812	39 697	22 922
Past due over 90 days	914 564	211 385	922 611	266 109
Total	**4 444 878**	**3 549 686**	**4 302 329**	**3 432 171**
incl. individually impaired due to:				
Past due	956 931	307 155	992 155	338 047
Financial instability	279 809	115 126	267 336	145 856
	1 236 740	**422 281**	**1 259 491**	**483 903**

**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 2015**	**2014**
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-2015**	**31-Dec-2014**
Loans and advances not past due		
Mortgage	1 877 066	1 919 992
Cash collateral	10 612	10 528
Securities	867 615	1 259 076
Other types of collateral	272 230	288 009
	3 027 523	**3 477 605**
Loans and advances past due		
Mortgage	348 590	460 472
Cash collateral	601	833
Other types of collateral	15 628	33 605
	364 819	**494 910**
Total	**3 392 342**	**3 972 515**

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-2015**	**31-Dec-2014**
Mortgage	400 300	952 495
Cash collateral	948	522
Other types of collateral	3 373 281	3 013 874
Total	**3 774 529**	**3 966 891**

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-2015**	**31-Dec-2014**
Secured by mortgages	2 625 956	3 332 959
Cash collateral	12 161	11 883
Other types of collateral*	4 528 754	4 594 564
Without collateral	3 148 623	1 648 005
Total	**10 315 494**	**9 587 411**

* 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

	31-Dec-2015		**31-Dec-2014**	
In thousands of BGN	**Carrying amount**	**Collateral**	**Carrying amount**	**Collateral**
Advances to banks	917 022	867 615	1 272 153	1 258 518
Total	**917 022**	**867 615**	**1 272 153**	**1 258 518**

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-2015	31-Dec-2014
Loan to value (LTV) ratio based on market value		
LTV ≤ 50 %	359 824	372 809
50 % < LTV ≤ 70 %	561 219	559 971
70 % < LTV ≤ 90 %	629 127	618 685
90 % < LTV ≤ 100 %	118 142	146 077
100 % < LTV	594 067	629 049
Total	**2 262 379**	**2 326 591**

As of December 31, 2015 and December 31, 2014 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. Except for the cases when personal guarantees have been provided only as a comfort factor, upon accepting the personal guarantee, the bank analyses the ability of the personal guarantee provider to service the respective obligation.

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

	31-Dec-2015		31-Dec-2014	
Type of restructuring	**gross value**	**impairment loss**	**gross value**	**impairment loss**
In thousands of BGN				
Mortgage Loans to individuals				
Combination	1 943	1 065	2 648	1 319
Debt consolidation loan with mortgage	11 305	2 944	9 950	2 533
Other	227 863	56 849	205 246	50 918
Prolongation	26 694	15 110	30 965	14 665
Suspension	174 546	96 217	201 704	96 764
Consumer Loans to individuals				
Combination	1 000	195	524	75
Debt consolidation loan with mortgage	28 782	6 238	25 643	5 598
Other	88 311	23 440	74 537	19 547
Prolongation	5 099	1 199	5 102	1 216
Suspension	13 959	3 812	13 296	3 714
Loans to corporate customers				
Combination	15 652	4 675	11 825	8 146
Debt consolidation loan with mortgage	2 899	1 207	4 778	1 835
Other	210 957	141 968	247 947	149 940
Prolongation	48 072	20 028	45 821	15 756
Suspension	5 990	4 256	9 781	6 360
Total	**863 072**	**379 203**	**889 767**	**378 386**

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

	31-Dec-2015	**31-Dec-2014**
In thousands of BGN		
PD category boundaries		
PD ≤ 0.01	858 949	749 741
0.01 < PD ≤ 0.05	1 010 151	1 033 528
0.05 < PD ≤ 0.10	242 367	282 147
0.10 < PD ≤ 0.20	67 877	87 653
0.20 < PD ≤ 0.30	10 051	31 383
0.30 < PD ≤ 0.50	11 947	16 897
0.50 < PD	40 152	19 504
not rated	64 894	80 234
Total	**2 306 388**	**2 301 087**

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 application of more restrictive requirements during the process of risk taking (including higher level of approval) or to a 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-2015	31-Dec-2014	31-Dec-2015	31-Dec-2014	31-Dec-2015	31-Dec-2014
In thousands of BGN						
Sovereign	9 714	-	-	-	696 747	298 613
State Budget	-	8 561	-	-	-	-
International banks for development	-	-	-	-	-	2 012
Banks, incl. the Central Bank	-	-	3 177 879	2 471 442	194 659	174 662
Manufacturing	696 989	688 602	-	-	-	-
Construction	155 918	185 811	-	-	-	-
Agriculture and forestry	152 064	138 263	-	-	-	-
Transport and communications	51 855	62 757	-	-	-	-
Trade and services	558 213	502 881	-	-	-	-
Hotels and catering	141 670	138 968	-	-	-	-
Financial and insurance activities	63 220	38 281	-	-	-	-
Real estate activities	343 389	361 346	-	-	-	-
Other industry sectors	166 237	136 604	-	-	557	135
Individuals	4 798 346	4 853 895	-	-	12	-
Equity investments	-	-	-	-	55 188	42 604
Total	**7 137 615**	**7 115 969**	**3 177 879**	**2 471 442**	**947 163**	**518 026**
Impairment for uncollectability	(895 192)	(870 158)	-	-	-	(5 175)
Total	**6 242 423**	**6 245 811**	**3 177 879**	**2 471 442**	**947 163**	**512 851**
Geographical analysis						
Europe	6 240 719	6 244 333	3 177 879	2 469 135	947 008	512 711
Asia	1 590	1 368	-	-	-	-
Africa	2	2	-	-	-	-
North America	75	65	-	2 307	155	140
South America	37	43	-	-	-	-
Total	**6 242 423**	**6 245 811**	**3 177 879**	**2 471 442**	**947 163**	**512 851**

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-2015	31-Dec-2014
Government bonds		
Rated Baa2	37 464	32 928
Rated Baa3	31 585	32 457
Fair value of derivatives		
Credit institutions	8 550	1 464
Other counterparties	569	135
Total	**78 168**	**66 984**

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 2015

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	125	2 347	220	13 714	21 058	-	37 464
Turkey	124	477	359	25 229	5 396	-	31 585
Derivative instruments							
Bulgaria	51	128	389	-	-	-	568
Russia	-	-	4	-	-	-	4
France	11	-	-	-	-	-	11
Hungary	442	429	975	6 690	-	-	8 536
Total	**753**	**3 381**	**1 947**	**45 633**	**26 454**	**-**	**78 168**
Investments							
Investments available for sale							
Government securities							
Bulgaria	19 455	28 168	388	214 886	160 990	-	423 887
Hungary	2 362	954	-	193 171	-	-	196 487
Floating income corporate equity investments							
Bulgaria	-	-	-	-	-	42 139	42 139
USA	-	-	-	-	-	155	155
Belgium	-	-	-	-	-	81	81
Great Britain	-	-	-	-	-	12 813	12 813
Corporate debt securities							
Hungary	-	-	186 110	-	-	-	186 110
Total	**21 817**	**29 122**	**186 498**	**408 057**	**160 990**	**55 188**	**861 672**
Investments held to maturity							
Government securities							
Bulgaria	2	-	79	7 242	-	-	7 323
Total	**2**	**-**	**79**	**7 242**	**-**	**-**	**7 323**
Total assets	**22 572**	**32 503**	**188 524**	**460 932**	**187 444**	**55 188**	**947 163**

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 income 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**

(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” Directorate (having functions related to organization and coordination and perform activity on problem receivables management);
- “Credit Monitoring” Department (having functions related to implementation of current monitoring of business clients),
- “Control and Administration of Credit Deals to Business Clients” Department (having functions related to implementation of credit utilization control of business clients) and
- “Immovable property” Department (having functions related to carrying out the Bank’s policy for sale of property - collaterals on problem loans and management of property acquired from problem loans).

(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 probability of default when applying for credit of the following client segments:

- Individuals, requesting mass products in the retail banking – mortgage backed loans, revolving loans, consumer loans, POS loans
- Retail business clients (standard SMEs)
- Corporate clients – non-standard SMEs and corporate customers

- Behavioural PD models

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

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

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

The Bank has developed behaviour models for the individuals using mass products in the retail banking – mortgage loans, revolving and consumer 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 weight 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.

Potential risks shall be reviewed as part of the business processes and for this reason they shall have to be identified in the self-evaluations of the Bank's units, these risks shall be classified on the basis of the standardized taxonomy of operational risks annually.

Prior to the implementation of a new process, new system, or new activity, the latter shall be analysed and evaluated from the operational risk's viewpoint. This evaluation shall be prepared by the unit involved in the implementation, and shall be forwarded to the Operational Risk Management Department for further evaluation and analysis. For the preparation of the evaluation, the Risk Self-Assessment Forms shall be used. In cases when IT systems are implemented, the evaluation shall be made by the unit(s) which has (have) defined the terms of reference.

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 connected to operational risk 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.

From the beginning of 2014 in power is 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 2015 year there are no registered events, which could potentially threaten the Bank activity.

(e) Capital Management

DSK Bank’s regulatory capital requirements are based on CRD IV.

(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 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 2015**	**Basel III 2014**
Common equity Tier 1 capital		
Ordinary share capital	153 984	153 984
Reserves	982 208	982 208
Deductions from Common equity Tier 1 capital		
Intangble assets	(34 057)	(29 759)
Accumulated other comprehensive income	37 149	(673)
CET1 instruments of financial sector entities where the institution has a significant investment	(17 497)	(14 998)
Tier 2 instruments of financial sector entities where the institution does not have a significant investment	(22 179)	(23 579)
	1 099 608	**1 067 183**
Tier 2 capital		
Accumulated other comprehensive income	66 049	63 730
Deductions from Tier 2 capital		
CET1 instruments of financial sector entities where the institution has a significant investment	(7 499)	(9 998)
Tier 2 instruments of financial sector entities where the institution does not have a significant investment	(51 752)	(35 368)
	6 798	**18 364**
Own funds	**1 106 406**	**1 085 547**

Capital ratios

	31-Dec-2015	**31-Dec-2014**
Solvency ratio (%)	17.26%	18.03%
Tier 1 capital ratio (%)	17.16%	17.72%

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 for financial assets and liabilities. 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-2015				
Financial assets held for trading	69 049	9 119	-	78 168
incl. derivatives	-	9 119	-	9 119
Investments available for sale	806 484	13 092	-	819 576
Total	**875 533**	**22 211**	**-**	**897 744**
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**

Equity instruments at the amount of 42 096 thousands of BGN as of 31 December 2015 and 42 166 thousands of BGN as of 31 December 2014 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	-	371 113	-	**371 113**	**371 113**
Loans and advances to banks and balances with the Central Bank	-	3 177 879	-	**3 177 879**	**3 177 879**
Loans and advances to other customers	-	-	6 393 947	**6 393 947**	**6 242 423**
Investments held to maturity	7 777	285	-	**8 062**	**7 323**
Liabilities					
Deposits from banks	-	54 343	-	**54 343**	**54 343**
Loans from banks and financial institutions	-	39 071	-	**39 071**	**39 071**
Deposits from other customers	-	9 327 517	-	**9 327 517**	**9 321 869**

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 analysis. The fair value of the impaired loans with a collateral backing is based on the valuated fair value of the collateral.

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 from 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	**2015**	**2014**
Interest income		
Loans and advances to banks	36 268	17 933
Loans and advances to other customers	522 805	553 812
Investments available for sale	32 405	20 585
Investments held to maturity	389	446
Total	**591 867**	**592 776**
Interest expense		
Deposits from banks	(128)	(166)
Loans from banks and financial institutions	(472)	(982)
Deposits from other customers	(39 019)	(96 642)
Total	**(39 619)**	**(97 790)**
Net interest income	**552 248**	**494 986**

The effect from interest income on individually impaired loans and advances to customers in the income statement is BGN 8 360 thousand for 2015 and BGN 8 712 thousand for 2014.

5. Net fee and commission income

In thousands of BGN	2015	2014
Fee and commission income		
In Bulgarian Leva		
Payment and settlement transactions	40 805	37 588
Credit related deals	23 353	21 790
Deposit related deals	38 956	32 136
Other	10 422	8 657
	113 536	**100 171**
In foreign currencies		
Payment and settlement transactions	16 215	13 216
Credit related deals	7 172	9 116
Deposit related deals	1 622	1 254
Other	2 289	1 783
	27 298	**25 369**
Total	**140 834**	**125 540**
Fee and commission expense		
In Bulgarian Leva	(12 793)	(13 391)
In foreign currencies	(3 291)	(2 455)
Total	**(16 084)**	**(15 846)**
Net fee and commission income	**124 750**	**109 694**

6. Net trading income

In thousands of BGN	2015	2014
Interest rate instruments	4 660	5 759
Foreign exchange trading	(6 127)	24 894
Other	(499)	(788)
Total	**(1 966)**	**29 865**

7. Net operating income

In thousands of BGN	2015	2014
Net income of available-for-sale securities		
Government bonds	(386)	(20)
Corporate bonds	90	(9)
Dividends	589	641
Foreign exchange gain	3 585	(16 013)
Sale of financial assets	6 022	5 648
Other	6 966	2 604
Total	**16 866**	**(7 149)**

The income from sale of financial assets amounting to BGN 6 022 thousand and BGN 5 648 thousand for 2015 and 2014 respectively are result from sell of problem loan portfolio.

8. Personnel expenses

In thousands of BGN	**2015**	**2014**
Wages and salaries	(68 709)	(65 980)
Compulsory obligations	(17 125)	(16 644)
Provisions on pension severance payments under Labour Code	(763)	(704)
Other	(1 568)	(1 544)
Total	**(88 165)**	**(84 872)**

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	**2015**	**2014**
Defined benefit obligations at 1 January	4 884	4 780
Benefits paid by the plan	(558)	(634)
Current service costs	500	490
Interest cost	200	203
Remeasurements:		
Experience adjustments	431	(14)
Actuarial (gains) losses from changes in demographic assumptions	389	5
Actuarial (gains) losses from changes in financial assumptions	336	54
Defined benefit obligations at 31 December	**6 182**	**4 884**

Expense recognized in statement of profit or loss

In thousands of BGN	**2015**	**2014**
Current service costs	500	490
Interest on obligation	200	203
Actuarial (gains) losses	63	11
Total	**763**	**704**

Actuarial assumptions

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

	2015	**2014**
Discount rate at 31 December	2.80%	3.80%
Future salary increases	3.00%	3.00%
Future pension increases	3.00%	3.00%

The average staff in the Bank is 3 748 for 2015 and 3 630 for 2014.

9. Impairment losses

In thousands of BGN	**2015**	**2014**
Impairment losses for loans and advances to customers and other assets	(662 352)	(656 720)
Reversals of impairment losses of loans and advances to customers and other assets	561 984	528 913
Impairment loss of inventory	(188)	(3 322)
Total (notes 15 and 19)	**(100 556)**	**(131 129)**

10. Other expenses

In thousands of BGN	**2015**	**2014**
Materials, rent, audit and other services	(71 703)	(74 153)
Operating lease expenses	(570)	(642)
Guarantee Funds instalment	(40 570)	(32 353)
Tax expenses	(12 308)	(12 730)
Provisions for contingent liabilities	(950)	(2 625)
Other expenses	(2 300)	(2 619)
Total	**(128 401)**	**(125 122)**

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	**2015**	**2014**
Current tax expense	(36 454)	(25 818)
Deferred tax income related to origination and reversal of temporary tax differences	2 529	750
Total	**(33 925)**	**(25 068)**

In thousands of BGN	**2015**	**2014**
Net income before income tax	339 729	251 094
Income tax using the statutory corporate tax rate	(33 973)	(25 109)
Tax on permanent tax differences	48	41
Income tax expense	**(33 925)**	**(25 068)**
Effective tax rate	9.99%	9.98%

Current taxes are calculated using a tax rate of 10 % for 2015 and 2014.

12. Cash and current accounts with domestic and foreign banks

In thousands of BGN	**31-Dec-2015**	**31-Dec-2014**
Cash on hand		
In Bulgarian Leva	286 521	294 963
In foreign currencies	47 725	67 807
Current accounts with domestic and foreign banks		
In Bulgarian Leva	7	957
In foreign currencies	36 860	11 807
Total	**371 113**	**375 534**

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-2015**	**31-Dec-2014**
Government securities – Republic of Bulgaria denominated in Bulgarian Leva	14 120	272
incl. pledged assets	-	-
Government securities – Republic of Bulgaria denominated in foreign currencies	23 344	32 656
incl. pledged assets	-	-
Foreign issuers debt securities denominated in foreign currencies	31 585	32 457
Positive fair value of derivatives	9 119	1 599
Total	**78 168**	**66 984**

Government securities issued by the Bulgarian government comprise securities denominated in BGN and EUR. The BGN denominated government securities earn interest between 1.10 % and 4.50 % and government securities denominated in EUR earn interest between 2.00 % and 4.00 %. Foreign issuers securities denominated in USD earn interest between 6.75 % and 7.50 % 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-2015	31-Dec-2014
Balances with Central Bank		
In Bulgarian Leva	1 554 611	413 071
In foreign currencies	2 614	2 769
Deposits with domestic and foreign banks		
In Bulgarian Leva	500	300
In foreign currencies	703 132	783 149
Loans under repurchase agreements	917 022	1 272 153
Total	**3 177 879**	**2 471 442**

(b) Geographical analysis

In thousands of BGN	31-Dec-2015	31-Dec-2014
Domestic banks	1 557 225	415 840
Foreign banks	1 620 654	2 055 602
Total	**3 177 879**	**2 471 442**

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 764 986 thousand and BGN 613 718 thousand as of 31 December 2015 and 2014 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.

15. Loans and advances to other customers

In thousands of BGN	31-Dec-2015	31-Dec-2014
Individuals		
In Bulgarian Leva		
Consumer loans	2 170 654	2 060 458
Mortgage loans	1 326 589	1 271 332
In foreign currencies		
Consumer loans	365 313	466 846

Mortgage loans	935 790	1 055 259
Companies		
In Bulgarian Leva		
Working capital loans	775 959	577 999
Investment loans	361 042	292 336
In foreign currencies		
Working capital loans	394 971	490 368
Investment loans	797 583	892 810
State Budget		
In Bulgarian Leva	8 391	7 108
In foreign currencies	1 323	1 453
Less impairment allowances	(895 192)	(870 158)
Total loans and advances to other customers	**6 242 423**	**6 245 811**

Impairment allowances of loans and advances to other customers

In thousands of BGN	**31-Dec-2015**	**31-Dec-2014**
Balance at 1 January	**870 158**	**893 734**
Net change for the year through profit or loss	100 470	126 764
Decrease	(75 436)	(150 340)
Balance at 31 December	**895 192**	**870 158**

The interest rates on receivables from loans as at 31 December 2015 are ranged as follows: receivables from individuals from 2.80 % to 41.14 %; receivables from companies from 0.42 % to 14.95 %; receivables from State Budget from 0.50 % to 7.81 %.

In accordance with the policy of DSK Bank in 2015 the sales of problem loans amount to the gross value of BGN 26 201 thousand and impairment allowance of BGN 26 201 thousand respectively.

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

In thousands of BGN	**31-Dec-2015**	**31-Dec-2014**
Investments in subsidiaries and associated companies	35 976	36 096
Other equity investments	19 212	6 508
Bulgarian debt securities available for sale	423 887	225 680
Government debt securities included	423 887	225 680
Foreign debt securities available for sale	382 597	175 210
Total investments available for sale	**861 672**	**443 494**
Impairment loss of investment available for sale	-	(5 175)
Balance amount of investment available for sale	**861 672**	**438 319**
Bulgarian debt securities held to maturity	7 323	7 548
Government debt securities included	7 323	7 548
Total investments held to maturity	**7 323**	**7 548**

Total	**868 995**	**445 867**

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 0.39928 %. 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 0.01 % to 0.04 %.

Domestic debt securities available for sale represent bonds: denominated in BGN earning interest between 1.1 – 5 %; denominated in EUR earning interest between 0.92 – 5.75 %, and denominated in USD earning interest between 0.39928 – 8.25 %. Foreign issuers' debt securities represent government bonds denominated in USD earning interest between 4.00 – 6.25 % 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 2015 are blocked in favour of Ministry of Finance on deposits from the State Budget at the amount of BGN 215 246 thousand.

17. Property, plant and equipment

Movement of property, plant and equipment during the year 2015

In thousands of BGN	Land and buildings	IT equipment	Office equipment	Other equipment	Total
Cost or revalued amount					
As of 31 December 2014	315 680	102 968	80 137	17 018	515 803
Additions	-	-	-	21 222	21 222
Disposals	(1 620)	(15 830)	(1 389)	(1 081)	(19 920)
Transfers	9 628	10 270	5 785	(25 683)	-
Cost or revalued amount as of 31 December 2015	**323 688**	**97 408**	**84 533**	**11 476**	**517 105**
Depreciation					
As of 31 December 2014	60 269	87 696	50 541	430	198 936
Charge for the period	6 213	8 839	10 653	171	25 876
Disposals	(807)	(15 810)	(1 352)	(119)	(18 088)
Depreciation as of 31 December 2015	**65 675**	**80 725**	**59 842**	**482**	**206 724**
Net book value 31 December 2015	**258 013**	**16 683**	**24 691**	**10 994**	**310 381**
Net book value 31 December 2014	**255 411**	**15 272**	**29 596**	**16 588**	**316 867**

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**

In "Land and buildings" are included leasehold improvements to the amount of BGN 2 961 thousand as of 31 December 2015 and BGN 2 669 thousand as of 31 December 2014.

In "Other equipment" are included property, plant and equipment under construction and acquisition of property plant and equipment to the amount of BGN 10 185 thousand as of 31 December 2015 and BGN 16 264 thousand as of 31 December 2014.

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 2015 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	1. Costs of administering the property as percentage of its gross annual income; 2. Rate of return on income from property;	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

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.	3. Adjusting factors in terms of similar market transactions.	increased (decreased).

18. Intangible assets

Movement of intangible assets during 2015

In thousands of BGN	**Intangible assets**	**Assets under construction**	**Total**
Cost or revalued amount			
As of 31 December 2014	89 684	11 136	100 820
Additions	-	13 688	13 688
Disposals	(1 484)	(215)	(1 699)
Transfers	12 937	(12 937)	-
Cost or revalued amount as of 31 December 2015	**101 137**	**11 672**	**112 809**
Depreciation			
As of 31 December 2014	71 061	-	71 061
Charge for the period	9 171	-	9 171
Disposals	(1 480)	-	(1 480)
Depreciation as of 31 December 2015	**78 752**	**-**	**78 752**
Net book value 31 December 2015	**22 385**	**11 672**	**34 057**
Net book value 31 December 2014	**18 623**	**11 136**	**29 759**

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**

19. Other assets

In thousands of BGN	31-Dec-2015	31-Dec-2014
Deferred expenses	2 995	3 046
Materials, spare parts	1 366	2 687
Deficiencies in assets	318	520
Receivables in litigation	1 323	1 234
Acquired collaterals	12 963	5 460
Clearing and bank settlement assets	892	1 319
Other assets	12 166	12 242
Impairment allowances	(3 013)	(3 386)
Total	**29 010**	**23 122**

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

In thousands of BGN	31-Dec-2015	31-Dec-2014
Deposits from banks		
Term deposits	50 394	226 839
Current accounts	3 949	5 281
Total deposits from banks	**54 343**	**232 120**
Loans from banks		
Long term loans	-	26 342
Loans from financial institutions		
Long term loans	39 071	35 230
Total loans from banks and financial institutions	**39 071**	**61 572**

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, 2014 the interest rate of the loan is 2.903 % on not repaid principal amounting to EUR 6 571 thousand. As of December 31, 2015 the credit line is fully repaid before the term.

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 and the interest rate as of December 31, 2014 is 3.153 %. As of December 31, 2015 the credit line is fully repaid before the term.

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, 2014 EUR 1 714 thousand are disbursed and the interest rate is 3.053 %. As of December 31, 2015 the credit line is fully repaid before the term.

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, 2014 EUR 18 000 thousand are disbursed and the interest rate is 0.833 %. As of December 31, 2015 the loan is fully disbursed and the interest rate is 0.618 %.

The Bank has not had any defaults of principal or interest or other breaches with respect to its liabilities during the periods 2014 and 2015.

21. Deposits from other customers

In thousands of BGN	**31-Dec-2015**	**31-Dec-2014**
Individuals		
In Bulgarian Leva		
Term deposits	1 845 840	1 868 641
Demand deposits	3 236 334	2 703 337
In foreign currencies		
Term deposits	1 065 482	1 081 498
Demand deposits	959 569	779 874
Companies		
In Bulgarian Leva		
Term deposits	103 679	108 668
Demand deposits	839 845	642 863
In foreign currencies		
Term deposits	91 934	123 741
Demand deposits	732 736	334 070
State Budget		
In Bulgarian Leva		
Term deposits	6 706	8 282
Demand deposits	102 616	169 267
In foreign currencies		
Term deposits	5 064	11 989
Demand deposits	29 302	22 723
Financial institutions		
In Bulgarian Leva		
Term deposits	35 213	83 516
Demand deposits	70 363	31 439
In foreign currencies		
Term deposits	3 963	20 632
Demand deposits	193 223	26 420
Total	**9 321 869**	**8 016 960**

The interest rates on deposits as at 31 December 2015 are ranged as follows: deposits from individuals from 0 % to 8.50 %; deposits from companies from 0 % to 4.00 %; deposits from State Budget from 0 % to 2.50 %; deposits from financial institutions from 0 % to 0.50 %.

22. Deferred Tax Liabilities

Deferred income taxes for 2015 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	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Pension severance payments under Labour Code and other personnel liabilities	(1 301)	(1 254)	-	-	(1 301)	(1 254)
Financial assets available for sale	(3 117)	(854)	3 550	1 287	433	433
Fixed assets	(145)	(145)	10 147	10 471	10 002	10 326
Contingent liabilities	(722)	(734)	-	-	(722)	(734)
Unused annual leave and other	(604)	(576)	-	-	(604)	(576)
Net deferred tax (assets)/liabilities	**(5 889)**	**(3 563)**	**13 697**	**11 758**	**7 808**	**8 195**

Movement in temporary differences during the year:

In thousands of BGN	**Balance as of 31 December 2014**	**Recognised in the income statement 2015**	**Recognised in equity 2015**	**Balance as of 31 December 2015**
Pension severance payments under Labour Code and other personnel liabilities	(1 254)	(47)	-	(1 301)
Financial assets available for sale	433	(2 142)	2 142	433
Fixed assets	10 326	(324)	-	10 002
Contingent liabilities	(734)	12	-	(722)
Unused annual leave and other	(576)	(28)	-	(604)
Total	**8 195**	**(2 529)**	**2 142**	**7 808**

23. Provisions for liabilities

In thousands of BGN	**31-Dec-2015**	**31-Dec-2014**
Pension severance payments under Labour Code	6 183	4 884
Provisions for contingent liabilities	6 551	6 667
Total	**12 734**	**11 551**

24. Other and trading liabilities

In thousands of BGN	**31-Dec-2015**	**31-Dec-2014**
Liabilities for centralisation of State Budget with BNB	8 251	29 244
Liabilities to personnel and management	10 472	10 035
Money transfers for execution	14 584	17 779
Negative Fair value of derivatives	20 834	3 224
Deferred income	8 682	9 615
Other	11 375	12 212
Total	**74 198**	**82 109**

25. Shareholders' equity

(a) Face value of registered shares

In thousands of BGN	**31-Dec-2015**	**31-Dec-2014**
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	24 768 412	8.85%	8.97%
Hungarian Oil and Gas Company (MOL)	24 000 000	8.57%	8.69%
Groupama	23 008 418	8.22%	8.33%
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-2015	31-Dec-2014
Litigation against the Bank and other contingent liabilities	6 698	6 788
Bank guarantees and letters of credit		
in Bulgarian Leva	159 137	166 611
in foreign currencies	140 271	105 826
	299 408	**272 437**
Commitments for undrawn credit facilities		
in Bulgarian Leva	575 291	455 572
in foreign currencies	259 346	188 424
	834 637	**643 996**
Forward and spot deals - sell		
in Bulgarian Leva	979 812	101 052
in foreign currencies	1 389 002	1 457 792
	2 368 814	**1 558 844**
Other	990	234
Total	**3 510 547**	**2 482 299**

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 of validity.

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 6 698 thousand (principal and accrued interest) as of December 31, 2015. 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 6 551 thousand (note 23) are allocated.

(d) Assets pledged as collateral

As of 31 December 2015 DSK Bank has pledged Government bonds to the amount of BGN 215 246 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-2015**	**31-Dec-2014**
Cash on hand	334 246	362 770
Balances with the Central Bank	1 557 225	415 840
Receivables from bank with maturity up to 3 months	526 859	2 065 805
Total	**2 418 330**	**2 844 415**

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, 31.12.2015**
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 Trans Security EOOD *	100.00%	2 225
DSK Leasing AD **	60.02%	1 962
Total		**35 711**

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

** DSK Leasing AD owns 100 % of the share capital of DSK Auto Leasing EOOD, DSK Leasing Insurance Broker EOOD and DSK Operative Leasing

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, 31.12.2015**
Cash Services Company AD	20.00%	2 490
Total		**2 490**

Net asset value

In thousands of BGN	**31-Dec-2015**	**31-Dec-2014**
Cash Services Company AD	13 654	13 576

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 2015 are as follows:

In thousands of BGN

Related party	Type of transaction	2015	2014
Employees	Loans extended	53 265	55 594
Directors and executive officers	Loans extended	8 104	6 891
Subsidiaries	Current and deposit accounts with DSK Bank	11 194	12 254
Subsidiaries	Liabilities	657	1 124
Subsidiaries	Other receivables	901	1 446
Subsidiaries	Interest expense	61	229
Subsidiaries	Services expense	9 378	9 305
Subsidiaries	Services income	-	11
Subsidiaries	Rentals received	205	187
Subsidiaries	Rentals paid	20	20
Subsidiaries	Fees received	125	422
Subsidiaries	Guarantees granted	101	91
Associates	Current and deposit accounts with DSK Bank	-	503
Associates	Interest expense	1	3
Associates	Services expense	-	1 233
OTP Bank	Current and deposit accounts in OTP Bank	1 590 741	2 055 503
OTP Bank	Bond issued by OTP Bank	186 110	168 023
OTP Bank	Current and deposit accounts in DSK Bank	685	207
OTP Bank	Fair value of derivatives	(10 979)	(1 439)
OTP Bank	Other liabilities	6	61
OTP Bank	Interest income	59 122	30 855
OTP Bank	Interest expense	72	323
OTP Bank	Fees paid	405	24
OTP Bank	Fees received	74	64
OTP Bank	Liabilities for currency exchange contracts	1 347 507	1 499 487
OTP Bank	Receivables for currency exchange contracts	1 324 489	1 499 177
OTP Bank	Off balance liability on overdraft	1 600	1 600
Other Group members	Current and deposit accounts in Group members	571	264
Other Group members	Liabilities	994	848
Other Group members	Current and deposit accounts in DSK Bank	410	1 999
Other Group members	Loans extended	17 685	23 569
Other Group members	Interest income	958	1 518
Other Group members	Interest expense	3	3
Other Group members	Fees received	171	152
Other Group members	Fees paid	5 485	6 174
Other Group members	Rentals received	208	124
Other Group members	Income from sale of loans	5 806	5 164
Other Group members	Guarantees granted	5	-
Other Group members	Credit line off balance liability	21 795	15 915

The remuneration of the key management personnel for 2015 includes current income amounting to BGN 2 705 thousand (2014: BGN 2 706 thousand).