DSK Bank EAD

Unconsolidated Financial Statements

For the year ended December 31, 2016,

report on the management and activity,

declaration of corporate governance

and independent auditor's report

ANNUAL UNCONSOLIDATED REPORT ON THE ACTIVITIES AND CORPORATE GOVERNANCE STATEMENT

FOR 2016

DSK BANK EAD
Report on the Management and Activity of DSK Bank EAD for the year ending 31 December 2016

Summary

In 2016 relatively unstable economy in Bulgaria was observed, together with uncertain political environment. The economy grew by 3.4% year-on-year in real terms according to the flash estimations of the National Statistical Institute. The economic growth in 2016 slightly slowed down compared to the previous year, when the country reported a growth of 3.6%. However, Bulgaria continued to be among the most dynamic economies in EU. In 2016 the consumption increased by 1% annually, which corresponds to 0.64% growth of customer loans. Despite the adverse economic environment, 2016 was another successful year for the banks in Bulgaria. The banks successfully went through the assets' quality review and the following stress tests. This affirmed the stability of the banking system and increased the trust in it. Despite the falling interest rates, excess liquidity, accompanied by negative interest rates and low potential for lending, the profit of the banking system grew by BGN 364 million or 41% compared to 2015, and the assets increased by BGN 4 570.7 million or 5.2%. 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 recovery.

In 2016 DSK Bank 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 2016 the Bank takes second position on the lending market with a share of 13.1% compared to 13.2% by the end of 2015. Despite this, it has to be considered that during the year the Bank wrote-off BGN 159 million and sold about BGN 86 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 13.2% compared to 13.5% by the end of 2015. Due to the still limited potential of the lending market, in 2016 DSK Bank continued to optimize the cost of funding. Such policy was followed by all banks on the market, due to the strong liquidity position and negative interest rates on the excess liquidity in BNB. Thus, the Bank kept its stable interest spread of 4.7% (2015: 5.6%), 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 grew by 0.7% compared to 2015 mainly due to an increase of net fee and commission income, and of other operating revenues.

In 2016 the profit declined by 7.7% mainly due to lower net interest income and net income from trading operations, that reported a considerable decrease compared to 2015. 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 2016 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 36.6% by the end of 2016, 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 2016 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 2016 as successful, taking into account the observed tendencies and the achieved results, continuing to follow relatively more conservative provisioning policy compared to other banks on the market and the achieved high coverage of non-performing loans of 85.0%. The Bank is able to undertake unexpected unfavorable changes on a regional or product level or in a particular risk exposure.

In 2016 DSK Bank EAD continued to offer mainly traditional loan and deposit products to households, keeping its leadership positions in this segment.

The 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 Directorate, and Compliance and Security Directorate. The operational risk is monitored and regular 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 perform 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 2016 DSK Bank EAD was managed by a Supervisory Board and a Management Board respectively with the following members:

Supervisory Board

László Bencsik - Chairman and Chief Financial Officer of OTP Bank
László Wolf - Deputy Chairman of the Supervisory Board of DSK Bank EAD
András Takács - member of the SB
Gábor Kuncze - member of the SB
Zoltan Dencs - member of the SB
Attila Kozsik - 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
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 participation of the MB members in management and supervisory bodies of other companies in 2016, as representatives of DSK Bank is as follows:

Name	**Company**	**Position**
Violina Marinova	PIC DSK Rodina AD Borica – Bankservice AD	Chairperson of SB Member of BD
Diana Miteva	DSK Asset Management AD DSK Mobile AD	Member of SB Chairperson of SB
Dorothea Nikolova	PIC DSK Rodina AD DSK Asset Management AD	Chairperson of MB Member of MB
Margarita Petrova-Karidi	OTP Factoring Bulgaria AD	Chairperson of BD
Yuriy Genov	PIC DSK Rodina AD DSK Mobile AD	Member of SB Member of SB

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

As at the end of 31 December 2016 DSK Bank EAD has 9 regional centers, 40 financial centers, 20 business centers and zones, 93 branches, 100 affiliated offices and 119 bank offices.

Financial result and profitability

For 2016 DSK Bank reported BGN 313.5 million profit before tax. The decrease of 7.7% compared to 2015 was mainly due to lower interest income and net income from trading operations /foreign exchange trading/.

The profit after tax for 2016 was BGN 282.2 million.

The net interest income amounted to BGN 519.2 million and was lower compared to 2015 by 33 million or 6%, mainly as a result of the decrease of the interest income on loans. The interest income decreased by BGN 59.4 million year-on-year, as interest income from loans to individuals decreased by BGN 51 million, and those of corporate clients and SMEs – by BGN 11.8 million. An essential part of this negative effect was due to the decline of the average benchmark interest rates as a result of the strong competition on the still stagnating loan market. The interest expenses decreased year-on-year by BGN 26.4 million as a result of the measures taken to reduce cost of funds.

The net non-interest income for 2016 amounted to BGN 177.5 million. The increase of 27.1% or BGN 37.8 million compared to 2015 was due to the higher net operating income and commission income from transactional services.

The operating expenses (incl. personnel expenses, amortization, hired services, material expenses and other) stood at BGN 255.2 million, which was higher by BGN 3.4 million or 1.4% compared to 2015.

In 2016 the Bank has accrued provisions at the amount of BGN 24.5 million on contingent liabilities for legal claims, the likely outcome of which is considered by the management to be unfavorable for the Bank, as well as for potential risks of increased claims from Bank's customers related to payments on products and services contracts.

The headcount of the Bank as of 31st December 2016 was 3 881 (2015: 3 788).

The assets per employee ratio increased from BGN 2.933 million as of the end of 2015 to BGN 3.000 million as of the end of 2016. The profit per employee ratio decreased from BGN 80.7 thousand for 2015 to BGN 72.7 thousand for 2016.

Balance sheet indicators

The total assets of DSK Bank EAD as at 31 December 2016 amounted to BGN 11 643.1 million and increased by BGN 531.1 million (4.8%) compared to 2015.

The market share of the Bank as of 31 December 2016 in the total banking assets in the country was 12.6% (2015: 12.7%).

Interest bearing assets comprised 73.3% relative share of the Bank's total assets.

The net loan portfolio of DSK Bank amounted to BGN 6 366.5 million and reported an increase of BGN 124.1 million or 2% compared to 2015.

Loans to individuals amounted to BGN 4 633.4 million and decreased by BGN 164.9 million (3.4%) compared to the previous year (mainly as a result of the problem loans portfolio, written-off and sold to the factoring company OTP Factoring Bulgaria).

At the end of 2016 the market share of the Bank in terms of household loans was 25.4%, in consumer loans and overdrafts - 29.1%, and in mortgage loans – 21.7%. In 2015 these market shares were respectively – 26.7%, 29.1% and 22.9%.

Company loans amounted to BGN 2 487.2 million and increased by BGN 157.7 million (6.8%) compared to 2015.

Loans to the state budget were BGN 7.5 million and reported a decrease of 2.2 million compared to 2015.

Impairment allowance of the loan portfolio amounted to BGN 761.6 million and decreased by 133.6 million compared to the previous year (again mainly as a result of the problem loans portfolio, written-off and sold to OTP Factoring Bulgaria).

Customer deposits amounted to BGN 9 765.6 million. This represented an annual growth of 4.8% or BGN 443.7 million.

Household deposits as at the end of 2016 were BGN 7 543.1 million and increased by BGN 435.8 million or 6.1%.

The market share of the Bank in terms of household deposits as at the end of 2016 was 16.3% (2015: 17.1%).

Company deposits decreased by BGN 155.1 million and by the end of the year amounted to BGN 1 613 million.

Deposits from the state budget were BGN 150.8 million and grew by BGN 7.1 million in 2016.

Deposits from financial institutions amounted to BGN 458.7 million, increasing by BGN 155.9 million compared to 2015.

Card transactions

The number of electronic cards issued by DSK Bank as of 31.12.2016 was 1 552.7 thousand. Debit cards were 1 414.7 thousand, and credit cards were – 116.9 thousand.

As of December 2016 the Bank operated with 892 ATM and 5 723 POS devices. During the year the Bank installed 516 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 at 31 December 2016 the total capital adequacy ratio was 17.63%. In 2016 DSK Bank EAD provided free capital of BGN 255 million above the minimal capital adequacy requirements and the two capital buffers – conservation buffer (BGN 154.5 million) and the systemic risk buffer (BGN 185.5 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 gross loan portfolio of the Bank comprised loans to households (65.0%), company loans (34.9%) and loans to the state budget (0.1%). Within household loans the credit risk is well allocated between consumer loans (54.5%) and mortgage loans.

DSK Bank EAD measures credit risk in compliance with IFRS requirements (officially adopted 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 2016 was as follows:

Total loan portfolio – 10.70%

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

- regular - 1.37%
- watch – 14.01%
- non-performing – 34.74%
- loss – 76.39%

The coverage of the „non-performing" and „loss" exposures with total allocated loan loss impairment was 84.98%, increasing by 0.38 pp compared to 2015. 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 an 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 2016 the regularly performing credit exposures (incl. related exposures) were 81.4%, as the distribution by products was as follows: consumer loans to individuals – 88%, mortgage loans to individuals – 74%, loans to small and medium-sized enterprises – 75% and loans to corporate clients – 83%.

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 43.5 million, reporting an increase of BGN 8.9 million compared to the previous year.

The investments in IT projects were BGN 31.4 million, as their share in the total investments of the Bank was 72% (for 2015 this share was 64%).

The capital investments during the year were BGN 12.2 million.

Investments of BGN 5.9 million were made in construction related activities aiming at optimization and improvement of the branch network strategic locations, as well as locations servicing the Head Office. BGN 1.8 million were invested in visual communication (BGN 0.7 million growth year-on-year) and BGN 1.6 million – for attracting new customer segments.

Major goals for 2017

The Bank has defined the following priorities for the business year 2017:

- Optimal use of the market potential in loan sales;
- Defending the market position in retail banking, allowing minimum loss of market share;
- Strengthening the market position in the company segment;
- Maintaining pricing policy on attracted funds in order to minimize the contraction of the revenue margin;
- Diversification of products and services offering in order to improve non-interest income, which should partially compensate the decrease in net interest income;
- Focus on activation of client transactions and product use by attracting certain target segments;
- Improving the efficiency of sales processes and quality of service;
- Focus on consumer lending quality;
- Development of services through e-channels.

A key issue in 2017 remains the management of free liquidity, which is expected to continue to grow next year and leads to erosion of the net interest margin.

After the date of which the annual financial report for 2016 was prepared and as of the date of its adoption there were no significant events that could affect the reported results and the implementation of the Bank's strategy in the short term.

The Report on the Management and the Activity of DSK Bank EAD in 2016 is approved by the Management Board with a protocol № 9.4 / 14.03.2017.

Violina Marinova
Chief Executive Director

Dorothea Nikolova
Executive Director

DECLARATION OF CORPORATE GOVERNANCE
As per Art.39 of the Ownership Act and Art.100n of the Public Offering of Securities Act (POSA)

1. **Information under Art. 100n, para. 8, cl. 1, b. a**
   Where appropriate, DSK Bank EAD complies with the National Corporate Governance Code published on the website of the Bulgarian Stock Exchange in accordance with Art.39 of the Ownership Act and Art.100n of the POSA.

2. **Information under Art. 100n, para. 8, cl.3**
   2.1.The internal audit system of DSK Bank EAD is based on three main elements - management control, process integrated control and independent internal control.
   Internal Control and Audit Directorate is the structural unit for independent internal control.
   The organisational positioning ensures independence in the planning and performance of the internal audit activity, while the reporting is done at the highest level of management - Management Board, Supervisory Board, and Internal Audit Directorate of the mother-bank - OTP Hungary.
   The objective, powers and responsibilities of Internal Control and Audit Directorate are governed by the Internal Control and Audit Rules of DSK Bank Group. The rules comply with the requirements of: Bulgarian National Bank Act, Lending Institutions Act, Ordinance No 10 of the Bulgarian National Bank on the internal control of banks, Financial Supervision Commission Act, Public Offering of Securities Act, Financial Vehicle Corporations Act, Measures against Market Abuse with Financial Instruments Act and Financial Instruments Market Act.
   The focus of the activity is determined by the risk assessment of the different types of activities and management units of DSK Bank and its subsidiaries, by the business plan, budget and investment policy of the Bank, by the continuous optimisation of management processes and banking operations, centralisation of certain activities and processes, offering of new banking products and their software and by development and deployment of new software.

   2.2.During the operational work of the Bank internal financial control – ex-ante, current and post control - is organised and exercised. Within the framework of activities of the Bank are established systems for internal control over financial reporting.
   Ex-ante control is exercised of all types of accounting operations. It precedes the performance of accounting operations and aimed to ensure their lawful implementation.

   The current control of operations with high degree of operational risk is exercised in the process of execution of banking transactions and is aimed at current removal of deviations from the established rules and procedures for performance of accounting operations, at ensuring their lawful implementation, timely elimination of the errors, etc.

The post control covers all actions and measures to promptly detect unlawful activities and operations, omissions and errors, abuse, waste and other irregularities that were committed, despite the measures taken by the ex-ante and current control.

The internal control environment, created by the Bank, provides for the reliability of the reporting information. The control functions over the financial reporting comprise: organizational and operational independence of the unit responsible for financial reporting from the business units; alignment between the organizational structure and the process for control and management of the related risks through clear definition of responsibilities; integrated information systems providing for preparation of detailed breakdowns and reports; developed framework of procedures and rules, related to the financial reporting and information security; definition and observation of levels of approval and system of internal control processes; independent evaluation process for lawfulness and compliance carried out by Internal Control and Audit Directorate.

2.3. The control and risk management of the Bank is determined by the risk appetite and ability of the Bank to monitor the risks assumed by it. For this purpose, DSK Bank EAD has clearly defined levels of competence, depending on the type of risk and the total risk that is assumed for a client / counterparty and client group. The units performing approval and control functions in the loan process work independently from the business divisions.
The Bank uses internal rating system to evaluate the creditworthiness of its clients.
Other than by client and counterparty limits, DSK Bank restricts the concentration of its exposures through industry limits for its corporate clients. The industry limits are determined according to the methodology adopted in the Risk Assumption Rules and approved by the Loans and Limits Board, and their compliance is monitored by both Credit Risk Policy and Portfolio Management Directorate and the unit involved in the internal control and Centralised Non-performing Loans Commission. Review or updating of the limits could be proposed in case of any change in the business plan for the risk exposures to corporate clients of the Bank, in case of any changes in the macroeconomic framework which have or could have a significant impact on the development of the companies belonging to the industry or on the financial performance of the industries or in case of business growth over the approved annual plan.

2.4. In the area of market risk, position limits, stop-loss limits, VaR limits, etc., are used. They support the proper management of this type of risk. The compliance with those limits is ensured through their integration into the system for execution of treasury transactions, thereby playing the role of preventive control. In addition, specialised analytical environments that allow their detailed monitoring has been developed within the banking group. Escalation system in case of any breach of the limit has also been developed and specific time limits for taking corrective measures in case of violation have been defined. The limits themselves are subject to regular review and updating depending on the changes in the business plans and business environment.
The Bank has developed reliable system to identify and register all occurring events which cause financial damage, and events that affect the good name and reputation of

the Bank. The collected information is subject to preparation of an analysis on a regular basis and its submission to the competent authorities of the Bank. Response plans for unforeseen circumstances have been developed. They enable the Bank to maintain its performance and to limit the impact on the financial status and reputation of the Bank which may arise after the occurrence of such circumstances.

3. Information under Art. 100n, para.8, cl.4:

3.1. DSK Bank EAD has no significant direct or indirect shareholdings within the meaning of Art. 85 (repealed) of Directive 2001/34 / EC;

3.2. DSK Bank EAD has no shareholders who hold shares with special rights of control;

3.3. DSK Bank EAD does not put restrictions on the rights of the shareholders to vote;

3.4. The rules which govern the appointment and replacement of the Management and Supervisory Board members and the amendments to the Statute are:

- Statute of DSK Bank EAD;
- Section IV. Decision-making Mechanism to the Management Rules of DSK Bank EAD;
- Conflict of Interest Rules;
- Instruction to ensure compliance with the requirements for assessing the suitability of governing bodies' members, executive directors and other key positions in DSK Bank EAD and its group.

3.5.1. The powers of the Supervisory and Management Board members of DSK Bank EAD are defined in:

- Statute of DSK Bank EAD;
- Section IV - Decision-making Mechanism to the Management Rules of DSK Bank EAD.

2.5.2. The Supervisory and Management Board members of DSK Bank EAD are not entitled to make decisions on the issuance or redemption of shares.

4. Information under Art. 100n, para.8, cl. 5

4.1.The members of the management and supervisory bodies, Audit Committee, Classification and Impairment Committee, Committee on Management of Assets and Liabilities and Investment Committee of DSK Bank EAD are defined in:

- Statute of DSK Bank EAD;
- Management Rules of DSK Bank EAD.

4.2. The functions of the management and supervisory bodies and committees of DSK Bank EAD are governed by:

- Rules of Procedure of the Supervisory Board;
- Rules of Procedure of the Management Board;
- Rules of Procedure of the Investment Committee;
- Rules of Procedure of the Committee on Operational Risk Management;
- Rules of Procedure of the Classification and Impairment Committee;
- Rules of Procedure of the Risk Committee;
- Rules of Procedure of the Selection Committee;
- Rules of Procedure of the Committee on Management of Assets and Liabilities.

5. Information under Art. 100n, para.8, cl. 6

DSK Bank implements diversity through:

- balanced sex and age structure at all management and control levels;
- educational level and different areas of knowledge (finance, law, information technologies) in compliance with national regulatory requirements;
- professional experience adequate to the respective positions in compliance with the regulatory requirements.

The diversity in DSK Bank is related to the continuity between the traditions in historical aspect and rapid adaptation to the new technologies in the area of financial services.

Violina Marinova	Dorothea Nikolova
CEO	*Executive Director*

INDEPENDENT AUDITOR'S REPORT AND
ANNUAL UNCONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

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INDEPENDENT AUDITOR'S REPORT

To the shareholder of DSK Bank EAD

REPORT ON THE AUDIT OF THE SEPARATE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying separate ("unconsolidated") financial statements of DSK Bank EAD (the "Bank"), which comprise the separate statement of financial position as at December 31, 2016, and the separate statement of profit or loss, the separate statement of comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the separate financial statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the separate financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the requirements of IFAA. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the separate financial statements and auditor's report thereon

Management Board of the Bank ("Management") is responsible for the other information. The other information comprises the annual report on activities and the corporate governance statement, prepared by the management in accordance with Chapter Seven of the Accountancy Act, but does not include the separate financial statements and our auditor's report thereon.

Our opinion on the separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless it is not specifically stated in our auditor's report and to the extent it is specifically stated.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the separate financial statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with IFRS as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Supervisory Board of the Bank ("Those charged with governance") is responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Independent Financial Audit Act and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with Independent Financial Audit Act and ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Additional matters, required to be reported by the Accountancy Act and Public Offering of Securities Act

In addition to our reporting responsibilities according to ISAs described in section "Information Other than the Financial Statements and Auditor's Report Thereon", with respect to the annual report on activities and the corporate governance statement, we have also performed the procedures required by the Guidelines of the Professional Organization of Chartered Accountants and Registered Auditors in Bulgaria - Institute of Certified Public Accountants (ICPA), issued on November 29, 2016. These procedures include tests over the form and content of the other information in order to assist us in forming an opinion as to whether the other information includes the disclosures and reporting as required by Chapter Seven of the Accountancy Act and the Public Offering of Securities Act (art. 100m, para 10 of POSA in relation to art. 100m, para 4, p. 3 and 4 of POSA), applicable in Bulgaria.

Opinion under Article 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, in our opinion:

- The information included in the annual report on the activities for the financial year for which the separate financial statements have been prepared, is consistent with the separate financial statements.
- The annual report on the activities has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

- The information required by Chapter Seven of the Accountancy Act and Art. 100m, para 8 of the Public Offering of Securities Act is presented in the corporate governance statement covering the financial year for which the separate financial statements have been prepared.

Opinion under Art. 100m, para 10 in relation to art. 100m, para 8, p. 3 and 4 of the Public Offering of Securities Act

Based on the procedures performed during our audit and as a result of the acquired knowledge and understanding of the Bank and the environment in which it operates, acquired during our audit, in our opinion, the description of the main features of the Bank's internal control and risk management systems in relation to the financial reporting process as part of the annual report on activities (as element of the content of the corporate governance statement) and the information under Article 10 , paragraph 1, letter "c", "d", "e", "h" and "i" of the Directive 2004/25/EC of the European Parliament and of the EU Council of April 21, 2004 related to takeover bids, included in the corporate governance statement do not contain cases of material misrepresentations.

Deloitte Audit OOD

Assen Dimov
Statutory manager
Registered Auditor

Sofia
March 14, 2017

Statement of profit or loss

For the year ended 31 December

In thousands of BGN	Note	2016	2015
Interest income		532 452	591 867
Interest expense		(13 250)	(39 619)
Net interest income	4	**519 202**	**552 248**
Fee and commission income		159 249	140 834
Fee and commission expense		(15 065)	(16 084)
Net fee and commission income	5	**144 184**	**124 750**
Net trading expenses	6	(23 062)	(1 966)
Net operating income	7	56 335	16 866
Operating income		**33 273**	**14 900**
Personnel expenses	8	(93 920)	(88 165)
Depreciation and amortisation	17, 18	(37 238)	(35 047)
Impairment losses	9	(103 457)	(100 368)
Other expenses	10	(148 560)	(128 589)
Profit before tax		**313 484**	**339 729**
Income tax expense	11	(31 289)	(33 925)
Profit for the year		**282 195**	**305 804**

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 14 March 2017.

Violina Marinova
Chief Executive Director

Dorothea Nikolova
Executive Director

Deloitte Audit OOD
Assen Dimov
Registered Auditor
14 March 2017

Одиторско дружество
София
Рег. № 033
Делойт Одит ООД

Translated from Bulgarian

Statement of comprehensive income

For the year ended 31 December

In thousands of BGN	**2016**	**2015**
Profit after tax	282 195	305 804
Items that may be reclassified to profit or loss		
Change in fair value of available for sale investments, net of tax	(21 083)	19 272
	(21 083)	19 272
Items that will never be reclassified to profit or loss		
Remeasurements of defined benefit liability	242	(1 094)
	242	(1 094)
Total comprehensive income	**261 354**	**323 982**

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 14 March 2017.

Violina Marinova
Chief Executive Director

Dorothea Nikolova
Executive Director

Deloitte Audit OOD
Assen Dimov
Registered Auditor
14 March 2017

Одиторско дружество
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Statement of financial position

In thousands of BGN	Note	31-Dec-2016	31-Dec-2015
Assets			
Cash and current accounts with domestic and foreign banks	12	365 604	371 113
Financial assets held for trading	13	157 960	78 168
Loans and advances to banks and balances with the Central Bank	14	3 309 867	3 177 879
Loans and advances to other customers	15	6 366 546	6 242 423
Investments available for sale and held to maturity	16	1 057 122	868 995
Property, plant and equipment	17	299 860	310 381
Intangible assets	18	43 512	34 057
Other assets	19	42 648	29 010
Total assets		**11 643 119**	**11 112 026**
Liabilities			
Deposits from banks	20	116 845	54 343
Loans from financial institutions	20	20 150	39 071
Deposits from other customers	21	9 765 558	9 321 869
Current tax liabilities		2 930	5 147
Deferred tax liabilities	22	5 426	7 808
Provisions for liabilities	23	36 837	12 734
Other and trading liabilities	24	158 163	74 198
Total liabilities		**10 105 909**	**9 515 170**
Shareholder's equity			
Share capital	25	153 984	153 984
Reserves	25	1 074 981	1 096 590
Retained earnings	25	308 245	346 282
Total shareholder's equity		**1 537 210**	**1 596 856**
Total liabilities and shareholder's equity		**11 643 119**	**11 112 026**

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.

The unconsolidated financial statements were authorised for issue on behalf of DSK Bank EAD on 14 March 2017.

Violina Marinova
Chief Executive Director

Dorothea Nikolova
Executive Director

Deloitte Audit OOD
Assen Dimov
Registered Auditor
14 March 2017

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 033
ДЕЛОЙТ ОДИТ ООД

Translated from Bulgarian

Statement of cash flows

For the year ended 31 December

In thousands of BGN	Note	2016	2015
Net cash flow from operating activities			
Profit before taxation		313 484	339 729
Increase in impairment losses of bad and doubtful debts and other assets	9, 10	103 497	100 556
Depreciation and amortization	17, 18	37 238	35 047
Net effect from operations with investments		1 510	11 100
Net effect from foreign exchange rate revaluation		(16 703)	44 775
Net interest income		(519 202)	(552 248)
Prepaid tax		(33 053)	(32 817)
Loss from disposal of noncurrent assets		491	89
Increase in provisions for liabilities		25 315	2 806
Dividends received		857	589
Other non cash changes		7 704	6 061
Net cash flow from operating activities before changes in operating assets and liabilities		**(78 862)**	**(44 313)**
Change in operating assets			
(Increase) in securities held for trading		(87 361)	(3 977)
Decrease/(increase) in loans and advances to banks		13 883	(1 103 492)
(Increase) in loans and advances to other customers		(223 294)	(105 049)
(Increase) in other assets		(14 951)	(5 995)
Change in operating liabilities			
Increase / (decrease) in deposits from banks		62 486	(177 768)
(Decrease) in loans from banks and financial institutions		(18 895)	(22 170)
Increase in deposits from other customers		456 680	1 266 820
Increase / (decrease) in other liabilities		79 136	(34 291)
Interest received		534 512	572 992
Interest (paid)		(17 709)	(54 979)
Net cash flow from operating activities		**705 625**	**287 778**
Cash flow from investing activities			
(Acquisition) of property, plant and equipment, net		(36 250)	(32 927)
(Increase) in investments		(203 124)	(392 436)
Net cash flow from investing activities		**(239 374)**	**(425 363)**
Cash flow from financing activities			
Dividends (paid)		(321 000)	(288 500)
Net cash flow from financing activities		**(321 000)**	**(288 500)**
Net increase in cash and cash equivalents		**145 251**	**(426 085)**
Cash and cash equivalents at the beginning of period	27	**2 418 330**	**2 844 415**
Cash and cash equivalents at the end of period	27	**2 563 581**	**2 418 330**

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 14 March 2017.

Violina Marinova
Chief Executive Director

Dorothea Nikolova
Executive Director

Deloitte Audit OOD
Assen Dimov
Registered Auditor
14 March 2017

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Statement of changes in equity

In thousands of BGN	**Share capital**	**Retained earnings**	**General and other reserve**	**Revaluation reserve**	**Total**
Balance as of 1 January 2015	**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**
Total comprehensive income					
Net profit for the year	-	282 195	-	-	282 195
Other comprehensive income					
Change in fair value of available for sale investments, net of tax	-	-	-	(21 083)	(21 083)
Remeasurements of defined benefit liability	-	-	242	-	242
Total other comprehensive income	-	-	242	(21 083)	(20 841)
Total comprehensive income	**-**	**282 195**	**242**	**(21 083)**	**261 354**
Decrease in revaluation reserve from fully depreciated or disposal of land and buildings, net of tax	-	768	-	(768)	-
Contributions by and distributions to owners					
Dividends paid	-	(321 000)	-	-	(321 000)
Balance as of 31 December 2016	**153 984**	**308 245**	**981 056**	**93 925**	**1 537 210**

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 14 March 2017.

Банка ДСК ЕАД
София
27

Violina Marinova
Chief Executive Director

Dorothea Nikolova
Executive Director

Deloitte Audit OOD
Assen Dimov
Registered Auditor
14 March 2017

ОДИТОРСКО ДРУЖЕСТВО
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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 14 March 2017.

(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 2017 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 statement of profit or loss 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 Statement of profit or loss 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 statement of profit or loss. 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 takes decision for full write-off of financial asset when it is: classified as "loss", entirely impaired and lost by limitation or the debtor is an entity deleted from trade or other public register and has no successor, or it is an individual who has passed away, without leaving heirs or the heirs have waived their rights over the inheritance. The Bank could partially write-off financial assets when each of the following conditions must be cumulatively met: there is no reasonable expectation of a full recovery of the asset; the exposure is overdue for more than 365 days; it can be expected that a certain part of the exposure will not be collected and the exposure is subject to collection through a court procedure and there is no effective out-of-court agreement for settlement of the claim.

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 statement of profit or loss. 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 one of 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 statement of profit or loss 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 statement of profit or loss, 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 statement of profit or loss 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 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 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 - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interests in Joint Operations - adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 1 "Presentation of Financial Statements" - Disclosure Initiative - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016);
- 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 2 December 2015 (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 19 "Employee Benefits" - Defined Benefit Plans: Employee Contributions - adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015);

- Amendments to IAS 27 "Separate Financial Statements" - Equity Method in Separate Financial Statements - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016);
- 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 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015);
- 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 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The adoption of these amendments to the existing standards and interpretation has not led to any 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:

- IFRS 9 "Financial Instruments" - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018);
- IFRS 15 "Revenue from Contracts with Customers" and amendments to IFRS 15 "Effective date of IFRS 15" - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

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 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016) - the EU has decided not to launch the endorsement process of this interim standard and to wait for the final standard;
- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IFRS 2 "Share-based Payment" - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 4 "Insurance Contracts" - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time);
- 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 and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded);

- Amendments to IFRS 15 "Revenue from Contracts with Customers" - Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IAS 7 "Statement of Cash Flows" - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017);
- Amendments to IAS 12 "Income Taxes" - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017);
- Amendments to IAS 40 "Investment Property" - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);
- Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018);
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018).

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:

- IFRS 9 issued by the International Accounting Standards Board and adopted by the European Union mandatorily takes effect for periods beginning on or after 1 January 2018.

  IFRS 9 Financial Instruments is a replacement for IAS 39 "Financial Instruments: Recognition and Measurement" contains requirements relating to the recognition and measurement, impairment, derecognition and hedge accounting in general.

  DSK Bank, as a part of OTP Group started its preparation for IFRS 9 during 2016 led by OTP Bank's Risk Management and Finance Divisions. The preparations cover the key challenges that the Group faces with the new standard.

  The preliminary identification of gaps between its currently used methodologies and the IFRS 9 requirements in classification and measurement, impairment and hedge accounting was completed.

  Classification and measurement

  IFRS 9 introduces a new approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements.

  Preliminary analysis of the business models and contractual cash flows on the Bank's significant portfolios have been performed to determine products and financial instruments that will be measured at amortised cost, at fair value through profit or loss or at fair value through other comprehensive income.

Hedge accounting

IFRS 9 introduces a substantially reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model aligns accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements. In addition, users of the financial statements will be provided with better information about risk management and the effect of hedge accounting on the financial statements.

Impairment

IFRS 9 introduces a new, expected-loss impairment model that requires a more timely recognition of credit losses. The standard requires entities to account for expected credit losses from the moment when financial instruments are initially recognized.

The use of a new, three stage model is to be implemented for IFRS 9 purposes. The new impairment methodology is going to be used to classify financial instruments in order to determine whether credit risk has significantly increased since initial recognition and in order to identify credit-impaired assets. For instruments with credit-impairment or significant increase of credit risk - lifetime expected losses are going to be recognized. Assets where no significant increase of credit risk is identified will remain to be provisioned based on a 12-month expected loss methodology.

For purchased or originated credit-impaired financial assets the same lifetime expected loss methodology will be extended in order to be able to capture the cumulative changes in lifetime expected credit losses since the initial recognition as a credit-impaired instrument.

The Bank is considering the use of a simplified impairment approach for trade receivables, contract assets and lease receivables.

DSK Bank, as a part of OTP Group has started to further improve its risk management definitions, processes and methodological analysis in line with the expectations of IFRS 9. The Bank has started developing the methodology for the identification of significant increase of credit risk and the calculation of expected credit losses through the use IFRS 9 compliant risk parameters.

Based on the gap analysis and the changes in methodology the main principles regarding the IT solutions for IFRS 9 implementation have been laid down. Preliminary specifications have been completed and IT implementation is set to be completed in 2017.

The quantitative impact of IFRS 9 is going to be determined in the course of 2017 when all the details of the classification and measurement and impairment methodologies become finalized.

- IFRS 16 “Leases”.

IFRS 16 introduces a comprehensive model for the identification of lease agreements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees except for short-term leases and leases of low value assets.

The right-of-use asset s initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst other.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease of finance lease.

As at 31 December 2016, the Bank has non-cancellable operating lease commitments of BGN 24 721 thousand. Certain information is disclosed as operating lease commitments in note 10. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Bank will recognize a right-of-use asset and a corresponding liability in respect of all the leases unless they qualify for low value or short-term leases upon the application of IFRS 16. The new requirement to recognize a right-of-use asset and a related lease liability is expected to have an impact on the amounts recognized in the Bank's financial statements and the management of the Bank is currently assessing its potential impact. At this stage it is not practicable to provide a reasonable estimate of the financial effect until the management completes the review.

In contrast, for finance leases where the Bank is a lessee the Bank has already recognized an asset and a related finance lease liability for the lease arrangement.

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 and liquidity management.

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-2016	**31-Dec-2015**
Liquidity ratio	31,33%	28,27%

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 2016

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	**116 845**	**116 864**	116 864	-	-	-	-
Loans from financial institutions	**20 150**	**20 546**	1 571	-	997	-	17 978
Deposits from other customers	**9 765 558**	**9 777 981**	7 607 511	708 530	1 440 400	21 540	-
Current tax liabilities	**2 930**	**2 930**	-	2 930	-	-	-
Deferred tax liabilities	**5 426**	**5 426**	-	-	-	5 426	-
Provisions for liabilities	**36 837**	**36 837**	-	7 802	23 704	5 331	-
Other and trading liabilities	**158 163**	**158 163**	34 981	13 178	22 254	83 552	4 198
Total liabilities	**10 105 909**	**10 118 747**	**7 760 927**	**732 440**	**1 487 355**	**115 849**	**22 176**
Unused loan commitments	-	1 009 010	83 023	122 305	560 406	181 463	61 813
Total liabilities and commitments	**10 105 909**	**11 127 757**	**7 843 950**	**854 745**	**2 047 761**	**297 312**	**83 989**

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 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**

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 2016 and 31 December 2015.

Maturity table of assets and liabilities as of 31 December 2016

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	**116 845**	116 845	-	-	-	-	-
Loans from financial institutions	**20 150**	1 568	-	975	-	17 607	-
Deposits from other customers	**9 765 558**	7 602 872	705 446	1 435 999	21 241	-	-
Current tax liabilities	**2 930**	-	2 930	-	-	-	-
Deferred tax liabilities	**5 426**	-	-	-	5 426	-	-
Provisions for liabilities	**36 837**	-	7 802	23 704	5 331	-	-
Other and trading liabilities	**158 163**	34 981	13 178	22 254	83 552	4 198	-
Total liabilities	**10 105 909**	**7 756 266**	**729 356**	**1 482 932**	**115 550**	**21 805**	**-**
Unused loan commitments	-	83 023	122 305	560 406	181 463	61 813	-
Positive/(negative) maturity mismatch	**10 105 909**	**7 839 289**	**851 661**	**2 043 338**	**297 013**	**83 618**	**-**
Derivatives liabilities							
Trading:	27 314						
Outflow	-	(120 376)	(10 183)	(2 281)	(784 539)	-	-
Inflow	-	119 303	9 948	2 164	758 650	-	-
Total derivatives	**27 314**	**(1 073)**	**(235)**	**(117)**	**(25 889)**	**-**	**-**
Assets							
Cash and current accounts with domestic and foreign banks	**365 604**	365 604	-	-	-	-	-
Financial assets held for trading	**157 960**	10 941	14 541	45 734	73 221	13 523	-
Loans and advances to banks and balances with the Central Bank	**3 309 867**	2 253 560	5 581	-	1 050 726	-	-
Loans and advances to other customers	**6 366 546**	101 130	168 695	1 035 403	1 992 048	3 069 270	-
Investments available for sale and held to maturity	**1 057 122**	37 628	44 711	54 583	397 036	469 272	53 892
Other assets	**42 648**	34 794	3 264	960	2 849	-	781
Total assets	**11 299 747**	**2 803 657**	**236 792**	**1 136 680**	**3 515 880**	**3 552 065**	**54 673**
Derivatives assets							
Trading:	5 279						
Outflow	-	(322 420)	(29 966)	(57 210)	(129 077)	-	-
Inflow	-	326 771	30 219	57 370	129 592	-	-
Total derivatives	**5 279**	**4 351**	**253**	**160**	**515**	**-**	**-**

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 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**	**-**	**-**

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
- Residential and non-residential mortgage loans to individuals have average original contractual maturity of 24 years but as the main part of these loans are with equal annuity payments the average effective maturity is 15 years. In addition the customers more often take the advantage of full or partial early repayment option which according to the law is without penalty payment after the first year of the contract. For these reasons the average effective maturity of the loans is additionally decreased with 3 years in view of actual observed volume of earlier repayments during 2016.

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-2016**	**31-Dec-2015**
Balances with Central bank	2 167 077	1 557 225
Cash and balances with other banks	396 000	860 637
Unencumbered debt securities	559 828	253 428
Total liquidity assets	**3 122 905**	**2 671 290**

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 2016

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	**26 044**	**-**	**-**	**-**	**-**	**339 560**	**365 604**
Fixed rate	19 672	-	-	-	-	-	19 672
Floating rate	6 372	-	-	-	-	-	6 372
Non-interest bearing	-	-	-	-	-	339 560	339 560
Financial assets held for trading	**5 875**	**14 152**	**45 497**	**43 067**	**44 091**	**5 278**	**157 960**
Fixed rate	5 875	14 152	45 497	43 067	44 091	-	152 682
Floating rate	-	-	-	-	-	-	-
Non-interest bearing	-	-	-	-	-	5 278	5 278
Loans and advances to banks and balances with the Central Bank	**86 482**	**201 163**	**-**	**855 145**	**-**	**2 167 077**	**3 309 867**
Fixed rate	86 482	201 163	-	855 145	-	-	1 142 790
Floating rate	-	-	-	-	-	-	-
Non-interest bearing	-	-	-	-	-	2 167 077	2 167 077
Loans and advances to other customers	**5 845 240**	**8 074**	**25 361**	**16 294**	**319 443**	**152 134**	**6 366 546**
Fixed rate	2 352	8 074	25 361	16 294	319 443	-	371 524
Floating rate	5 842 888	-	-	-	-	-	5 842 888
Non-interest bearing	-	-	-	-	-	152 134	152 134
Investment securities	**43 133**	**213 327**	**54 543**	**51 994**	**640 233**	**53 892**	**1 057 122**
Fixed rate	33 698	38 309	54 440	51 994	640 233	-	818 674
Floating rate	9 435	175 018	103	-	-	-	184 556
Non-interest bearing	-	-	-	-	-	53 892	53 892
Total interest sensitive assets	**6 006 774**	**436 716**	**125 401**	**966 500**	**1 003 767**	**2 717 941**	**11 257 099**
Fixed rate	148 079	261 698	125 298	966 500	1 003 767	-	2 505 342
Floating rate	5 858 695	175 018	103	-	-	-	6 033 816
Non-interest bearing	-	-	-	-	-	2 717 941	2 717 941
Deposits from banks	**115 050**	**-**	**-**	**-**	**-**	**1 795**	**116 845**
Fixed rate	114 995	-	-	-	-	-	114 995
Floating rate	55	-	-	-	-	-	55
Non-interest bearing	-	-	-	-	-	1 795	1 795
Loans from financial institutions	**-**	**20 150**	**-**	**-**	**-**	**-**	**20 150**
Fixed rate	-	-	-	-	-	-	-
Floating rate	-	20 150	-	-	-	-	20 150
Non-interest bearing	-	-	-	-	-	-	-
Deposits from other customers	**7 621 421**	**695 489**	**1 413 237**	**10 490**	**10 750**	**14 171**	**9 765 558**
Fixed rate	1 164 329	695 489	1 413 237	10 490	10 750	-	3 294 295
Floating rate	6 457 092	-	-	-	-	-	6 457 092
Non-interest bearing	-	-	-	-	-	14 171	14 171
Total interest sensitive liabilities	**7 736 471**	**715 639**	**1 413 237**	**10 490**	**10 750**	**15 966**	**9 902 553**
Fixed rate	1 279 324	695 489	1 413 237	10 490	10 750	-	3 409 290
Floating rate	6 457 147	20 150	-	-	-	-	6 477 297
Non-interest bearing	-	-	-	-	-	15 966	15 966

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 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

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.

	Profit or loss		**Equity**	
Effect in thousands of BGN	**200 bp increase**	**200 bp decrease**	**200 bp increase**	**200 bp decrease**
31 December 2016				
As at 31 December	(15 451)	15 451	(75 156)	75 156
Average for the period	(8 028)	8 028	(71 728)	71 728
Maximum for the period	2 169	16 375	(64 585)	79 831
Minimum for the period	(16 375)	(2 169)	(79 831)	64 585
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

(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 and by applying exponentional smoothig with $\lambda = 0.94$. 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 2016 and 2015 are as follows:

In thousands of BGN	**2016**	**2015**
At 31 December	17	109
Average for the period	26	145
Maximum for the period	160	278
Minimum for the period	1	26

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-2016**	**31-Dec-2015**	**31-Dec-2016**	**31-Dec-2015**	**31-Dec-2015**	**31-Dec-2015**	**31-Dec-2016**	**31-Dec-2015**
Carrying amount	6 366 546	6 242 423	3 309 867	3 177 879	1 215 082	947 163		
Amount committed/ guaranteed							1 339 974	1 134 045

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-2016		31-Dec-2015	
	Gross value	**Net value**	**Gross value**	**Net value**
From Banks				
Past due 0 days	3 309 867	3 309 867	3 177 879	3 177 879
	3 309 867	**3 309 867**	**3 177 879**	**3 177 879**
From other customers				
Past due 0 days	5 464 976	5 390 229	5 241 092	5 166 149
Past due up to 30 days	337 641	332 975	432 089	426 299
	5 802 617	**5 723 204**	**5 673 181**	**5 592 448**
Total	**9 112 484**	**9 033 071**	**8 851 060**	**8 770 327**

Loans and advances to banks and other customers – impaired

In thousands of BGN	31-Dec-2016		31-Dec-2015	
	Gross value	**Net value**	**Gross value**	**Net value**
From other customers				
Past due 0 days	296 428	205 270	209 440	144 676
Past due up to 30 days	170 788	131 102	146 868	121 540
Past due 31-60 days	97 278	79 869	110 549	96 997
Past due 61-90 days	66 285	53 621	61 343	53 708
Past due over 90 days	694 782	173 480	936 234	233 054
Total	**1 325 561**	**643 342**	**1 464 434**	**649 975**
incl. impaired by reason of:				
Financial instability	**352 639**	**187 143**	**333 620**	**168 937**

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. Lower degree of coverage is allowed only for customers with low risk or when the risk is shared with a guarantor acceptable for the Bank (Natioanal Guarantee Fund for example).

Collateral held against credit exposures

Type of credit exposure	Principal type of collateral	Percentage of exposure, subject to an agreement, requiring collateral 2016	2015
Advances to banks and other financial institutions			
Repurchase agreements	Quoted securities	over 90	over 90
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 property, 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-2016	31-Dec-2015
Loans and advances not past due		
Mortgage	2 026 169	1 848 010
Cash collateral	10 947	11 177
Government securities	935 198	867 615
Other types of collateral	2 923 193	2 876 426
	5 895 507	**5 603 228**
Loans and advances past due		
Mortgage	138 386	180 264
Cash collateral	336	498
Other types of collateral	175 956	220 132
	314 678	**400 894**
Total	**6 210 185**	**6 004 122**

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-2016	31-Dec-2015
Mortgage	509 046	597 682
Cash collateral	184	486
Other types of collateral	574 365	564 581
Total	**1 083 595**	**1 162 749**

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-2016	31-Dec-2015
Secured by mortgages	2 673 601	2 625 956
Cash collateral	11 467	12 161
Government securities	935 198	867 615
Other types of collateral*	3 673 514	3 661 139
Without collateral	3 144 265	3 148 623
Total	**10 438 045**	**10 315 494**

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

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

Repurchase agreements

In thousands of BGN	31-Dec-2016		31-Dec-2015	
	Carrying amount	Collateral	Carrying amount	Collateral
Advances to banks	946 608	935 198	917 022	867 615
Total	**946 608**	**935 198**	**917 022**	**867 615**

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-2016**	**31-Dec-2015**
Loan to value (LTV) ratio based on market value		
LTV ≤ 50 %	370 226	359 824
50 % < LTV ≤ 70 %	596 534	561 219
70 % < LTV ≤ 90 %	621 119	629 127
90 % < LTV ≤ 100 %	103 423	118 142
100 % < LTV	416 775	594 067
Total	**2 108 077**	**2 262 379**

As of December 31, 2016 and December 31, 2015 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 the liquidation value of the collateral to cover 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 current 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-2016		31-Dec-2015	
Type of restructuring	**gross value**	**impairment loss**	**gross value**	**impairment loss**
In thousands of BGN				
Mortgage Loans to individuals				
Combination	1 782	820	1 943	1 065
Debt consolidation loan with mortgage	9 408	1 902	11 305	2 944
Other	217 312	47 597	227 863	56 849
Prolongation	18 979	10 483	26 694	15 110
Suspension	123 424	64 509	174 546	96 217
Consumer Loans to individuals				
Combination	1 195	470	1 000	195
Debt consolidation loan with mortgage	33 986	12 067	28 782	6 238
Other	98 025	36 263	88 311	23 440
Prolongation	5 383	1 841	5 099	1 199
Suspension	14 292	4 919	13 959	3 812
Loans to corporate customers				
Combination	5 892	5 786	15 652	4 675
Debt consolidation loan with mortgage	1 261	786	2 899	1 207
Other	131 587	99 938	210 957	141 968
Prolongation	49 465	21 167	48 072	20 028
Suspension	3 379	2 349	5 990	4 256
Total	**715 370**	**310 897**	**863 072**	**379 203**

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-2016	31-Dec-2015
In thousands of BGN		
PD category boundaries		
PD ≤ 0.01	2 550 099	2 197 966
0.01 < PD ≤ 0.05	2 058 265	1 025 510
0.05 < PD ≤ 0.10	519 378	67 499
0.10 < PD ≤ 0.20	135 955	18 738
0.20 < PD ≤ 0.30	8 944	4 455
0.30 < PD ≤ 0.50	23 691	699
0.50 < PD	16 435	52 114
not rated	152 209	1 874 111
Total	**5 464 976**	**5 241 092**

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-2016	**31-Dec-2015**	**31-Dec-2016**	**31-Dec-2015**	**31-Dec-2016**	**31-Dec-2015**
In thousands of BGN						
Sovereign	-	-	-	-	980 893	696 747
State Budget	7 527	9 714	-	-	-	-
International banks for development	-	-	-	-	-	-
Banks, incl. the Central Bank	-	-	3 309 867	3 177 879	179 963	194 659
Manufacturing	783 841	696 989	-	-	-	-
Construction	171 372	155 918	-	-	-	-
Agriculture and forestry	159 865	152 064	-	-	-	-
Transport and communications	46 090	51 855	-	-	-	-
Trade and services	651 930	558 213	-	-	-	-
Hotels and catering	123 867	141 670	-	-	-	-
Financial and insurance activities	17 156	63 220	-	-	190	-
Real estate activities	359 733	343 389	-	-	-	-
Other industry sectors	173 354	166 237	-	-	144	557
Individuals	4 633 443	4 798 346	-	-	-	12
Equity investments	-	-	-	-	53 892	55 188
Total	**7 128 178**	**7 137 615**	**3 309 867**	**3 177 879**	**1 215 082**	**947 163**
Impairment for uncollectability	(761 632)	(895 192)	-	-	-	-
Total	**6 366 546**	**6 242 423**	**3 309 867**	**3 177 879**	**1 215 082**	**947 163**
Geographical analysis						
Europe	6 365 044	6 240 719	3 309 867	3 177 879	1 210 620	947 008
Asia	1 424	1 590	-	-	-	-
Africa	43	2	-	-	-	-
North America	4	75	-	-	4 462	155
South America	31	37	-	-	-	-
Total	**6 366 546**	**6 242 423**	**3 309 867**	**3 177 879**	**1 215 082**	**947 163**

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-2016**	**31-Dec-2015**
Government bonds		
Rated Baa2	152 681	37 464
Rated Baa3	-	31 585
Fair value of derivatives		
Credit institutions	4 945	8 550
Other counterparties	334	569
Total	**157 960**	**78 168**

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 2016

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	6 558	14 289	45 573	72 738	13 523	-	152 681
Derivative instruments							
Bulgaria	307	-	-	59	-	-	366
Great Britain	153	-	-	-	-	-	153
Holland	158	-	-	-	-	-	158
Hungary	3 765	252	161	424	-	-	4 602
Total	**10 941**	**14 541**	**45 734**	**73 221**	**13 523**	**-**	**157 960**
Investments							
Investments available for sale							
Government securities							
Bulgaria	35 176	42 946	54 440	192 734	295 027	-	620 323
Hungary	2 448	990	-	197 472	-	-	200 910
Floating income corporate equity investments							
Bulgaria	-	-	-	-	-	49 349	49 349
USA	-	-	-	-	-	4 462	4 462
Belgium	-	-	-	-	-	81	81
Corporate debt securities							
Hungary	-	775	-	-	174 243	-	175 018
Total	**37 624**	**44 711**	**54 440**	**390 206**	**469 270**	**53 892**	**1 050 143**
Investments held to maturity							
Government securities							
Bulgaria	4	-	144	6 831	-	-	6 979
Total	**4**	**-**	**144**	**6 831**	**-**	**-**	**6 979**
Total assets	**48 569**	**59 252**	**100 318**	**470 258**	**482 793**	**53 892**	**1 215 082**

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**

(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);
- “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) and
- “Management of operational, market and counterparty risk” Department (having functions related to carrying out the Bank’s policy for counterparty risk management, market risk management and operational risk management).

(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 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 the collection of problem loans (Collection Models)

The purpose of the model is to distinguish problem loans for which the delay to undertake measures 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 actions to collect it with the aim for 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 means the risk of loss resulting from inadequate or malfunctioning internal processes, persons and systems or from external events, and includes legal risk.

The management of operational risk at DSK Bank is coordinated by Operational Risk Management Committee (ORMC), which is a permanent consultative body subordinated to the Managemnt Board (MB) and involves the heads of the major units of DSK Bank Head Office. The meetings are held at the end of each quarter of the current year, as on these meetings a report is being presented for consideration for the level of operational risk and the planed measures for mitigation/elimination of operational risks' consequences, 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, Market and Counterparty Risk Management Department, an independent from the business units Department within the Risk Management Division, headed by a responsible 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 networ and Bank's subsidiaries, 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-assessment 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, Market and Counterparty 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 assessment shall be made by the unit(s) which has (have) defined the business requirements of the development.

Additionally, the actual level of operational risk is monitored based on Key Risk Indicator system which covered the main risk factors caused the significant 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, Market and Counterparty Risk Management Department. As part of this process, the so-called scenario analysis are prepared, aimed to assess the potential effects on the financial position of the Bank and the ongoing processes in it, at a certain change in the risk factors associated with probable occurrence of an event with catastrophic consequences.

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 operational risk events, assessing the operational loss amount, 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 business lines.

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

The operational risk management is subject to regular inspections by the "Banking Supervision" Department of Bulgarian National Bank, "Internal control and audit" Directorate of DSK Bank and specialized audits initiated and conducted by a program of OTP Bank. For 2016 the assessment of all audits is that the Bank has created an organization, procedures and controls concerning the operational risk management. They are adequate for the volume of activity and continuously changing environment and development of the Bank.

The 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 has been in force since 31.03. 2014.

During the 2016 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 %, buffers including. The total capital adequacy ratio should be higher than 13.5 %, buffers including.

(2) Capital ratios

Total own funds for solvency purposes

In thousands of BGN	**Basel III 2016**	**Basel III 2015**
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	(43 512)	(34 057)
Accumulated other comprehensive income	45 400	37 149
CET1 instruments of financial sector entities where the institution has a significant investment	(19 997)	(17 497)
Tier 2 instruments of financial sector entities where the institution does not have a significant investment	(12 642)	(22 179)
	1 105 441	**1 099 608**
Tier 2 capital		
Accumulated other comprehensive income	39 967	66 049
Deductions from Tier 2 capital		
CET1 instruments of financial sector entities where the institution has a significant investment	(4 999)	(7 499)
Tier 2 instruments of financial sector entities where the institution does not have a significant investment	(50 568)	(51 752)
	(15 600)	**6 798**
Own funds	**1 089 841**	**1 106 406**

Capital ratios

	31-Dec-2016	31-Dec-2015
Solvency ratio (%)	17,63%	17,26%
Tier 1 capital ratio (%)	17,63%	17,16%

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.

In connection with the implementation of the International regulatory framework Basel III for Banks additional capital buffers consistently are introduced. The aim is to provide additional funds for the recovery and restructuring of banks in a crisis, as well as to preserve the accumulated until the moment capital reserves for preventing or reducing the effects of long-term non-cyclical or macroprudential risks that could cause disruptions in the financial system generally.

By complying with the provisions of Bulgarian National Bank Regulation 8 the Bank holds Capital conservation buffer of common equity Tier I equivalent to 2.5% of the amount of the total risk weighted exposures. With the same Regulation Bulgarian National Bank introduces a requirement for the capital systemic risk buffer. In 2016, the buffer is 3% of risk-weighted exposures. The Bank holds its specific countercyclical capital buffer. The assessment of the buffer depends on the level of the reference indicator that the Central Bank announces quarterly. The level of the countercyclical capital buffer for 2016 set by the BNB is 0% and the specific countercyclical capital buffer for the Bank for 2016 is 0%.

(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-2016				
Financial assets held for trading	152 681	5 279	-	157 960
incl. derivatives	-	5 279	-	5 279
Investments available for sale	996 251	290	-	996 541
Total	**1 148 932**	**5 569**	**-**	**1 154 501**
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**

Equity instruments at the amount of 53 602 thousands of BGN as of 31 December 2016 and 42 096 thousands of BGN as of 31 December 2015 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	-	365 604	-	**365 604**	**365 604**
Loans and advances to banks and balances with the Central Bank	-	3 309 867	-	**3 309 867**	**3 309 867**
Loans and advances to other customers	-	-	6 479 860	**6 479 860**	**6 366 546**
Investments held to maturity	6 723	167	-	**6 890**	**6 979**
Liabilities					
Deposits from banks	-	116 845	-	**116 845**	**116 845**
Loans from financial institutions	-	20 150	-	**20 150**	**20 150**
Deposits from other customers	-	9 765 560	-	**9 765 560**	**9 765 558**

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	**2016**	**2015**
Interest income		
Loans and advances to banks	34 509	36 268
Loans and advances to other customers	460 105	522 805
Investments available for sale	37 205	32 405
Investments held to maturity	378	389
Deposits from banks	29	-
Deposits from other customers	226	-
Total	**532 452**	**591 867**
Interest expense		
Deposits from banks	(523)	(128)
Loans from banks and financial institutions	(17)	(472)
Deposits from other customers	(12 364)	(39 019)
Investments available for sale	(2)	-
Loans and advances to banks	(332)	-
Loans and advances to other customers	(12)	-
Total	**(13 250)**	**(39 619)**
Net interest income	**519 202**	**552 248**

The effect from interest income on impaired loans and advances to customers in the statement of profit or loss is BGN 13 703 thousand for 2016 and BGN 16 367 thousand for 2015. Impairment accrued on these interests is BGN 6 273 thousand for 2016 and BGN 8 007 thousand for 2015.

5. Net fee and commission income

In thousands of BGN	**2016**	**2015**
Fee and commission income		
In Bulgarian Leva		
Payment and settlement transactions	44 154	40 805
Credit related deals	22 132	23 353
Deposit related deals	52 596	38 956
Other	11 499	10 422
	130 381	**113 536**
In foreign currencies		
Payment and settlement transactions	18 686	16 215
Credit related deals	5 731	7 172
Deposit related deals	1 724	1 622
Other	2 727	2 289
	28 868	**27 298**
Total	**159 249**	**140 834**
Fee and commission expense		
In Bulgarian Leva	(11 958)	(12 793)
In foreign currencies	(3 107)	(3 291)
Total	**(15 065)**	**(16 084)**
Net fee and commission income	**144 184**	**124 750**

6. Net trading income

In thousands of BGN	2016	2015
Interest rate instruments	1 941	4 660
Foreign exchange trading	(25 008)	(6 127)
Other	5	(499)
Total	**(23 062)**	**(1 966)**

7. Net operating income

In thousands of BGN	2016	2015
Net income of available-for-sale securities		
Government bonds	(3)	(386)
Corporate bonds	18 820	90
Dividends	857	589
Foreign exchange gain	9 907	3 585
Sale and write-off of financial assets	21 508	6 022
Other	5 246	6 966
Total	**56 335**	**16 866**

The income from sale of financial assets are result from sell of problem loan portfolio.

In 2016 the deal for buying up of Visa Europe Limited by Visa Inc. was finalized. As a result of this deal the Bank has recognized income amounting to BGN 18 820 thousand.

8. Personnel expenses

In thousands of BGN	2016	2015
Wages and salaries	(73 313)	(68 709)
Compulsory obligations	(18 269)	(17 125)
Provisions on pension severance payments under Labour Code	(793)	(763)
Other	(1 545)	(1 568)
Total	**(93 920)**	**(88 165)**

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	**2016**	**2015**
Defined benefit obligations at 1 January	6 182	4 884
Benefits paid by the plan	(609)	(558)
Current service costs	595	500
Interest cost	181	200
Remeasurements:		
Experience adjustments	(345)	431
Actuarial (gains) losses from changes in demographic assumptions	(12)	389
Actuarial (gains) losses from changes in financial assumptions	132	336
Defined benefit obligations at 31 December	**6 124**	**6 182**

Expense recognized in statement of profit or loss

In thousands of BGN	**2016**	**2015**
Current service costs	595	500
Interest on obligation	181	200
Actuarial (gains) losses	17	63
Total	**793**	**763**

Actuarial assumptions

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

	2016	**2015**
Discount rate at 31 December	2,50%	2,80%
Future salary increases	3,00%	3,00%
Future pension increases	3,00%	3,00%

The average staff in the Bank is 3 881 for 2016 and 3 748 for 2015.

9. Impairment losses

In thousands of BGN	**2016**	**2015**
Impairment losses for loans and advances to customers and other assets	(762 809)	(662 352)
Income from reversals of impairment losses of loans and advances to customers and other assets	659 352	561 984
Total (notes 15 and 19)	**(103 457)**	**(100 368)**

10. Other expenses

In thousands of BGN	**2016**	**2015**
Materials, rent, audit and other services	(82 990)	(66 391)
Operating lease expenses of buildings and vehicles	(7 067)	(5 882)
Guarantee Funds instalments	(30 834)	(40 570)
Tax expenses	(47)	(12 308)
Provisions for contingent liabilities	(24 522)	(950)
Impairment of assets classified as inventory	(40)	(188)
Other expenses	(3 060)	(2 300)
Total	**(148 560)**	**(128 589)**

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.

Non-cancellable operating lease commitments of the Bank are as follows:

Minimal future lease payments

In thousands of BGN	**31-Dec-2016**
With maturity of up to 1 year	7 382
With maturity from 1 to 5 years	15 702
With maturity over 5 years	1 637
Total liabilities from operating lease	**24 721**

11. Taxation

In thousands of BGN	2016	2015
Current tax expense	(31 329)	(36 454)
Deferred tax income related to origination and reversal of temporary tax differences	40	2 529
Total	**(31 289)**	**(33 925)**

In thousands of BGN	2016	2015
Accounting profit	313 484	339 729
Income tax using the statutory corporate tax rate	(31 348)	(33 973)
Tax on permanent tax differences	59	48
Income tax expense	**(31 289)**	**(33 925)**
Effective tax rate	9,98%	9,99%

Current taxes are calculated using a tax rate of 10 % for 2016 and 2015.

12. Cash and current accounts with domestic and foreign banks

In thousands of BGN	31-Dec-2016	31-Dec-2015
Cash on hand		
In Bulgarian Leva	288 287	286 521
In foreign currencies	46 864	47 725
Current accounts with domestic and foreign banks		
In Bulgarian Leva	6	7
In foreign currencies	30 447	36 860
Total	**365 604**	**371 113**

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

13. Financial assets held for trading

In thousands of BGN	31-Dec-2016	31-Dec-2015
Government securities – Republic of Bulgaria denominated in Bulgarian Leva	64 873	14 120
Government securities – Republic of Bulgaria denominated in foreign currencies	87 808	23 344
Foreign issuers debt securities denominated in foreign currencies	-	31 585
Positive fair value of derivatives	5 279	9 119
Total	**157 960**	**78 168**

Government securities issued by the Bulgarian government comprise securities denominated in BGN and EUR. The BGN denominated government securities earn interest as of December 31, 2016 between 0.50 % and 5.00 % and government securities denominated in EUR earn interest between 1.875 % and 6.00 %.

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

(a) Analysis by type

In thousands of BGN	**31-Dec-2016**	**31-Dec-2015**
Balances with Central Bank		
In Bulgarian Leva	2 143 743	1 554 611
In foreign currencies	23 334	2 614
Deposits with domestic and foreign banks		
In Bulgarian Leva	600	500
In foreign currencies	195 582	703 132
Loans under repurchase agreements	946 608	917 022
Total	**3 309 867**	**3 177 879**

(b) Geographical analysis

In thousands of BGN	**31-Dec-2016**	**31-Dec-2015**
Domestic banks	2 197 373	1 557 225
Foreign banks	1 112 494	1 620 654
Total	**3 309 867**	**3 177 879**

The current account with the Central Bank is used for direct participation in the money and securities markets and for settlement purposes as well as for keeping funds for Bank's participation in the Guarantee Mechanism of the System Processing Card-based Payment Transactions. Balances with the Central Bank also cover the minimum required reserves amounting to BGN 792 003 thousand and BGN 764 986 thousand as of 31 December 2016 and 2015 respectively. Minimum reserves are non-interest bearing and are regulated on a monthly basis. Daily fluctuations are allowed. Shortages or excess reserve funds 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-2016**	**31-Dec-2015**
Individuals		
In Bulgarian Leva		
Consumer loans	2 279 326	2 170 654
Mortgage loans	1 421 593	1 326 589
In foreign currencies		
Consumer loans	246 040	365 313
Mortgage loans	686 484	935 790
Companies		
In Bulgarian Leva		
Working capital loans	769 195	775 959
Investment loans	506 724	361 042
Commercial factoring	1 911	-
In foreign currencies		
Working capital loans	455 271	394 971
Investment loans	751 828	797 583
Commercial factoring	2 279	-
State Budget		
In Bulgarian Leva	6 324	8 391
In foreign currencies	1 203	1 323
Less impairment allowances	(761 632)	(895 192)
Total loans and advances to other customers	**6 366 546**	**6 242 423**

Impairment allowances of loans and advances to other customers

In thousands of BGN	**31-Dec-2016**	**31-Dec-2015**
Balance at 1 January	**895 192**	**870 158**
Net change for the year through profit or loss	102 597	100 470
Decrease	(236 157)	(75 436)
Balance at 31 December	**761 632**	**895 192**

The interest rates on receivables from loans as at 31 December 2016 are ranged as follows: receivables from individuals from 2.15 % to 41.11 %; receivables from companies from 0.75 % to 12.52 %; receivables from State Budget from 0..33 % to 6.50 %.

In accordance with the policy of DSK Bank in 2016 the carrying amount of the sale of problem loans is BGN 85 726 thousand and the impairment allowance amounts to BGN 77 204 thousand.

Write-off on account of impairment, including on loan sales, reported during the year 2016 amounted to BGN 236 157 thousand, of which BGN 114 497 thousand are with partial termination of the balance sheet reporting. Partially written-of receivables based on statistical analysis are 48 886 thousand.

As at 31.12.2016 the total amount of the receivables with terminated balance sheet reporting amounts to BGN 308 326 thousand, of which BGN 225 036 thousand are on partially written-off loans (including BGN 128 890 thousand - based on statistical analysis).

Within the reporting year the decrease of the portfolio as at 31.12.2015 of exposures to which partial write-off based on statistical analysis was performed, amounts to 1.83%, which does not exceed the expectations before the write-off.

The statistical analysis to determine the partial write-offs for the loan portfolios is based on estimation of the maximum recovery amount expected on the respective risk exposure and it equals the most optimistic recovery scenario that could be expected in a reasonable period of time (5-10 years ahead).

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

In thousands of BGN	**31-Dec-2016**	**31-Dec-2015**
Investments in subsidiaries and associated companies	43 176	35 976
Other equity investments	10 716	19 212
Bulgarian debt securities available for sale	620 323	423 887
Government debt securities included	620 323	423 887
Foreign debt securities available for sale	375 928	382 597
Total investments available for sale	**1 050 143**	**861 672**
Bulgarian debt securities held to maturity	6 979	7 323
Government debt securities included	6 979	7 323
Total investments held to maturity	**6 979**	**7 323**
Total	**1 057 122**	**868 995**

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 bearning interest at 0.90 %. This group also includs securities with floating rate issued by government. Government securities issued by Ministry of Finance denominated in BGN earn interest of 0.00 %.

Domestic debt securities available for sale represent bonds: denominated in BGN earning interest from 0.50 to 5.00 %; denominated in EUR earning interest from -0.13 to 5.75 %, and denominated in USD earning interest at 0.90. Foreign issuers' debt securities represent government bonds denominated in USD earning interest from 4.00 to 6.25 % and OTP Bank bonds earning interest at 2.69 %.

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.

Securities held-to-maturity and available for sale as of 31 December 2016 are pledged as collateral and blocked in favour of Ministry of Finance on deposits from the State Budget at the amount of BGN 220 155 thousand.

17. Property, plant and equipment

Movement of property, plant and equipment during the year 2016

In thousands of BGN	Land and buildings	IT equipment	Office equipment	Other equipment	Total
Cost or revalued amount					
As of 31 December 2015	323 688	97 408	84 533	11 476	517 105
Additions	-	7	-	21 407	21 414
Disposals	(3 861)	(21 810)	(6 068)	(2 802)	(34 541)
Transfers	6 969	6 325	7 323	(20 618)	(1)
Cost or revalued amount as of 31 December 2016	**326 796**	**81 930**	**85 788**	**9 463**	**503 977**
Depreciation					
As of 31 December 2015	65 675	80 725	59 842	482	206 724
Charge for the period	6 811	9 707	7 856	236	24 610
Disposals	(496)	(20 548)	(6 012)	(161)	(27 217)
Depreciation as of 31 December 2016	**71 990**	**69 884**	**61 686**	**557**	**204 117**
Net book value 31 December 2016	**254 806**	**12 046**	**24 102**	**8 906**	**299 860**
Net book value 31 December 2015	**258 013**	**16 683**	**24 691**	**10 994**	**310 381**

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**

In "Land and buildings" are included leasehold improvements to the amount of BGN 4 541 thousand as of 31 December 2016 and BGN 2 961 thousand as of 31 December 2015.

In "Other equipment" are included property, plant and equipment under construction and acquisition of property plant and equipment to the amount of BGN 8 412 thousand as of 31 December 2016 and BGN 10 185 thousand as of 31 December 2015.

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 2016 the fair value of land and buildings is not significantly different than their book value as at the same date. The fair value of land and buildings is categorized as Level 3 based on the inputs of the valuation technique used.

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

18. Intangible assets

Movement of intangible assets during 2016

In thousands of BGN	Intangible assets	Assets under construction	Total
Cost or revalued amount			
As of 31 December 2015	101 137	11 672	112 809
Additions	-	22 559	22 559
Disposals	(2 084)	(476)	(2 560)
Transfers	21 744	(21 744)	-
Cost or revalued amount as of 31 December 2016	**120 797**	**12 011**	**132 808**
Depreciation			
As of 31 December 2015	78 752	-	78 752
Charge for the period	12 628	-	12 628
Disposals	(2 084)	-	(2 084)
Depreciation as of 31 December 2016	**89 296**	**-**	**89 296**
Net book value 31 December 2016	**31 501**	**12 011**	**43 512**
Net book value 31 December 2015	**22 385**	**11 672**	**34 057**

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**

19. Other assets

In thousands of BGN	**31-Dec-2016**	**31-Dec-2015**
Deferred expenses	2 500	2 995
Materials, spare parts	1 789	1 366
Deficiencies in assets	655	318
Receivables in litigation	1 305	1 323
Acquired collaterals	23 011	12 963
Clearing and bank settlement assets	7 013	892
Advances to suppliers	2 138	958
Receivables from commercial factoring payers	1 322	-
Other assets	6 436	11 208
Impairment allowances	(3 521)	(3 013)
Total	**42 648**	**29 010**

The net change of the impairment in the statement of profit or loss is expense BGN 860 thousand for 2016 and income BGN 102 thousand for 2015.

20. Deposits from banks and loans from financial institutions

In thousands of BGN	**31-Dec-2016**	**31-Dec-2015**
Deposits from banks		
Term deposits	106 301	50 394
Current accounts	10 544	3 949
Total deposits from banks	**116 845**	**54 343**
Loans from financial institutions		
Long term loans	20 150	39 071
Total loans from financial institutions	**20 150**	**39 071**

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, 2015 the loan is fully disbursed and the interest rate is 0.62 %. In 2016 several repayments have been made on principal and the interest rate on the outstanding amount is 0.43 % as of December 31, 2016.

The Bank has not had any defaults of principal or interest or other breaches with respect to its liabilities during the periods 2015 and 2016.

21. Deposits from other customers

In thousands of BGN	31-Dec-2016	31-Dec-2015
Individuals		
In Bulgarian Leva		
Term deposits	1 999 325	1 845 840
Demand deposits	3 469 392	3 236 334
In foreign currencies		
Term deposits	1 114 734	1 065 482
Demand deposits	959 605	959 569
Companies		
In Bulgarian Leva		
Term deposits	97 397	103 679
Demand deposits	967 983	839 845
In foreign currencies		
Term deposits	82 854	91 934
Demand deposits	464 808	732 736
State Budget		
In Bulgarian Leva		
Term deposits	3 506	6 706
Demand deposits	100 777	102 616
In foreign currencies		
Term deposits	9 289	5 064
Demand deposits	37 196	29 302
Financial institutions		
In Bulgarian Leva		
Term deposits	24 426	35 213
Demand deposits	105 889	70 363
In foreign currencies		
Term deposits	1 969	3 963
Demand deposits	326 408	193 223
Total	**9 765 558**	**9 321 869**

The interest rates on deposits as at 31 December 2016 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 2.11 %; deposits from financial institutions from 0 % to 0.30 %.

22. Deferred tax liabilities

Deferred income taxes for 2016 are calculated on all temporary differences under the liability method using a tax rate of 10 %.

Deferred income tax balances are attributable to the following items:

In thousands of BGN	**Assets** 2016	2015	**Liabilities** 2016	2015	**Net** 2016	2015
Pension severance payments under Labour Code and other personnel liabilities	(1 350)	(1 301)	-	-	(1 350)	(1 301)
Financial assets available for sale	(2 068)	(3 117)	2 501	3 550	433	433
Fixed assets	(145)	(145)	10 070	10 147	9 925	10 002
Contingent liabilities	(3 139)	(722)	-	-	(3 139)	(722)
Unused annual leave and other	(443)	(604)	-	-	(443)	(604)
Net deferred tax (assets)/liabilities	**(7 145)**	**(5 889)**	**12 571**	**13 697**	**5 426**	**7 808**

Movement in temporary differences during the year:

In thousands of BGN	**Balance as of 31 December 2015**	**Recognised in the statement of profit or loss 2016**	**Recognised in equity 2016**	**Balance as of 31 December 2016**
Pension severance payments under Labour Code and other personnel liabilities	(1 301)	(49)	-	(1 350)
Financial assets available for sale	433	2 342	(2 342)	433
Fixed assets	10 002	(77)	-	9 925
Contingent liabilities	(722)	(2 417)	-	(3 139)
Unused annual leave and other	(604)	161	-	(443)
Total	**7 808**	**(40)**	**(2 342)**	**5 426**

23. Provisions for liabilities

In thousands of BGN	**Pension employment defined benefit obligations**	**Provisions for contingent liabilities**	**Total**
Opening balance	6 183	6 551	12 734
Additions during the year	793	26 957	27 750
Reversal during the year	-	(2 435)	(2 435)
Amounts paid	(611)	(360)	(971)
Other movements	(241)	-	(241)
Total	**6 124**	**30 713**	**36 837**

The Bank accounts provisions on contingent liabilities in the next cases:

- In connection with commitment made on guarantees and letters of credits in case the management considers that there is possibility to have cash outflow connected to them;
- In connection to legal claims in case the management considers probability the final outcome will not be in favour of the Bank;
- In connection with potential risks for increase of customers' claims against the Bank related to payments on product and service contracts.

24. Other and trading liabilities

In thousands of BGN	**31-Dec-2016**	**31-Dec-2015**
Liabilities for centralisation of State Budget with BNB	962	8 251
Liabilities to personnel and management	10 684	10 472
Money transfers for execution	9 523	14 584
Negative Fair value of derivatives	27 314	20 834
Deferred income	7 979	8 682
Liabilities to suppliers	5 836	6 633
Liabilities to commercial factoring payers	1 322	-
Liabilities under condition for financial asset refunding	89 151	-
Other	5 392	4 742
Total	**158 163**	**74 198**

Commitment upon contingents for ownership recovery of financial assets represent collateralization of liabilities under contracts for risk assumption through ownership transfer in favour of the Bank of cash under the Financial Collateral Arrangements Act.

25. Shareholder's equity

(a) Face value of registered shares

In thousands of BGN	**31-Dec-2016**	**31-Dec-2015**
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 as of September 30, 2016 are as follows:

Name	Number of shares	Ownership	Voting rights
Megdet, Timur and Ruszlan Rahimkulov	23 782 242	8,49%	8,61%
Hungarian Oil and Gas Company (MOL)	24 000 000	8,57%	8,69%
Groupama	22 705 504	8,11%	8,22%

(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-2016**	**31-Dec-2015**
Litigation against the Bank and other contingent liabilities	31 491	6 698
Bank guarantees and letters of credit		
in Bulgarian Leva	206 036	159 137
in foreign currencies	121 558	140 271
	327 594	**299 408**
Commitments for undrawn credit facilities		
in Bulgarian Leva	717 021	575 291
in foreign currencies	291 989	259 346
	1 009 010	**834 637**
Forward and spot deals - sell		
in Bulgarian Leva	1 174 407	979 812
in foreign currencies	1 421 765	1 389 002
	2 596 172	**2 368 814**
Other	2 592	990
Total	**3 966 859**	**3 510 547**

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 claims against the Bank

The Legal claims against DSK Bank and other commitment liabilities connected with legal proceedings amount to BGN 31 491 thousand (principal and accrued interest) as of December 31, 2016. For part of these legal claims the Bank's management believes that there is a probability of unfavourable outcome. The Bank considers probability of future cash outflows on other contingent liabilities as well as probabilty for increase of customers' claims against the Bank connected with payments on contracts for products and services provided by the Bank. Based on these assessments provisions at the total amount of BGN 30 713 thousand (note 23) are allocated as at the end of 2016.

(d) Assets pledged as collateral

As of 31 December 2016 DSK Bank has pledged Government bonds to the amount of BGN 220 155 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 Public Finance Act.

27. Cash and cash equivalents

In thousands of BGN	**31-Dec-2016**	**31-Dec-2015**
Cash on hand	335 151	334 246
Balances with the Central Bank	2 167 077	1 557 225
Receivables from banks with maturity up to 3 months	61 353	526 859
Total	**2 563 581**	**2 418 330**

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, 31.12.2016**
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
DSK Mobile EAD	100,00%	7 200
Total		**42 911**

* 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 DSK Bank 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, 31.12.2016**
Cash Services Company AD	20,00%	2 490
Total		**2 490**

Net asset value

In thousands of BGN	**31-Dec-2016**	**31-Dec-2015**
Cash Services Company AD	13 831	13 654

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

Translated from Bulgarian

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 2016 are as follows:

In thousands of BGN

Related party	Type of transaction	2016	2015
Employees	Loans extended	54 162	53 265
Directors and executive officers	Loans extended	9 200	8 104
Subsidiaries	Current and deposit accounts with DSK Bank	28 967	11 194
Subsidiaries	Liabilities	1 314	657
Subsidiaries	Other receivables	906	901
Subsidiaries	Interest expense	3	61
Subsidiaries	Services expense	10 354	8 913
Subsidiaries	Services income	14	-
Subsidiaries	Rentals received	226	205
Subsidiaries	Rentals paid and operating lease	468	485
Subsidiaries	Fees received	112	125
Subsidiaries	Guarantees granted	258	101
Associates	Interest expense	-	1
Associates	Services expense	1 751	1 326
OTP Bank	Current and deposit accounts in OTP Bank	1 102 460	1 590 741
OTP Bank	Bond issued by OTP Bank	175 018	186 110
OTP Bank	Current and deposit accounts in DSK Bank	554	685
OTP Bank	Fair value of derivatives	(21 640)	(10 979)
OTP Bank	Other liabilities	7	6
OTP Bank	Interest income	56 917	59 122
OTP Bank	Interest expense	-	72
OTP Bank	Fees paid	145	405
OTP Bank	Fees received	453	74
OTP Bank	Gains (losses) on derivative deals	(29 707)	(3 134)
OTP Bank	Liabilities for currency exchange contracts	1 311 969	1 347 507
OTP Bank	Receivables for currency exchange contracts	1 284 631	1 324 489
OTP Bank	Off balance liability on unutilised overdraft	1 600	1 600
Other Group members	Current and deposit accounts in Group members	758	571
Other Group members	Liabilities	649	994
Other Group members	Current and deposit accounts in DSK Bank	1 134	410
Other Group members	Loans extended	6 318	17 685
Other Group members	Interest income	552	958
Other Group members	Interest expense	-	3
Other Group members	Fees received	119	171
Other Group members	Fees paid	4 700	5 485
Other Group members	Rentals received	229	208
Other Group members	Income from sale of loans	9 636	5 806
Other Group members	Guarantees granted	5	5
Other Group members	Credit line off balance liability	28 154	21 795

The remuneration of the key management personnel for 2016 includes current income amounting to BGN 2 686 thousand (2015: BGN 2 705 thousand).

30. Events after the reporting period

No material events have occurred subsequent to the preparation of unconsolidated financial statements for 2016 that may have significant impact on the future development of the Bank.