DSK Bank EAD

Separate Financial Statement

For the year ended December 31, 2017,

report on the management and activity,

declaration of corporate governance

and independent auditors' report

ANNUAL SEPARATE REPORT ON THE ACTIVITIES, NON-FINANCIAL DECLARATION AND CORPORATE GOVERNANCE STATEMENT

FOR 2017

DSK BANK EAD
Report on the Management and Activity of DSK Bank EAD for the year ending 31 December 2017 and Non-Financial Declaration in accordance with Art. 41 and Art. 48 of the Accountancy Act

Summary

In 2017 a relative economic stability was observed in Bulgaria. According to the current statistical data, the general view of the Bulgarian economy remained stable, which confirmed the trend of "positive" direction of development despite the active political seismicity. In December, two of the largest rating agencies raised the country's sovereign credit rating - Standard & Poor's and Fitch. S&P increased its rating to BBB- (investment grade). In 2017 the economy grew by 3.6% in real terms, according to NSI preliminary data. The growth slowed down compared to the previous year when the economy grew by 3.9% year-on-year, but Bulgaria continues to be among the most dynamic economies in the EU. Final consumption increased by 1.2 pp year-on-year, which corresponds to the annual growth of 6.2% in customer lending. Strong virtues for the Bulgarian economy are still the low government debt, which is a good buffer for the government against unexpected economic shocks, as well as the currency board, as a proven environment for long-term price stability. In spite of the fact that Bulgaria is part of the EU, which guarantees easy access to European markets, and despite the low labor costs, investment levels remain volatile and relatively low. The economic environment also contributed to successful financial year for Bulgarian banks, with profit for 2017 again at record level (totaling BGN 1.2 billion according to preliminary monthly data). The capital adequacy and liquidity ratios remained high, exceeding the average levels in the European Union. The positive trend remains for banking assets as well, with annual growth of 6.2% or approx. BGN 98 billion by the end of 2017. Bank's lending activity increased, non-performing loans continued to decline and as a result of the favorable environment an investor interest in acquisitions and mergers was observed during the year.

In 2017 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 2017 the Bank takes second position on the lending market with a share of 13.2% compared to 13.1% by the end of 2016. Despite this, it has to be considered that during the year the Bank wrote-off BGN 112 million and sold around BGN 66 million problem loans to the company OTP Factoring Bulgaria and BGN 24 million to third parties 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 13.1% compared to 13.2% by the end of 2016, which corresponds to the Bank's strategy for effective free liquidity management, which continued during 2017. 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 managed to slow down significantly the contraction of the interest spread by its limiting to 4.4% (2016: 4.7%) and succeeded to compensate to a great extend the negative impact on the profitability of the still weak lending activity. The net income from banking activity dropped by 5.9% compared to 2016 mainly due to a decrease of net interest income.

In 2017 the profit declined by 7.1% mainly due to lower net interest income. 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 2017 includes a reasonable buffer in the coverage of the non-performing loans.

The successful management of the operating expenses also contributed for the good performance in an environment of shrinking income margin. The cost-to-income ratio (operating expenses/gross operating income) was 43.5% by the end of 2017, which remained below the average of this ratio 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 2017 the asset quality continued to deteriorate, however with considerably slower rates, which reflected the 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 2017 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 86.0%. The Bank is able to undertake unexpected unfavorable changes on a regional or product level or in a particular risk exposure.

In 2017 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.

DSK Bank uses different types of financial instrument to manage liquidity and market risks on its own account and to support its clients. Considering the prevailing higher liquidity levels in 2017, government securities were purchased from EU countries with fixed income that were hedged against the change in market values as a result of the expected rise in euro and US dollar interest rates. For reporting the results of the positions, DSK Bank applies hedge accounting as the results of the hedged items and the hedging transactions are being reported in the income statement. The effectiveness of the hedge is assessed monthly in accordance with applicable accounting standards.

The Bank offers its clients financial instruments for hedging currency and interest rate risk such as currency forwards, currency and interest rate swaps and currency options. Positions resulting from client orders are being managed under market risk management policy as prevailing are closed on the interbank market.

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.

In 2017, DSK Bank did not have any research and development activities.

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 2017 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 - member of the SB
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
Boyan Stefov - member of the MB
Margarita Petrova-Karidi - member of the MB and Executive Director

In 2017, DSK Bank has no contracts under Art. 240b of the Commerce Act with members of the Management Board.

The total remuneration received by the management during the year was in accordance with management contracts and amounted to BGN 3.0 million.

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 participation of the MB members in management and supervisory bodies of other companies in 2017, as representatives of DSK Bank is as follows:

Name	**Company**	**Position**
Violina Marinova	PIC DSK Rodina AD Borica 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 DSK Trans Security EAD	Member of SB Member of SB Member of BD

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

As at the end of 31 December 2017 DSK Bank EAD has 9 regional centers, 41 financial centers, 20 business centers and zones, 93 branches, 91 affiliated offices and 122 bank offices.

Financial result and profitability

For 2017 DSK Bank reported BGN 291 million profit before tax and reported a decrease (7%) compared to 2016 mainly due to lower interest income.

The profit after tax for 2017 was BGN 262 million.

The net interest income amounted to BGN 453.6 million and was lower compared to 2016 by 66 million or 12.6%, mainly as a result of the decrease of the interest income on loans. The interest income decreased by BGN 68.3 million, as interest income from loans to individuals decreased by BGN 37 million, and those of corporate clients and SMEs – by BGN 7 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 loan market. The interest expenses decreased year-on-year by BGN 2.6 million as a result of the measures taken to reduce cost of funds.

The net non-interest income for 2017 amounted to BGN 202 million (growth by 13.8% or BGN 24.5 million compared to 2016) 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 284.9 million, which was higher by BGN 29.8 million or 11.7% compared to 2016.

In 2017 the Bank has accrued provisions 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 at the amount of BGN 18.7 million.

The headcount of the Bank as of 31st December 2017 was 4 082 (2016: 3 881).

The assets per employee ratio decrease from BGN 3.00 million as of the end of 2016 to BGN 2.98 million as of the end of 2017. The profit per employee ratio decreased from BGN 72.7 thousand for 2016 to BGN 64.2 thousand for 2017.

Balance sheet indicators

The total assets of DSK Bank EAD as at 31 December 2017 amounted to BGN 12 144.8 million and increased by BGN 501.6 million (4.3%) compared to 2016.

The market share of the Bank as of 31 December 2017 in the total banking assets in the country was 12.4% (as of December 2016: 12.6%).

Interest bearing assets comprised 81.4% relative share of the Bank's total assets.

The net loan portfolio of DSK Bank amounted to BGN 6 784.4 million and reported an increase of BGN 417.9 million or 6.6% compared to the end of 2016.

Loans to individuals amounted to BGN 4 677.9 million and increased by BGN 44.5 million (1%) compared to the previous year.

At the end of 2017 the market share of the Bank in terms of household loans was 24.1%, in consumer loans and overdrafts - 28.2%, and in mortgage loans – 20.7%. In 2016 these market shares were respectively – 25.4%, 29.1% and 21.7%.

Company loans amounted to BGN 2 712.2 million and increased by BGN 225 million (9%) compared to 2016.

Loans to the state budget were BGN 6 million and reported a decrease of 1.5 million compared to 2016.

Impairment allowance of the loan portfolio amounted to BGN 611.7 million and decreased by 149.9 million compared to the previous year.

Customer deposits amounted to BGN 10 291.1 million. This represented an annual growth of 5.4% or BGN 525.6 million year-on-year.

Household deposits as at the end of 2017 were BGN 8 214.6 million and increased by BGN 671.5 million or 8.9%.

The market share of the Bank in terms of household deposits as at the end of 2017 was 16.9% (2016: 16.3%).

Company deposits increased by BGN 173.7 million and by the end of the year amounted to BGN 1 787 million.

Deposits from the state budget were BGN 147 million and decrease by BGN 3.7 million in 2017.

Deposits from financial institutions amounted to BGN 142.8 million, decreasing by BGN 315.9 million compared to 2016.

Card transactions

The number of electronic cards issued by DSK Bank as of 31.12.2017 was 1 674.8 thousand. Debit cards were 1 513.9 thousand, and credit cards were – 133.8 thousand.

As of December 2017 the Bank operated with 890 ATM and 6 869 POS devices. During the year the Bank installed 1 147 POS devices.

Capital adequacy

The Bank constantly maintains 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 2017 the total capital adequacy ratio was 17.15%. In 2017 DSK Bank EAD provided free capital of BGN 237 million above the minimal capital adequacy requirements and the two capital buffers – conservation buffer (BGN 162.1 million) and systemic risk buffer (BGN 194.5 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 (63.2%), company loans (36.7%) and loans to the state budget (0.1%). Within household loans the credit risk is well allocated between consumer loans (55.2%) 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 2017 was as follows:

Total loan portfolio – 8.28%

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

- regular - 1.37%
- watch – 11.02%
- non-performing – 33.38%
- loss – 74.78%

The coverage of the „non-performing" and „loss" exposures with total allocated loan loss impairment was 86.01%, increasing by 1.03 pp compared to 2016. 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 83.9%, as the distribution within the products was as follows:

Consumer loans to individuals – 88%, mortgage loans to individuals – 80%, loans to small and medium-sized enterprises – 84% 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.

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.

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.

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 14 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 up to 3 years in view of actual observed volume of earlier repayments during 2017.

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.

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.

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.

The management of interest rate risk is supplemented by monitoring the sensitivity of financial assets and financial liabilities to interest rate scenarios.

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.

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.

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 Management 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 network 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 analyzed 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 decentralized 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 analyzing 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 2017 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 Advanced 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 2017 year there are no registered events, which could potentially threaten the Bank activity.

Investment program

The investments of DSK Bank during the year amounted to BGN 46.1 million, reporting an increase of BGN 2.6 million compared to the previous year.

The investments in IT projects were BGN 28.8 million, as their share in the total investments of the Bank was 62% (for 2016 this share was 72%).

The capital investments during the year were BGN 17.3 million.

Investments of BGN 13.5 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 1.4 million were invested in visual communication and bank security systems, and BGN 2.3 million - for attracting new customer segments.

Major goals for 2018

The management of the Bank has defined the following priorities for the business year 2018:

- Optimal use of the market potential in loan sales;
- Defending the market position in retail banking, ceasing market share loss;
- Continuation of the strategy for strengthening the market positions in the company segment;

- Improving the process of loan approving and lending, and enhancing the product offering to support the above goals;
- Diversification of products and services offering in the field of transactions and e-banking 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;
- Improving the efficiency of sales processes and quality of service.

A key issue in 2018 remains the management of free liquidity, which is expected to continue to grow also next year and leads to erosion of the net interest margin.

After the date of which the annual financial report for 2017 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.

NON-FINANCIAL DECLARATION

in accordance with art. 41 and art. 48 of the Accountancy Act

Objective: One of the main goals of DSK Bank is to create and maintain high banking standards, best managerial practices, and ethical business norms, complying with the laws of the Republic of Bulgaria, the regulations and rules of banking, and the relevant EU legislation. The bank is striving to assist the building of sustainable business models by providing maximally comprehensive and efficient financial servicing for its clients and achieving distinctiveness in such servicing. Among the key objectives of the institution is to also achieve growth and overtake the competition, while at the same time maintaining a distinctive and sustainable corporate culture that responds to the changes in the environment and furthers the creation of long-term relations with the clients. Last but not least, the bank will assert its position of a leader in terms of trust among the users of banking and financial services in the country.

Strategy: The bank will continue to apply and develop the best practices in crediting, keeping its leading position in retail banking and asserting its earned position of a reliable partner of SMEs and the corporate business. As an institution that is sensitive to the processes occurring in the dynamically changing environment and to the ever changing client attitudes and necessities, the Bank will continue to follow the established digital strategy in order to respond to the challenges of this day dominated by mobile and online communications and the anticipatory rates of high technologies – keeping the position of a most innovative bank while at the same time ensuring keeping full compliance with banking and financial information security standards.

Organizational structure, infrastructure, products: After the privatization in 2003, as a result of promptly adapting to the high standards of the OTP Group and the large-scale investment program of the Hungarian owner, the Bank realized a very successful transformation program, thus becoming an excellently functioning and efficient private bank. Together with its subsidiary companies, DSK Bank built a strong financial group, exceptionally dynamically developing, modern and flexible, oriented towards the needs of all client segments, and offering a wide range

of services, incl. pension insurance, asset management, protection, transport and encashment activity, mountain and sea tourism.
The bank has the biggest branch network in Bulgaria, providing an incomparable infrastructure for offering the full range of products and services for all client segments. A traditional leader in the crediting of individuals, over the last few years DSK Bank has also successfully repositioned itself as one of the main partners of the corporate and small and medium business in the country. As a result thereof, a new business model of servicing was introduced, highlighting the specialized business centers and differentiated zones created and functioning at the Regional Centers of the Bank in the larger cities of the country. With the launch of the commercial factoring service in 2015, DSK Bank added to its portfolio of specialized financial services for business clients and reinforced its presence of a reliable partner of the business in Bulgaria.

Policies followed in respect of the main and auxiliary activities of the enterprise and others:
As a client-oriented and socially responsible banking institution, DSK Bank applies policies based on focusing on each client segment, striving to achieve high servicing quality and efficiency. As a bank with over 65 years' history, DSK Bank has proven that it combines traditions and innovation exceptionally successfully, and has manifested an enviable ability to adapt to the changing regulatory and market conditions and to the dynamically developing client needs and attitudes. The policies conducted by the bank follow the long-term prospects set within the OTP Group of banks, while as an employer the bank maintains responsible relationships based on partnership, which fosters commitment, mutual respect and support.

For years the Bank has been following a policy for a waste-free banking administration, aimed primarily at preserving the environment. Practically, this involves collecting all toner and ink cartridges from the printing devices in all branches of the bank and their recycling in a special technological line.

All of our renovated branches have been built according to the vision of the Hungarian OTP Group with energy-saving façades, and the entire branch network of the bank uses energy-saving light bulbs.
In constructing its buildings, the Bank follows a green concept acknowledged by specialists as an example in respect of environmental management in administrative buildings. With this concept, the eco idea is decisive for the choice of construction materials, systems and elements used. Design decisions for the heating, ventilation and air-conditioning systems in the buildings, and their subsequent execution, preclude any environmental pollution, even in the event of failure; their operation is free of the harmful emissions from the burning of liquid and solid fuels. The construction or reorganization of the Bank's premises in accordance with the corporate vision of OTP Group is also fully compliant with the requirements of the Energy Efficiency Act and the Ecology Act.
For several years, the bank's employees have supported the idea of the Idea in Action foundation, which unites the care for nature with the support for noble causes. Our colleagues participate in gathering plastic caps that are delivered for the purposes of recycling at dedicated stations, while the funds raised therefrom are expended on different charitable initiatives.
As a company with a clearly stated green strategy, in the past year DSK Bank became a partner of the 4th campaign of the Urban Mobility Center entitled "Bike to Work", aiming to promote bicycling as an alternative and healthy mode of mobility in an urban environment. For 6 weeks, volunteering colleagues from the bank traveled to and from work using bicycles provided by UMC in an attempt to make Sofia a cleaner and mobile city.

One of the starting points for the bank's policies is our corporate responsibility serving as guarantee for our serious and honest relations of mutual respect to our partners and shareholders. DSK Bank works in partnership with all social groups and introduces new processes, procedures and technologies that match the banking market dynamics. As a socially responsible institution, we support noble causes with far-reaching social resonance. The bank follows a policy of social commitment to its employees, offering them excellent conditions of work, training and development. One of the distinctive characteristics of the institution is the established corporate culture that gives credit to and recognizes the merit of its employees, creating a sustainable model of motivated and committed employees with a sense of belonging and shared purpose.

In 2017, DSK Bank continued to strengthen its positive employer's brand. It is one of the preferred employers on the labor market in the field of financial services, and is increasing its attractiveness among graduating students and young people.

DSK Bank applies a balanced social policy. In 2017, the social expenses amounted to 8 % of the total labor costs.

The internal corporate growth of the bank's employees is one of its managerial priorities. At the end of 2017, over 70 % of the management employees were persons with career growth in the Bank.

In 2017, a total of 1067 different forms of internal and external employee training were organized and conducted, with the number of participations in such trainings being 8805.

The Report on the Management and the Activity of DSK Bank EAD for 2017 and Non-financial declaration in accordance with art. 41 and art. 48 of the Accountancy Act are approved by the Management Board with a protocol №13/13.03.2018.

Банка ДСК ЕАД
София
73
2115

Violina Marinova
Chief Executive Officer

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.
   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.

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;
- Statutes of the Audit Committee of DSK Bank EAD

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.

Банка ДСК ЕАД София 73 2115

Violina Marinova	Dorothea Nikolova
Chief Executive Director	*Executive Director*

INDEPENDENT AUDITOR'S REPORT AND ANNUAL SEPARATE FINANCIAL STATEMENTS DECEMBER 31, 2017

Deloitte.

AFA AUDIT FINANCE ACCOUNTING TAX LAW

INDEPENDENT AUDITORS' REPORT

To the shareholder of DSK Bank EAD

REPORT ON THE AUDIT OF THE SEPARATE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying separate financial statements of DSK Bank EAD (the "Bank"), which comprise the separate statement of financial position as at December 31, 2017, and the separate statement of profit and 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, 2017, 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 (ISA). Our responsibilities under those standards are further described in the "Auditors' 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th>Key audit matter</th><th>How this key audit matter was addressed in our audit</th></tr>
<tr><td>
Impairment of loans and advances to other customers
Loans and advances to other customers with carrying amount of BGN 6,784,416 thousand, after impairment loss allowances due to uncollectability, represent 55.86% of Bank's total assets as at December 31, 2017. As disclosed in Note 2 (e) and Note 15 to the separate financial statements, the management of the Bank determines impairment losses on loans and advances to other customers, with identified objective evidence for impairment, on an individual and on a portfolio basis. As at December 31, 2017, the accumulated impairment allowances amount to BGN 611,727 thousand.
The determination of impairment losses on loans and advances to other customers due to uncollectability requires the application of significant judgments and key assumptions for the final calculations by the Bank's management with respect to the expected collectability of the credit exposures. For the purpose of determining the amount of impairment, specific individual-based and portfolio-based loan impairment models are applied. The most significant judgments comprise: the expected cash flows, the value of collateral realisation, and the accumulated information on historical default experience.
Due to the significance of the above described circumstances that: (a) the process of determining the impairment losses on loans and advances to other customers assumes a number of judgments, inherent uncertainty of assumptions and specific calculations of the impairment losses by the management; and (b) the significance of the reporting item itself for the separate financial statements of the Bank, as noted above, we have considered this matter as a key audit matter.
</td><td>
In this area, our audit procedures included, among others:

Inquiries and obtaining an understanding of the Bank's process of determining the impairment losses on loans and advances to other customers.
Inspection and review of internal policies and procedures related to the process of determining the impairment losses as well as the process of monitoring and management of loans granted to customers. Inquiries to the Bank's experts responsible for credit risk management.
Assessment and testing the operating effectiveness of key controls over the determining of impairment of loans and advances to other customers, including the use of the IT experts of the audit teams to test and assess the IT general controls.

Based on the above described procedures, we developed tailored audit procedures to enable us to address the risks of material misstatement associated with the booked impairment losses on loans and advances to other customers:

Analysis of Bank's credit portfolio and other analytical procedures as to the structure, composition and development trends.
For a risk-based sample of loans, performing tests of details to assess the adequacy of the impairment losses booked. The following audit procedures were performed with regard to the respective sampled exposures:

analysis of the financial position and results of borrowers;
review of collateral valuation reports of the respective exposures;
consultation with expert-appraisers of the audit teams regarding the applied assumptions and methods in the valuations of collateral realisable value for particular exposures;
review and inspection of the information for loans' performance of the respective borrowers;
analysis and assessment of the key assumptions and judgments of Bank's management in the calculation of specific allowances for the individual exposures.

</td></tr>
</table>

Key audit matter	*How this key audit matter was addressed in our audit*
	• For a sample of performing, not impaired exposures, analysis of the management conclusions for lack of identified loss events occurring after initial exposures' recognition, and assessment of the proper risk category classification. • Review and evaluation of the models used for portfolio-based impairment calculation, including inputs, consistency of the assumptions, and analysis of the development of applied parameters. • Re-calculation of the amount of portfolio-based impairment allowances to assess the application of the Bank's impairment methodology and the adequacy of the amount booked. • Assessment of the relevance and adequacy of the disclosures in the Bank's separate financial statements related to the impairment losses on loans and advances to other customers due to uncollectability.

Information Other than the Separate Financial Statements and Auditors' Report Thereon

Management Board of the Bank ("Management") is responsible for the other information. The other information comprises the annual separate report on activities, the corporate governance statement and the non-financial declaration, prepared by the management in accordance with Chapter Seven of the Accountancy Act, but does not include the separate financial statements and our auditors' 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 auditors' 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 and Audit Committee of the Bank ("Those charged with governance") are responsible for overseeing the Bank's financial reporting process.

Auditors' 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 auditors' 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 ISA 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 ISA, 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 auditors' 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 auditors' 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure of information about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

We are jointly responsible for the performance of our audit and the audit opinion expressed by us, in accordance with the requirements of the IFAA, applicable in Bulgaria. In accepting and performing the joint audit engagement, in respect to which we are reporting, we have considered the Guidelines for Performing Joint Audits, issued on June 13, 2017 by the Institute of Certified Public Accountants in Bulgaria and the Commission for Public Oversight of the Registered Auditors in Bulgaria.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Additional Matters, Required to be Reported by the Accountancy Act

In addition to our reporting responsibilities according to ISA described in section "Information other than the separate financial statements and auditors' report thereon", with respect to the annual separate report on activities, the corporate governance statement and the non-financial declaration, we have also performed the procedures required by the "Guidelines regarding new extended reports and communication by the auditor" of the Professional Organization of Registered Auditors in Bulgaria - Institute of Certified Public Accountants (ICPA). These procedures include tests over the existence, 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, 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 separate 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 separate 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.
- The non-financial declaration, covering the financial year for which the separate financial statements have been prepared, has been provided and prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

Statement in accordance with Art. 33 of Ordinance 38 of the Financial Supervisory Commission (FSC) outlining the Requirements for the Activities of the Investment Intermediaries

Based on the performed audit procedures and the acquired understanding of the Bank's activities in the context and the course of our audit of the Bank's separate financial statements as a whole, we have identified that the established and applied organization related to the keeping of clients' assets complies with the requirements of Ordinance 38 of FSC regarding the Bank's activity as an investment intermediary under art. 28-31 of the Ordinance.

Reporting in accordance with Art. 10 of Regulation (EU) No 537/2014 in connection with the requirements of Art. 59 of the Independent Financial Audit Act

In accordance with the requirements of the Independent Financial Audit Act in connection with Art. 10 of Regulation (EU) No 537/2014, we hereby additionally report the information stated below.

- Deloitte Audit OOD and AFA OOD were appointed as a statutory auditors of the separate financial statements of the Bank for the year ended December 31, 2017 by the General Meeting of Shareholders (session of the sole owner) held on March 28, 2017 and August 21, 2018, respectively, for a period of one year.
- The audit of the separate financial statements of the Bank for the year ended December 31, 2017 represents third total consecutive statutory audit engagement for that entity carried out by Deloitte Audit OOD and first total consecutive statutory audit engagement for that entity carried out by AFA OOD.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report dated March 13, 2018, provided to the Bank's Audit Committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We hereby confirm that no prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act were provided.
- We hereby confirm that in conducting the audit we have remained independent of the Bank.
- For the period to which our statutory audit refers, Deloitte Bulgaria EOOD (member of Deloitte network) has provided separately to the Bank, the following services which have not been disclosed in Bank's annual separate report on the activities or separate financial statements:
  - Gap analysis, including on the implementation plan with respect to classification of financial instruments under IFRS 9.
- For the period to which our statutory audit refers, Deloitte Audit OOD has provided separately to the Bank and its controlled undertakings, the following services which have not been disclosed in Bank's annual separate report on the activities or separate financial statements:
  - Audit of the consolidated group reporting package as of December 31, 2017 of DSK Bank EAD, prepared in accordance with the accounting policies of OTP Bank RT Group, Hungary, based on IFRS, in accordance with ISA;
  - Audit of the consolidated group reporting package as of December 31, 2016 of DSK Bank EAD, prepared in accordance with the accounting policies of OTP Bank RT Group, Hungary, based on IFRS, in accordance with ISA;
  - Audit of the group reporting package as of December 31, 2017 of OTP Factoring Bulgaria EAD (controlled undertaking), prepared in accordance with the accounting policies of OTP Bank RT Group, Hungary, based on IFRS, in accordance with ISA;
  - Audit of the group reporting package as of December 31, 2016 of OTP Factoring Bulgaria EAD (controlled undertaking), prepared in accordance with the accounting policies of OTP Bank RT Group, Hungary, based on IFRS, in accordance with ISA;
  - Audit of the consolidated group reporting package as of December 31, 2017 of DSK Leasing AD (controlled undertaking), prepared in accordance with the accounting policies of OTP Bank RT Group, Hungary, based on IFRS, in accordance with ISA;
  - Audit of the consolidated group reporting package as of December 31, 2016 of DSK Leasing AD (controlled undertaking), prepared in accordance with the accounting policies of OTP Bank RT Group, Hungary, based on IFRS, in accordance with ISA;
  - Agreed-upon procedures related to the application of BNB Ordinance 10 for the period January 01 – December 31, 2016 – observation of the current performance of the internal control systems of the Bank, in accordance with the requirements of International Standard on Related Services 4400 "Engagements to Perform Agreed-upon Procedures regarding Financial Information";

- Agreed-upon procedures related to the financial supervision, in accordance with International Standard on Related Services 4400 "Engagements to Perform Agreed-upon Procedures regarding Financial Information", with respect to regulatory financial statements of POK "DSK-Rodina" AD (controlled undertaking) for 2016, representing reconciliation on sample basis of the amounts in the statement of financial position and statement of comprehensive income for regulatory purposes, with a purpose of general consistency with respective amounts in the audited annual financial statements, prepared under the requirements of the national accounting legislation, applicable for 2016 and IFRS.

On behalf of Deloitte Audit OOD

Assen Dimov
Statutory Manager
Registered Auditor, responsible for the audit

103, Al. Stambolijski Blvd
1303 Sofia, Bulgaria

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

March 13, 2018

On behalf of AFA OOD

Valia Iordanova
General Manager
Legal representative

Renny Iordanova
Registered Auditor, responsible for the audit

38, Oborishte Street
1504 Sofia, Bulgaria

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 015 АФА ООД

Statement of profit or loss

For the year ended 31 December

In thousands of BGN	**Note**	**2017**	**2016**
Interest income		464 180	532 452
Interest expense		(10 600)	(13 250)
Net interest income	4	**453 580**	**519 202**
Fee and commission income		168 464	159 249
Fee and commission expense		(14 619)	(15 065)
Net fee and commission income	5	**153 845**	**144 184**
Net trading expenses	6	(8 989)	(23 062)
Other operating income, net	7	57 146	56 335
Operating income		**655 582**	**696 659**
Impairment losses	9	(54 578)	(103 457)
Personnel expenses	8	(103 218)	(93 920)
Depreciation and amortisation	17, 18	(38 206)	(37 238)
Other expenses	10	(168 606)	(148 560)
Profit before tax		**290 974**	**313 484**
Income tax expense	11	(28 950)	(31 289)
Profit for the year		**262 024**	**282 195**

The statement of profit or loss is to be read in conjunction with the notes from 1 to 30 forming an integral part of the separate financial statement.

The separate financial statement is authorised for issue from the Management Board and signed on behalf of DSK Bank EAD on 13 March 2018.

Банка ДСК ЕАД София 77 2115

Violina Marinova
Chief Executive Director

Dorothea Nikolova
Executive Director

Deloitte Audit OOD
Assen Dimov
Registered Auditor

Одиторско дружество София Рег. № 033 Делойт Одит ООД

13.03.2018

AFA OOD
Renny Iordanova
Registered Auditor

13.03.2018

Одиторско дружество София Рег. № 015 АФА ООД

Translated from Bulgarian

Statement of comprehensive income

For the year ended 31 December

In thousands of BGN	**2017**	**2016**
Profit after tax	**262 024**	**282 195**
Items that may be reclassified to profit or loss		
Change in fair value of available for sale investments	23 834	(23 425)
Tax for unrealised profit/loss from available for sale securities	(2 383)	2 342
	21 451	(21 083)
Items that will never be reclassified to profit or loss		
Revaluation of property, plant and equipment, net of tax	22 418	-
Remeasurements of defined benefit liability	(1 481)	242
	20 937	242
Total comprehensive income	**304 412**	**261 354**

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

The separate financial statement is authorised for issue from the Management Board and signed on behalf of DSK Bank EAD on 13 March 2018.

Банка ДСК ЕАД
София
77
2115

Violina Marinova
Chief Executive Director

Dorothea Nikolova
Executive Director

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 033
ДЕЛОЙТ ОДИТ ООД

Deloitte Audit OOD
Assen Dimov
Registered Auditor

13.03.2018

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 015
АФА ООД

AFA OOD
Renny Iordanova
Registered Auditor

13.03.2018

Translated from Bulgarian

Statement of financial position

In thousands of BGN	Note	31-Dec-2017	31-Dec-2016
Assets			
Cash and current accounts with the Central Bank and other banks	12	1 690 421	2 532 681
Derivative financial instruments held for trading	13	4 046	5 279
Financial assets held for trading	13	236 223	152 681
Loans and advances to banks	14	1 614 897	1 142 790
Loans and advances to other customers	15	6 784 416	6 366 546
Investments available for sale and held to maturity	16	1 355 272	1 013 946
Derivatives – hedge accounting	13	2 178	-
Current tax assets		1 551	-
Investments in subsidiaries and associates		43 176	43 176
Property, plant and equipment	17	327 305	299 860
Intangible assets	18	41 157	43 512
Other assets	19	44 130	42 648
Total assets		**12 144 772**	**11 643 119**
Liabilities			
Deposits from banks	20	14 767	116 845
Derivative financial instruments held for trading	13	49 341	27 314
Loans from financial institutions	20	15 518	20 150
Deposits from other customers	21	10 291 123	9 765 558
Derivatives – hedge accounting	13	1 559	-
Current tax liabilities		879	2 930
Deferred tax liabilities	22	5 674	5 426
Provisions for liabilities	23	60 001	36 837
Other and trading liabilities	24	148 288	130 849
Total liabilities		**10 587 150**	**10 105 909**
Shareholder's equity			
Share capital	25	153 984	153 984
Reserves	25	1 117 051	1 074 981
Retained earnings	25	286 587	308 245
Total shareholder's equity		**1 557 622**	**1 537 210**
Total liabilities and shareholder's equity		**12 144 772**	**11 643 119**

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

The separate financial statement is authorised for issue from the Management Board and signed on behalf of DSK Bank EAD on 13 March 2018.

Банка ДСК ЕАД София 77 2115

Violina Marinova
Chief Executive Director

Dorothea Nikolova
Executive Director

Одиторско дружество София Рег. № 033 Делойт Одит ООД

Deloitte Audit OOD
Assen Dimov
Registered Auditor
13.03.2018

AFA OOD
Renny Iordanova
Registered Auditor
13.03.2018

Одиторско дружество София Рег. № 015 АФА ООД

Translated from Bulgarian

Statement of cash flows

For the year ended 31 December

In thousands of BGN	Note	2017	2016
Net cash flow from operating activities			
Profit before taxation		290 974	313 484
Increase in impairment losses of bad and doubtful debts and other assets	9, 10	55 841	103 497
Depreciation and amortization	17, 18	38 206	37 238
Net effect from operations with investments		22 007	1 510
Net effect from foreign exchange rate revaluation		(15 759)	(16 149)
Net interest income		(453 580)	(519 202)
Loss from disposal of noncurrent assets		423	491
Increase in provisions for liabilities		25 035	25 315
Dividends received		1 992	857
Other non cash changes		(746)	7 704
Net cash flow from operating activities before changes in operating assets and liabilities		**(35 607)**	**(45 255)**
Change in operating assets			
(Increase) in securities held for trading		(96 524)	(87 361)
Decrease/(increase) in loans and advances to banks		(466 119)	13 883
(Increase) in loans and advances to other customers		(476 909)	(223 294)
(Increase) in other assets		(6 157)	(14 951)
Change in operating liabilities			
Increase / (decrease) in deposits from banks		(102 059)	62 486
(Decrease) in loans from banks and financial institutions		(4 632)	(18 895)
Increase in deposits from other customers		587 585	456 680
Increase in other liabilities		7 649	79 136
Interest received		463 779	534 512
Interest paid		(16 740)	(17 709)
Prepaid tax		(36 551)	(33 053)
Net cash flow from operating activities		**(182 285)**	**706 179**
Cash flow from investing activities			
Acquisition of property, plant and equipment, net		(41 710)	(36 250)
(Increase) in investments		(344 635)	(203 124)
Net cash flow from investing activities		**(386 345)**	**(239 374)**
Cash flow from financing activities			
Dividends paid		(284 000)	(321 000)
Net cash flow from financing activities		**(284 000)**	**(321 000)**
Net increase in cash and cash equivalents		**(852 630)**	**145 805**
Net cash and cash equivalents foreign exchange difference		(1 269)	(554)
Cash and cash equivalents at the beginning of period	27	**2 563 581**	**2 418 330**
Cash and cash equivalents at the end of period	27	**1 709 682**	**2 563 581**

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

The separate financial statement is authorised for issue from the Management Board and signed on behalf of DSK Bank EAD on 13 March 2018.

Банка ДСК ЕАД София 77 2115

Violina Marinova
Chief Executive Director

Dorothea Nikolova
Executive Director

Deloitte Audit OOD
Assen Dimov
Registered Auditor
13.03.2018

Одиторско дружество София Рег. № 033 Делойт Одит ООД

AFA OOD
Renny Iordanova
Registered Auditor
13.03.2018

Одиторско дружество София Рег. № 015 АФА ООД

Translated from Bulgarian

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 2016	**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 plans	-	-	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**
Total comprehensive income					
Net profit for the year	-	262 024	-	-	262 024
Other comprehensive income					
Change in fair value of available for sale investments, net of tax	-	-	-	21 451	21 451
Revaluation of property, plant and equipment, net of tax	-	-	-	22 418	22 418
Remeasurements of defined benefit plans	-	-	(1 481)	-	(1 481)
Total other comprehensive income	-	-	(1 481)	43 869	42 388
Total comprehensive income	**-**	**262 024**	**(1 481)**	**43 869**	**304 412**
Decrease in revaluation reserve from fully depreciated or disposal of land and buildings, net of tax	-	318	-	(318)	-
Contributions by and distributions to owners					
Dividends paid	-	(284 000)	-	-	(284 000)
Balance as of 31 December 2017	**153 984**	**286 587**	**979 575**	**137 476**	**1 557 622**

The statement of changes in equity is to be read in conjunction with the notes from 1 to 30 forming an integral part of the separate financial statement.

The separate financial statement is authorised for issue from the Management Board and signed on behalf of DSK Bank EAD on 13 March 2018.

Банка ДСК ЕАД
София
77
2115

Violina Marinova
Chief Executive Director

Dorothea Nikolova
Executive Director

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 033
ДЕЛОЙТ ОДИТ ООД

Deloitte Audit OOD
Assen Dimov
Registered Auditor
13.03.2018

AFA OOD
Renny Iordanova
Registered Auditor
13.03.2018

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 015
АФА ООД

Translated from Bulgarian

1. Basis of preparation and legal status

(a) Legal status

DSK Bank EAD as the former State Savings Bank was incorporated on 2 March 1951 in Bulgaria as a centralised deposit accepting institution. Since 1998, when the Act 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) Going concern

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Bank's ability to continue as a going concern. Therefore, the financial statement is prepared on the going concern basis.

(c) Statement of compliance and representation

This financial statement has been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) effective fro January 1, 2017 and adopted by the Commission of European Union. IFRSs adopted by the EU is the commonly accepted name of the frame – accounting base equivalent to the frame adopted with the definition of §1, p. 8 of Suplementary provisions of Accounting Act under the name International Accounting Standards (IAS).

The Bank presents its statement of financial position in order of liquidity of the assets and liabilities.

This financial statement has been prepared on unconsolidated basis according to Accountancy Act. The individual financial statement has to be treated as integral part of the consolidated financial statement of the Bank Group, approved by the Management Board on 13 March 2018.

(d) 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.

(e) 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.

(f) 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 2018 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 property and land and buildings: significant unobservable inputs;
- Note 15 and Note 19 - allowances for credit losses and receivables;
- Note 23 - provisions for contingent liabilities.

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.

(3) Change in presentation

In the current financial statements the Bank has changed the presentation in the Statement of Financial Position of the following items:

- Current accounts with Central Bank – transferred from Loans and advances to Banks to Cash and Current accounts with other Banks;
- Inevstments in subsidiaries and associates – transferred from Investments available for sale and held to maturity to Investments in subsidiaries and associates

The information for the prior period is presented so that it is comparable to the information as of December 31, 2017.

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), (j).

(2) Recognition

The Bank recognizes financial assets for trading and investments, loans and advances 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 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.

(3) Investments in subsidiaries

Long term investments in shares or participations in subsidiaries are reported at cost, which is the fair value of the paid amount including transaction costs, less any impairment.

The Bank's investments in subsidiaries are reviewed for impairment at each statement date. When there is an evidence for impairment it is recognised in the profit or loss.

(i) Derivatives

The Bank uses derivatives as spot, forward, futures, swap and option deals to manage an exposure to market risk or for trading. All derivatives are recognised as financial assets for trading on the settlement date with respective gains and losses. The changes in market value of derivatives are recognised in the Statement of profit or loss.

To manage particular risks the Bank applies hedge accounting for transactions that meet specified criteria. At inception of the hedge accounting relationship, the Bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the risk management objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship at inception and on an ongoing basis.

Fair value hedge – market value changes of derivatives, as well as the respective gains and losses of the hedged item are reported on the net basis in the Statement of profit or loss depending on hedged risk. When currency risk is hedged gains and losses are recognized as currency exchange gains and losses. When interest rate risk is hedged gains and losses are recognized as net trading result for the period or as other non interest income.

Cash flow hedge – for derivatives designed for hedge of exposure towards variable cash flows of existing recognised asset or liability the effective portion of revaluation is recognised in equity at inception. Subsequently the effective portion is derecognised from equity and is recognised at initial valuation of the purchase price or other carring amount of the asset or liability. Non effective portion of the derivative is recognised in the Statement of profit or loss.

(j) 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.

(k) 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.

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

Depreciation is provided on a straight-line basis at 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.

(l) 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

(m) 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.

(n) 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.

(o) Inventories including collaterals acquired from problem loans

The measuring of inventories at their acquisition is of the amount of purchase, which includes the sum of all purchase and processing costs, as well as other expenses, incurred in connection with the delivery of inventories to their current location and condition.

The used cost formula is "first in - first out" (FIFO).

In the ordinary course of activities, the Bank acquires collaterals for problem loans for the purpose of subsequent sale and consequently recognizes them as inventories – assets acquired against non-collectable loans. Inventories are presented in the statement of financial position at the lower of cost and net realizable value. For this reason, annually, at the date of financial statement of the Bank, these assets are estimated of the net realizable value on the most reliable existing data at the valuation date.

(p) 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.

(q) 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.

(r) 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.

(s) 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.

(t) 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. 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 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.

(u) 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 aOfmc.krjeopted by the EU are effective for the current financial period:

- Amendments to IAS 7 "Statement of Cash Flows" - Disclosure Initiative – adopted by EU on November 6, 2017 (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 – adopted by EU on November 6, 2017 (effective for annual periods beginning on or after January 1, 2017).

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 November 22, 2016 (effective for annual periods beginning on or after January 1, 2018),
- IFRS 15 Revenue from Contracts with Customers: The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. IFRS 15 explicitly excludes from its scope transactions governed by IFRS 9.

  Management of the Bank has assessed the effects of applying the new standard on the Bank's financial statements and has not identified the areas, that will be materially affected, based on the product structure and respective revenue streams of the Bank.

  The Bank applies the new standard from January 01, 2018, following the Mandatory requirement for initial application. No cumulative material impact of the adoption is identified by the Bank.
- IFRS 16 "Leases" – adopted by the EU on October 31, 2017 (effective for annual periods beginning on or after January 1, 2019),
- Amendments to IFRS 4 "Insurance Contracts" - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – adopted by the EU on November 3, 2017 (effective for annual periods beginning on or after January 1, 2018 or when IFRS 9 "Financial Instruments" is applied first time),
- Amendments to IFRS 15 "Revenue from Contracts with Customers" - Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted by the EU on October 31, 2017 (effective for annual periods beginning on or after January 1, 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 – adopted by the EU on 8 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied 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 European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after January 1, 2021),
- Amendments to IFRS 2 "Share-based Payment" - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after January 1, 2018),
- Amendments to IFRS 9 "Financial Instruments" - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after January 1, 2019),
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates

and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),

- Amendments to IAS 19 "Employee Benefits" - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after January 1, 2019),
- Amendments to IAS 40 "Investment Property" - Transfers of Investment Property (effective for annual periods beginning on or after January 1, 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 January 1, 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after January 1, 2018),
- Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after January 1, 2019),
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after January 1, 2018),
- IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after January 1, 2019).

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.

  OTP Group, part of which is the Bank, analysed the estimated impact of the application of IFRS 9 in accordance with IAS 8, paragraph 30-31 and is presented in the OTP Group's financial statements the following way.

  IFRS 9 "Financial Instruments" replaces IAS 39 "Financial Instruments: Recognition and Measurement" for annual reporting periods commencing on or after 1 January 2018. It contains changes to the requirements relating to the recognition and measurement, impairment, derecognition and hedge accounting.

  OTP Bank Group started its preparation for IFRS 9 actively in 2016, led by the OTP Group's Risk Management and Finance Divisions, and during 2017 much of the preparation was finalized. The preparations covered the key challenges that the Bank faces with the new standard.

  The identification of gaps between its currently developed methodologies and the IFRS 9 requirements in classification and measurement, impairment and hedge accounting was completed in recent months, with various harmonizing processes required in respect of a measuring significant increase in credit risk (SICR). Finalisation of most of these activities is planned for the first half of 2018, some of them will be finalised by the end of 2018 for the material portfolios.

Classification and measurement

IFRS 9 introduced a new approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. OTP Group recognizes the financial liabilities on amortized cost except in those cases when the standard requires otherwise, or according to the fair value option OTP Group chose to recognize the financial instrument on the fair value through profit or loss. Preliminary analyses of the business models and contractual cash flows on the OTP Group's significant portfolios were performed to determine by product segments those financial instruments that would be measured at amortised cost, at fair value through profit or loss, or at fair value through Profit or Loss and Other Comprehensive Income.

Hedge accounting

IFRS 9 introduced a substantially revised model for hedge accounting, with enhanced disclosures about risk management activity. The new model aligns accounting treatment with risk management activities, having enabled entities to better reflect these activities in their financial statements. In addition, users of the financial statements are provided with better information about risk management and the effect of hedge accounting on the financial statements. OTP Group has already started to implement the requirements of IFRS 9 for the hedge accounting.

Impairment

IFRS 9 introduced an expected-loss impairment model instead of the previously applied incurred loss 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 first identified.

The use of a new, three stage model was implemented for IFRS 9 purposes. The new impairment methodology is used to classify financial instruments in order to determine whether credit risk has significantly increased since initial recognition and able to identify credit-impaired assets. For instruments with credit-impairment or significant increase of credit risk, lifetime expected losses will be recognized.

The increased credit-impairment is identified by transactions on the basis of predetermined conditions and beyond this the estimation is made on a portfolio level. Assets where no significant increase of credit risk has been identified, will be provisioned based on a 12-month expected loss methodology.

For purchased or originated credit-impaired financial assets, the same lifetime expected loss methodology was 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.

OTP Group chose the use of the simplified impairment approach for trade receivables and contract assets.

OTP Group started to further improve its risk management definitions, processes and methodological analysis in line with the expectations of IFRS 9. OTP Group has started developing the methodology – using the behavioural scoring model – for the identification of significant increase of credit risk and the calculation of expected credit losses through the use of IFRS 9 compliant risk parameters.

Based on the gap analyses and the changes in methodology, the main principles regarding the IT solutions for IFRS 9 implementation were laid down. Preliminary specifications were prepared and IT implementation was completed mostly in 2017, although there are such rating/scoring models for significant portfolios where the developments have not been finished yet.

The estimation of quantitative impact of IFRS 9 is based on the best estimation of the management of OTP Group as of the date of the issue of the Group financial statements. However the management of OTP Group consider uncertainties exist in respect of certain aspects of the methodology described above, together with interpretations of the standard, and evolving industry practice, and these uncertainties could result in these initial estimates varying to what is ultimately adjusted as of 1 January 2018, and the amount of the variance could be significant.

The most significant part among the still not finalized items is SICR (in the topic of staging the measurement of increased impairment) it is still under process, for the year end alternative estimations was made.

The IFRS 9 implementation project was driven by the OTP Group headquarters. The unified methodology and the initial parameter estimation was delivered centrally. The rollout of the calculations to the subsidiaries is continuous and was not finalized, with preliminary effects from initial application of the standard for DSK Bank EAD in terms of impairment, subject to the uncertainties noted above being within the range of up to between +1% to +5% of IAS 39 impairment, as of year end 2017.

According to the estimation, there are no loans which will be measured at fair value as at 1 January 2018 in the financial statement of DSK Bank.

- 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 2017, the Bank has non-cancellable operating lease commitments of BGN 25 552 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-2017	**31-Dec-2016**
Liquidity ratio	25.38%	31.33%

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 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 2017

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	**14 767**	**14 767**	14 767	-	-	-	-
Derivative financial instruments held for trading	**49 341**	**49 341**	457	45 987	18	791	2 088
Loans from financial institutions	**15 518**	**15 708**	-	969	2 921	895	10 923
Deposits from other customers	**10 291 123**	**10 292 359**	8 157 534	701 755	1 404 723	28 347	-
Derivatives – hedge accounting	**1 559**	**1 559**	-	-	-	179	1 380
Current tax liabilities	**879**	**879**	551	328	-	-	-
Deferred tax liabilities	**5 674**	**5 674**	-	-	-	5 674	-
Provisions for liabilities	**60 001**	**60 001**	234	750	49 452	9 565	-
Other and trading liabilities	**148 288**	**148 288**	71 392	18 602	44 068	11 106	3 120
Total liabilities	**10 587 150**	**10 588 576**	**8 244 935**	**768 391**	**1 501 182**	**56 557**	**17 511**
Unused loan commitments	-	1 247 390	77 030	125 837	657 979	386 544	-
Total liabilities and commitments	**10 587 150**	**11 835 966**	**8 321 965**	**894 228**	**2 159 161**	**443 101**	**17 511**

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	-	-	-	-
Derivative financial instruments held for trading	**27 314**	**27 314**	2 085	236	117	24 876	-
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	**130 849**	**130 849**	32 896	12 942	22 137	58 676	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**

The tables below set out the remaining expected maturities of the Bank’s assets and liabilities based on their balance sheet amount as at 31 December 2017 and 31 December 2016.

Maturity table of assets and liabilities as of 31 December 2017

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	**14 767**	14 767	-	-	-	-	-
Derivative financial instruments held for trading	**49 341**	457	45 987	18	791	2 088	-
Loans from financial institutions	**15 518**	-	969	2 919	890	10 740	-
Deposits from other customers	**10 291 123**	8 157 218	701 579	1 403 987	28 339	-	-
Derivatives – hedge accounting	**1 559**	-	-	-	179	1 380	-
Current tax liabilities	**879**	551	328	-	-	-	-
Deferred tax liabilities	**5 674**	-	-	-	5 674	-	-
Provisions for liabilities	**60 001**	234	750	49 452	9 565	-	-
Other and trading liabilities	**148 288**	71 392	18 602	44 068	11 106	3 120	-
Total liabilities	**10 587 150**	**8 244 619**	**768 215**	**1 500 444**	**56 544**	**17 328**	**-**
Unused loan commitments	-	77 030	125 837	657 979	386 544	-	-
Positive/(negative) maturity mismatch	**10 587 150**	**8 321 649**	**894 052**	**2 158 423**	**443 088**	**17 328**	**-**
Derivatives liabilities							
Trading:	49 341						
Outflow		(35 656)	(929 430)	(18)	(791)	(2 088)	-
Inflow		35 199	883 443	-	-	-	-
Hedge accounting:	1 559						
Outflow		-	-	-	-	(768)	-
Inflow		-	-	-	(179)	(612)	-
Total derivatives	**50 900**	**(457)**	**(45 987)**	**(18)**	**(970)**	**(3 468)**	**-**
Assets							
Cash and current accounts with the Central Bank and other banks	**1 690 421**	1 690 421	-	-	-	-	-
Derivative financial instruments held for trading	**4 046**	239	416	686	312	2 393	-
Financial assets held for trading	**236 223**	89 171	115	33 801	113 071	65	-
Loans and advances to banks	**1 614 897**	16 356	953 040	59 107	586 394	-	-
Loans and advances to other customers	**6 784 416**	120 162	198 297	1 023 040	2 211 717	3 231 200	-
Investments available for sale and held to maturity	**1 355 272**	82 596	7 698	8 540	616 571	626 033	13 834
Derivatives – hedge accounting	**2 178**	-	-	-	494	1 684	-
Current tax assets	**1 551**	1 551	-	-	-	-	-
Investments in subsidaries and associates	**43 176**	-	-	-	-	-	43 176
Property, plant and equipment	**327 305**	-	-	-	-	-	327 305
Intangible assets	**41 157**	-	-	-	-	-	41 157
Other assets	**44 130**	37 200	8 428	(7 736)	1 824	3 028	1 386
Total assets	**12 144 772**	**2 037 696**	**1 167 994**	**1 117 438**	**3 530 383**	**3 864 403**	**426 858**
Derivatives assets							
Trading:	4 046						
Outflow		(170 894)	(100 140)	(7 146)	(14 989)	-	-
Inflow		171 133	100 556	7 832	15 301	2 393	-
Hedge accounting:	2 178						
Outflow		-	-	-	-	(54)	-
Inflow		-	-	-	494	1 738	-
Total derivatives	**6 224**	**239**	**416**	**686**	**806**	**4 077**	**-**

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	-	-	-	-	-
Derivative financial instruments held for trading	**27 314**	2 085	236	117	24 876	-	-
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	**130 849**	32 896	12 942	22 137	58 676	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 the Central Bank and other banks	**2 532 681**	2 532 681	-	-	-	-	-
Derivative financial instruments held for trading	**5 279**	4 383	252	161	483	-	-
Financial assets held for trading	**152 681**	6 558	14 289	45 573	72 738	13 523	-
Loans and advances to banks	**1 142 790**	86 483	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	**1 013 946**	37 628	44 711	54 583	397 036	469 272	10 716
Investments in subsidaries and associates	**43 176**	-	-	-	-	-	43 176
Property, plant and equipment	**299 860**	-	-	-	-	-	299 860
Intangible assets	**43 512**	-	-	-	-	-	43 512
Other assets	**42 648**	34 794	3 264	960	2 849	-	781
Total assets	**11 643 119**	**2 803 657**	**236 792**	**1 136 680**	**3 515 880**	**3 552 065**	**398 045**
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**	**-**	**-**

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 14 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 up to 3 years in view of actual observed volume of earlier repayments during 2017.

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-2017**	**31-Dec-2016**
Balances with Central bank	1 264 219	2 167 077
Cash and balances with other banks	441 201	396 000
Unencumbered debt securities	942 015	559 828
Total liquidity assets	**2 647 435**	**3 122 905**

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 2017

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 the Central Bank and other banks	**24 779**	**-**	**-**	**-**	**-**	**1 665 642**	**1 690 421**
Fixed rate	17 239	-	-	-	-	-	17 239
Floating rate	7 540	-	-	-	-	-	7 540
Non-interest bearing	-	-	-	-	-	1 665 642	1 665 642
Derivative financial instruments held for trading	**2 113**	**81**	**407**	**-**	**-**	**1 445**	**4 046**
Fixed rate	-	-	-	-	-	-	-
Floating rate	2 113	81	407	-	-	-	2 601
Non-interest bearing	-	-	-	-	-	1 445	1 445
Financial assets held for trading	**88 105**	**-**	**33 424**	**48 508**	**66 186**	**-**	**236 223**
Fixed rate	88 105	-	33 424	48 508	66 186	-	236 223
Floating rate	-	-	-	-	-	-	-
Non-interest bearing	-	-	-	-	-	-	-
Loans and advances to banks	**16 000**	**953 039**	**59 107**	**586 394**	**-**	**357**	**1 614 897**
Fixed rate	16 000	953 039	59 107	586 394	-	-	1 614 540
Floating rate	-	-	-	-	-	-	-
Non-interest bearing	-	-	-	-	-	357	357
Loans and advances to other customers	**6 337 794**	**8 415**	**28 050**	**19 624**	**271 354**	**119 179**	**6 784 416**
Fixed rate	11 343	8 415	28 050	19 624	271 354	-	338 786
Floating rate	6 326 451	-	-	-	-	-	6 326 451
Non-interest bearing	-	-	-	-	-	119 179	119 179
Investment securities	**84 785**	**182 800**	**5 999**	**143 820**	**924 034**	**13 834**	**1 355 272**
Fixed rate	79 032	-	5 947	143 820	924 034	-	1 152 833
Floating rate	5 753	182 800	52	-	-	-	188 605
Non-interest bearing	-	-	-	-	-	13 834	13 834
Derivatives – hedge accounting	**1 907**	**-**	**271**	**-**	**-**	**-**	**2 178**
Fixed rate	-	-	-	-	-	-	-
Floating rate	1 907	-	271	-	-	-	2 178
Non-interest bearing	-	-	-	-	-	-	-
Total interest sensitive assets	**6 555 483**	**1 144 335**	**127 258**	**798 346**	**1 261 574**	**1 800 457**	**11 687 453**
Fixed rate	211 719	961 454	126 528	798 346	1 261 574	-	3 359 621
Floating rate	6 343 764	182 881	730	-	-	-	6 527 375
Non-interest bearing	-	-	-	-	-	1 800 457	1 800 457
Deposits from banks	**11 401**	**-**	**-**	**-**	**-**	**3 366**	**14 767**
Fixed rate	11 239	-	-	-	-	-	11 239
Floating rate	162	-	-	-	-	-	162
Non-interest bearing	-	-	-	-	-	3 366	3 366
Derivative financial instruments held for trading	**1 810**	**334**	**510**	**-**	**-**	**46 687**	**49 341**
Fixed rate	-	-	-	-	-	-	-
Floating rate	1 810	334	510	-	-	-	2 654
Non-interest bearing	-	-	-	-	-	46 687	46 687

Loans from financial institutions	**-**	**15 518**	**-**	**-**	**-**	**-**	**15 518**
Fixed rate	-	-	-	-	-	-	-
Floating rate	-	15 518	-	-	-	-	15 518
Non-interest bearing	-	-	-	-	-	-	-
Deposits from other customers	**8 177 506**	**691 721**	**1 382 240**	**6 962**	**21 252**	**11 442**	**10 291 123**
Fixed rate	1 331 142	691 721	1 382 240	6 962	21 252	-	3 433 317
Floating rate	6 846 364	-	-	-	-	-	6 846 364
Non-interest bearing	-	-	-	-	-	11 442	11 442
Derivatives – hedge accounting	**1 285**	**-**	**274**	**-**	**-**	**-**	**1 559**
Fixed rate	-	-	-	-	-	-	-
Floating rate	1 285	-	274	-	-	-	1 559
Non-interest bearing	-	-	-	-	-	-	-
Total interest sensitive liabilities	**8 192 002**	**707 573**	**1 383 024**	**6 962**	**21 252**	**61 495**	**3 525 944**
Fixed rate	1 342 381	691 721	1 382 240	6 962	21 252	-	3 444 556
Floating rate	6 849 621	15 852	784	-	-	-	6 866 257
Non-interest bearing	-	-	-	-	-	61 495	61 495

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 the Central Bank and other banks	**26 044**	**-**	**-**	**-**	**-**	**2 506 637**	**2 532 681**
Fixed rate	19 672	-	-	-	-	-	19 672
Floating rate	6 372	-	-	-	-	-	6 372
Non-interest bearing	-	-	-	-	-	2 506 637	2 506 637
Derivative financial instruments held for trading	**-**	**-**	**-**	**-**	**-**	**5 279**	**5 279**
Fixed rate	-	-	-	-	-	-	-
Floating rate	-	-	-	-	-	-	-
Non-interest bearing	-	-	-	-	-	5 279	5 279
Financial assets held for trading	**5 875**	**14 152**	**45 497**	**43 067**	**44 090**	**-**	**152 681**
Fixed rate	5 875	14 152	45 497	43 067	44 090	-	152 681
Floating rate	-	-	-	-	-	-	-
Non-interest bearing	-	-	-	-	-	-	-
Loans and advances to banks	**86 482**	**201 163**	**-**	**855 145**	**-**	**-**	**1 142 790**
Fixed rate	86 482	201 163	-	855 145	-	-	1 142 790
Floating rate	-	-	-	-	-	-	-
Non-interest bearing	-	-	-	-	-	-	-
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**	**10 716**	**1 013 946**
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	-	-	-	-	-	10 716	10 716
Total interest sensitive assets	**6 006 774**	**436 716**	**125 401**	**966 500**	**1 003 766**	**2 674 766**	**9 046 846**
Fixed rate	148 079	261 698	125 298	966 500	1 003 766	-	2 505 341
Floating rate	5 858 695	175 018	103	-	-	-	6 033 816
Non-interest bearing	-	-	-	-	-	2 674 766	2 674 766
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
Derivative financial instruments held for trading	**-**	**-**	**-**	**-**	**-**	**27 314**	**27 314**
Fixed rate	-	-	-	-	-	-	-
Floating rate	-	-	-	-	-	-	-
Non-interest bearing	-	-	-	-	-	27 314	27 314
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**	**43 280**	**9 929 867**
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	-	-	-	-	-	43 280	43 280

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 2017				
As at 31 December	(6 127)	6 127	(48 942)	48 942
Average for the period	(436)	436	(52 871)	52 871
Maximum for the period	7 448	6 127	(46 634)	68 556
Minimum for the period	(6 127)	(7 448)	(68 556)	46 634
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

(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 2017 and 2016 are as follows:

In thousands of BGN	**2017**	**2016**
At 31 December	49	17
Average for the period	45	26
Maximum for the period	214	160
Minimum for the period	3	1

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

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

(c) Credit risk

(1) Credit risk management processes and strategies

DSK Bank is subject to credit risk through its trading, lending, and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees.

Credit risk associated with trading and investing activities is managed through DSK Bank's counterparty and clients risk management procedures.

The risk that counterparties to both derivative and other instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, DSK Bank deals with counterparties with credit rating, which is acceptable to the Bank. A system of counterparty limits has been created and is applied.

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

	Loans and advances to other customers		**Loans and advances to banks and balances with the Central bank**		**Investments and financial assets held for trading and non trading derivatives**		**Off balance sheet commitments**	
In thousands of BGN	**31-Dec-2017**	**31-Dec-2016**	**31-Dec-2017**	**31-Dec-2016**	**31-Dec-2017**	**31-Dec-2016**	**31-Dec-2017**	**31-Dec-2016**
Carrying amount	6 784 416	6 366 546	2 906 581	3 340 320	1 640 895	1 215 082		
Amount committed/ guaranteed							1 556 911	1 339 974

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-2017		31-Dec-2016	
	Gross value	**Net value**	**Gross value**	**Net value**
From Banks				
Past due 0 days	2 906 581	2 906 581	3 340 320	3 340 320
	2 906 581	**2 906 581**	**3 340 320**	**3 340 320**
From other customers				
Past due 0 days	5 871 127	5 791 245	5 464 976	5 390 229
Past due up to 30 days	332 131	327 088	337 641	332 975
	6 203 258	**6 118 333**	**5 802 617**	**5 723 204**
Total	**9 109 839**	**9 024 914**	**9 142 937**	**9 063 524**

Loans and advances to banks and other customers – impaired

In thousands of BGN	31-Dec-2017		31-Dec-2016	
	Gross value	**Net value**	**Gross value**	**Net value**
From other customers				
Past due 0 days	356 849	268 831	296 428	205 270
Past due up to 30 days	162 526	129 614	170 788	131 102
Past due 31-60 days	95 507	79 602	97 278	79 869
Past due 61-90 days	65 108	53 483	66 285	53 621
Past due over 90 days	512 895	134 553	694 782	173 480
Total	**1 192 885**	**666 083**	**1 325 561**	**643 342**
incl. impaired by reason of:				
Financial instability	**444 774**	**252 946**	**352 639**	**187 143**

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 2017	2016
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-2017	31-Dec-2016
Loans and advances not past due		
Mortgage	2 258 649	2 026 169
Cash collateral	17 987	10 947
Government securities	859 472	935 198
Other types of collateral	3 024 027	2 923 193
	6 160 135	**5 895 507**
Loans and advances past due		
Mortgage	138 219	138 386
Cash collateral	387	336
Other types of collateral	167 429	175 956
	306 035	**314 678**
Total	**6 466 170**	**6 210 185**

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-2017**	**31-Dec-2016**
Mortgage	484 575	509 046
Cash collateral	368	184
Other types of collateral	524 664	574 365
Total	**1 009 607**	**1 083 595**

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-2017**	**31-Dec-2016**
Secured by mortgages	2 881 443	2 673 601
Cash collateral	18 742	11 467
Government securities	859 472	935 198
Other types of collateral*	3 716 120	3 673 514
Without collateral	2 826 947	3 174 718
Total	**10 302 724**	**10 468 498**

***** 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-2017**		**31-Dec-2016**	
	Carrying amount	**Collateral**	**Carrying amount**	**Collateral**
Advances to banks	873 692	859 472	946 608	935 198
Total	**873 692**	**859 472**	**946 608**	**935 198**

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-2017**	**31-Dec-2016**
Loan to value (LTV) ratio based on market value		
LTV ≤ 50 %	407 598	370 226
50 % < LTV ≤ 70 %	640 263	596 534
70 % < LTV ≤ 90 %	675 037	621 119
90 % < LTV ≤ 100 %	128 368	103 423
100 % < LTV	244 181	416 775
Total	**2 095 447**	**2 108 077**

As of December 31, 2017 and December 31, 2016 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

Type of restructuring	31-Dec-2017 gross value	31-Dec-2017 impairment loss	31-Dec-2016 gross value	31-Dec-2016 impairment loss
In thousands of BGN				
Mortgage Loans to individuals				
Combination	1 759	753	1 782	820
Debt consolidation loan with mortgage	7 907	1 211	9 408	1 902
Other	187 920	32 927	217 312	47 597
Prolongation	12 162	5 862	18 979	10 483
Suspension	79 525	33 631	123 424	64 509
Consumer Loans to individuals				
Combination	2 168	737	1 195	470
Debt consolidation loan with mortgage	42 335	16 409	33 986	12 067
Other	98 985	37 926	98 025	36 263
Prolongation	5 785	2 056	5 383	1 841
Suspension	16 770	6 494	14 292	4 919
Loans to corporate customers				
Combination	5 790	5 752	5 892	5 786
Debt consolidation loan with mortgage	1 001	611	1 261	786
Other	85 324	70 124	131 587	99 938
Prolongation	40 336	16 576	49 465	21 167
Suspension	1 725	1 114	3 379	2 349
Total	**589 492**	**232 183**	**715 370**	**310 897**

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

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

In thousands of BGN	31-Dec-2017	31-Dec-2016
PD category boundaries		
PD ≤ 0.01	2 733 465	2 550 099
0.01 < PD ≤ 0.05	2 208 273	2 058 265
0.05 < PD ≤ 0.10	550 967	519 378
0.10 < PD ≤ 0.20	186 906	135 955
0.20 < PD ≤ 0.30	8 050	8 944
0.30 < PD ≤ 0.50	3 316	23 691
0.50 < PD	12 710	16 435
not rated	167 440	152 209
Total	**5 871 127**	**5 464 976**

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**		**Investments and financial assets held for trading and non trading derivatives**	
	31-Dec-2017	**31-Dec-2016**	**31-Dec-2017**	**31-Dec-2016**	**31-Dec-2017**	**31-Dec-2016**
In thousands of BGN						
Sovereign	-	-	-	-	1 394 861	980 893
State Budget	6 030	7 527	-	-	-	-
International banks for development	-	-	-	-	-	-
Banks, incl. the Central Bank	-	-	2 906 581	3 340 320	186 502	179 963
Manufacturing	875 403	783 841	-	-	131	-
Construction	152 855	171 372	-	-	-	-
Agriculture and forestry	215 421	159 865	-	-	-	-
Transport and communications	61 227	46 090	-	-	1 402	-
Trade and services	616 254	651 930	-	-	-	-
Hotels and catering	191 882	123 867	-	-	122	-
Financial and insurance activities	28 095	17 156	-	-	-	190
Real estate activities	425 552	359 733	-	-	-	-
Other industry sectors	145 495	173 354	-	-	867	144
Individuals	4 677 929	4 633 443	-	-	-	-
Equity investments	-	-	-	-	13 834	10 716
Total	**7 396 143**	**7 128 178**	**2 906 581**	**3 340 320**	**1 597 719**	**1 171 906**
Impairment for uncollectability	(611 727)	(761 632)	-	-	-	-
Total	**6 784 416**	**6 366 546**	**2 906 581**	**3 340 320**	**1 597 719**	**1 171 906**
Geographical analysis						
Europe	6 776 334	6 365 044	2 901 337	3 336 145	1 592 865	1 167 444
Asia	1 902	1 424	371	38	-	-
Africa	582	43	-	-	-	-
Australia	228	-	-	-	-	-
North America	5 283	4	4 873	4 137	4 854	4 462
South America	87	31	-	-	-	-
Total	**6 784 416**	**6 366 546**	**2 906 581**	**3 340 320**	**1 597 719**	**1 171 906**

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:

	31-Dec-2017	**31-Dec-2016**

In thousands of BGN		
Government bonds		
Rated Aaa	4 854	-
Rated A2	30 062	-
Rated Baa2	162 775	152 681
Rated Ba2	38 532	-
Fair value of derivatives		
Credit institutions	1 524	4 945
Other counterparties	2 522	334
Total	**240 269**	**157 960**

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 2017

	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
In thousands of BGN							
Financial assets held for trading							
Government securities							
Bulgaria	89 171	4	12 834	60 701	65	-	162 775
Poland	-	111	192	29 758	-	-	30 061
USA	-	-	9	4 846	-	-	4 855
Croatia	-	-	20 766	17 766	-	-	38 532
Derivatives							
Bulgaria	138	-	686	35	1 800	-	2 659
Holland	44	-	-	-	-	-	44
Hungary	57	416	-	277	593	-	1 343
Total	**89 410**	**531**	**34 487**	**113 383**	**2 458**	**-**	**240 269**
Investments							
Investments available for sale							
Government securities							
Bulgaria	80 154	4 664	-	386 221	94 562	-	565 601
Hungary	2 152	870	78	170 673	20 238	-	194 011
Poland	287	-	413	-	72 346	-	73 046
Romania	-	1 394	1 079	59 169	111 370	-	173 012
Spain	-	-	701	-	107 902	-	108 603
Slovenia	-	-	270	-	37 585	-	37 855
Floating income corporate equity investments							
Bulgaria	-	-	-	-	-	8 110	8 110
USA	-	-	-	-	-	5 643	5 643
Belgium	-	-	-	-	-	81	81
Corporate debt securities							
Hungary	-	770	-	-	182 030	-	182 800
Total	**82 593**	**7 698**	**2 541**	**616 063**	**626 033**	**13 834**	**1 348 762**
Investments held to maturity							
Government securities							
Bulgaria	3	-	5 999	508	-	-	6 510
Total	**3**	**-**	**5 999**	**508**	**-**	**-**	**6 510**
Total assets	**172 006**	**8 229**	**43 027**	**729 954**	**628 491**	**13 834**	**1 595 541**

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
Derivatives							
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	-	-	-	-	-	6 173	6 173
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**	**10 716**	**1 006 967**
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**	**10 716**	**1 171 906**

(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 2017 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 Advanced 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 2017 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

	Basel III 2017	**Basel III 2016**
In thousands of BGN		
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	(41 157)	(43 512)
Accumulated other comprehensive income	100 885	45 400
CET1 instruments of financial sector entites where the institution does not have a significant investment	(2 687)	-
CET1 instruments of financial sector entities where the institution has a significant investment	(22 496)	(19 997)
Tier2 instruments of financial sector entities where the institution does not have a significant investment	(7 024)	(12 642)
CET1 additional capital deductions (for specific credit risk)	(13 403)	-
	1 150 310	**1 105 441**
Tier 2 capital		
Accumulated other comprehensive income	27 416	39 967
Deductions from Tier 2 capital		
CET1 instruments of financial sector entites where the institution does not have a significant investment	(299)	(4 999)
CET1 instruments of financial sector entities where the institution has a significant investment	(2 500)	-
Tier 2 instruments of financial sector entities where the institution does not have a significant investment	(63 219)	(50 568)
	(38 602)	**(15 600)**
Own funds	**1 111 708**	**1 089 841**

Capital ratios	**31-Dec-2017**	**31-Dec-2016**
Solvency ratio (%)	17.15%	17.63%
Tier 1 capital ratio (%)	17.15%	17.63%

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 2017, 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 2017 set by the BNB is 0% and the specific countercyclical capital buffer for the Bank for 2017 is 0%.

According to joint decision of the Bulgarian National Bank and Hungarian Central Bank DSK Bank have to keep additional capital requirement of 1.12 % for 2017 (0,41 % for 2016) in result of supervisory review and evaluation process.

(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-2017				
Assets				
Financial assets held for trading	236 223	4 046	-	240 269
incl. derivatives	-	4 046	-	4 046
Investments available for sale	1 329 686	5 535	13 272	1 348 493
Derivatives – hedge accounting	-	2 178	-	2 178
Total	**1 565 909**	**11 759**	**13 272**	**1 590 940**
Liabilities				
Derivatives held for trading	-	49 341	-	49 341
Derivatives – hedge accounting	-	1 559	-	1 559
Total	**-**	**50 900**	**-**	**50 900**
31-Dec-2016				
Assets				
Financial assets held for trading	152 681	5 279	-	157 960
incl. derivatives	-	5 279	-	5 279
Investments available for sale	996 251	290	4 301	1 000 842
Total	**1 148 932**	**5 569**	**4 301**	**1 158 802**
Liabilities				
Derivatives held for trading	-	27 314	-	27 314
Total	**-**	**27 314**	**-**	**27 314**

Equity instruments at the amount of BGN 269 thousand as of 31 December 2017 and BGN 6 125 thousand as of 31 December 2016 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 the Central Bank and other banks	-	1 690 421	-	**1 690 421**	**1 690 421**
Loans and advances to banks	-	1 614 897	-	**1 614 897**	**1 614 897**
Loans and advances to other customers	-	-	6 901 417	**6 901 417**	**6 784 416**
Investments held to maturity	5 869	552	-	**6 421**	**6 510**
Liabilities					
Deposits from banks	-	14 767	-	**14 767**	**14 767**
Loans from financial institutions	-	15 518	-	**15 518**	**15 518**
Deposits from other customers	-	10 291 185	-	**10 291 185**	**10 291 123**

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	2017	2016
Interest income		
Loans and advances to banks	23 675	34 509
Loans and advances to other customers	418 220	460 105
Investments available for sale	20 536	37 205
Investments held to maturity	367	378
Deposits from banks	140	29
Deposits from other customers	1 242	226
Total	**464 180**	**532 452**
Interest expense		
Deposits from banks	(5 318)	(523)
Loans from banks and financial institutions	(6)	(17)
Deposits from other customers	(4 281)	(12 364)
Investments available for sale	(5)	(2)
Loans and advances to banks	(936)	(332)
Loans and advances to other customers	(54)	(12)
Total	**(10 600)**	**(13 250)**
Net interest income	**453 580**	**519 202**

The effect from interest income on impaired loans and advances to customers in the statement of profit or loss is BGN 13 456 thousand for 2017 and BGN 13 703 thousand for 2016. Impairment accrued on these interests is BGN 6 254 thousand for 2017 and BGN 6 273 thousand for 2016.

5. Net fee and commission income

In thousands of BGN	2017	2016
Fee and commission income		
In Bulgarian Leva		
Payment and settlement transactions	48 156	44 154
Credit related deals	20 639	22 132
Deposit related deals	54 385	52 596
Other	12 471	11 499
	135 651	**130 381**
In foreign currencies		
Payment and settlement transactions	21 534	18 686
Credit related deals	5 678	5 731
Deposit related deals	2 834	1 724
Other	2 767	2 727
	32 813	**28 868**
Total	**168 464**	**159 249**
Fee and commission expense		
In Bulgarian Leva	(10 730)	(11 958)
In foreign currencies	(3 889)	(3 107)
Total	**(14 619)**	**(15 065)**
Net fee and commission income	**153 845**	**144 184**

6. Net trading expense

In thousands of BGN	2017	2016
Interest rate instruments	(629)	1 941
Foreign exchange trading	(8 372)	(25 008)
Ineffective hedge net loss	(265)	-
Other	277	5
Total	**(8 989)**	**(23 062)**

Gains or losses due to change on fair value hedges for the year

In thousands of BGN	2017	2016
Losses on hedged assets	(1 571)	-
Gains on the hedging instruments	1 306	-
Hedge ineffectiveness recognised immediately in the income statement	**(265)**	-

7. Other operating income, net

In thousands of BGN	2017	2016
Net income of available-for-sale securities		
Government bonds	-	(3)
Corporate bonds	-	18 820
Dividends	1 992	857
Foreign exchange gain	17 920	9 907
Sale and write-off of financial assets	30 954	21 508
Other	6 280	5 246
Total	**57 146**	**56 335**

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	2017	2016
Wages and salaries	(80 004)	(73 313)
Compulsory obligations	(20 648)	(18 269)
Provisions on pension severance payments under Labour Code	(888)	(793)
Other	(1 678)	(1 545)
Total	**(103 218)**	**(93 920)**

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	2017	2016
Defined benefit obligations at 1 January	6 124	6 182
Benefits paid by the plan	(693)	(609)
Current service costs	623	595
Interest cost	160	181
Remeasurements:		
Experience adjustments	1 061	(345)
Actuarial (gains) losses from changes in demographic assumptions	7	(12)
Actuarial (gains) losses from changes in financial assumptions	518	132
Defined benefit obligations at 31 December	**7 800**	**6 124**

Expense recognized in statement of profit or loss

In thousands of BGN	2017	2016
Current service costs	623	595
Interest on obligation	160	181
Actuarial (gains) losses	105	17
Total	**888**	**793**

Actuarial assumptions

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

	2017	**2016**
Discount rate at 31 December	1.40%	2.50%
Future salary increases	3.00%	3.00%
Future pension increases	3.00%	3.00%

The average staff in the Bank is 4 082 for 2017 and 3 881 for 2016.

9. Impairment losses

In thousands of BGN	**2017**	**2016**
Impairment losses for loans and advances to customers and other assets	(708 939)	(762 809)
Income from reversals of impairment losses of loans and advances to customers and other assets	654 361	659 352
Total (notes 15 and 19)	**(54 578)**	**(103 457)**

10. Other expenses

In thousands of BGN	**2017**	**2016**
Materials, audit and other services	(96 180)	(82 990)
Operating lease expenses of buildings and vehicles	(7 218)	(7 067)
Guarantee Funds instalments	(35 477)	(30 834)
Provisions for contingent liabilities	(18 673)	(24 522)
Provision for impairment on guarantees given	(3 993)	-
Impairment of tangible assets	(2 422)	-
Impairment of assets classified as inventory	(1 263)	(40)
Other expenses	(3 380)	(3 107)
Total	**(168 606)**	**(148 560)**

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-2017**
With maturity of up to 1 year	8 784
With maturity from 1 to 5 years	15 758
With maturity over 5 years	1 010
Total liabilities from operating lease	**25 552**

11. Income tax expense

In thousands of BGN	**2017**	**2016**
Current tax expense	(33 648)	(31 329)
Deferred tax income related to origination and reversal of temporary tax differences	4 698	40
Total	**(28 950)**	**(31 289)**

In thousands of BGN	**2017**	**2016**
Accounting profit	290 974	313 484
Income tax using the statutory corporate tax rate	(29 097)	(31 348)
Tax on permanent tax differences	147	59
Income tax expense	**(28 950)**	**(31 289)**
Effective tax rate	9.95%	9.98%

Current taxes are calculated using a tax rate of 10 % for 2017 and 2016.

12. Cash and current accounts with the Central Bank and other banks

In thousands of BGN	**31-Dec-2017**	**31-Dec-2016**
Cash on hand		
In Bulgarian Leva	352 963	288 287
In foreign currencies	45 774	46 864
Current accounts with the Central Bank and other banks		
In Bulgarian Leva	1 259 120	2 143 749
In foreign currencies	32 564	53 781
Total	**1 690 421**	**2 532 681**

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

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 816 255 thousand and BGN 792 003 thousand as of 31 December 2017 and 2016 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.

DSK Bank has nostro accounts with OTP Bank denominated in EUR, SEK and HUF with total balance as of December 31, 2017 BGN 12 070 thousand.

The Bank has nostro accounts with other OTP Bank Group members denominated in RON, RUB and RSD with total balance as of December 31, 2017 BGN 554 thousand.

13. Financial assets held for trading and derivative instruments

In thousands of BGN	**31-Dec-2017**	**31-Dec-2016**
Government securities – Republic of Bulgaria denominated in Bulgarian Leva	124 784	64 873
Government securities – Republic of Bulgaria denominated in foreign currencies	37 991	87 808
Foreign issuers debt securities denominated in foreign currencies	73 448	-
Total	**236 223**	**152 681**

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, 2017 between 0.50 % and 5.00 % and government securities denominated in EUR earn interest between 2.625 % and 6.00 %.

Government securities issued by foreign governments comprise securities denominated in EUR and USD. The EUR denominated government securities earn interest as of December 31, 2017 between 3.875 % and 5.875 % and government securities denominated in USD earn interest between 2.00 % and 6.75 %.

Derivative financial instrumentsas of 31 December 2017

	Carring value		Notional amoumt
Type of restructuring	**Assets**	**Liabilities**	
In thousands of BGN			
Derivatives held for trading			
Interest rate swaps	2 475	1 552	184 736
Foreign exchange contracts	1 445	46 687	1 309 148
Equity swaps	126	1 102	35 568
Total	**4 046**	**49 341**	**1 529 452**
Derivatives used as fair value hedges			
Interest rate swaps	2 178	1 559	382 210
Total	**2 178**	**1 559**	**382 210**
Total derivative financial instruments	**6 224**	**50 900**	**1 911 662**

Derivative financial instrumentsas of 31 December 2016

	Carring value		Notional amoumt
Type of restructuring	**Assets**	**Liabilities**	
In thousands of BGN			
Derivatives held for trading			
Interest rate swaps	91	71	5 085
Foreign exchange contracts	5 188	25 990	1 416 655
Equity swaps	-	1 253	44 882
Total derivative financial instruments	**5 279**	**27 314**	**1 466 622**

As of 31 December 2017 DSK Bank has the next intra group deals:

- Interest rate swaps with OTP Bank – assets BGN 639 thousand, liabilities BGN 1 009 thousand, notional amount BGN 101 335 thousand;
- Derivative deals for foreign exchange with OTP Bank - assets BGN 577 thousand, liabilities BGN 46 599 thousand, notional amount BGN 1 225 084 thousand;
- Equity swaps with OTP Bank - assets BGN 126 thousand, liabilities BGN 605 thousand, notional amount BGN 18 271 thousand;
- Derivative deals for fair value hedge are with OTP Bank. Derivatives are hedging fair value of AFS securities.

14. Loans and advances to banks

(a) Analysis by type

In thousands of BGN	31-Dec-2017	31-Dec-2016
Deposits with domestic and foreign banks		
In Bulgarian Leva	66 013	600
In foreign currencies	674 835	195 582
Encumbered assets with foreign banks	357	-
Loans under repurchase agreements	873 692	946 608
Total	**1 614 897**	**1 142 790**

(b) Geographical analysis

In thousands of BGN	31-Dec-2017	31-Dec-2016
Domestic banks	81 595	30 296
Foreign banks	1 533 302	1 112 494
Total	**1 614 897**	**1 142 790**

The Bank purchases financial instruments under agreements to sell them at future dates ("reverse repurchase agreements") and are presented as part of loans and advances to banks.

As of 31 December 2017 DSK Bank has the next intra group deals:

- Repurchase agreements with OTP Bank denominated in HUF amounting to BGN 873 692 thousand with original maturity of two years and maturing February and March 2018. Interest rates vary from 1.803 % to 5.529 %. The daels are collateralised with Hungarian Government Bonds with coverage over 90 %.
- Short term deposit with OTP Bank denominated in BGN amounting to BGN 1 000 thousand. The deposit bears negative interest of 0.2 % and matures on 8 January 2018.
- Three long term deposits with OTP Bank denominated in EUR amounting to BGN 586 394 thousand with two years original maturity and matturing in September and October 2019. The deposits bear negative interest from 0.199 % to 0.273 %.
- Deposits blocked in connection with derivative deals with OTP Bank denominated in EUR and USD amounting to BGN 357 thousand.

15. Loans and advances to other customers

In thousands of BGN	**31-Dec-2017**	**31-Dec-2016**
Individuals		
In Bulgarian Leva		
Consumer loans	2 431 742	2 279 326
Mortgage loans	1 637 804	1 421 593
In foreign currencies		
Consumer loans	150 740	246 040
Mortgage loans	457 643	686 484
Companies		
In Bulgarian Leva		
Working capital loans	883 244	769 195
Investment loans	589 669	506 724
Commercial factoring	7 215	1 911
In foreign currencies		
Working capital loans	406 179	455 271
Investment loans	819 883	751 828
Commercial factoring	5 994	2 279
State Budget		
In Bulgarian Leva	4 942	6 324
In foreign currencies	1 088	1 203
Less impairment allowances	(611 727)	(761 632)
Total loans and advances to other customers	**6 784 416**	**6 366 546**

Impairment allowances of loans and advances to other customers

In thousands of BGN	**31-Dec-2017**	**31-Dec-2016**
Balance at 1 January	**761 632**	**895 192**
Net change for the year through profit or loss	51 241	102 597
Decrease	(201 146)	(236 157)
Balance at 31 December	**611 727**	**761 632**

The interest rates on receivables from loans as at 31 December 2017 are ranged as follows: receivables from individuals from 1.96 % to 41.11 %; receivables from companies from 0.75 % to 12.43 %; receivables from State Budget from 0.33 % to 4.50 %.

In accordance with the policy of DSK Bank in 2017 the carrying amount of the sale of problem loans to OTP Factoring Bulgaria is BGN 65 139 thousand and the impairment allowance amounts to BGN 65 139 thousand. DSK Bank income on sale of problem lons to OTP Factoring Bulgaria is BGN 11 702 thousand.

Write-off on account of impairment, including on loan sales to third parties, reported during the year 2017 amounted to BGN 135 722 thousand, of which BGN 93 398 thousand are with partial termination of the balance sheet reporting.

As of 31 December 2017 DSK Bank has the next intra group deals:

- Credit line to OTP Factoring Bulgaria denominated in BGN, amounting to BGN 7 085 thousandq granted on 14.06.2017 with maturity date 15.06.2018 and interest rate 4%. The disbursed amount as of statement date is BGN 3 743 thousand.

- Credit line to OTP Factoring Bulgaria denominated in BGN, amounting to BGN 2 000 thousandq granted on 07.08.2015 with maturity date 15.06.2018 and interest rate 4%. As of the statement date the credit line is not disbursed.
- Credit line to OTP Factoring Bulgaria denominated in EUR, amounting to BGN 17 128 thousandq granted on 14.06.2017 with maturity date 15.06.2018 and interest rate 4.2%. The disbursed amount as of statement date is BGN 405 thousand.

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

In thousands of BGN	**31-Dec-2017**	**31-Dec-2016**
Other equity investments	13 834	10 716
Bulgarian debt securities available for sale	565 601	620 323
Government debt securities included	565 601	620 323
Foreign debt securities available for sale	769 327	375 928
Total investments available for sale	**1 348 762**	**1 006 967**
Bulgarian debt securities held to maturity	6 510	6 979
Government debt securities included	6 510	6 979
Total investments held to maturity	**6 510**	**6 979**
Total	**1 355 272**	**1 013 946**

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 1.399 %. 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 0.30 to 5.00 %; denominated in EUR earning interest from -0.247 to 5.75 %, and denominated in USD earning interest at 1.399 %. Foreign issuers' debt securities represent government bonds denominated in EUR earning interest from 1.30 to 3.625 % and government bonds denominated in USD earning interest from 3.25 % to 6.75 %.

As of 31 December 2017 DSK Bank owes in its AFS porifolio perpetual bond issued in EUR from OTP Bank (ISIN XS0274147296) with nominal value BGN 188 626 thousand and carrying amount BGN 182 800 thousand. The bond is with variable interest rate – as of the statement date it is 2.672%.

The equity investments represent shares in domestic companies, financial institutions and Bulgarian Stock Exchange. 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 2017 are pledged as collateral and blocked in favour of Ministry of Finance on deposits from the State Budget at the amount of BGN 200 923 thousand.

17. Property, plant and equipment

Movement of property, plant and equipment during the year 2017

In thousands of BGN	Land and buildings	IT equipment	Office equipment	Other equipment	Total
Cost or revalued amount					
As of 31 December 2016	326 796	81 930	85 788	9 463	503 977
Additions	-	-	-	29 201	29 201
Disposals	(1 167)	(8 567)	(2 586)	(2 765)	(15 085)
Transfers	7 760	7 600	5 286	(20 646)	-
Revaluation	36 138	-	-	-	36 138
Cost or revalued amount as of 31 December 2017	**369 527**	**80 963**	**88 488**	**15 253**	**554 231**
Depreciation					
As of 31 December 2016	71 990	69 884	61 686	557	204 117
Charge for the period	7 253	6 132	7 336	187	20 908
Disposals	(680)	(8 492)	(2 516)	-	(11 688)
Revaluation	10 935	-	-	-	10 935
Impairment	2 654	-	-	-	2 654
Depreciation as of 31 December 2017	**92 152**	**67 524**	**66 506**	**744**	**226 926**
Net book value 31 December 2017	**277 375**	**13 439**	**21 982**	**14 509**	**327 305**
Net book value 31 December 2016	**254 806**	**12 046**	**24 102**	**8 906**	**299 860**

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**

In "Land and buildings" are included leasehold improvements to the amount of BGN 4 906 thousand as of 31 December 2017 and BGN 4 541 thousand as of 31 December 2016.

In "Other equipment" are included property, plant and equipment under construction and acquisition of property plant and equipment to the amount of BGN 14 135 thousand as of 31 December 2017 and BGN 8 412 thousand as of 31 December 2016.

As of 31 December 2017, the gross carrying amount of fully depreciated property, plant and equipment that are still in use in the course of the Bank's activities is as follows: buildings: to the amount of BGN 4 904 thousand, IT equipment: to the amount of BGN 45 110 thousand, office equipment: to the amount of BGN 36 189 thousand, other equipment: to the amount of BGN 266 thousand.

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 2017 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-	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).

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.

18. Intangible assets

Movement of intangible assets during 2017

In thousands of BGN	Intangible assets	Assets under construction	Total
Cost or revalued amount			
As of 31 December 2016	120 797	12 011	132 808
Additions	-	17 000	17 000
Disposals	(2 735)	(1 970)	(4 705)
Transfers	19 112	(19 112)	-
Cost or revalued amount as of 31 December 2017	**137 174**	**7 929**	**145 103**
Depreciation			
As of 31 December 2016	89 296	-	89 296
Charge for the period	17 298	-	17 298
Disposals	(2 648)	-	(2 648)
Depreciation as of 31 December 2017	**103 946**	**-**	**103 946**
Net book value 31 December 2017	**33 228**	**7 929**	**41 157**
Net book value 31 December 2016	**31 501**	**12 011**	**43 512**

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**

As of 31 December 2017, the gross carrying amount of fully amortized intangible assets (licenses and software) that are still in use in the course of the Bank's activities is to the amount of BGN 75 119 thousand.

19. Other assets

In thousands of BGN	31-Dec-2017	31-Dec-2016
Deferred expenses	2 798	2 500
Materials, spare parts	1 830	1 789
Deficiencies in assets	540	655
Receivables in litigation	1 524	1 305
Acquired collaterals	20 753	23 011
Clearing and bank settlement assets	11 760	7 013
Advances to suppliers	1 361	2 138
Other assets	10 224	7 758
Impairment allowances	(6 660)	(3 521)
Total	**44 130**	**42 648**

The net change of the impairment in the statement of profit or loss is expense BGN 3 337 thousand for 2017 and expense BGN 860 thousand for 2016.

At 31 December 2017, the gross carrying amount of assets acquired against non-collectable loans at the date of their acquisition was to the amount of BGN 24 229 thousands.

The amount of impairment of assets classified as inventory that is recognized for the period 2013 – 2017 is to the amount of BGN 3 476 thousand.

20. Deposits from banks and loans from financial institutions

In thousands of BGN	31-Dec-2017	31-Dec-2016
Deposits from banks		
Term deposits	-	106 301
Current accounts	14 767	10 544
Total deposits from banks	**14 767**	**116 845**
Loans from financial institutions		
Long term loans	15 518	20 150
Total loans from financial institutions	**15 518**	**20 150**

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, 2016 the interest rate on the outstanding amount is 0.43 %, as of December 31, 2017 it is 0.421 %.

OTP Bank has loro accounts with DSK Bank denominated in BGN and EUR with total balance as of December 31, 2017 BGN 1 383 thousand.

The Bank has not had any defaults of principal or interest or other breaches with respect to its liabilities during the periods 2016 and 2017.

21. Deposits from other customers

In thousands of BGN	**31-Dec-2017**	**31-Dec-2016**
Individuals		
In Bulgarian Leva		
Term deposits	2 145 924	1 999 325
Demand deposits	3 910 340	3 469 392
In foreign currencies		
Term deposits	1 159 047	1 114 734
Demand deposits	999 272	959 605
Companies		
In Bulgarian Leva		
Term deposits	79 910	97 397
Demand deposits	1 032 389	967 983
In foreign currencies		
Term deposits	62 025	82 854
Demand deposits	612 391	464 808
State Budget		
In Bulgarian Leva		
Term deposits	1 506	3 506
Demand deposits	102 878	100 777
In foreign currencies		
Term deposits	47	9 289
Demand deposits	42 595	37 196
Financial institutions		
In Bulgarian Leva		
Term deposits	20 445	24 426
Demand deposits	73 681	105 889
In foreign currencies		
Term deposits	355	1 969
Demand deposits	48 318	326 408
Total	**10 291 123**	**9 765 558**

The interest rates on deposits as at 31 December 2017 are ranged as follows: deposits from individuals from 0 % to 8.50 %; deposits from companies from 0 % to 3.50 %; deposits from State Budget from 0 % to 2.11 %; deposits from financial institutions from -0.30 % to 0.30 %.

As of 31 December 2017 DSK Bank has the next intra group deals:

- Current accounts of group members denominated in BGN and EUR amounting to BGN 36 774 thousand;
- Term deposits of group members denominated in BGN amounting to BGN 214 thousand.

22. Deferred tax liabilities

Deferred income taxes for 2017 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**		**Liabilities**		**Net**	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Pension severance payments under Labour Code and other personnel liabilities	(1 381)	(1 350)	-	-	(1 381)	(1 350)
Business reorganisation	-	-	443	443	443	443
Financial assets available for sale	(10)	(10)	-	-	(10)	(10)
Fixed assets	-	-	12 112	9 925	12 112	9 925
Contingent liabilities	(4 888)	(3 139)	-	-	(4 888)	(3 139)
Unused annual leave and other	(602)	(443)	-	-	(602)	(443)
Net deferred tax (assets)/liabilities	**(6 881)**	**(4 942)**	**12 555**	**10 368**	**5 674**	**5 426**

Movement in temporary differences during the year:

In thousands of BGN	**Balance as of 31 December**	**Recognised in the statement of profit or loss**	**Recognised in equity**	**Balance as of 31 December**
	2016	**2017**	**2017**	**2017**
Pension severance payments under Labour Code and other personnel liabilities	(1 350)	(31)	-	(1 381)
Business reorganisation	443	-	-	443
Financial assets available for sale	(10)	(2 383)	2 383	(10)
Fixed assets	9 925	(376)	2 563	12 112
Contingent liabilities	(3 139)	(1 749)	-	(4 888)
Unused annual leave and other	(443)	(159)	-	(602)
Total	**5 426**	**(4 698)**	**4 946**	**5 674**

23. Provisions for liabilities

In thousands of BGN	Pension employment defined benefit obligations	Provisions for contingent liabilities	Provisions for commitments and guarantees given	Total
Opening balance	6 124	30 713	-	36 837
Additions during the year	888	20 171	3 993	25 052
Reversal during the year	-	(1 498)	-	(1 498)
Amounts paid	(693)	(1 178)	-	(1 871)
Other movements	1 481	-	-	1 481
Total	**7 800**	**48 208**	**3 993**	**60 001**

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

- In connection with commitments, 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-2017	31-Dec-2016
Liabilities for centralisation of State Budget with BNB	25 398	962
Liabilities to personnel and management	11 030	10 684
Money transfers for execution	22 438	9 523
Deferred income	6 446	7 979
Liabilities to suppliers	5 050	5 836
Liabilities under condition for financial asset refunding	70 279	89 151
Other	7 647	6 714
Total	**148 288**	**130 849**

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-2017	31-Dec-2016
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 December 31, 2017 are as follows:

Name	Number of shares	Ownership	Voting rights
Hungarian Oil and Gas Company (MOL)	24,000,000	8.57%	8.66%
Megdet, Timur and Ruszlan Rahimkulov	23,738,672	8.48%	8.57%
OPUS Securities SA	14,496,476	5.18%	5.23%
Groupama	14,369,541	5.13%	5.19%

(b) Retained earnings

Retained earnings comprise accumulated profit from current year and 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-2017**	**31-Dec-2016**
Litigation against the Bank and other contingent liabilities	49 844	31 491
Bank guarantees and letters of credit		
in Bulgarian Leva	188 767	206 036
in foreign currencies	122 477	121 558
	311 244	**327 594**
Commitments for undrawn credit facilities		
in Bulgarian Leva	836 879	717 021
in foreign currencies	410 511	291 989
	1 247 390	**1 009 010**
Forward and spot deals - sell		
in Bulgarian Leva	997 604	1 174 407
in foreign currencies	1 901 441	1 421 765
	2 899 045	**2 596 172**
Other	634	2 592
Total	**4 508 157**	**3 966 859**

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

As of 31 December 2017 DSK Bank has the next intra group deals:

- On 27 April 2016 DSK Bank issued a guarantee to DSK Lesing AD amounting to BGN 260 thousand. The guarantee is with maturity date 04 May 2018;
- On 31 May 2017 DSK Bank issued a guarantee to OTP Factoring Bulgaria amounting to BGN 10 thousand. The guarantee is with maturity date 06 June 2020;
- An overdraft of BGN 1 600 thousand has granted on a current account of OTP Bank. As of 31 December 2017 the overdraft is not used.

(b) Contingent liabilities on guarantees and letters of credit

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 49 844 thousand (principal and accrued interest) as of December 31, 2017. 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 48 208 thousand (note 23) are allocated as at the end of 2017.

(d) Assets pledged as collateral

As of 31 December 2017 DSK Bank has pledged Government bonds to the amount of BGN 200 923 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.

As of 31 December 2017 DSK Bank has pledged deposits collateralising derivative deals with OTP Bank amounting to BGN 357 thousand.

27. Cash and cash equivalents

In thousands of BGN	31-Dec-2017	31-Dec-2016
Cash on hand	398 737	335 151
Balances with the Central Bank	1 264 219	2 167 077
Receivables from banks with maturity up to 3 months	46 726	61 353
Total	**1 709 682**	**2 563 581**

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, 31.12.2017
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 EAD *	100.00%	2 225
DSK Leasing AD **	60.02%	1 962
DSK Mobile EAD	100.00%	7 200
Total		**42 911**

* DSK Trans Security EAD 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 1 000 thousand) is OTP Faktoring Zrt, Hungary that is owed from OTP Bank, Hungary.

Associates

In thousands of BGN	% ownership	Balance value, 31.12.2017
Cash Services Company AD	20.00%	2 490
Total		**2 490**

Net asset value

In thousands of BGN	31-Dec-2017	31-Dec-2016
Cash Services Company AD	13 665	13 831

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

29. Related party transactions

DSK Bank has a related party relationship with 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 2017 are as follows:

In thousands of BGN

Related party	Type of transaction	2017	2016
Directors and executive officers	Loans extended	9 632	9 200
Subsidiaries	Current and deposit accounts with DSK Bank	35 129	28 967
Subsidiaries	Liabilities	1 250	1 314
Subsidiaries	Other receivables	607	906
Subsidiaries	Interest expense	2	3
Subsidiaries	Services expense	10 313	10 354
Subsidiaries	Services income	17	14
Subsidiaries	Rentals received	365	226
Subsidiaries	Rentals paid and operating lease	466	468
Subsidiaries	Fees received	227	112
Subsidiaries	Guarantees granted	260	258
Associates	Interest expense	-	-
Associates	Services expense	1 475	1 751
OTP Bank	Current and deposit accounts in OTP Bank	1 473 512	1 102 460
OTP Bank	Bond issued by OTP Bank	182 800	175 018
OTP Bank	Current and deposit accounts in DSK Bank	1 384	554
OTP Bank	Fair value of derivatives	(46 251)	(21 640)
OTP Bank	Other liabilities	6	7
OTP Bank	Interest income	28 274	56 917
OTP Bank	Interest expense	(777)	-
OTP Bank	Fees paid	177	145
OTP Bank	Fees received	1	453
OTP Bank	Gains (losses) on derivative deals	(27 734)	(29 707)

OTP Bank	Liabilities for currency exchange contracts	1 713 134	1 311 969
OTP Bank	Receivables for currency exchange contracts	1 672 013	1 284 631
OTP Bank	Off balance liability on unutilised overdraft	1 600	1 600
Other Group members	Current and deposit accounts in Group members	554	758
Other Group members	Liabilities	686	649
Other Group members	Current and deposit accounts in DSK Bank	1 859	1 134
Other Group members	Loans extended	4 158	6 318
Other Group members	Interest income	231	552
Other Group members	Interest expense	30	-
Other Group members	Fees received	120	119
Other Group members	Fees paid	3 165	4 700
Other Group members	Rentals received	255	229
Other Group members	Income from sale of loans	11 702	9 636
Other Group members	Gains (losses) on derivative deals	(23)	-
Other Group members	Guarantees granted	10	5
Other Group members	Liabilities for currency exchange contracts	98	-

The remuneration of the key management personnel for 2017 includes current income amounting to BGN 3 041 thousand (2016: BGN 2 844 thousand).

30. Events after the reporting period

No material events have occurred subsequent to the preparation of unconsolidated financial statements for 2017 that may have significant impact on the future development of the Bank.