DSK Bank EAD

Separate Financial Statements

For the year ended December 31, 2018,

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 2018

DSK BANK EAD
Report on the Management and Activity of DSK Bank EAD for the year ending 31 December 2018

Summary

In 2018 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 2018 the economy grew by 3.1% in real terms, according to NSI preliminary data. The growth slowed down compared to the previous year when the economy grew by 3.8% year-on-year, but Bulgaria continues to be among the most dynamic economies in the EU. Final consumption increased by 6.0 pp year-on-year, which corresponds to the annual growth of 8.6% 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 2018 again at record level (totaling BGN 1.7 billion according to preliminary monthly data). The capital adequacy and liquidity ratios remained high, exceeding the average levels in European Union. The positive trend remains for banking assets as well, with annual growth of 7.9% or approx. BGN 106 billion by the end of 2018. 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 2018 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 2018 the Bank takes second position on the lending market with a share of 13.3% compared to 13.2% by the end of 2017. Despite this, it has to be considered that during the year the Bank wrote-off BGN 44 million and sold around BGN 14 million problem loans to the company OTP Factoring Bulgaria and BGN 9 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 13.7% compared to 13.1% by the end of 2017, which corresponds to the Bank's strategy for effective free liquidity management, which continued during 2018.

In 2018 the profit declined by 17.1% mainly due to lower operating 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.

The cost-to-income ratio (operating expenses/gross operating income) was 47.6% by the end of 2018, 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 2018 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.

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 Bank provides investment services on behalf of clients in compliance with Ordinance № 38 of 25.07.2007 on the requirements for the activity of investment intermediaries and Ordinance № 58 on the requirements for protection of clients' financial instruments and cash, on product management and on granting or receiving remunerations, commissions, other cash and non-cash benefits from the Financial Supervision Commission (FSC) as of 28.02.2018, as well as the internal banking regulations adopted in connection with this Ordinance.

The Bank keeps all documentation related to the conclusion of client contracts and the execution of client orders, including all documents that guarantee the identification of clients according to the requirements of the Law on Measures against Money Laundering. The Bank also maintains reporting and keeps accounts for client assets so that the latter can be distinguished from the financial instruments owned by the Bank

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 2018, 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 2018 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
Ákos Ferenc Tisza-Papp - 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 2018, 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 2.9 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 2018, 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 DSK Dom AD	Member of SB Chairperson of SB Chairperson of BD
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 2018 DSK Bank EAD has 10 regional centers, 40 financial centers, 20 business centers and zones, 94 branches, 92 affiliated offices and 99 bank offices.

Financial result and profitability

For 2018 DSK Bank reported BGN 241 million profit before tax and reported a decrease (17%) compared to 2017 mainly due to lower interest income.

The profit after tax for 2018 was BGN 217 million.

The net interest income amounted to BGN 419 million and was lower compared to 2017 by 35 million or 7.6%, mainly as a result of BGN 17 million decrease of the interest income on loans and BGN 15 million of loans and advances to banks. The interest income decreased by BGN 33 million, as interest income from loans to individuals decreased by BGN 22 million, and those of corporate clients and SMEs increase by BGN 4 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 increased year-on-year by BGN 1.8 million.

The net non-interest income for 2018 amounted to BGN 194 million (decrease by 3.9% or BGN 7.8 million compared to 2017) was due to the lower net gain/(loss) from foreign exchange and other financial instruments by BGN 16 million. Net income from fees and commissions amounted to BGN 162 million and increased by BGN 8 million compared to 2017.

The operating expenses (incl. personnel expenses, amortization, hired services, material expenses and other) stood at BGN 290.9 million, which was higher by BGN 8 million or 2.9% compared to 2017.

The headcount of the Bank as of 31st December 2018 was 4 198 (2017: 4 082).

The assets per employee ratio increase from BGN 2.98 million as of the end of 2017 to BGN 3.44 million as of the end of 2018. The profit per employee ratio decreased from BGN 64.2 thousand for 2017 to BGN 51.7 thousand for 2018.

Balance sheet indicators

The total assets of DSK Bank EAD as at 31 December 2018 amounted to BGN 14 451.3 million and increased by BGN 2 306.5 million (19%) compared to 2017 as BGN 1 173.5 million of the increase was due to the Bank's share capital increase.

The market share of the Bank as of 31 December 2018 in the total banking assets in the country was 13.7% (as of December 2017: 12.4%).

Interest bearing assets comprised 74.3% relative share of the Bank's total assets.

The net loan portfolio of DSK Bank amounted to BGN 7 480.1 million and reported an increase of BGN 695.7 million or 10.3% compared to the end of 2017.

Loans to individuals amounted to BGN 5 119.5 million and increased by BGN 441.5 million (9%) compared to the previous year.

The market share of the Bank in terms of household loans was 23.6%, in consumer loans and overdrafts - 26.9%, and in mortgage loans – 19.8%. In 2017 these market shares were respectively – 24.1%, 28.2% and 20.7%. The market share for company loans was 7.4% at 7.3% in 2017.

Company loans amounted to BGN 2 975.2 million and increased by BGN 263 million (10%) compared to 2017.

Loans to the state budget were BGN 1.3 million and reported a decrease of 4.7 million compared to 2017.

Impairment allowance of the loan portfolio amounted to BGN 615.8 million and increased by 4.1 million compared to the previous year.

Customer deposits amounted to BGN 11 552.2 million. This represented an annual growth of 12.3% or BGN 1 261 million year-on-year.

Household deposits as at the end of 2018 were BGN 9 032.3 million and increased by BGN 817.7 million or 10%.

The market share of the Bank in terms of household deposits as at the end of 2018 was 17.2% (2017: 16.9%).

Company deposits increased by BGN 35.3 million and by the end of the year amounted to BGN 1 822 million.

Deposits from the state budget were BGN 154.4 million and increase by BGN 7.4 million in 2018.

Deposits from financial institutions amounted to BGN 543.5 million, increasing by BGN 400.7 million compared to 2017.

Card transactions

The number of electronic cards issued by DSK Bank as of 31.12.2018 was 1 721.8 thousand. Debit cards were 1 571.6 thousand, and credit cards were – 150.2 thousand.

As of December 2018 the Bank operated with 911 ATM and 8 327 POS devices. During the year the Bank installed 1 458 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 2018 the total capital adequacy ratio was 16.42%. In 2018 DSK Bank EAD provided BGN 91.3 million free capital above the total SREP capital requirement and the combined capital buffer incl. capital conservation buffer (BGN 176.2 million), systemic risk buffer (BGN 211.4 million) and O-SII buffer (BGN 17.6 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%) and company loans (36.7%). Within household loans the credit risk is well allocated between consumer loans (54.3%) and mortgage loans.

DSK Bank EAD measures credit risk in compliance with IFRS requirements (officially adopted by the Bulgarian legislation) and according to the adopted impairment policy of DSK Bank EAD in accordance with International Financial Reporting Standards.

The coverage ratio (ratio of coverage of the total loan portfolio from expected credit loss impairment) as of December 2018 was as follows:

Total loan portfolio – 7.61%

According to the classification of the portfolio quality by days past due the coverage with impairment of each group is as follows:

- 0 - 30 days - 2.92%
- 31 - 90 days – 27.72%
- More than 91 days – 76.17%

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 2018 the regularly performing credit exposures (incl. related exposures) were 92.4%, as the distribution within the products was as follows:

Consumer loans to individuals – 93%, mortgage loans to individuals – 89%, loans to small and medium-sized enterprises – 91% and loans to corporate clients – 95%.

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 to which the Bank sells or assigns management of non-performing loans.

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.

The goal of liquidity risk management of the Bank 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).

To analyze the liquidity, the Bank 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 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 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 4 years in view of actual observed volume of earlier repayments during 2018.

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. 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.

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 Bank's exchange rate risk. Bank 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 Bank.

The Bank applies VaR methodology to measure the exchange rate risk. Basic characteristics of this model are historical at 99% level of confidence and 1 day holding period. To work out the correlation matrix the Bank Group uses historical observations of currency rates movement for 250 working days.

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 the 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 of DSK Bank. 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 of DSK Bank, 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 Bank.

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 Bank 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 Bank needs.

The operational risk management is subject to regular inspections by the "Bank 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 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 2018 year there are no registered events, which could potentially threaten the Bank Bank activity.

Investment program

The investments of DSK Bank during the year amounted to BGN 41.2 million.

The investments in IT projects were BGN 30.4 million, as their share in the total investments of the Bank was 74% (for 2017 this share was 62%).

The capital investments during the year were BGN 10.8 million.

Investments of BGN 7.4 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 3.4 million were the invested amount for lighting systems renovation, visual communication and repairs in a branch network.

Major goals for 2019

The management of the Bank has defined the following priorities for the business year 2019:

- Optimal use of market potential in loan sales;
- Stabilization of income decline by compensating the negative effects of portfolio refinancing with volume growth;
- Defending market position in retail banking, ceasing the process of a market share loss;
- Maintaining the strong market presence in company business, in segments where the Bank has risk appetite;
- Maintaining pricing policy on attracted funds in order to minimize revenue margin contraction;
- Increase internet and mobile banking activity;
- Increase overall customer activity;
- Strict cost management with regard to the limited plan and the risks related to its fulfillment.

A key issue in 2019 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.

On January 15th , 2019 DSK Bank EAD finalized the deal for acquisition of Societe Generale Expressbank AD, the Bulgarian subsidiary of Societe Generale Group and its local subsidiaries in Bulgaria.

As a result of the acquisitions, DSK Bank and OTP Bank Group strengthen their positions on the Bulgarian market.

The Report on the Management and the Activity of DSK Bank EAD for 2018 is approved by the Management Board with a protocol №14/14.03.2019.

Violina Marinova	Dorothea Nikolova
Chief Executive Officer	*Executive Director*

NON-FINANCIAL DECLARATION
Pursuant to art. 41 and art. 48 of the Law on Accounting Act

Purpose: One of the main purposes of DSK Bank is the establishment and maintenance of high banking standards, best management practices and ethical business standards in accordance with the law of the Republic of Bulgaria, the regulations and the rules of banking and the relevant EU law. The Bank aims to support the development of sustainable business models by providing the fullest possible and efficient financial servicing to its clients and to achieve customized service. Among the key goals of the institution is also the achievement of growth and overcoming the competition while maintaining individual and sustainable corporate culture, which responds to the changes in the environment and contributes to creating long-term relations with clients. Last but not least the Bank upholds its position of a leader by confidence among users of bank and financial services in Bulgaria and of a preferred employer in the sector for the Bulgarian students.

Strategy: The Bank continues to apply and develop the best practices in crediting while keeping its leading position in the retail banking and asserting its position of the most dynamically developing bank in the segment of corporate and SME banking. As an institution, which is sensitive to the processes occurring in the dynamically changing environment and to the constantly changing client needs and demands, the Bank continues following the underpinning digital strategy to respond to the challenges of today, dominated by the mobile and online communications and the advanced rates of the high technologies - while keeping the position of the most innovative bank and concurrently ensuring full compliance with the security standards for the banking and financial information.

Organizational structure, infrastructure, products: As a part of the OTP Bank group (hereinafter referred to as "the Group") and as a result of the high standards and large-scale investment programme of the group, DSK Bank has proven to be a stable institution, exclusively developing, modern and flexible, oriented to the needs of all client's segments and offering, together with its subsidiaries a wide range of services such as: pension insurance, assets management, security, transport and collection services, mountain and sea tourism.

The Bank has the biggest branch network in the Republic of Bulgaria, which offers incomparable infrastructure for offering the full range of products and services for all clients' segments. Concurrently, DSK Bank is the bank with the biggest digital transformation of its business, with modern online banking channels and high-tech offices in Sofia and Varna. A traditional leader in crediting of natural persons, during the recent years, the company successfully repositioned as one of the main partners of the corporate and small-size and medium-size business in Bulgaria. This results in successful functioning of the business model of service for which the basic thing are the specialized business centres and specific zones, created and functioning to the Regional Centres of the Bank in the biggest Bulgarian cities.

Policies applied with regard to the basic and auxiliary activities of the enterprise and other: As a customer-focused and socially responsible bank institution, DSK Bank implements policies focused on each customer segment aiming to achieve high quality of service and efficiency. As a bank with 67-year history, DSK Bank has proven its ability to combine very successfully the tradition and the innovation and demonstrates a notable ability to adapt to the ever changing regulatory and market conditions and to dynamically developing clients' needs and aptitude. Thus in 2018 the Bank renewed the vision of its e-banking platform DSK Direct. The new design, entirely consistent with the requirements of OTP Group, offers even easier access to the services, compact display, up-to-date and well-systematized information. The new organization of the menus in section FUNDS, CARDS and UTILITY BILLS facilitates the access to information, which is the most useful for the users i.e. Intuitive navigation and quick access to functionalities with one click on clearly positioned buttons with context location to the bank services. With the renovated e-banking platform DSK Direct, the Bank provides to its clients not only modern vision and refined design with minimized sub-menus but also more convenient navigation, easy functionality and quick action.

Among the key priorities of the bank is the establishment of a stable connection with the modern people and the innovative products of the Bank prove the flexible approach of the financial institution in offering products and services to these clients that meet their needs and their way of living. In 2018 the Bank launched on the market co-branded credit card with Wizz Air, which allows the clients to get bonuses while shopping. The product is intended for young, dynamic people who love to travel as well as for clients oriented to modern and multi-functional bank products. The credit card DSK - Wizz Air allows shopping and travelling by getting discounts for air tickets and other services of www.wizzair.com by participation in specially created bonus programme. At the year-end were also opened two information kiosks of DSK Bank offering the innovative credit card DSK - Wizz Air. Information kiosks are available for all passengers departing from Terminal 1 and Terminal 2 of Sofia Airport who wish to benefit from the preferential conditions of the contactless credit card DSK-Wizz Air.

In October the Bank opened a new interactive self-service zone for the students and the Faculty of the University of National and World Economy. The modern self-service zones includes ATM device for cash depositing and withdrawal, making checks, payment of bills, paying instalments related to credit cards and consumer loans from DSK Bank, receiving transfers via MoneyGram, etc. The zone has a virtual folder - information display with touch screen for access to public banking information for users (general terms and conditions, procedures, tariffs, notices, document forms, etc.) as well as information about products and services of the bank. The clients have the opportunity, in case of interest, to send the relevant material by email; access to credit calculator with sliders where users may try on their own different variants for the financing, which they need and to make direct request to the bank. In this space there is a screen for digital marketing content with information about products and services offered by the bank and consistent with the expectations and the needs of the students and the faculty of the University.

The policies followed by the bank comply with the long-term prospects of the Group and as an employer the Bank keeps responsible relationships on the basis of partnership, which stimulates the loyalty, mutual respect and support.

For years the Bank follows policy for wasteless bank administration which main purpose is the environmental protection. Practically this includes collecting all cartridges and ink cassettes of the printers in all branch offices of the bank and their recycling in a special process line.

All renovated branch offices represent the Group's vision with power-saving façades and energy-saving lighting fixtures are used in the whole branch network.

For the construction of its buildings, the Bank follows the green concept, considered by the specialists as an example with regard to management of the environment of the administrative buildings. For this concept, the ecological ides is determining for the choice of the used building materials, systems and elements. The design solutions for the HVAC systems in the buildings and the subsequent performance prevent any opportunity for environmental pollution even in case of breakdown; their operation does not results in harmful emissions from burning liquid and solid fuels. Building or restructuring of the premises of the Bank in compliance with the corporate vision of the Group is fully consistent with the requirements of the Energy efficiency Act, and the Ecology Act.

For a few years, the employees of the bank have joined the mission of the Idea in Action Foundation, which combines the care for the nature with the support for good causes. Our colleagues take part in collecting plastic caps,, which are delivered for recycling at the designated stations and the received money are used for different charity initiatives.

One reference point for the policies of the bank is our high corporate responsibility, which is a guarantee for our serious and fair relations of mutual respect to our partners and shareholders. DSK Bank is a partner to all social groups and implements new processes, procedures and technologies that comply with the dynamics of the banking market. As a socially responsible company, DSK Bank aims to facilitate the access to financial services and products for all groups of clients and to support their full-value participation, for example socially disadvantaged people - people with impaired hearing, in their everyday life. In this regard in 2018 started a pilot project introducing the service with the sign language translation for clients with impaired hearing. The project was realized jointly with Listen Foundation and the platform „TotalK" and started in five bank offices in the country. The specialized platform is installed on tablets where the customer service is carried out via online sign language translation in real time. The connection between the bank's employees in the relevant branch and the translator by putting earphones on the tablet. Thus servicing people for whom the sign language is the main form of communication is easy and fast.

To use that service, clients may visit directly one of the five branch offices and to choose the option "Services with sign language translation" from the queue management system and then they will be invited at a desk designated with a special sticker. For more convenience, clients may state that they want to use this service in advance – via Mobile application TotalK, available for Android operational system, soon will be available for iOS. When such request is received, the sign language translators will notify the bank branch office chosen by the client and will sent to the client a unique core, which will be entered at the queue management unit in the branch office of the bank.

As a socially responsible institution, DSK Bank supports a wide range of initiatives and programmes in order to underline its commitment ti the society and to contribute for the solution of a number of social challenges.

The focus of the social practices is the partnership with SOS Children's villages Bulgaria - an organization for social development, which guarantees the right of each child to have a family and to grow up surrounded in a loving, respectful and secure environment. The partnership started in 2011 when the Bank made a commitment to take care permanently of two SOS families. The care does not include only financial support for ensuring food, clothes, shoes, school aids, etc.

Within the sponsorship are realized numerous initiatives that enable the Bank and its employees to develop a positive relation with the children and to become empathetic to their needs and to the provide opportunity of their development and growing up.

As one of the institutions in Bulgaria with the longest history and traditions, DSK Bank accepted as a part of its mission the support for valuable projects in the field of arts and culture and the artistic heritage of Bulgaria.

The traditional support of DSK Bank for the checkmate for children is one of the recognized good practices of the institution focused on children and sports. For years now the Bank has consistently supported the organizers of different chess tournaments for children - the tournament the Cup of the Lions, the Polypost Cup - in its efforts to create appropriate opportunities for talented children from all over the country and through long-term cooperation to assist for the sport and intellectual development of the growing up generation in Bulgaria.

Every year DSK Bank supports different charitable initiatives - the Bulgarian Christmas Day, Support a Dream, etc. but the focus of the charity activity is the tradition to organize for Christmas an in-house event with charitable purpose - Christmas lunch for which those who are willing to participate carry home-made food, which is sold to their colleagues and the collected money is donated for different causes. In 2018 we chose to support the support "Big wonders for small heroes" of Our Premature Babies Foundation. There were two dates for this event. One date for the colleagues from the Headquarters - Moskovska and Benkovska locations and another date for the colleagues from Lyulin location. As a result of these activities was collected the record-braking amount of BGN 7 484.32 by which DSK Bank supported the struggle for life of the premature babies and their families.

As a banking, financial and technological leader on the market, oriented to and investing in the knowledge of the young people, DSK Bank is responsible to provide to these people knowledge in the field of the financial services. For that purpose in 2018 the Bank started developing its individual programmed for financial literacy - National Olympiad in Finance aiming to increase the financial knowledge of students from different ages, which is to be announced in February 2019.

The Bank follows a policy of social commitment to its employees by offering excellent conditions for work, training and development. One distinguishing feature of the institution is the corporate culture, which recognizes the merits of its employees, creates a sustainable model for motivated and committed employees who are loyal and share common goals.

In 2018 DSK Bank continued developing its positive employer's brand. It is one of the preferred employers on the labour market in the field of financial services and it has been increasing its popularity as an employer among the graduate students and young people. The last year, DSK Bank is the most desired employer for students among the bank institutions in Bulgaria according to the only one of its kind Graduate Survey, conducted by ToTheTop Agency for a second year in succession. The national survey Top 50 of the Most Preferred Companies from the students in Bulgaria measures the opinion of students for their preferred employer in Bulgaria. From 15 February to 15 May 2018, total of 7 255 students from 51 Bulgarian universities filled the online survey for the second edition of the ranking. Compared to the previous edition of the ranking, DSK Bank has moved one position forward in the general ranking and takes third place after Hewlett Packard Enterprise and Coca-Cola HBC Bulgaria AD. As an employer with long history but also a modern, dynamic institution, DSK Bank has a multi-directional commitment to young people - they are the future clients who will benefit of the multiple digital solutions offered by the Bank and they are also the people who will judge on its merits the employer's brand DSK Bank with the offered attractive conditions for career and development and high ethical standards.

DSK Bank offers the young people precious experience, on the one part, in an institution with proven traditions and sustainability, with over 67-year long history who passed through a number of transformation and on the other hand, the challenge to prove their abilities in a modern and innovative banks offering servicing fully consistent with the dynamically changing user attitudes and the high-tech achievements.

DSK Bank applies a balanced social policy. In 2018, the social expenses amounted to 8.1% of the total labour expenses.

The internal corporate development of the employees continued to be one of the priorities of the management. In 2018 over 200 employees were promoted in the Bank.

In 2018 were organized and conducted 1 178 different forms of internal and external training of the employees and the number of the participants in such trainings was 11 028.

The fair business relations are a priority of the Bank and it has accepted a policy for "zero tolerance" to corruption in all its forms. The Bank requires that each employee and any other person acting on its name to abide by the high standards for ethical conduct of the Group and does not allow corruption practices or conduct contradicting the ethics. Being aware that each weakness in applying the established standards may expose to risk the good name and reputation of DSK Bank, its management continuously strives for improving the internal processes and regulations as well as raising the awareness and the commitment of the employees to its values.

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 in 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.

2.5. The Bank has developed reliable system for identification, registration and subsequent updating of 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.

3.5.2. 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, 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 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.

Violina Marinova
Chief Executive Director

Банка ДСК
София
27

Dorothea Nikolova
Executive Director

INDEPENDENT AUDITORS' REPORT AND ANNUAL SEPARATE FINANCIAL STATEMENTS DECEMBER 31, 2018

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, 2018, 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, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the 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.

Key audit matter	*How this key audit matter was addressed in our audit*
Loss Allowance for Loans and Advances to Customers *See Notes 4 and 19 to the separate financial statements* The Bank has adopted IFRS 9 "Financial Instruments", with a date of initial application of January 1, 2018. The most significant impact for the Bank from the initial application of IFRS 9 is that loan loss allowance is now based on expectedlosses instead of incurred losses. As disclosed in Note 19 to the separate financial statements, as at December 31, 2018 the Bank reports accumulated loss allowance for loans and advance to customers at the amount of BGN 615,791 thousand. The assessment of loss allowance for loans and advances to customers requires Bank's Management to exercise a significant level of judgment, especially with respect to identifying impaired receivables and quantifying loan losses. To assess the amount of allowances for expected credit losses, the Bank applies statistical models with input parameters obtained from internal and external sources. Key areas of judgment include: • The interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Bank's expected credit loss model. • The assumptions used in the expected credit loss models to assess the credit risk and significant deterioration in credit quality related to the exposures and the expected future cash flows, based on past events, current conditions and forecasts of future economic conditions. • The judgements related to the comprehensiveness and completeness on input data and calculation logic. • The assumptions applied by Management in the review of individually significant credit impaired exposures pertaining to recent loss experience, ranges of possible	*In this area, our audit procedures included, among others:* • Inquiries and obtaining an understanding of the Bank's process of determining the loss allowances for loans and advances to customers. • Inspection and review of internal policies, and procedures related to the process of determining the loan loss allowances. Inquiries with Bank's credit risk modelling and credit risk management experts. • Review and assessment of the adequacy of the methodology used by the Bank to identify loan losses and calculate allowances for selected significant portfolios. • Assessment of design and implementation of key controls over the loan loss allowance estimation, and testing operating effectiveness of controls relevant to expected loss calculation. 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 loss allowances for loans and advances to customers: • Together with our credit risk experts assessed the adequacy of management judgments in relation to probability of default / probability of loss and the estimated amount of loss given default / loss given loss. • We assessed the appropriateness of staging classification based on the determined by the Bank classification criteria; • Together with our credit experts performed independent recalculations of the parameters applied in the loss allowance calculations for significant portfolios; procedures on sample basis on the inputs to the calculations were performed; • We observed the expected credit loss calculation performed by the Bank to arrive at loan loss allowance as at December 31, 2018, including data input, data processing and calculation. For a sample of loans we independently recalculated the expected credit

Key audit matter	*How this key audit matter was addressed in our audit*
scenarios and outcomes, and future collections. Due to the significance of the above described circumstances that: (a) the process of determining the loss allowance for loans and advances to 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.	losses and traced the results to Bank's calculation; • For a sample of individually significant loans in Stage III, we evaluated the appropriateness of provisioning methodologies and their application. We performed tests of details on the sampled exposures to assess the adequacy of the loan loss allowances booked. For the respective exposures in the sample were performed the following audit procedures: o analysis of the key assumptions and judgments of Bank's management, including assessment of the adequacy of applied scenarios and their respective weightings, as well as expected cash flow recoveries, o independent analysis of the financial position and results of borrowers; o inspection of evidence supporting the servicing of the exposures by respective borrowers; as well as o analysis and evaluation of collateral valuation reports for the respective exposures; • Assessment of the relevance and adequacy of the disclosures in the Bank's separate financial statements related to the loss allowances on loans and advances to customers.

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 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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.

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 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 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.

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 ISAs described in section "Information Other than the separate financial statements and Auditors' Report Thereon", with respect to the annual report on activities, the corporate governance statement and the non-financial declaration, we have also performed the procedures, together with the required under ISA, in accordance with 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 and art. 100m, para 8 of the Public Offering of Securities Act, if applicable.

Opinion under Article 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, in our opinion:

- The information included in the annual report on the activities for the financial year for which the separate financial statements have been prepared, is consistent with the separate financial statements.
- The annual 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.

Additional reporting in connection with Ordinance 38/2007 and Ordinance 58/2018 of the Financial Supervisory Commission

Statement in connection with Art. 33 of Ordinance 38/2007 of the Financial Supervisory Commission (FSC) outlining the Requirements for the Activities of the Investment Intermediaries and Art. 11 of Ordinance 58/2018 of FSC outlining the Requirements for Protection of the Customers' Financial Instruments and Cash, for Product Management and Providing or Receiving Considerations, Commissions, Other Cash and Non-cash Benefits

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 art. 28-31 of Ordinance 38 and art. 3-10 of Ordinance 58 of FSC regarding the Bank's activity as an investment intermediary.

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 31 December 2018 by the general meeting of shareholders (session of the sole owner) held on March 28, 2018 for a period of one year.
- The audit of the separate financial statements of the Bank for the year ended 31 December 2018 represents fourth total consecutive statutory audit engagement for that entity carried out by Deloitte Audit OOD and second 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 25, 2019, 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 Advisory and Management Consulting Private Limited Company, Hungary, (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:
    - AQR assistance services.
- 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, 2018 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, 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 group reporting package as of December 31, 2018 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, 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 consolidated group reporting package as of December 31, 2018 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, 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;
  - 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 2017, 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 2017 and IFRS.
- For the period to which our statutory audit refers, Deloitte Audit OOD and AFA OOD have provided jointly 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:
  - Agreed-upon procedures related to the application of BNB Ordinance 10 for the period January 01 – December 31, 2017 – 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".

Deloitte Audit

On behalf of Deloitte Audit OOD

Emil Badov
Proxy of the Statutory Manager Sylvia Peneva
Registered Auditor, responsible for the audit

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

103, Al. Stambolijski Blvd
1303 Sofia, Bulgaria

AFA

On behalf of AFA OOD

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 015 АФА ООД

Valia Iordanova
General Manager

Renny Iordanova
Registered Auditor, responsible for the audit

38, Oborishte Street
1504 Sofia, Bulgaria

March 25, 2019

Separate statement of profit or loss
For the year ended 31 December

In thousands of BGN	Note	2018	2017
Interest income		431 442	464 180
Interest expense		(12 458)	(10 600)
Net interest income	5	**418 984**	**453 580**
Fee and commission income		177 197	168 464
Fee and commission expense		(15 553)	(14 619)
Net fee and commission income	6	**161 644**	**153 845**
Net trading gains/(losses)	7	56 849	(8 989)
Net losses from other financial instruments at FVTPL	8	(4 185)	-
Net gains from derecognition of financial assets measured at amortised cost	9	12 225	32 389
Net (losses)/gains from foreign exchange		(36 931)	17 920
Other operating income, net	10	4 602	6 837
Operating income		**613 188**	**655 582**
Impairment losses on financial assets, net	11	(77 841)	(54 578)
Impairment losses on non-financial assets, net	12	(17 056)	(3 686)
Net income/(expense) for provisions	27	13 922	(23 554)
Personnel expenses	13	(112 822)	(102 330)
Depreciation and amortisation	21, 22	(32 163)	(38 206)
Other expenses	14	(145 882)	(142 254)
Profit before tax		**241 346**	**290 974**
Income tax expense	15	(24 168)	(28 950)
Net profit for the year		**217 178**	**262 024**

The separate statement of profit or loss is to be read in conjunction with the notes from 1 to 34 forming an integral part of the separate financial statements.

The separate financial statements are authorised for issue from the Management Board and signed on behalf of DSK Bank EAD on 14 March 2019.

София
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Violina Marinova
Chief Executive Director

Dorothea Nikolova
Executive Director

25.03.2019
Emil Badov
Registered Auditor
Deloitte Audit OOD

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 033
ДЕЛОЙТ ОДИТ ООД

25.03.2019
Reny Iordanova
Registered Auditor
AFA OOD

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 015
АФА ООД

Separate statement of comprehensive income
For the year ended 31 December

In thousands of BGN	**2018**	**2017**
Net profit for the year	**217 178**	**262 024**
Items that may be reclassified to profit or loss		
Net change in fair value of available for sale investments	n.a.	23 834
Hedging	(2 623)	n.a.
Net change on investments in debt instruments measured at fair value through other comprehensive income	(13 392)	n.a.
Income tax related to OCI items that may be reclassified to profit or loss	1 453	(2 383)
	(14 562)	21 451
Items that will never be reclassified to profit or loss		
Net change on investments in equity instruments designated at fair value through other comprehensive income	1 434	n.a.
Revaluation of land and buildings at fair value	4 183	24 909
Remeasurements of defined benefit liability	(619)	(1 481)
Income tax related to OCI items that will never be reclassified to profit or loss	(528)	(2 491)
	4 470	20 937
Other comprehensive income for the year, net of tax	**(10 092)**	**42 388**
Total comprehensive income	**207 086**	**304 412**

The separate statement of comprehensive income is to be read in conjunction with the notes from 1 to 34 forming an integral part of the separate financial statements.

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ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 015
АФА ООД

Separate statement of financial position
As at 31 December

In thousands of BGN	Note	31-Dec-2018	31-Dec-2017
Assets			
Cash and current accounts with the Central Bank and other banks	16	3 210 339	1 690 421
Financial assets held for trading	17	48 988	236 223
Derivative financial instruments	17	14 880	6 224
Loans and advances to banks	18	1 922 613	1 614 897
Loans and advances to customers	19	7 480 145	6 784 416
Investments in securities	20	1 259 059	1 355 272
Current tax assets		1 951	1 551
Investments in subsidaries and associates	32	43 676	43 176
Property, plant and equipment	21	317 597	327 305
Intangible assets	22	49 307	41 157
Other assets	23	102 751	44 130
Total assets		**14 451 306**	**12 144 772**
Liabilities			
Deposits from banks	24	7 994	14 767
Derivative financial instruments	17	27 437	50 900
Loans from financial institutions	24	11 129	15 518
Deposits from customers	25	11 552 168	10 291 123
Current tax liabilities		2 104	879
Deferred tax liabilities	26	5 807	5 674
Provisions	27	61 608	60 001
Trade and other liabilities	28	114 577	148 288
Total liabilities		**11 782 824**	**10 587 150**
Shareholder's equity			
Share capital	29	1 327 482	153 984
Reserves	29	1 113 567	1 117 051
Retained earnings	29	227 433	286 587
Total shareholder's equity		**2 668 482**	**1 557 622**
Total liabilities and shareholder's equity		**14 451 306**	**12 144 772**

The separate statement of financial position is to be read in conjunction with the notes from 1 to 34 forming an integral part of the separate financial statements.

The separate financial statements are authorised for issue from the Management Board and signed on behalf of DSK Bank EAD on 14 March 2019.

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ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 015
АФА ООД

Separate statement of cash flows
For the year ended 31 December

In thousands of BGN	Note	2018	2017
Cash flow from operating activities			
Profit before taxation		241 346	290 974
Impairment losses on financial assets, net	11	77 841	54 578
Impairment losses on non-financial assets, net	12	17 056	3 686
Depreciation and amortization	21, 22	32 163	38 206
Net (gains)/losses from operations with investments		(20 938)	24 168
Net losses/(gains) from foreign exchange rate revaluation		36 931	(17 920)
Net interest income	5	(418 984)	(453 580)
(Decrease)/increase in provisions		(13 303)	22 612
Dividends	10	174	1 992
Other non cash changes		8 464	(323)
Net cash flow used in operating activities before changes in operating assets and liabilities		**(39 250)**	**(35 607)**
Change in operating assets			
Increase in securities held for trading		(60 237)	(96 524)
Increase in loans and advances to banks		(385 897)	(466 119)
Increase in loans and advances to customers		(720 058)	(476 909)
Increase in other assets		(65 501)	(6 157)
Change in operating liabilities			
Decrease in deposits from banks		(6 773)	(102 059)
Decrease in loans from financial institutions		(4 390)	(4 632)
Increase in deposits from customers		1 242 268	587 585
(Decrease)/increase in other liabilities		(39 807)	7 649
Interest received		466 549	463 779
Interest paid		(28 671)	(16 740)
Tax paid		(23 417)	(36 551)
Net cash flow from/(used in) operating activities		**334 816**	**(182 285)**
Cash flow from investing activities			
Acquisition of property, plant and equipment, and intangible assets net		(39 155)	(41 710)
Proceeds/(acquisition) from/of investments, net		294 085	(344 635)
Net cash flow from/(used in) investing activities		**254 930**	**(386 345)**
Cash flow from financing activities			
Issue of share capital	29	1 173 498	-
Dividends paid		(263 047)	(284 000)
Net cash flow from/(used in) financing activities		**910 451**	**(284 000)**
Net increase/(decrease) in cash and cash equivalents		**1 500 197**	**(852 630)**
Net cash and cash equivalents foreign exchange difference		460	(1 269)
Cash and cash equivalents at the beginning of the-year	31	**1 709 682**	**2 563 581**
Cash and cash equivalents at the end of the year	31	**3 210 339**	**1 709 682**

The separate statement of cash flows is to be read in conjunction with the notes from 1 to 34 forming an integral part of the separate financial statements.

The separate financial statements are authorised for issue from the Management Board and signed on behalf of DSK Bank EAD on 14 March 2019.

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Registered Auditor
AFA OOD

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София
Рег. № 015
АФА ООД

Separate statement of changes in equity
For the year ended 31 December

In thousands of BGN	Share capital	General reserve	Revaluation reserve - land and buildings	Revaluation reserve from financial assets	Cost of hedging	Other reserve	Retained earnings	Total
Balance as of 1 January 2017	**153 984**	**982 208**	**88 811**	**5 114**	**-**	**(1 152)**	**308 245**	**1 537 210**
Comprehensive income								
Net profit for the year	-	-	-	-	-	-	262 024	262 024
Other comprehensive income	-	-	22 418	20 037	1 414	(1 481)	-	42 388
Total comprehensive income	**-**	**-**	**22 418**	**20 037**	**1 414**	**(1 481)**	**262 024**	**304 412**
Transfer of revaluation reserve from 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**	**982 208**	**110 911**	**25 151**	**1 414**	**(2 633)**	**286 587**	**1 557 622**
Balance as of 1 January 2018	**153 984**	**982 208**	**110 911**	**25 151**	**1 414**	**(2 633)**	**286 587**	**1 557 622**
Changes on initial application of IFRS 9	-	-	-	7 276	-	-	(13 953)	(6 677)
Balance as of 1 January 2018 (restated)	**153 984**	**982 208**	**110 911**	**32 427**	**1 414**	**(2 633)**	**272 634**	**1 550 945**
Comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net profit for the year	-	-	-	-	-	-	217 178	217 178
Other comprehensive income	-	-	3 765	(10 615)	(2 623)	(619)	-	(10 092)
Total comprehensive income	**-**	**-**	**3 765**	**(10 615)**	**(2 623)**	**(619)**	**217 178**	**207 086**
Transfer of revaluation reserve from land and buildings, net of tax	-	-	(668)	-	-	-	668	-
Contributions by and distributions to owners								
Issue of share capital	1 173 498	-	-	-	-	-	-	1 173 498
Dividends paid	-	-	-	-	-	-	(263 047)	(263 047)
Balance as of 31 December 2018	**1 327 482**	**982 208**	**114 008**	**21 812**	**(1 209)**	**(3 252)**	**227 433**	**2 668 482**

The separate statement of changes in equity is to be read in conjunction with the notes from 1 to 34 forming an integral part of the separate financial statements.

The separate financial statements are authorised for issue from the Management Board and signed on behalf of DSK Bank EAD on 14 March 2019.

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1. Basis of preparation and legal status and governance

(a) Legal status and governance

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.

The Bank has a two-tier system – Management Board composed of 6 (six) members and Supervisory Board with 6 (six) members.

As of 31 December 2018 the persons in charge of the general management of the Bank represented by the Supervisory Board are: László Bencsik – Chairman of the Supervisory Board; László Wolf, Gábor Kuncze, András Takács, Attila Kozsik and Ákos Ferenc Tisza-Papp – members of the Supervisory Board.

As of 31 December 2018 the Management of the Bank is represented by the Management Board composed of 6 (six) members, namely: Violina Marinova – Chairman of the Management Board and CEO; Dorothea Nikolova, Diana Miteva, Margarita Petrova – Karidi, Yuriy Genov – Members of the Management Board and Executive Directors and Boyan Stefov – Member of the Management Board and Head of division.

According to the Law on credit institutions, the Bank statute regulations and its legal registration, the Bank is duly represented simultaneously by two Executive Directors.

An Audit Committee is functioning within the Bank and is in charge of monitoring the work of external auditors, internal audit performance, risk management, accounting activities and financial reporting. As of 31 December 2018, the Audit Committee is composed of: Chairman Natashka Lazarova; members - Zoltan Tuboly and Vasilka Koycheva.

(b) Going concern

The management has made an assessment of the ability of the Bank 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 statements continue to be prepared on the going concern basis.

(c) Statement of compliance and representation

These separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) effective from January 1, 2018 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.

These financial statements have been prepared on unconsolidated basis according to Accountancy Act. The separate financial statements have to be treated as integral part of the consolidated financial statements of the Bank Group, approved by the Management Board on 14 March 2019.

(d) Basis of measurement

The separate financial statements of the Bank have been prepared on the historical cost basis except for the derivative financial instruments, trading financial assets and financial liabilities, financial assets measured at fair value through other comprehensive income 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) Comparative information

In this financial statement, the Bank presents comparative information for the previous year.

Whenever necessary, comparative data is being reclassified (and recalculated), in order to achieve coherence and comparability according to changes in the presentation for the current year.

Exception to this rule is the presentation of the effects from IFRS 9 Financial instruments initial application. In the adoption of IFRS 9 Financial instruments, the Bank has applied the exceptions (relief measures) on its initial application. All due adjustments resulting from the initial application of this standard, are stated as changes in equity (in "retained earnings") as of 1 January 2018. The Bank has opted to apply the modified retrospective approach for the implementation of IFRS 15 Revenue from Contracts with Customers. Comparative information for 2017 has not been recalculated. It is presented and disclosed according to the requirements of IAS 39 Financial Instruments: Recognition and Measurement (repealed), IFRS 7 Financial Instruments: Disclosures, IAS 18 Revenue recognition (repealed) and IAS 11 Construction contracts (repealed) and related interpretations.

The effects from initial application of the new standards IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers are presented in the Note 2 (a).

(g) 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.

Areas which presume a higher level of subjective assessment and complexity or where presumptions and changes in accounting estimates are crucial for the financial statement are as follows:

Expected credit losses from financial assets

The Bank regularly assesses its financial instruments for impairment. Management determines the adequacy of the allowances based upon reviews of individual loans and placements, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors. The use of a new, three stage model was implemented for IFRS 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 (notes 18, 19, 20, and 23).

Fair value of financial instruments, not traded on active markets

In case when fair values of financial assets and liabilities in the statement of financial position cannot be obtained from active markets, these are defined through different measurement techniques using models. The basic data for these models is extracted from indicators observed where possible on financial markets; otherwise assumptions are made for establishing of fair values. These assumptions take in consideration factors related to liquidity, volatility for long – term derivatives and discount ratios, pre – term repayments and probabilities of default for asset – backed securities (Note 4 (f)).

Reassessment of land and buildings

As of 31 December 2018 a reassessment of bank`s land and buildings has been performed. The reassessment has been carried out in cooperation with independent licensed valuers, who have used a number of acceptable valuation methods and techniques (Note 21).

Actuarial calculations

In defining the present value of long – term liabilities to staff on their retirement, calculations of certified actuaries are used based on assumptions of mortality, employee turnover, future level of wages and a discount rate. (Note 27).

Provisions for litigation settlements

For all open cases against the Bank, the management assesses the probability and the risks of negative outcome and charges provisions in cases when a higher than 50% probability of unfavorable outcome for the bank is distinguished or in case of potential risks of increase in claims from bank`s customers concerning contract payments for products and services (Note 27).

2. Changes in Accounting policy

(a) Changes related to the application of IFRS 9 Financial Instruments

The Bank has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Bank did not apply the requirements of IFRS 9 for prior periods.

As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in the accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets.

IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 Financial Instruments: Disclosures.

The main differences in accounting for financial instruments in applying IAS 39 Financial Instruments: Recognition and Measurement and IFRS 9 Financial Instruments are as follows:

(1) For the classification and accounting of financial assets

Prior to 1 January 2018, the Bank classifed its financial assets in accordance with the provisions of IAS 39 Financial Instruments: Recognition and Measurement as:

- Financial assets at fair value through profit or loss (financial assets held for trading)

  Trading assets 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 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.

  The derivatives as spot, forward, futures, swap and option deals to manage an exposure to market risk or for trading 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.

- 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.

- 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.

  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.

- 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.

IFRS 9 introduces a new approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. On this basis from 1 January 2018, the Bank classifies its financial assets in accordance with the provisions of IFRS 9 Financial Instruments, depending on the business model for the management of those assets and the characteristics of contractual cash flows such as:

- Financial assets at fair value through profit or loss;
- Financial assets at amortized cost;
- Financial assets at fair value through other comprehensive income.

For more detailed information, please refer to Note 3 Significant accounting policies.

(2) *For the impairment/provisions on financial assets/off-balance sheet liabilities and commitments*

Prior to 1 January 2018, at each reporting date the Bank assessed 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 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 recognised 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.

IFRS 9 introduces 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. On this basis from 1 January 2018 the Bank recognizes impairment of financial assets and provisions on off-balance-sheet liabilities and commitments on the basis of expected credit losses for:

- financial assets measured at amortized cost, including bank deposits;
- financial assets at fair value through other comprehensive income immediately after initial recognition;
- Contingent liabilities under guarantees and letters of credit and undrawn credit commitments.

For more detailed information, see Note 4 (c) Risk management disclosures – Credit risk.

(3) *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.

Further details of the specific IFRS 9 accounting policies applied in the current period as well as the previous IAS 39 accounting policies applied in the comparative period are described more detailed below.

Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

	IAS 39		**IFRS 9**	
	Measurement category	**Carrying amount**	**Measurement category**	**Carrying amount**
In thousands of BGN				
Financial assets				
Cash and balances with central banks	Amortised cost (Loans and receivables)	1 690 421	Amortised cost	1 690 421
Loans and advances to banks	Amortised cost (Loans and receivables)	1 614 897	Amortised cost	1 614 115
Loans and advances to customers	Amortised cost (Loans and receivables)	6 784 416	Amortised cost	6 793 597
Trading assets	FVPL (Held for trading)	236 223	FVPL (Mandatory)	236 223
Derivative financial instruments	FVPL (Hedging instrument)	6 224	FVPL (Mandatory)	6 224
Investment securities	FVOCI (Available for sale)	1 348 762	FVOCI	1 166 605
	Amortised cost (Held to Maturity)	6 510	FVPL (Mandatory)	188 939

The effects of the reclassifications made on 1 January 2018 in comparison with the valuation categories in IAS 39 as well as the value effect of the initial application of IFRS 9 as of 1 January 2018 are as follows:

In thousands of BGN	**IAS 39 carrying amount 31 December 2017**	**Reclassi-fications**	**Remeasu-rements**	**IFRS 9 carrying amount 1 January 2018**
Amortised Cost				
Cash and balances with Central Bank and other banks				
Opening balance under IAS 39 and closing balance under IFRS 9	1 690 421	-	-	1 690 421
Loans and advances to banks				
Opening balance under IAS 39	1 614 897	-	-	-
Remeasurement: ECL allowance	-	-	(782)	-
Closing balance under IFRS 9	-	-	-	1 614 115
Loans and advances to Customers				
Opening balance under IAS 39	6 784 416	-	-	-
Remeasurement: ECL allowance	-	-	9 181	-
Closing balance under IFRS 9	-	-	-	6 793 597
Investment securities - Held to maturity				
Opening balance under IAS 39	6 510	-	-	-
Subtraction: To mandatory FVPL (IFRS 9)	-	(563)	-	-
Subtraction: To FVOCI - debt instruments	-	(5 947)	-	-
Closing balance under IFRS 9	-	-	-	-
Total financial assets measured at amortised cost	**10 096 244**	**(6 510)**	**8 399**	**10 098 133**
Fair value through profit or loss (FVTPL)				
Trading assets				
Opening balance under IAS 39 and closing balance under IFRS 9	236 223	-	-	236 223
Investment Securities - FVPL (mandatory)				
Opening balance under IAS 39	-	-	-	-
Addition: From available for sale (IAS 39)	-	188 377	-	-
Addition: From amortised cost (IAS 39)	-	562	-	-
Closing balance under IFRS 9	-	-	-	188 939
Derivatives				
Opening balance under IAS 39 and closing balance under IFRS 9	6 224	-	-	6 224
Total financial assets measured at FVPL	**242 447**	**188 939**	**-**	**431 386**
Fair value through other comprehensive* income *(FVOCI)				
Investment securities - FVOCI (debt instruments)				
Opening balance under IAS 39	-	-	-	-
Addition: From available for sale (IAS 39)	-	1 146 846	-	-
Addition: From amortised cost (IAS 39)	-	5 947	272	-
Closing balance under IFRS 9	-	-	-	1 153 065
Investment securities - FVOCI (equity instruments)				
Opening balance under IAS 39	-	-	-	-
Addition: From available for sale (IAS 39) - Designated	-	13 540	-	-
Closing balance under IFRS 9	-	-	-	13 540
Investment securities - Available for sale financial assets				
Opening balance under IAS 39	1 348 762	-	-	-
Subtraction: To mandatory FVPL (IFRS 9)	-	(188 377)	-	-
Subtraction: To FVOCI - equity instruments	-	(13 540)	-	-
Subtraction: To FVOCI - debt instruments	-	(1 146 845)	-	-
Closing balance under IFRS 9	-	-	-	-
Total financial assets measured at FVOCI	**1 348 762**	**(182 429)**	**272**	**1 166 605**

Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

Measurement category *In thousands of BGN*	**Loan loss allowance under IAS 39 / Provision under IAS 37**	**Reclassi-fication**	**Remeasu-rement**	**Loan loss allowance under IFRS 9**
Loans and receivables (IAS 39)/Financial assets at amortised cost (IFRS 9)				
Loans and advances to Banks	-	-	782	782
Loans and advances to Customers	611 727	-	(9 181)	602 546
Available for sale financial instruments (IAS 39)/Financial assets at FVOCI (IFRS 9)				
Investment securities	-	-	1 345	1 345
Loan commitments and financial guarantee contracts				
Loans and advances commitments to Customers	1 879	-	9 670	11 549
Financial guarantees issues	2 114	-	6 570	8 684
Total	**615 720**	**-**	**9 186**	**624 906**

Effect in retained earnings from transition from IAS 39 to IFRS 9

In thousands of BGN	**1-Jan-2018**
Loss allowance on loans and advances to Banks	(782)
Loss allowance on loans and advances to Customers	9 181
Loss allowance on investment securities	(1 345)
Provisions on loan commitments and financial guarantees	(16 240)
Remeasurement at fair value of the financial assets reclassified from amortised cost to fair value	272
Transfer of revaluation reserve for financial assets reclassified from available for sale to measured at fair value through profit and loss	(5 930)
Tax effect	891
Total	**(13 953)**

(b) Changes related to the application of IFRS 15 Revenue from Contracts with Customers

During the current year, the Bank applies IFRS 15 Revenue from Contracts with Customers, (amended in April 2016) effective for annual periods beginning on or after 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Details of the new requirements as well as their impact on the Bank's financial statements are described below.

The new standard is based on one basic principle which requires enterprises to recognize their revenues in a way that describes as precise as possible the transfer of goods and services to the client and by value that reflects the expected benefits from the enterprise in exchange of these goods and services.

A detailed analysis and assessment of all revenue sources have been performed and conclusions on the effect of the application of IFRS 15 Revenue from Contracts with Customers of DSK Bank are drawn. The adoption of IFRS 15 does not affect the time nor the amount of recognized revenue under contracts with clients and related assets and liabilities, recognized by the Bank and thus the standard has limited impact on the activity of the Bank.

The Bank applies IFRS 15 in accordance with the retrospective transitional approach without using the practical expedients for completed contracts in IFRS 15:C5 (a) and C5 (b), or for modified contracts in IFRS 15:C5 (c). The Bank however makes use of a practical expedient in IFRS 15:C5 (d), allowing both non-disclosure of the amount of the transaction price allocated to the remaining performance obligations, and an explanation of when it expects to recognise that amount as revenue for all reporting periods presented before the date of initial application, i.e. 1 January 2018.

3. Significant accounting policies

(a) Interest income and expenses recognition

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 securities at fair value through other comprehensive income calculated on an effective interest basis.

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.

Interest revenue on receivables with risk Stage 3 including with delays in payments over 90 days on a collective assessment basis. For these financial assets, the Bank recognizes interest on the basis of the net amortized cost of the receivables. For this purpose, a corrective adjustment is calculated for the difference between the contractually accrued interest on the basis of EIR on the gross value of the financial asset and the calculated interest on the EIR basis of the amortized cost of the asset less the loss allowance for expected credit losses.

Interest revenue on receivables with risk Stage 3 including with delays in payments over 90 days on individual assessment basis with credit impairment based on unwinding when the receivable is expected to be covered by the contractual cash flows from collateral or other cash flows. For these financial assets, the Bank recognizes interest on the basis of the discounted unwinding cash flows by accruing an adjustment for the difference between the contractually accrued interest on the basis of EIR on the gross value of the financial asset and the difference between the present values of the unwinding cash flows in the separate reporting periods discounted with the EIR.

(b) Foreign currency transactions

Upon initial recognition, each foreign currency transaction is reported in the functional currency (Bulgarian Lev) by applying the exchange rate at the date of the transaction to the amount of the foreign currency.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 initially denominated in a foreign currency are reported in the functional currency using the historical exchange rate at the date of the transaction.

The effects of exchange differences related to the settlement of foreign currency transactions or the reporting of foreign currency transactions at rates different from those for which they were initially recognized are included in the current profit or loss of their occurrence to the item "net gains / (losses) on trading".

(c) Fees and commission

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.

Fees and commission expenses related mainly to transaction and service fees, which are expensed as the services are received.

(d) Net trading profit or loss

Net trading profit or loss 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 profit or loss includes foreign currency exchange rate differences on investment financial assets.

(e) Financial instruments

(1) Classification

In accordance with the IFRS 9 provisions the Bank classifies financial assets as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of the following two conditions: the Bank business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Classification of financial assets is driven by the Bank’s business model for managing of financial assets and their contractual cash flow characteristics. The process for determining the classification and requirements for its application technology is illustrated by the following scheme:

Is the objective of the Bank business model to hold the financial assets to collect contractual cash flows?	No	Is the financial asset held to achieve an objective by both collecting contractual cash flows and selling financial assets?	No	
Yes		Yes		
Do contractual cash flows represent solely payments of principal and interest?			No	FVPL
Yes		Yes		
Does the Bank apply the fair value option to eliminate an accounting mismatch?			Yes	
No		Yes		
Amortised cost		FVOCI		

Business model for financial assets management

The business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

The business model does not depend on the intentions of the management with respect to a separate instrument.

The Bank can have more than one business model for managing its financial instruments. The Bank can hold one portfolio of investments that it manages in order to collect contractual cash flows and another portfolio of investments that it manages in order to sell to realize fair value changes.

Depending on the strategy and the risk profile, the Bank has identified the following business models for managing financial assets:

- Business model whose objective is to hold financial assets in order to collect contractual cash flows (held to collect)
- Business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (held to collect and sell)
- Business model that aims to realise cash flows through the sale of financial assets.

The Bank may have the same type of instrument in all three categories, depending on the asset management model.

(2) Recognition

The Bank shall recognise a financial asset or a financial liability in its statement of financial position when the Bank becomes party to the contractual provisions of the instrument.

Unconditional receivables and payables are recognised as assets or liabilities when the Bank becomes a party to the contract and, as a consequence, has a legal right to receive or a legal obligation to pay cash.

Assets to be acquired and liabilities to be incurred as a result of a firm commitment to purchase or sell goods or services are generally not recognised until at least one of the parties has performed under the agreement.

Forward contract that is within the scope of IFRS 9 is recognised as an asset or a liability on the commitment date, instead of on the date on which settlement takes place. When the Bank becomes a party to a forward contract, the fair values of the right and obligation are often equal, so that the net fair value of the forward is zero. If the net fair value of the right and obligation is not zero, the contract is recognised as an asset or liability.

Option contracts that are within the scope of IFRS 9 are recognised as assets or liabilities when the holder or writer becomes a party to the contract.

Planned future transactions, no matter how likely, are not assets and liabilities because the Bank has not become a party to a contract.

A regular way purchase or sale of financial assets shall be recognised and derecognised, as applicable, using settlement date accounting.

Regular way purchase or sale according to the terminology in Appendix A of IFRS 9 is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

The settlement date is the date that an asset is delivered to or by the Bank. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the Bank, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the entity.

(3) *Initial measurement*

Except for trade receivables that do not contain a significant financing component and are measured at their transaction price within the scope of paragraph 5.1.3 of IFRS 9, at initial recognition, the Bank shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

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).

(4) *Subsequent measurement*

Amortised cost measurement

The amortized cost (net amortized cost) at a certain date includes the cost of: outstanding principal, accrued interest receivables/payables, non-amortized discount, premium and fees participating as part of the exposure of the financial instrument upon acquisition and element in determining the EIR and the amount of the accumulated write-off for interest or credit impairment.

If the credit risk on the financial instrument improves, the criteria set by the Bank shall resume charging interest over subsequent periods on the basis of the gross amortized cost of the financial asset.

The cumulative interest corrective is derecognized from the amortized cost and is recognized as interest income. Recognition of interest corrective as interest income is made after the receivable is fully repaid by the debtor or in forming of a negative amortized cost thereon.

Fair value measurement

The Bank measures fair values of financial instruments using hierarchy methods that reflect the significance of the inputs used in making the fair value measurements:

Level 1: Quoted market price (unadjusted) in an active market for identical assets or liabilities. Fair values of financial assets and financial liabilities which are traded on active markets with access to market information are based on the quoted market prices or the closing prices.

Level 2: Valuation techniques for financial instruments based on market data either direct (i.e. such as quoted prices) or indirect (i.e. inputs from the 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. The Bank measures the fair values using the valuation technique based on the net present value. The calculation of 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.

Level 3: Valuation techniques using significant unobservable inputs for financial assets and liabilities.

The Bank recognizes transfer between the levels in the hierarchy of the fair values in the end of the reported period when the change is made.

The best evidence of the fair value at the initial recognition is 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.

Fair value measurement through other comprehensive income

Gain or loss attributable to a financial asset measured at fair value through other comprehensive income is recognized in other comprehensive income, except for gains or losses on impairment and foreign exchange gains or losses until the asset is derecognised or reclassified.

Upon derecognition of the financial asset, cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

Interest calculated using the effective interest method is recognized in profit or loss.

When assessing a financial asset at fair value through other comprehensive income, the amounts recognized in profit or loss are the same as those that would have been recognised in profit or loss if the financial asset had been measured at amortised cost.

Gain or loss associated with investments in equity instruments measured at fair value in other comprehensive income is recognized in other comprehensive income, including foreign exchange gains or losses until the financial asset is derecognised or reclassified. Amounts recognized in other comprehensive income are not subsequently transferred to profit or loss. The Bank may transfer the accumulated profit or loss within equity. Dividends on these investments are recognized in profit or loss.

Investments in equity instruments for which there is insufficient more recent information to measure fair value, or varied widely, are presented at cost as the most appropriate fair value estimate.

Fair value measurement through profit or loss

A gain or loss on a financial asset or financial liability that is measured at fair value shall be recognised in the statement of profit or loss unless: it is part of a hedging; it is an investment in an equity instrument the profits and losses; it is a financial liability designated as at fair value through profit or loss and the Bank should present changes in fair value resulting from a change in its own credit risk in other comprehensive income; or it is a financial asset measured at fair value through other comprehensive income.

(5) *Derecognition*

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset on a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

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

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if it does not retain control over the asset. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers in which control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised in its entirety if it meets the criteria for derecognition. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the service.

(6) *Offsetting*

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards.

(7) *Impairment*

The Bank applies the impairment requirements to financial assets that are measured at amortised cost, to financial assets that are measured at fair value through other comprehensive income as well as commitments on loans and financial guarantee contracts falling within the scope of the Standard in accordance with IFRS 9 paragraph 5.2.2.

The assessment of credit risk is performed on a collective or individual basis for a group or sub-group of financial instruments.

The Bank recognises a loss allowance for expected credit losses on all financial assets that are measured at amortised cost, at fair value through other comprehensive income, a lease receivable, a contract asset or a loan commitment and a financial guarantee contract using the General approach of IFRS 9.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event,ie when the counterparty has not made a payment that has become payable by contract (over 90 days);
- the Bank, for economic or contractual reasons relating to the borrower’s financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event identifying evidence of credit impairment. Instead the combined effect of several events may have caused financial assets to become credit-impaired.

Credit loss is the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (ie all cash shortfalls), discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

The Bank estimates cash flows by considering all contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) through the expected life of that financial instrument. The cash flows that are considered shall include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. There is a presumption that the expected life of a financial instrument can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the expected life of a financial instrument, the Bank uses the remaining contractual term of the financial instrument.

Credit-adjusted effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset to the amortised cost of a financial asset that is a purchased or originated credit-impaired financial asset.

When calculating the credit-adjusted effective interest rate, the Bank estimates the expected cash flows by considering all contractual terms of the financial asset (for example, prepayment, extension, call and similar options) and expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Transaction costs are the Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

(8) Reclassification

When, and only when, the Bank changes its business model for managing financial assets the Bank reclassifies all affected financial assets measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss.

If the Bank reclassifies financial assets, it applies the reclassification prospectively from the reclassification date. The Bank does not restate previously recognised gains, losses (including impairment gains or losses) or interest.

If the Bank reclassifies a financial asset out of the amortised cost measurement category and into the fair value through profit or loss measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in profit or loss.

If the Bank reclassifies a financial asset out of the fair value through profit or loss measurement category and into the amortised cost measurement category, its fair value at the reclassification date becomes its new gross carrying amount (the amortised cost of the financial asset before adjusting for any loss allowance).

If the Bank reclassifies a financial asset out of the amortised cost measurement category and into the fair value through other comprehensive income measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in other comprehensive income. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

If the Bank reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the amortised cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. However, the cumulative gain or loss previously recognised in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortised cost. This adjustment affects other comprehensive income but does not affect profit or loss and therefore is not a reclassification adjustment. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

If the Bank reclassifies a financial asset out of the fair value through profit or loss measurement category and into the fair value through other comprehensive income measurement category, the financial asset continues to be measured at fair value.

If the Bank reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the fair value through profit or loss measurement category, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

Subsequent reclassification of financial liabilities is prohibited in accordance with the IFRS 9.

(9) Modification

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset in accordance with IFRS 9, but results in a material change in the net present value of the asset (NPV changes by more than 1% as a result of the modification/renegotiation and this change is not related to a change in market prices), the Bank recalculates the gross carrying amount of the financial asset and shall recognise a modification gain or loss in profit or loss, such as:

- The gross carrying amount of the financial asset shall be recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets);

- The adjustment to the gross carrying amount is the difference between the present value of the modified cash flow discounted to the agreed EIR and the present value of the modified cash flow on the recalculated new EIR. This adjustment is reflected in a corrective account and a one-time effect on profit or loss and is amortized as interest income/expense over the remaining term of the modified financial asset.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a "new" financial asset.

A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

(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 in accordance with the business model within which they are managed.

All changes in fair value are recognised as part of net trading income in profit or loss.

(h) Investment securities

Investment securities are initially measured at fair value and subsequently accounted for depending on their classification depending on the business model.

(i) Investments in subsidiaries

Investments in subsidiaries, associates and jointly controlled entities are accounted for at cost in accordance with IAS 27 Separate Financial Statements.

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 as net loss from nonfinancial assets

(j) 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.

The objective of hedge accounting is to represent, in the financial statements, the effect of an Bank’s risk management activities that use financial instruments to manage exposures arising from particular risks that could affect profit or loss (or other comprehensive income, in the case of investments in equity instruments for which the Bank has elected to present changes in fair value in other comprehensive income).

A derivative measured at fair value through profit or loss may be designated as a hedging instrument, except for some written options.

A non-derivative financial asset or a non-derivative financial liability measured at fair value through profit or loss may be designated as a hedging instrument unless it is a financial liability designated as at fair value through profit or loss for which the amount of its change in fair value that is attributable to changes in the credit risk of that liability is presented in other comprehensive income.

For a hedge of foreign currency risk, the foreign currency risk component of a non-derivative financial asset or a non-derivative financial liability may be designated as a hedging instrument provided that it is not an investment in an equity instrument for which the Bank has elected to present changes in fair value in other comprehensive income.

A hedged item can be a recognised asset or liability, an unrecognised firm commitment, a forecast transaction or a net investment in a foreign operation.

A hedging relationship qualifies for hedge accounting only if all of the following criteria are met:

- The hedging relationship consists only of eligible hedging instruments and eligible hedged items;

- At the inception of the hedging relationship there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess whether the hedging relationship meets the hedge effectiveness requirements (including its analysis of the sources of hedge ineffectiveness and how it determines the hedge ratio);

- The hedging relationship meets all of the following hedge effectiveness requirements: there is an economic relationship between the hedged item and the hedging instrument; the effect of credit risk does not dominate the value changes that result from that economic relationship; and the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. However, that designation shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness (irrespective of whether recognised or not) that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting.

The Bank applies hedge accounting to hedging relationships that meet the qualifying criteria in paragraph 6.4.1 of IFRS 9.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Bank shall adjust the hedge ratio of the hedging relationship so that it meets the qualifying criteria again.

The Bank shall discontinue hedge accounting prospectively only when the hedging relationship (or a part of a hedging relationship) ceases to meet the qualifying criteria (after taking into account any rebalancing of the hedging relationship, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. For this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such a replacement or rollover is part of, and consistent with, the entity's documented risk management objective.

(k) 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 in accordance with the business model.

(l) Property, plant and equipment

The Bank applies a policy to measure subsequently land and buildings at revalued amount under the allowed alternative approach in IAS 16, Property, plant, and equipment.

Items of land and buildings are stated at fair value determined periodically by a professional registered valuer. The revaluation of assets is carried asset by asset based on proportional calculation of the book value of the asset and the accumulated for it depreciation as of the date of revaluation. When the carrying amount of assets is increased as a result of revaluation, the increase is credited directly 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 - 33
• 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.

(m) 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	10 - 100

(n) 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 statement. 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.

(o) 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.

(p) 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 inventory.

Inventories are presented in the statement of financial position at the lower of the carrying amount 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.

(q) Provisions

Provisions are current liabilities and incurred expenses of the Bank for which there is uncertainty in terms of timing and amount of future expenses necessary for settlement of the liability.

Provision shall be recognized in the financial statements of the Bank when:

- The Bank has a present obligation (legal or constructive) as a resultof past events;
- Probability exists that to repay the obligation, an outflow of economic benefits will berequired and
- A reliable measurement can be performed of the amount of liability.

Provision is also recognized and measured for commitments to extend credit and for warranties arising from banking activities based on IFRS 9 Financial Instruments. For calculation of provisions is used credit conversion factor, which shows the proportion of the undrawn facility that will be probably funded.

The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

Provisions shall be reviewed at the end of each reporting period to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision shall be reversed.

A provision shall be used only for expenditures for which the provision was originally recognised.

(r) Deposits

Deposits are one of the Bank's sources of debt funding.

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

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.

(s) Contingent liabilities

Contingent liabilities are:

- Unused funds on loans and credit lines authorized by the Bank;
- Possible obligations of the Bank arising from past events and whose existence can be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that cannot be entirely controlled by the Bank or
- A current liability arising from past events, however, unrecognized because it is improbable that an outflow of resources including economic benefits will be required for its repayment or the amount of obligation cannot be identified reliably enough.

Major areas in DSK Bank's activity arising and subject of a review for the needs of their recognition and provision are related with:

- Claims against the Bank on cases enforced by clients, counterparties and employees of the Bank;
- Taxation risks obligations;
- Possible claims against the Bank related to ownership;
- Other potential obligations – on contracts with counterparties which under certain circumstances would lead to cash outflows from the Bank and others.

(t) Taxation

Tax on the profit for the year comprises current tax and deferred tax. Tax on the profit 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.

(u) 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 27.

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.

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

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

- IFRS 9 Financial Instruments - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018);
- Amendment to IFRS 7 Financial Instruments: Disclosures - adopted by the EU (effective for annual periods beginning on or after 1 January 2018);
- IFRS 15 Revenue from Contracts with Customers and amendments to IFRS 15 Effective date of IFRS 15 - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 2 Share-based Payment - Classification and Measurement of Share-based Payment Transactions – adopted by the EU on 26 February 2018 (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 4 Insurance Contracts - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 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 31 October 2017 (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IAS 40 Investment Property - Transfers of Investment Property – adopted by the EU on 14 March 2018 (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 1 and IAS 28 due to 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 7 February

2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018);

- IFRIC 22 Foreign Currency Transactions and Advance Consideration – adopted by the EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018).

The adoption of these amendments to the existing standards has not led to any material changes in the Bank's financial statements exept for IFRS 9.

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 new standards issued by IASB and adopted by the EU are not yet effective:

- IFRS 16 Leases – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IFRS 9 Financial Instruments - Prepayment Features with Negative Compensation – adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019);
- IFRIC 23 Uncertainty over Income Tax Treatments – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

The Bank has elected not to adopt these new standards and amendments to existing standards in advance of their effective dates.

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 International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at the date of publication of financial statements (the effective dates stated below is for IFRS in full):

- 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 1 January 2021);
- Amendments to IFRS 3 Business Combinations - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period);
- 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 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material (effective for annual periods beginning on or after 1 January 2020);
- 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 1 January 2019);
- 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 1 January 2019);
- Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020).

The Bank anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the financial statements of the Bank in the period of initial application except for IFRS 16 Leases.

Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated.

According to the Bak's estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to IAS 39: Financial Instruments: Recognition and Measurement would not significantly impact the financial statements, if applied as at the balance sheet date.

- Potential effects of applying of IFRS 16 Leases

IFRS 16 Leases supersedes the current standard IAS 17 – Leases, interpretation IFRIC 4 - Determining Whether an Arrangement Contains a Lease,SIC 15 - Operating Leases – Incentives and SIC 27 - Evaluating the Substance of Transactions in the Legal Form of a Lease.

The purpose of the new standard is to ease the comparability of the financial statements, presenting both financial and operating leases in the statement of financial position, and providing corresponding information to the users of the financial statements about the risks associated with the agreements.

The new standard discontinues the differentiation between operating and finance leases in the lessee's books, and requires to recognise a right-of-use asset and lease liability regarding all of the lesses's lease agreements.

Pursuant to IFRS 16, an agreement is a lease or contains a lease if it transfers the rights to control the use of an identified asset for a given period in exchange for compensation.

The essential element differentiating the definition of a lease from IAS 17 and from IFRS 16 is the requirement to have control over the used, specific asset, indicated directly or indirectly in the agreement.

Expenses related to the use of lease assets, the majority of which were previously recognised in external services costs, will be currently classified as depreciation/amortisation and interest costs. Usufruct rights are depreciated using a straight line method, while lease liabilities are settled using an effective discount rate.

In the cash flow statement cash flows from the principal of the lease liability are classified as cash flows from financing activities, while lease payments for short-term leases, lease payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability are classified as cash-flows from operating activities. The interest payments regarding the lease liability are classified according to the IAS 7 standard.

The lessee applies IAS 36 – Impairment of Assets standard to determine whether the right-of-use asset is impaired, and to recognise impairment, if it is necessary.

For the lessors the recognition and measurement requirements of IFRS 16 are similar, as they were stated in IAS 17. The leases shall be classified as finance and operating leases according to IFRS 16 as well. Compared to IAS 17, IFRS 16 requires the lessors to disclose more information about than earlier, however the main characteristics of the accounting treatment is unchanged.

Transition

The lessee will use the modified retrospective approach.

Applying the modified retrospective approach requires the lessee to present the cumulative impact of IFRS 16 as an adjustment to equity at the start of the current accounting period in which it is first applied.

The entity applies the following practical expedients available:

- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Adjust the right-of-use asset at the date of initial application by the amount of any provision for onerous leases in the statement of financial position;
- Apply a simplified method for contracts mature within 12 months for the date of initial application;
- Exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Use hindsight such as in determining the lease term if the contract contains options to extend or terminate the lease.

Impact of IFRS 16 on the financial statements

Recognition of lease liabilities

Following the adoption of IFRS 16, the Bank will recognise lease liabilities related to leases which were previously classified as "operating leases" in accordance with IAS 17 Leases. These liabilities will be measured at the present value of lease payments receivable as at the date of commencement of the application of IFRS 16. Lease payments shall be discounted using the interest rate implicit in the lease or, if that rate can not be readily determined, the incremental borrowing rate. Interest rate applied by the Bank: weighted average lessee's incremental borrowing rate 0.79%.

At their date of initial recognition, lease payments contained in the measurement of lease liabilities comprise the following types of payments for the right-of-use the underlying asset for the life of the lease:

- fixed lease payments less any lease incentives,
- variable lease payments which are dependent on market indices,
- amounts expected to be payable by the lessee under residual value guarantees,
- the strike price of a purchase option, if it is reasonably certain that the option will be exercised, and
- payment of contractual penalties for terminating the lease, if the lease period reflects that the lessee used the option of terminating the lease.

The Bank makes use of expedients with respect to short-term leases (less than 12 months) as well as in the case of leases in respect of which the underlying asset has a low value and for which agreements it will not recognise financial liabilities nor any respective right-of-use assets. These types of lease payments will be recognised as costs using the straight-line method during the life of the lease.

Recognition of right-of-use assets

Right-of-use assets are initially measured at cost which includes:

- the initial estimate of lease liabilities;

- any lease payments paid at the commencement date or earlier, less any lease incentives receivable;
- initial costs directly incurred by the lessee as a result of entering into a lease agreement;
- estimates of costs which are to be incurred by the lessee as a result of an obligation to disassemble and remove an underlying asset or to carry out renovation/restoration.

Application of estimates

The implementation of IFRS 16 requires the making of certain estimates and calculations which effect the measurement of financial lease liabilities and of right-of-use assets. These include among others:

- determining which agreements are subject to IFRS 16;
- determining the life of such agreements (including for agreements with unspecified lives or which may be prolonged);
- determining the interest rates to be applied for the purpose of discounting future cash flows;
- determining depreciation rates.

Impact on the statement of financial position

The impact of implementing IFRS 16 on the recognition of additional financial liabilities and respective right-of-use assets was estimated on the basis of agreements in force as of 31 December 2018.

The estimated financial impact is Right-of-use asset and Lease liabilities amounting to 41 700 thousand BGN.

4. 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).

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 2018

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	**7 994**	**7 994**	7 994	-	-	-	-
Derivative financial instruments	**27 437**	**27 437**	1 911	325	635	17 681	6 885
Loans from financial institutions	**11 129**	**11 129**	-	-	-	-	11 129
Deposits from customers	**11 552 168**	**11 553 126**	9 404 705	710 641	1 413 799	23 981	-
Current tax liabilities	**2 104**	**2 104**	1 293	811	-	-	-
Deferred tax liabilities	**5 807**	**5 807**	-	-	-	5 807	-
Provisions	**61 608**	**61 608**	459	1 570	9 972	49 393	214
Trade and other liabilities	**114 577**	**114 577**	25 508	7 234	50 954	21 467	9 414
Total liabilities	**11 782 824**	**11 783 782**	**9 441 870**	**720 581**	**1 475 360**	**118 329**	**27 642**
Unused loan commitments	-	1 305 313	61 721	64 514	665 123	356 297	157 658
Total liabilities and commitments	**11 782 824**	**13 089 095**	**9 503 591**	**785 095**	**2 140 483**	**474 626**	**185 300**

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	**50 900**	**50 900**	457	45 987	18	970	3 468
Loans from financial institutions	**15 518**	**15 708**	-	969	2 921	895	10 923
Deposits from customers	**10 291 123**	**10 292 359**	8 157 534	701 755	1 404 723	28 347	-
Current tax liabilities	**879**	**879**	551	328	-	-	-
Deferred tax liabilities	**5 674**	**5 674**	-	-	-	5 674	-
Provisions	**60 001**	**60 001**	234	750	49 452	9 565	-
Trade and other 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**

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 2018 and 31 December 2017.

Maturity table of assets and liabilities as of 31 December 2018

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	**7 994**	7 994	-	-	-	-	-
Derivative financial instruments	**27 437**	1 911	325	635	17 681	6 885	-
Loans from financial institutions	**11 129**	-	-	-	-	11 129	-
Deposits from customers	**11 552 168**	9 404 571	710 477	1 413 196	23 924	-	-
Current tax liabilities	**2 104**	1 293	811	-	-	-	-
Deferred tax liabilities	**5 807**	-	-	-	5 807	-	-
Provisions	**61 608**	459	1 570	9 972	49 393	214	-
Trade and other liabilities	**114 577**	25 508	7 234	50 954	21 467	9 414	-
Total liabilities	**11 782 824**	**9 441 736**	**720 417**	**1 474 757**	**118 272**	**27 642**	**-**
Unused loan commitments	-	61 721	64 514	665 123	356 297	157 658	-
Total liabilities and commitments	**11 782 824**	**9 503 457**	**784 931**	**2 139 880**	**474 569**	**185 300**	**-**
Derivatives liabilities							
Trading:	7 842						
Outflow		(415 467)	(45 599)	(48 896)	(5 243)	(4 525)	-
Inflow		414 831	45 543	48 922	-	-	-
Hedge accounting:	19 595						
Outflow		-	-	-	(1 604 991)	(8 316)	-
Inflow		-	-	-	1 564 664	-	-
Total derivatives	**27 437**	**(636)**	**(56)**	**26**	**(45 570)**	**(12 841)**	**-**
Assets							
Cash and current accounts with the Central Bank and other banks	**3 210 339**	3 210 339	-	-	-	-	-
Financial assets held for trading	**48 988**	11 066	2 239	1 884	16 229	17 570	-
Derivative financial instruments	**14 880**	2 526	534	54	5 838	5 928	-
Loans and advances to banks	**1 922 613**	75 830	99 712	167 188	1 576 751	3 132	-
Loans and advances to customers	**7 480 145**	154 707	264 400	1 545 550	2 389 549	3 125 939	-
Investments securities	**1 259 059**	20 104	138 359	2 573	592 996	489 808	15 219
Current tax assets	**1 951**	1 951	-	-	-	-	-
Investments in subsidaries and associates	**43 676**	-	-	-	-	-	43 676
Property, plant and equipment	**317 597**	-	-	-	-	-	317 597
Intangible assets	**49 307**	-	-	-	-	-	49 307
Other assets	**102 751**	68 853	905	17 530	12 547	2 916	-
Total assets	**14 451 306**	**3 545 376**	**506 149**	**1 734 779**	**4 593 910**	**3 645 293**	**425 799**
Derivatives assets							
Trading:	10 065						
Outflow		(320 178)	(51 533)	-	(39 386)	-	-
Inflow		321 959	51 745	-	46 376	6 591	-
Hedge accounting:	4 815						
Outflow		-	-	-	-	-	-
Inflow		-	-	-	2 930	3 822	-
Total derivatives	**14 880**	**1 781**	**212**	**-**	**9 920**	**10 413**	**-**

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	**50 900**	457	45 987	18	970	3 468	-
Loans from financial institutions	**15 518**	-	969	2 919	890	10 740	-
Deposits from customers	**10 291 123**	8 157 218	701 579	1 403 987	28 339	-	-
Current tax liabilities	**879**	551	328	-	-	-	-
Deferred tax liabilities	**5 674**	-	-	-	5 674	-	-
Provisions	**60 001**	234	750	49 452	9 565	-	-
Trade and other 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	-	-
Total liabilities and commitments	**10 587 150**	**8 321 649**	**894 052**	**2 158 423**	**443 088**	**17 328**	**-**
Derivatives liabilities							
Trading:	49 341						
Outflow		(88 040)	(924 700)	-	-	-	-
Inflow		88 013	883 443	-	-	-	-
Hedge accounting:	1 559						
Outflow		-	-	-	(214)	(1 615)	-
Inflow		-	-	-	-	73	-
Total derivatives	**50 900**	**(27)**	**(41 257)**	**-**	**(214)**	**(1 542)**	**-**
Assets							
Cash and current accounts with the Central Bank and other banks	**1 690 421**	1 690 421	-	-	-	-	-
Derivative financial instruments	**6 224**	239	416	686	806	4 077	-
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 customers	**6 784 416**	120 162	198 297	1 023 040	2 211 717	3 231 200	-
Investments securities	**1 355 272**	82 596	7 698	8 540	616 571	626 033	13 834
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		(168 566)	(100 081)	(7 212)	(14 881)	-	-
Inflow		168 735	100 098	7 823	15 000	-	-
Hedge accounting:	2 178						
Outflow		-	-	-	-	(972)	-
Inflow		-	-	-	884	818	-
Total derivatives	**6 224**	**169**	**17**	**611**	**1 003**	**(154)**	**-**

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 4 years in view of actual observed volume of earlier repayments during 2018.

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.

(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.

The Bank holds trading assets with the aim to manage the risk. In the table below is represented the credit quality of the maximum credit exposure, on the basis of the ratings issued from Moody`s:

In thousands of BGN	**31-Dec-2018**	**31-Dec-2017**
Government bonds		
Rated Aaa	-	4 854
Rated A2	-	30 062
Rated Baa2	23 108	162 775
Rated Baa3	7 489	-
Rated Ba2	18 391	38 532
Total	**48 988**	**236 223**

(1) Interest rate risk

The interest rate risk is the risk of bearing a loss due to fluctuations in market (reference) interest rates. The Bank manages separately the interest rate risk in the bank portfolio and the risk in its trading book.

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 market interest curves.

Interest rate risk management activities are conducted in the context of the 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.

The Bank manages the interest rate risk in its trading book and limits the risk level through defining limits for interest rate sensitivity, BVP limits, incl.

The Bank analyses the interest risk of the bank book, 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 2018

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	**35 869**	**-**	**-**	**-**	**-**	**3 174 470**	**3 210 339**
Fixed rate	17 288	-	-	-	-	-	17 288
Floating rate	18 581	-	-	-	-	-	18 581
Non-interest bearing	-	-	-	-	-	3 174 470	3 174 470
Financial assets held for trading	**10 804**	**2 005**	**1 770**	**9 138**	**25 271**	**-**	**48 988**
Fixed rate	10 804	2 005	1 770	9 138	25 271	-	48 988
Floating rate	-	-	-	-	-	-	-
Non-interest bearing	-	-	-	-	-	-	-
Derivative financial instruments	**3 176**	**6 020**	**2 429**	**-**	**-**	**3 255**	**14 880**
Fixed rate	-	-	-	-	-	-	-
Floating rate	3 176	6 020	2 429	-	-	-	11 625
Non-interest bearing	-	-	-	-	-	3 255	3 255
Loans and advances to banks	**78 896**	**99 713**	**167 253**	**1 576 751**	**-**	**-**	**1 922 613**
Fixed rate	75 765	99 713	167 253	1 576 751	-	-	1 919 482
Floating rate	3 131	-	-	-	-	-	3 131
Non-interest bearing	-	-	-	-	-	-	-
Loans and advances to customers	**7 377 980**	**5 260**	**21 331**	**8 212**	**67 362**	**-**	**7 480 145**
Fixed rate	3 193	5 260	21 331	8 212	67 362	-	105 358
Floating rate	7 374 787	-	-	-	-	-	7 374 787
Non-interest bearing	-	-	-	-	-	-	-
Investments securities	**16 693**	**304 816**	**-**	**158 842**	**763 489**	**15 219**	**1 259 059**
Fixed rate	13 694	131 450	-	158 842	763 489	-	1 067 475
Floating rate	2 999	173 366	-	-	-	-	176 365
Non-interest bearing	-	-	-	-	-	15 219	15 219
Total interest sensitive assets	**7 523 418**	**417 814**	**192 783**	**1 752 943**	**856 122**	**3 192 944**	**13 936 024**
Fixed rate	120 744	238 428	190 354	1 752 943	856 122	-	3 158 591
Floating rate	7 402 674	179 386	2 429	-	-	-	7 584 489
Non-interest bearing	-	-	-	-	-	3 192 944	3 192 944

	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
Deposits from banks	**447**	**-**	**-**	**-**	**-**	**7 547**	**7 994**
Fixed rate	374	-	-	-	-	-	374
Floating rate	73	-	-	-	-	-	73
Non-interest bearing	-	-	-	-	-	7 547	7 547
Derivative financial instruments	**3 917**	**2 107**	**4 695**	**-**	**-**	**16 718**	**27 437**
Fixed rate	-	-	-	-	-	-	-
Floating rate	3 917	2 107	4 695	-	-	-	10 719
Non-interest bearing	-	-	-	-	-	16 718	16 718
Loans from financial institutions	**-**	**11 129**	**-**	**-**	**-**	**-**	**11 129**
Fixed rate	-	-	-	-	-	-	-
Floating rate	-	11 129	-	-	-	-	11 129
Non-interest bearing	-	-	-	-	-	-	-
Deposits from customers	**9 432 791**	**700 574**	**1 386 690**	**8 616**	**15 299**	**8 198**	**11 552 168**
Fixed rate	1 547 188	700 574	1 386 690	8 616	15 299	-	3 658 367
Floating rate	7 885 603	-	-	-	-	-	7 885 603
Non-interest bearing	-	-	-	-	-	8 198	8 198
Total interest sensitive liabilities	**9 437 155**	**713 810**	**1 391 385**	**8 616**	**15 299**	**32 463**	**11 598 728**
Fixed rate	1 547 562	700 574	1 386 690	8 616	15 299	-	3 658 741
Floating rate	7 889 593	13 236	4 695	-	-	-	7 907 524
Non-interest bearing	-	-	-	-	-	32 463	32 463

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
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	-	-	-	-	-	-	-
Derivative financial instruments	**4 020**	**81**	**678**	**-**	**-**	**1 445**	**6 224**
Fixed rate	-	-	-	-	-	-	-
Floating rate	4 020	81	678	-	-	-	4 779
Non-interest bearing	-	-	-	-	-	1 445	1 445

	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
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 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
Investments 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
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	**3 095**	**334**	**784**	**-**	**-**	**46 687**	**50 900**
Fixed rate	-	-	-	-	-	-	-
Floating rate	3 095	334	784	-	-	-	4 213
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 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
Total interest sensitive liabilities	**8 192 002**	**707 573**	**1 383 024**	**6 962**	**21 252**	**61 495**	**10 372 308**
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

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	
	200 bp increase	**200 bp decrease**	**200 bp increase**	**200 bp decrease**
Effect in thousands of BGN				
31 December 2018				
As at 31 December	(22 172)	22 172	(55 061)	55 061
Average for the period	(4 444)	4 444	(38 647)	38 647
Maximum for the period	5 988	22 172	(23 590)	55 061
Minimum for the period	(22 172)	(5 988)	(55 061)	23 590
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

(2) *Exchange rate risk*

The 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 the 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. The Bank senior management sets limits on maximum open positions – total and by currency, 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: historical with 99% level of confidence and 1 day. To bring out a correlation matrix the Bank uses historical observations for currency exchange changes for 250 working days.

The statistics of the model for 2018 and 2017 are as follows:

In thousands of BGN	**2018**	**2017**
At 31 December	34	49
Average for the period	29	45
Maximum for the period	125	214
Minimum for the period	1	3

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, keeping approved limits for open currency position.

(c) Credit risk

Credit risk is the risk that a customer or counterparty will default on its contractual obligations resulting in financial loss to the Bank. The Bank's main income generating activity is lending to customers and therefore credit risk is a principal risk. Credit risk mainly arises from loans and advances to customers and other banks (including related commitments to lend such as loan or credit card facilities), investments in debt securities and derivatives that are an asset position. The Bank considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes.

Significant increase in credit risk

The Bank monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Bank will measure the loss allowance based on lifetime rather than 12-month ECL.

(1) Structure and functions of the Credit Risk Management Unit

The credit risk management of the Bank 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 for which decision taking is not ensured on the basis of automatical checks and approval of valuation and revaluation of 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).

(2) Nature and scope of the systems for risk assessment – models for credit risk assessment

When determining the credit risk of a deal, the Bank 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. These models are not used for estimation of expected credit loss in view of impairment/provision calculations.

Currently the models developed and used in the risk management process of the 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.

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, quick and 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, when it is not possible an available statistical model to be applied.

The Bank has an expert model for the municipalities segment, the public sector entities segment, and for individual deals assessment for the specialized lending segment.

The credit risk assessment models are subject to periodical review and are updated on an ongoing basis.

(3) Expected Credit Loss measurement

The key inputs used for measuring ECL are:

- probability of default or loss (PD/PL);
- loss given default or loss (LGD/LGL); and
- exposure at default or loss (EAD).

These figures are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect probability-weighted forward-looking information.

PD/PL is an estimate of the likelihood of default or loss over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical migration models, and assessed using tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD/PL.

LGD/LGL is an estimate of the financial loss arising on the fact that a receivable is classified as receivable in default or loss. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD/LGL models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realisation of collateral, cross- collateralisation and seniority of claim, cost of realisation of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

EAD is an estimate of the exposure at a future default or loss date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Bank's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortisation profiles, early repayment or overpayment, changes in utilisation of undrawn commitments and credit mitigation actions taken before default or loss. The Bank uses EAD models that reflect the characteristics of the portfolios.

The Bank measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if contact extension or renewal is common business practice. However, for financial instruments such as credit cards, revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment component, the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. For such financial instruments the Bank measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period. However, the Bank does not enforce in the normal day-to-day management the contractual right to cancel these financial instruments. This is because these financial instruments are managed on a collective basis and are canceled only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take to mitigate ECL, e.g. reduction in limits or cancellation of the loan commitment.

The measurement of ECL is based on probability weighted average credit loss. As a result, the measurement of the loss allowance should be the same regardless of whether it is measured on an individual basis or a collective basis (although measurement on a collective basis is more practical for large portfolios of items). In relation to the assessment of whether there has been a significant increase in credit risk it can be necessary to perform the assessment on a collective basis as noted below.

Expected credit losses are measured in a way that reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes,
- the time value of money, and
- reasonable and supportable information that is available without undue cost of effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Individual and collective assessment of expected credit losses

The following exposures are subject to collective valuation methods:

- retail exposures,
- SME exposures,
- any other type of exposure of the above ones, which are not significant individually or, if significant individually- not in Stage 3.

Groupings based on shared risk characteristics

For the purpose of collective ECL determination financial instruments are grouped on the basis of shared credit risk characteristics:

- instrument type;
- credit risk ratings;
- collateral type;
- date of initial recognition;
- remaining term to maturity;
- industry;
- geographical location of the borrower; and
- the value of collateral relative to the financial asset if it has an impact on the probability of a default occurring (for example, non-recourse loans in some jurisdictions or loan-to-value ratios).

The groupings are reviewed on a regular basis to ensure that each group is comprised of homogenous exposures.

Credit quality

The Bank monitors credit risk per class of financial instrument.

An analysis of the Bank 's credit risk concentrations per class of financial asset is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Loans and advances to banks at amortised cost

In thousands of BGN	**31-Dec-2018**	**31-Dec-2017**
Concentration by sector		
Central banks	2 709 168	1 264 219
Other banks	1 957 363	1 642 362
Total	**4 666 531**	**2 906 581**
Concentration by region		
Europe	4 656 070	2 901 337
America	10 225	4 873
Asia	236	371
Total	**4 666 531**	**2 906 581**

Loans and advances to customers at amortised cost

In thousands of BGN	**31-Dec-2018**	**31-Dec-2017**
Concentration by sector		
Retail:		
Mortgages	2 151 703	1 952 344
Other retail loans	2 521 132	2 356 021
Corporate:		
Agriculture and forestry	222 157	204 628
Construction	139 361	115 495
Financial and insurance activities	27 808	26 839
Hotels and catering	220 520	189 046
Manufacturing	838 748	786 388
Real estate activities	460 513	379 749
State Budget	1 932	5 416
Trade and services	632 765	570 871
Transport and communications	101 593	57 683
Other industry sectors	161 913	139 936
Total	**7 480 145**	**6 784 416**

Concentration by region		
Europe	7 467 645	6 776 085
North America	5 467	5 283
Asia	3 689	2 151
Africa	2 902	582
Australia	365	228
South America	77	87
Total	**7 480 145**	**6 784 416**

Investment securities

In thousands of BGN	**31-Dec-2018**
Concentration by sector	
Investments in instruments measured at fair value through other comprehensive income	
Government debt securities	1 067 476
Equity instruments	14 929
Investments in instruments mandatory measured at fair value through profit or loss	
Equity instruments	289
Government debt securities	2 999
Corporate debt securities	173 366
Total	**1 259 059**
Concentration by region	
Europe	1 251 982
North America	7 077
Total	**1 259 059**

The carrying amount of the Bank's financial assets at FVTPL best represents the assets' maximum exposure to credit risk.

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.

Loan commitments

In thousands of BGN	31-Dec-2018	31-Dec-2017
Concentration by sector		
Retail:		
Mortgages	46 503	46 130
Other retail loans	229 324	213 580
Corporate:		
Agriculture and forestry	48 762	32 398
Construction	110 858	135 226
Financial and insurance activities	49 588	52 961
Hotels and catering	11 110	46 482
Manufacturing	336 399	234 559
Real estate activities	71 613	86 740
State Budget	77	-
Trade and services	279 527	267 913
Transport and communications	30 014	31 902
Other industry sectors	91 538	99 499
Total	**1 305 313**	**1 247 390**
Concentration by region		
Europe	1 305 041	1 247 204
North America	24	12
Asia	209	139
Africa	35	29
South America	4	6
Total	**1 305 313**	**1 247 390**

Financial guarantee contracts

In thousands of BGN	31-Dec-2018	31-Dec-2017
Concentration by sector		
Corporate:		
Agriculture and forestry	5 265	5 367
Construction	81 631	64 409
Financial and insurance activities	10 482	10 671
Hotels and catering	4 722	6 591
Manufacturing	128 465	154 841
Trade and services	67 815	54 394
Transport and communications	6 449	6 836
Other industry sectors	8 197	8 135
Total	**313 026**	**311 244**
Concentration by region		
Europe	313 026	311 244
Total	**313 026**	**311 244**

Credit risk exposures per class of financial asset, internal rating and stage

An analysis of the Bank's credit risk exposure per class of financial asset, internal rating and stage without taking into account the effects of any collateral or other credit enhancements is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

The tables below disclose the allocation of loans and advances by stage under IFRS 9 and by internal credit rating applied for current monitoring and management of credit risk. For some of the products outside the corporate segment, new models for current monitoring are to be implemented and validated bedore they are accepted by the Management of the Bank as adequate for the purpose of estimation of increased credit risk from initial recognition.

Loans and advances to banks at amortised cost

	31-Dec-2018			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
In thousands of BGN				
Grades 1-3: Low risk	4 666 928	-	-	4 666 928
Total gross carrying amount	**4 666 928**	**-**	**-**	**4 666 928**
Loss allowance	(397)	-	-	(397)
Carrying amount	**4 666 531**	**-**	**-**	**4 666 531**

Loans and advances to customers at amortised cost

	31-Dec-2018			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
In thousands of BGN				
Grades 1-3: Low risk	3 408 472	29 299	-	3 437 771
Grades 4-6: Moderate risk	2 313 563	103 136	-	2 416 699
Grades 7-8: Increased risk	1 064 898	202 711	-	1 267 609
Grade 9: High risk	10 913	127 202	-	138 115
Grade 10: Default	-	-	782 635	782 635
Municipality, PSE	7 018	-	981	7 999
Not rated	41 955	3 153	-	45 108
Total gross carrying amount	**6 846 819**	**465 501**	**783 616**	**8 095 936**
Loss allowance	(101 984)	(41 382)	(472 425)	(615 791)
Carrying amount	**6 744 835**	**424 119**	**311 191**	**7 480 145**

Investment securities

In thousands of BGN	31-Dec-2018			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Investments in instruments measured at fair value through other comprehensive income				
Grades 1-3: Low risk	1 082 405	-	-	1 082 405
Investments in instruments mandatory measured at fair value through profit or loss				
Grades 1-3: Low to fair risk	176 654	-	-	176 654
Total carrying amount	**1 259 059**	**-**	**-**	**1 259 059**
Loss allowance	(1 136)	-	-	(1 136)

Loan commitments

In thousands of BGN	31-Dec-2018			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Grades 1-3: Low risk	743 138	3 007	-	746 145
Grades 4-6: Moderate risk	320 862	2 900	-	323 762
Grades 7-8: Increased risk	144 404	1 750	-	146 154
Grade 9: High risk	6 409	1 407	-	7 816
Grade 10: Default	-	-	3 408	3 408
Municipality, PSE	770	-	-	770
Not rated	77 258	-	-	77 258
Total amount committed	**1 292 841**	**9 064**	**3 408**	**1 305 313**
Loss allowance	(9 873)	(229)	(656)	(10 758)

Financial guarantee contracts

In thousands of BGN	31-Dec-2018			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Grades 1-3: Low risk	134 672	7 427	-	142 099
Grades 4-6: Moderate risk	126 143	10	-	126 153
Grades 7-8: Increased risk	22 217	495	-	22 712
Grade 9: High risk	5 130	167	-	5 297
Grade 10: Default	-	-	5 863	5 863
Not Rated	10 902	-	-	10 902
Total amount guaranteed	**299 064**	**8 099**	**5 863**	**313 026**
Loss allowance	(2 360)	(127)	(1 924)	(4 411)

The next table summarises the loss allowance as of the year end by class of exposure.

Loss allowance by classes

In thousands of BGN	**31-Dec-2018**	**31-Dec-2017**
Loans and advances to banks at amortised cost	(397)	-
Loans and advances to customers at amortised cost	(615 791)	(611 727)
Debt investment securities at FVTOCI	(1 136)	-
Loan commitments	(10 758)	(1 879)
Financial guarantee contracts	(4 411)	(2 114)
Total	**(632 493)**	**(615 720)**

Loss allowance - Loans and advances to banks at amortised cost

	31-Dec-2018			
In thousands of BGN	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Loss allowance as at 31 December 2017	-	-	-	-
Changes on initial application of IFRS 9	(782)	-	-	(782)
Loss allowance as at 1 January 2018	**(782)**	**-**	**-**	**(782)**
Changes in the loss allowance				
Decreases due to change in credit risk	385	-	-	385
Loss allowance as at 31 December 2018	**(397)**	**-**	**-**	**(397)**

Loss allowance - Loans and advances to customers at amortised cost

	31-Dec-2018			
In thousands of BGN	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Loss allowance as at 31 December 2017	(94 438)	(24 143)	(493 146)	(611 727)
Changes on initial application of IFRS 9	3 436	(4 275)	10 020	9 181
Loss allowance as at 1 January 2018	(91 002)	(28 418)	(483 126)	(602 546)
Changes in the loss allowance				
Transfer to stage 1	(5 036)	3 269	1 767	-
Transfer to stage 2	3 318	(21 786)	18 468	-
Transfer to stage 3	1 368	11 783	(13 151)	-
Increases due to change in credit risk	-	(15 100)	(75 029)	(90 129)
Decreases due to change in credit risk	12 186	11 820	-	24 006
Write-offs	-	-	64 403	64 403
New financial assets originated or purchased	(40 389)	(7 061)	(20 097)	(67 547)
Financial assets that have been derecognised	17 571	4 111	34 340	56 022
Loss allowance as at 31 December 2018	**(101 984)**	**(41 382)**	**(472 425)**	**(615 791)**

Loss allowance - Debt investment securities at FVTOCI

	31-Dec-2018			
In thousands of BGN	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Loss allowance as at 31 December 2017	**-**	**-**	**-**	**-**
Changes on initial application of IFRS 9	(1 345)	-	-	(1 345)
Loss allowance as at 1 January 2018	**(1 345)**	**-**	**-**	**(1 345)**
Changes in the loss allowance				
Decreases due to change in credit risk	209	-	-	209
Loss allowance as at 31 December 2018	**(1 136)**	**-**	**-**	**(1 136)**

Loss allowance - Loan commitments

	31-Dec-2018			
In thousands of BGN	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Loss allowance as at 31 December 2017	**(1 879)**	**-**	**-**	**(1 879)**
Changes on initial application of IFRS 9	(8 811)	(239)	(620)	(9 670)
Loss allowance as at 1 January 2018	**(10 690)**	**(239)**	**(620)**	**(11 549)**
Changes in the loss allowance				
Transfer to stage 1	(118)	57	61	-
Transfer to stage 2	116	(216)	100	-
Transfer to stage 3	8	1	(9)	-
Increases due to change in credit risk	-	-	(357)	(357)
Decreases due to change in credit risk	2 902	234	-	3 136
New loan commitments originated or purchased	(3 858)	(95)	(101)	(4 054)
Financial assets that have been derecognised	1 767	29	270	2 066
Loss allowance as at 31 December 2018	**(9 873)**	**(229)**	**(656)**	**(10 758)**

Loss allowance - Financial guarantee contracts

	31-Dec-2018			
In thousands of BGN	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Loss allowance as at 31 December 2017	**(1 621)**	**-**	**(493)**	**(2 114)**
Changes on initial application of IFRS 9	(4 852)	(207)	(1 511)	(6 570)
Loss allowance as at 1January 2018	**(6 473)**	**(207)**	**(2 004)**	**(8 684)**
Changes in the loss allowance				
Transfer to stage 1	(15)	15	-	-
Transfer to stage 2	2	(2)	-	-
Transfer to stage 3	-	(11)	11	-
Increases due to change in credit risk	-	(2)	(5)	(7)
Decreases due to change in credit risk	3 147	86	-	3 233
New financial guarantees	(1 428)	(73)	(2)	(1 503)
Financial assets that have been derecognised	2 407	67	76	2 550
Loss allowance as at 31 December 2018	**(2 360)**	**(127)**	**(1 924)**	**(4 411)**

Information about the significant changes in the gross carrying amount of financial assets during the period that contributed to changes in the loss allowance, is provided in the tables below:

Loans and advances to banks at amortised cost

	31-Dec-2018			
In thousands of BGN	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Gross carrying amount as at 31 December 2017	**2 906 581**	**-**	**-**	**2 906 581**
Changes on initial application of IFRS 9	-	-	-	-
Gross carrying amount as at 1 January 2018	**2 906 581**	**-**	**-**	**2 906 581**
Changes in the gross carrying amount	-	-	-	-
Increases due to change in credit risk	1 760 347	-	-	1 760 347
Gross carrying amount as at 31 December 2018	**4 666 928**	**-**	**-**	**4 666 928**
Loss allowance as at 31 December 2018	(397)	-	-	(397)

Loans and advances to customers at amortised cost

	31-Dec-2018			
In thousands of BGN	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Gross carrying amount as at 31 December 2017	6 221 264	319 893	854 986	7 396 143
Changes on initial application of IFRS 9	-	-	-	-
Gross carrying amount as at 1 January 2018	6 221 264	319 893	854 986	7 396 143
Changes in the gross carrying amount				
Transfer to stage 1	64 158	(58 827)	(5 331)	-
Transfer to stage 2	(202 689)	294 318	(91 629)	-
Transfer to stage 3	(79 896)	(90 124)	170 020	-
Decreases due to change in credit risk	(331 083)	(32 540)	(42 281)	(405 904)
Write-offs	-	-	(64 403)	(64 403)
New financial assets originated or purchased	2 195 364	73 015	41 460	2 309 839
Financial assets that have been derecognised	(1 020 299)	(40 234)	(79 206)	(1 139 739)
Gross carrying amount as at 31 December 2018	**6 846 819**	**465 501**	**783 616**	**8 095 936**
Loss allowance as at 31 December 2018	(101 984)	(41 382)	(472 425)	(615 791)

Investment securities

	31-Dec-2018			
In thousands of BGN	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Carrying amount as at 31 December 2017	**-**	**-**	**-**	**-**
Changes on initial application of IFRS 9	1 153 065	-	-	1 153 065
Carrying amount as at 1 January 2018	**1 153 065**	**-**	**-**	**1 153 065**
Changes in the carrying amount				
Decreases due to change in credit risk	(85 589)	-	-	(85 589)
Carrying amount as at 31 December 2018	**1 067 476**	**-**	**-**	**1 067 476**
Loss allowance as at 31 December 2018	(1 136)	-	-	(1 136)

Loan commitments

	31-Dec-2018			
In thousands of BGN	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Total amount committed as at 31 December 2017	**1 235 930**	**7 378**	**4 082**	**1 247 390**
Changes in the amount committed				
Transfer to stage 1	2 834	(2 400)	(434)	-
Transfer to stage 2	(6 758)	7 008	(250)	-
Transfer to stage 3	(1 074)	(21)	1 095	-
Increases due to change in credit risk	288	-	-	288
Decreases due to change in credit risk	(251 529)	(7 023)	(314)	(258 866)
New loan commitments originated or purchased	461 064	4 653	509	466 226
Financial assets that have been derecognised	(147 914)	(531)	(1 280)	(149 725)
Total amount committed as at 31 December 2018	**1 292 841**	**9 064**	**3 408**	**1 305 313**
Loss allowance as at 31 December 2018	(9 873)	(229)	(656)	(10 758)

Financial guarantee contracts

	31-Dec-2018			
In thousands of BGN	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Total amount guaranteed as at 31 December 2017	**295 155**	**7 877**	**8 212**	**311 244**
Changes in the amount guaranteed				
Transfer to stage 1	303	(303)	-	-
Transfer to stage 2	(60)	60	-	-
Transfer to stage 3	-	25	(25)	-
Increases due to change in credit risk	-	81	254	335
Decreases due to change in credit risk	(787)	-	-	(787)
New financial guarantees	168 491	4 850	5	173 346
Financial assets that have been derecognised	(164 038)	(4 491)	(2 583)	(171 112)
Total amount guaranteed as at 31 December 2018	**299 064**	**8 099**	**5 863**	**313 026**
Loss allowance as at 31 December 2018	(2 360)	(127)	(1 924)	(4 411)

The table below provides an analysis of the gross carrying amount of loans and advances to customers by past due status.

Loans and advances to customers

	31-Dec-2018		31-Dec-2017	
In thousands of BGN	**Gross carrying amount**	**Loss allowance**	**Gross carrying amount**	**Loss allowance**
0-30 days	7 483 070	(218 310)	6 722 874	(206 091)
31-60 days	81 555	(20 874)	95 507	(15 905)
61-90 days	61 535	(18 793)	65 108	(11 625)
91-180 days	39 309	(20 206)	40 920	(19 221)
More than 181 days	430 467	(337 608)	471 734	(358 885)
Total	**8 095 936**	**(615 791)**	**7 396 143**	**(611 727)**

As a result of the Bank's forbearance activities financial assets might be modified. The following tables refer to modified financial assets where modification does not result in derecognition.

Financial assets (with loss allowance based on lifetime ECL) modified during the period

In thousands of BGN	**2018**
Gross carrying amount before modification	95 404
Loss allowance before modification	(28 038)
Net amortised cost before modification	**67 366**
Net amortised cost after modification	**74 393**

Financial assets modified since initial recognition at a time when loss allowance was based on lifetime ECL

In thousands of BGN	**31-Dec-2018**
Gross carrying amount of financial assets for which loss allowance has changed in the period from lifetime to 12-month ECL cost after modification	11 683

Mortgage lending

The Bank holds residential properties as collateral for the mortgage loans it grants to its customers. The Bank monitors its exposure to retail mortgage lending using the LTV ratio, which is calculated as the ratio of the gross amount of the loan - or the amount committed for loan commitments - to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is typically based on the collateral value at origination updated based on changes in house price indices. For credit-impaired loans the value of collateral is based on the most recent appraisals. The tables below show the exposures from mortgage loans by ranges of LTV.

In thousands of BGN	31-Dec-2018 Gross carrying amount	31-Dec-2018 Loss allowance	31-Dec-2017 Gross carrying amount	31-Dec-2017 Loss allowance
LTV ratio				
Less than 50%	464 481	(1 672)	377 651	(151)
51-70%	680 775	(2 918)	592 453	(336)
71-90%	749 136	(4 151)	602 337	(2 054)
91-100%	63 662	(603)	105 779	(1 297)
More than 100%	67 773	(1 854)	109 686	(918)
Total	**2 025 827**	**(11 198)**	**1 787 906**	**(4 756)**

Loan commitments - Mortgage lending

In thousands of BGN	31-Dec-2018 Amount committed	31-Dec-2018 Loss allowance	31-Dec-2017 Amount committed	31-Dec-2017 Loss allowance
LTV ratio				
Less than 50%	2 510	5	2 193	-
51-70%	8 272	21	6 009	-
71-90%	5 905	16	10 303	-
91-100%	914	4	400	-
More than 100%	28 902	230	27 224	-
Total	**46 503**	**276**	**46 129**	**-**

Credit impaired - mortgage lending

In thousands of BGN	31-Dec-2018 Gross carrying amount	31-Dec-2018 Loss allowance	31-Dec-2017 Gross carrying amount	31-Dec-2017 Loss allowance
LTV ratio				
Less than 50%	36 991	(7 376)	29 947	(770)
51-70%	43 837	(9 522)	47 810	(10 581)
71-90%	42 834	(12 718)	72 700	(24 667)
91-100%	19 284	(6 874)	22 589	(8 982)
More than 100%	173 259	(142 642)	134 495	(93 348)
Total	**316 205**	**(179 132)**	**307 541**	**(138 348)**

Assets obtained by taking possession of collateral

In 2018 the Bank acquired real estate, collateral for loans amounting to BGN 1 319 thousand (2017: BGN 3 164 thousand). The Bank's policy is to realise collateral on a timely basis.

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 customers by type of collateral

In thousands of BGN	**31-Dec-2018**	**31-Dec-2017**
Secured by mortgages	2 980 203	2 881 443
Cash collateral	14 626	18 742
Government securities	1 586 075	859 472
Other types of collateral*	4 119 881	3 716 120
Without collateral	4 062 079	2 826 947
Total	**12 762 864**	**10 302 724**

***** 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-2018**		**31-Dec-2017**	
	Carrying amount	**Collateral**	**Carrying amount**	**Collateral**
Advances to banks	1 586 075	1 610 685	873 692	861 369
Total	**1 586 075**	**1 610 685**	**873 692**	**861 369**

(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 the 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 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 in 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 in 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.

The 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 2018 the assessment of all internal 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 Joint 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 March 2014.

During the 2018 year there are no registered events, which could potentially threaten the Bank activity.

(e) Capital Management

The 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 11.02%, buffers including. The total capital adequacy ratio should be higher than 13.75%, buffers including.

(2) Capital ratios

Total own funds for solvency purposes

In thousands of BGN	**Basel III 2018**	**Basel III 2017**
Tier 1 capital	1 157 537	1 111 708
Common equity Tier 1 capital	1 157 537	1 111 708
Additional Tier 1 capital (AT1)	-	-
Tier 2 capital	-	-
Own funds	**1 157 537**	**1 111 708**
Credit risk capital requirement	513 281	470 511
Market risk capital requirement	3 581	3 888
Operational risk capital requirement	46 935	44 043
Total requirement regulatory capital	**563 797**	**518 442**
Surplus of total capital	**593 740**	**593 266**
CET1 capital ratio (%)	16.42%	17.15%
Capital adequacy ratio (%)	**16.42%**	**17.15%**

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 2018, 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 2018 set by the BNB is 0% and the specific countercyclical capital buffer for the Bank for 2018 is 0%. The capital requirements are also increasing by introducing other systemically important institutions buffer, which is calculated at 0.25% of the total risk exposures of the Bank for 2018.

According to joint decision of the Bulgarian National Bank and Hungarian Central Bank the Bank has to keep additional capital requirement of 1.38% for 2018 (1.12% for 2017) 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.

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-2018				
Assets				
Financial assets held for trading	48 988	-	-	48 988
Derivative financial instruments	-	14 880	-	14 880
Investments in securities	1 240 841	3 289	14 929	1 259 059
Total	**1 289 829**	**18 169**	**14 929**	**1 322 927**
Liabilities				
Derivative financial instruments	405	27 032	-	27 437
Total	**405**	**27 032**	**-**	**27 437**
31-Dec-2017				
Assets				
Financial assets held for trading	236 223	-	-	236 223
Derivative financial instruments	-	6 224	-	6 224
Investments in securities	1 329 686	5 535	13 541	1 348 762
Total	**1 565 909**	**11 759**	**13 541**	**1 591 209**
Liabilities				
Derivative financial instruments	-	50 900	-	50 900
Total	**-**	**50 900**	**-**	**50 900**

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	466 421	2 743 918	-	**3 210 339**	**3 210 339**
Loans and advances to banks	-	1 922 316	-	**1 922 316**	**1 922 613**
Loans and advances to customers	-	-	7 561 400	**7 561 400**	**7 480 145**
Liabilities					
Deposits from banks	-	7 994	-	**7 994**	**7 994**
Loans from financial institutions	-	11 129	-	**11 129**	**11 129**
Deposits from customers	-	11 552 212	-	**11 552 212**	**11 552 168**

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.

5. Net interest income

In thousands of BGN	2018	2017
Interest income		
Loans and advances to banks	8 347	23 675
Loans and advances to customers	400 957	418 220
Investment securities	20 735	20 903
of which at amortised value	-	367
Deposits from banks	414	140
Deposits from customers	989	1 242
Total	**431 442**	**464 180**
Interest expense		
Deposits from banks	(5 474)	(5 318)
Loans from banks and financial institutions	(6)	(6)
Deposits from customers	(3 684)	(4 281)
Investment securities	(3)	(5)
Loans and advances to banks	(3 236)	(936)
Loans and advances to customers	(55)	(54)
Total	**(12 458)**	**(10 600)**
Net interest income	**418 984**	**453 580**

6. Net fee and commission income

In thousands of BGN	**2018**	**2017**
Fee and commission income		
In Bulgarian Leva		
Payment and settlement transactions	50 740	48 156
Credit related deals	15 363	20 639
Deposit related deals	60 508	54 385
Other	14 307	12 471
	140 918	**135 651**
In foreign currencies		
Payment and settlement transactions	25 347	21 534
Credit related deals	4 732	5 678
Deposit related deals	2 940	2 834
Other	3 260	2 767
	36 279	**32 813**
Total	**177 197**	**168 464**
Fee and commission expense		
In Bulgarian Leva	(10 238)	(10 730)
In foreign currencies	(5 315)	(3 889)
Total	**(15 553)**	**(14 619)**
Net fee and commission income	**161 644**	**153 845**

Performance obligations and revenue recognition policies

Fee type	**Nature and timing of satisfaction of performance obligations, and the significant payment terms**	**Revenue recognition under IFRS**
Fees and commissions related to payment transactions	The Bank provides to its customers a variety of services, related to withdrawals and depositing funds into bank accounts, payment transactions in local and foreign currency, according to which different fees are applied. In the case of transaction – based fees (for example in the case of cash withdrawal either a POS/ATM payment fee or a fee for cash withdrawal in the Bank`s offices is charged, etc.) the fee is due immediately after the transaction takes place or once per month. The fee is usually defined in % of the transaction amount with a pre – defined fixed minimum amount. In all other cases of payment services, the fee is charged when the transaction takes place. These fees can be determined in fixed amount or in %. The Bank performs a regular pricing review of applicable fees and commissions.	Transaction-based fees are charged when the transaction takes place or monthly at the end of the month.

Fee type	Nature and timing of satisfaction of performance obligations, and the significant payment terms	Revenue recognition under IFRS
Fees and commissions related to credit deals	The Bank provides a range of bank services on clients` accounts to both physical and companies against a service fee, as well as submits for the use of its customers different types of credit cards with respective fees applied. Account management fees are typically related to bank account servicing, issuing credit cards, annual fees on credit cards and other fees on credit cards for usual bank account services. Annual card fees are fixed and depend on the type of bank card. The Bank regularly reviews applied fees.	Fees for ongoing services are charged on a monthly basis. Fees on one – off services are charged at the moment of service delivery.
Fees and commissions on deposit accounts	The Bank offers a number of account management services for both retail and companies against a service fee as well as makes available for its clients different types of debit cards with respective fees applied. Fees related to these services are account opening and closing fees, management fees, online banking, debit card issuing, monthly fees for debit card services and other fees for usual account services. Fees for current account management services are charged to the customer on a monthly basis. They are usually fixed to an amount depending on the package program or the category of the client. Monthly and annual fees on bank cards are set in fixed amount. They are differentiated according to the type of bank card. Fees for occasional one – off services are charged when the client makes use if the service. These fees can be fixed or determined in %. The Bank regularly reviews applied fees.	Fees for current account management services of customers` accounts are charged monthly. Fees on one – off services are charged at the moment of service delivery.
Other fees and commissions	Fees reported in the “Other fees” category are fees for safekeeping of money or valuables in the safe boxes of the public treasury, issuing a bank certificate, issuing a bank reference, photocopies of documents, etc. These fees concern long – term services provision (bank safekeeping) or one – off administrative services.	Fees for long – term services are charged in the respective period they are provided for. Fees for one – off services are charged when the service is provided.

7. Net trading gains or losses

In thousands of BGN	**2018**	**2017**
Interest rate instruments	(2 426)	(629)
Revaluation and interest on FX derivatives	40 850	(28 024)
Foreign exchange trading	17 868	19 652
Ineffective hedge net gain/(loss)	170	(265)
Other	387	277
Total	**56 849**	**(8 989)**

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

In thousands of BGN	**2018**	**2017**
Losses on hedged assets	(677)	(1 571)
Gains on the hedging instruments	847	1 306
Hedge ineffectiveness recognised immediately in the income statement	**170**	**(265)**

The effect of revaluation of derivatives hedging repo deals is reported in net (losses)/gains from foreign exchange of the Statement of profit or loss.

8. Net losses from other financial instruments at FVTPL

In thousands of BGN	**2018**	**2017**
Debt instruments	(4 181)	-
Equity instruments	(4)	-
Total	**(4 185)**	**-**

9. Net gains from derecognition of financial assets measured at amortised cost

In thousands of BGN	**2018**	**2017**
Write-off of financial assets	3 226	1 348
Sale of financial assets	8 999	31 041
Total	**12 225**	**32 389**

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

10. Other operating income, net

In thousands of BGN	2018	2017
Net income of securities measured at fair value through other comprehensive income		
Government bonds	(232)	n.a.
Equity investments	288	n.a.
Dividends	174	1 992
Rental fees	1 560	1 760
Other	2 812	3 085
Total	**4 602**	**6 837**

11. Impairment losses on financial assets, net

In thousands of BGN	2018	2017
Impairment gain on bank deposits, net	385	-
Impairment losses on loans, net	(77 648)	(51 241)
Impairment losses on other assets, net	(794)	(3 337)
Impairment gain on financial assets at FVTOCI, net	216	-
Total	**(77 841)**	**(54 578)**

12. Impairment losses on non-financial assets, net

In thousands of BGN	2018	2017
Impairment losses on tangible assets	(11 048)	(2 423)
Impairment losses on collaterals acquired	(6 008)	(1 263)
Total	**(17 056)**	**(3 686)**

13. Personnel expenses

In thousands of BGN	2018	2017
Wages and salaries	88 081	80 004
Social payments	23 007	20 648
Other	1 734	1 678
Total	**112 822**	**102 330**

The average number of staff in the Bank is 4 198 for 2018 and 4 082 for 2017.

14. Other expenses

In thousands of BGN	2018	2017
Materials and services	98 324	96 180
Operating lease expenses of buildings and vehicles	7 368	7 218
Guarantee Funds instalments	37 293	35 477
Other expenses	2 897	3 379
Total	**145 882**	**142 254**

The contracted fees for independent financial audit are BGN 528 thousand and for regulatory agreed-upon procedures under ISRS 4400 of BGN 55 thousand (2017: BGN 410 thousand independent financial audit and BGN 54 thousand negotiated procedures).

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-2018	31-Dec-2017
With maturity of up to 1 year	9 413	8 784
With maturity from 1 to 5 years	23 625	15 758
With maturity over 5 years	7 626	1 010
Total liabilities from operating lease	**40 664**	**25 552**

15. Income tax expense

In thousands of BGN	**2018**	**2017**
Current tax expense	(22 250)	(33 648)
Current tax expense connected with initial application of IFRS 9	(891)	-
Deferred tax (expense)/income related to origination and reversal of temporary tax differences	(1 027)	4 698
Total	**(24 168)**	**(28 950)**

In thousands of BGN	**2018**	**2017**
Accounting profit	241 346	290 974
Income tax using the statutory corporate tax rate	(24 135)	(29 097)
Tax on permanent tax differences	(33)	147
Income tax expense	**(24 168)**	**(28 950)**
Effective tax rate	10.01%	9.95%

Current taxes are calculated using a tax rate of 10% for 2018 and 2017.

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

In thousands of BGN	**31-Dec-2018**	**31-Dec-2017**
Cash on hand		
In Bulgarian Leva	410 138	352 963
In foreign currencies	56 283	45 774
Current accounts with the Central Bank and other banks		
In Bulgarian Leva	2 705 511	1 259 120
In foreign currencies	38 407	32 564
Total	**3 210 339**	**1 690 421**

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 894 196 thousand and BGN 816 255 thousand as of 31 December 2018 and 2017 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, 2018 BGN 12 806 thousand.

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, 2018 BGN 670 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.

17. Financial assets held for trading and derivative financial instruments

In thousands of BGN	31-Dec-2018	31-Dec-2017
Government securities – Republic of Bulgaria denominated in Bulgarian Leva	12 809	124 784
Government securities – Republic of Bulgaria denominated in foreign currencies	10 299	37 991
Foreign issuers debt securities denominated in foreign currencies	25 880	73 448
Total	**48 988**	**236 223**

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, 2018 between 0.50% and 4.95% and government securities denominated in EUR earn interest between 2.00% and 5.75%.

Government securities issued by foreign governments comprise securities denominated in EUR and USD. The EUR denominated government securities earn interest as of December 31, 2018 between 2.375% and 3.875% and government securities denominated in USD earn interest between 6.375% and 6.75%.

Derivative financial instruments as of 31 December 2018

	Carrying value		Notional
Type of restructuring	**Assets**	**Liabilities**	**amoumt**
In thousands of BGN			
Derivatives held for trading			
Interest rate swaps	6 765	5 376	627 225
Foreign exchange contracts	3 255	1 832	923 816
Equity swaps	45	634	15 323
Total	**10 065**	**7 842**	**1 566 364**
Derivatives used as fair value hedges			
Interest rate swaps	4 815	5 114	389 531
Foreign exchange contracts	-	14 481	1 604 990
Total	**4 815**	**19 595**	**1 994 521**
Total derivative financial instruments	**14 880**	**27 437**	**3 560 885**

Derivative financial instruments as of 31 December 2017

	Carring value		Notional
Type of restructuring	**Assets**	**Liabilities**	**amoumt**
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**

As of 31 December 2018 DSK Bank has the following intragroup deals:

- Interest rate swaps with OTP Bank – assets BGN 1 288 thousand, liabilities BGN 3 686 thousand, notional amount BGN 303 801 thousand;
- Derivative deals for foreign exchange with OTP Bank - assets BGN 1 312 thousand, liabilities BGN 586 thousand, notional amount BGN 397 261 thousand;
- Equity swaps with OTP Bank - assets BGN 45 thousand, liabilities BGN 448 thousand, notional amount BGN 8 027 thousand;
- Derivative deals for fair value hedge are with OTP Bank. Derivatives are hedging fair value of FVOCI securities and reverse purchase loans.

As of 31 December 2017 DSK Bank has the following intragroup 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.

18. Loans and advances to banks

(a) Analysis by type

In thousands of BGN	31-Dec-2018	31-Dec-2017
Deposits with domestic and foreign banks		
In Bulgarian Leva	9 999	66 013
In foreign currencies	323 805	674 835
Encumbered assets with foreign banks	3 131	357
Loans under repurchase agreements	1 586 075	873 692
Less impairment loss allowances	(397)	-
Total	**1 922 613**	**1 614 897**

(b) Geographical analysis

In thousands of BGN	31-Dec-2018	31-Dec-2017
Domestic banks	29 485	81 595
Foreign banks	1 893 128	1 533 302
Total	**1 922 613**	**1 614 897**

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 2018 DSK Bank has the following intragroup deals:

- Repurchase agreements with OTP Bank denominated in HUF amounting to BGN 1 576 751 thousand with original maturity between 16 and 23 months and maturing between March and October 2020. Interest rates vary from 0.6338% to 1.0401%. The deals are collateralised with Hungarian Government Bonds with coverage at 100%;
- Deposits blocked in connection with derivative deals with OTP Bank denominated in EUR and USD amounting to BGN 334 thousand.

As of 31 December 2017 DSK Bank has the following intragroup 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 2.529%. The deals 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 maturing 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.

19. Loans and advances to customers

In thousands of BGN	**31-Dec-2018**	**31-Dec-2017**
Individuals		
In Bulgarian Leva		
Consumer loans	2 681 637	2 431 742
Mortgage loans	1 991 597	1 637 804
In foreign currencies		
Consumer loans	95 806	150 740
Mortgage loans	350 436	457 643
Companies		
In Bulgarian Leva		
Working capital loans	928 576	883 244
Investment loans	681 846	589 669
Commercial factoring	18 843	7 215
In foreign currencies		
Working capital loans	401 541	406 179
Investment loans	924 695	819 883
Commercial factoring	19 672	5 994
State Budget		
In Bulgarian Leva	306	4 942
In foreign currencies	981	1 088
Less impairment loss allowances	(615 791)	(611 727)
Total loans and advances to customers	**7 480 145**	**6 784 416**

Impairment allowances of loans and advances to customers

In thousands of BGN	**31-Dec-2018**	**31-Dec-2017**
Balance at 1 January	**602 546**	**761 632**
Net change for the year through profit or loss	77 648	51 241
Decrease	(64 403)	(201 146)
Balance at 31 December	**615 791**	**611 727**

The interest rates on receivables from loans as at 31 December 2018 are ranged as follows: receivables from individuals from 1.5% to 41.11%; receivables from companies from 0.75% to 12.36%; receivables from State Budget from 0.33% to 3.50%.

In accordance with the policy of DSK Bank in 2018 the carrying amount of the sale of problem loans to OTP Factoring Bulgaria is BGN 10 751 thousand and the impairment allowance amounts to BGN 10 751 thousand. DSK Bank income on sale of problem lons to OTP Factoring Bulgaria is BGN 1 044 thousand.

Write-off on account of impairment, including on loan sales to third parties, reported during the year 2018 amounted to BGN 54 405 thousand, of which BGN 39 571 thousand are with partial termination of the balance sheet reporting.

As of 31 December 2018 DSK Bank has the next intra group deals:

- Credit line to OTP Factoring Bulgaria denominated in BGN, amounting to BGN 7 085 thousand, granted on 14 June 2017 with maturity date 30 April 2019 and interest rate 4%. As of the statement date the credit line is not disbursed.

- Credit line to OTP Factoring Bulgaria denominated in BGN, amounting to BGN 2 000 thousand, granted on 7 August 2015 with maturity date 30 April 2019 and interest rate 4%. The disbursed amount as of statement date is BGN 2 000 thousand.
- Credit line to OTP Factoring Bulgaria denominated in EUR, amounting to BGN 17 128 thousand, granted on 14 June 2017 with maturity date 30 April 2019 and interest rate 4.2%. As of the statement date the credit line is not disbursed.

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 thousand, granted on 14 June 2017 with maturity date 15 June 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 thousand, granted on 7 August 2015 with maturity date 15 June 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 thousand, granted on 14 June 2017 with maturity date 15 June 2018 and interest rate 4.2%. The disbursed amount as of statement date is BGN 405 thousand.

20. Investments in securities

In thousands of BGN	**31-Dec-2018**	**31-Dec-2017**
Investments available for sale		
Equity instruments	n.a.	13 834
Government debt securities	n.a.	1 152 128
Corporate debt securities	n.a.	182 800
Total investments available for sale	**n.a.**	**1 348 762**
Investments held to maturity		
Government debt securities	n.a.	6 510
Total investments held to maturity	**n.a.**	**6 510**
Investments in instruments mandatory measured at fair value through profit or loss		
Equity instruments	289	n.a.
Government debt securities	2 999	n.a.
Corporate debt securities	173 366	n.a.
Total investments in instruments mandatory measured at fair value through profit or loss	**176 654**	**n.a.**
Investments in instruments measured at fair value through other comprehensive income		
Equity instruments	14 929	n.a.
Government debt securities	1 068 612	n.a.
Less impairment loss allowances	(1 136)	n.a.
Total investments in instruments measured at fair value through other comprehensive income	**1 082 405**	**n.a.**
Total	**1 259 059**	**1 355 272**

The assets of DSK Bank in its investment portfolio consist of investments mandatory measured at fair value through profit and loss (FVTPL) and investments measured at fair value through other comprehensive income (FVTOCI).

Investments mandatory measured at FVTPL include government bonds, issued by the Ministry of Finance: denominated in euro with an applicable interest rate of -0.272% and denominated in USD with an interest rate of 2.30213%.

As of 31 December 2018 DSK Bank reports in its FVTPL portfolio a perpetual bond mandatory measured at FVTPL, issued in EUR from OTP Bank (ISIN XS0274147296) with a nominal value of BGN 188 626 thousand and a carrying amount of BGN 173 366 thousand. The bond is remunerated with a floating interest rate of 2.681% at the reporting date.

As of 31 December 2017 DSK Bank reports in its AFS portfolio 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%.

Investments measured at FVTOCI include government bonds issued by the Ministry of Finance denominated in BGN with an applicable interest rate in the range between 0.30% and 5.00% and denominated in euro with an interest rate ranging between 1.875% and 5.75%; 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 in the range from 3.25% to 6.75%.

The equity investments represent shares in domestic and foreign companies and financial institutions.

As of 31 December 2018, securities pledged as collateral and blocked in favour of the Ministry of Finance on deposits from the State Budget amount to BGN 165 193 thousand.

21. Property, plant and equipment

Movement of property, plant and equipment during the year 2018

In thousands of BGN	Land and buildings	IT equipment	Office equipment	Other equipment	Total
Cost or revalued amount					
As of 31 December 2017	369 527	80 963	88 488	15 253	554 231
Additions	-	-	-	21 441	21 441
Disposals	(5 108)	(8 274)	(2 107)	(2 298)	(17 787)
Transfers	12 711	7 249	4 795	(24 755)	-
Revaluation	20 857	-	-	-	20 857
Impairment	(3)				(3)
Cost or revalued amount as of 31 December 2018	**397 984**	**79 938**	**91 176**	**9 641**	**578 739**
Depreciation					
As of 31 December 2017	92 152	67 524	66 506	744	226 926
Charge for the period	6 657	5 621	6 992	190	19 460
Disposals	(1 730)	(9 186)	(2 081)	800	(12 197)
Revaluation	15 903	-	-	-	15 903
Impairment	11 050	-	-	-	11 050
Depreciation as of 31 December 2018	**124 032**	**63 959**	**71 417**	**1 734**	**261 142**
Net book value 31 December 2018	**273 952**	**15 979**	**19 759**	**7 907**	**317 597**
Net book value 31 December 2017	**277 375**	**13 439**	**21 982**	**14 509**	**327 305**

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**

In “Land and buildings” are included leasehold improvements to the amount of BGN 4 467 thousand as of 31 December 2018 and BGN 4 906 thousand as of 31 December 2017.

In “Other equipment” are included property, plant and equipment under construction and acquisition of property plant and equipment to the amount of BGN 7 723 thousand as of 31 December 2018 and BGN 14 135 thousand as of 31 December 2017.

As of 31 December 2018, 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 5 368 thousand, IT equipment: to the amount of BGN 44 659 thousand, office equipment: to the amount of BGN 42 832 thousand, other equipment: to the amount of BGN 1 067 thousand.

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 2018 the fair value of land and buildings is not significantly different than their book value as at the same date. The fair value of land and buildings is categorized as Level 3 based on the inputs of the valuation technique used.

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

22. Intangible assets

Movement of intangible assets during 2018

In thousands of BGN	Intangible assets	Assets under construction	Total
Cost or revalued amount			
As of 31 December 2017	137 174	7 929	145 103
Additions	-	21 422	21 422
Disposals	(2 738)	(554)	(3 292)
Transfers	11 503	(11 503)	-
Cost or revalued amount as of 31 December 2018	**145 939**	**17 294**	**163 233**
Depreciation			
As of 31 December 2017	103 946	-	103 946
Charge for the period	12 703	-	12 703
Disposals	(2 723)	-	(2 723)
Depreciation as of 31 December 2018	**113 926**	**-**	**113 926**
Net book value 31 December 2018	**32 013**	**17 294**	**49 307**
Net book value 31 December 2017	**33 228**	**7 929**	**41 157**

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**

As of 31 December 2018, 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 85 125 thousand.

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.

23. Other assets

In thousands of BGN	**31-Dec-2018**	**31-Dec-2017**
Deficiencies in assets	599	540
Advances to suppliers	1 005	1 361
Receivables in litigation	1 595	1 524
Materials, spare parts	1 660	1 830
Deferred expenses	4 632	2 798
Clearing and bank settlement assets	12 451	11 760
Acquired collaterals	20 616	20 753
Depository accounts	54 955	1 390
Other assets	19 053	8 834
Impairment	(13 815)	(6 660)
Total	**102 751**	**44 130**

The net change of the impairment in the statement of profit or loss is expense BGN 6 688 thousand for 2018 and expense BGN 3 337 thousand for 2017.

At 31 December 2018, the gross carrying amount of assets acquired against non-collectable loans is to the amount of BGN 28 168 thousands, the amount of impairment of them is to the amount of BGN 7 552 thousand.

At 31 December 2017, the gross carrying amount of assets acquired against non-collectable loans is to the amount of BGN 24 229 thousands, the amount of impairment of them is to the amount of BGN 3 476 thousand.

Depositary accounts represent temporary balances to secure transactions with securities.

24. Deposits from banks and loans from financial institutions

In thousands of BGN	**31-Dec-2018**	**31-Dec-2017**
Deposits from banks		
Current accounts	7 994	14 767
Total deposits from banks	**7 994**	**14 767**
Loans from financial institutions		
Long term loans	11 129	15 518
Total loans from financial institutions	**11 129**	**15 518**

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, 2017 the interest rate on the outstanding amount is 0.421%, as of December 31, 2018 it is 0.44%.

OTP Bank RT has loro accounts with DSK Bank denominated in BGN and EUR with total balance as of December 31, 2018 BGN 1 543 thousand. OTP Bank Croatia has loro account with DSK Bank denominated in BGN with total balance as of December 31, 2018 BGN 1 thousand.

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 2017 and 2018.

25. Deposits from customers

In thousands of BGN	**31-Dec-2018**	**31-Dec-2017**
Individuals		
In Bulgarian Leva		
Term deposits	2 298 859	2 145 924
Demand deposits	4 387 383	3 910 340
In foreign currencies		
Term deposits	1 242 950	1 159 047
Demand deposits	1 103 111	999 272
Companies		
In Bulgarian Leva		
Term deposits	73 244	79 910
Demand deposits	1 210 275	1 032 389
In foreign currencies		
Term deposits	59 674	62 025
Demand deposits	478 795	612 391
State Budget		
In Bulgarian Leva		
Term deposits	942	1 506
Demand deposits	119 478	102 878
In foreign currencies		
Term deposits	47	47
Demand deposits	33 935	42 595
Financial institutions		
In Bulgarian Leva		
Term deposits	19 094	20 445
Demand deposits	117 618	73 681
In foreign currencies		
Term deposits	393	355
Demand deposits	406 370	48 318
Total	**11 552 168**	**10 291 123**

The interest rates on deposits as at 31 December 2018 are ranged as follows: deposits from individuals from 0% to 8.50%; deposits from companies from 0% to 1.50%; deposits from State Budget from 0% to 2.11%; deposits from financial institutions from -0.30% to 0.25%.

As of 31 December 2018 DSK Bank has the next intra group deals:

- Current accounts of group members denominated in BGN and EUR amounting to BGN 66 816 thousand;
- Term deposits of group members denominated in BGN amounting to BGN 214 thousand.

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.

26. Deferred tax liabilities

Deferred income taxes for 2018 are calculated on all temporary differences under the liability method using a tax rate of 10%.

Deferred income tax balances are attributable to the following items

	Assets	Liabilities	Net			
In thousands of BGN	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Pension severance payments under Labour Code and other personnel liabilities	(1 364)	(1 381)	-	-	(1 364)	(1 381)
Business reorganisation	-	-	443	443	443	443
Financial assets	-	(10)	-	-	-	(10)
Fixed assets	-	-	11 542	12 112	11 542	12 112
Provisions for litigation and others	(3 797)	(4 888)	-	-	(3 797)	(4 888)
Unused annual leave and other	(1 017)	(602)	-	-	(1 017)	(602)
Net deferred tax (assets)/liabilities	**(6 178)**	**(6 881)**	**11 985**	**12 555**	**5 807**	**5 674**

Movement in temporary differences during 2018

In thousands of BGN	Balance as of 31 December 2017	Recognised in the statement of profit or loss 2018	Recognised in equity 2018	Balance as of 31 December 2018
Pension severance payments under Labour Code and other personnel liabilities	(1 381)	17	-	(1 364)
Business reorganisation	443	-	-	443
Financial assets	(10)	1 361	(1 351)	-
Fixed assets	12 112	(1 027)	457	11 542
Provisions for litigation and other liabilities	(4 888)	1 091	-	(3 797)
Unused annual leave and other	(602)	(415)	-	(1 017)
Total	**5 674**	**1 027**	**(894)**	**5 807**

Movement in temporary differences during 2017

In thousands of BGN	**Balance as of 31 December 2016**	**Recognised in the statement of profit or loss 2017**	**Recognised in equity 2017**	**Balance as of 31 December 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**

27. Provisions

Movement in provisions during 2018

In thousands of BGN	**Pension employment defined benefit obligations**	**Provisions for for litigation and others**	**Provisions for commitments and guarantees given**	**Total**
Opening balance as of 31 December 2017	7 800	48 208	3 993	60 001
Changes on initial application of IFRS 9	-	-	16 240	16 240
Additions during the year	763	2 844	-	3 607
Reversal during the year	-	(12 445)	(5 084)	(17 529)
Amounts paid	(719)	(631)	-	(1 350)
Other movements	619	-	20	639
Total	**8 463**	**37 976**	**15 169**	**61 608**

Movement in provisions during 2017

In thousands of BGN	**Pension employment defined benefit obligations**	**Provisions for for litigation and others**	**Provisions for commitments and guarantees given**	**Total**
Opening balance as of 31 December 2016	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 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	**2018**	**2017**
Defined benefit obligations at 1 January	7 800	6 124
Benefits paid by the plan	(719)	(693)
Current service costs	770	623
Interest cost	115	160
Remeasurements:		
Experience adjustments	797	1 061
Actuarial (gains) losses from changes in demographic assumptions	31	7
Actuarial (gains) losses from changes in financial assumptions	(331)	518
Defined benefit obligations at 31 December	**8 463**	**7 800**

Expense recognized in statement of profit or loss

In thousands of BGN	**2018**	**2017**
Current service costs	770	623
Interest on obligation	115	160
Actuarial (gains) losses	(122)	105
Total	**763**	**888**

Actuarial assumptions

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

	2018	**2017**
Discount rate at 31 December	1.00%	1.40%
Future salary increases	5.00%	3.00%

28. Trade and other liabilities

In thousands of BGN	**31-Dec-2018**	**31-Dec-2017**
Deferred income	5 528	6 446
Liabilities to suppliers	7 610	5 050
Liabilities to personnel and management	10 547	11 030
Liabilities for centralisation of State Budget with BNB	11 734	25 398
Money transfers for execution	12 130	22 438
Liabilities under condition for financial asset refunding	57 285	70 279
Other	9 743	7 647
Total	**114 577**	**148 288**

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.

29. Shareholder's equity

(a) Face value of registered shares

In thousands of BGN	**31-Dec-2018**	**31-Dec-2017**
Ordinary registered voting shares	1 327 482	153 984

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

On 31 July 2018 the sole proprietor took decision to increase the capital of the Bank from BGN 153 984 thousand to BGN 1 327 482 thousand through issuing 117 349 800 registered, ordinary shares with a nominal amount of BGN 10 each, registered by OTP Bank PT.

The capital increase is registered in the Commercial Register on 27 December 2018.

The ultimate shareholders with over 5% stake of OTP Bank as of December 31, 2018 are as follows:

Name	Number of shares	Ownership	Voting rights
MOL (Hungarian Oil and Gas Company Plc.)	24 000 000	8.57%	8.64%
KAFIJAT Ltd.	21 811 325	7.43%	7.49%
OPUS Securities S.A.	14 496 476	5.18%	5.22%
Groupama Group	14 338 498	5.12%	5.16%

(b) 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.

30. Contingent liabilities and commitments

(a) Off balance sheet liabilities and commitments

In thousands of BGN	**31-Dec-2018**	**31-Dec-2017**
Litigation against the Bank and other contingent liabilities	39 756	49 844
Bank guarantees and letters of credit		
in Bulgarian Leva	229 204	188 767
in foreign currencies	83 822	122 477
	313 026	**311 244**
Commitments for undrawn credit facilities		
in Bulgarian Leva	878 882	836 879
in foreign currencies	426 431	410 511
	1 305 313	**1 247 390**
Forward and spot deals - sell		
in Bulgarian Leva	158 140	997 604
in foreign currencies	3 625 674	1 901 441
	3 783 814	**2 899 045**
Other	2 061	634
Total	**5 443 970**	**4 508 157**

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

As of 31 December 2018 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. In April 2018 the amount of the guarantee is increased to 283 and the maturity is 04 May 2019.
- 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 2018 and 31 December 2017 the overdraft is not used.

(b) Contingent liabilities on guarantees and letters of credit

The 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.

These commitments and contingent liabilities carry an off-balance sheet credit risk, with a provision for the proportion of the uncommitted commitment that is likely to be funded based on a credit conversion factor (Note 27).

(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 39 756 thousand (principal and accrued interest) as of December 31, 2018. 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 37 976 thousand (note 27) are allocated as at the end of 2018.

(d) Assets pledged as collateral

As of 31 December 2018 DSK Bank has pledged Government bonds to the amount of BGN 165 193 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 2018 DSK Bank has pledged deposits collateralising derivative deals with OTP Bank amounting to BGN 334 thousand and with other foreign banks amounting to BGN 2 797 thousand.

31. Cash and cash equivalents

In thousands of BGN	**31-Dec-2018**	**31-Dec-2017**
Cash on hand	466 421	398 737
Balances with the Central Bank	2 709 168	1 264 219
Receivables from banks with maturity up to 3 months	34 750	46 726
Total	**3 210 339**	**1 709 682**

32. 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-Dec-2018
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%	-
DSK Leasing AD **	60.02%	1 962
DSK Mobile EAD	100.00%	7 200
DSK Dom EAD	100.00%	500
Total		**41 186**

* DSK Bank owns indirectly DSK Trans Security EAD which 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 owned by OTP Bank, Hungary.

Associates

In thousands of BGN	% ownership	Balance value, 31-Dec-2018
Cash Services Company AD	20.00%	2 490
Total		**2 490**

Net asset value

In thousands of BGN	31-Dec-2018	31-Dec-2017
Cash Services Company AD	13 783	13 665

33. 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 2018 are as follows:

In thousands of BGN

Related party	Type of transaction	2018	2017
Directors and executive officers	Loans extended	9 330	9 632
Subsidiaries	Current and deposit accounts with DSK Bank	56 861	35 129
Subsidiaries	Liabilities	1 485	1 250
Subsidiaries	Other receivables	595	607
Subsidiaries	Interest expense	2	2
Subsidiaries	Services expense	10 839	10 313
Subsidiaries	Services income	21	17
Subsidiaries	Rentals received	297	365
Subsidiaries	Rentals paid and operating lease	462	466
Subsidiaries	Fees received	47	227
Subsidiaries	Guarantees granted	283	260
Associates	Services expense	1 933	1 475
OTP Bank	Current and deposit accounts in OTP Bank	1 589 891	1 473 512
OTP Bank	Bond issued by OTP Bank	173 366	182 800
OTP Bank	Current and deposit accounts in DSK Bank	1 543	1 384
OTP Bank	Fair value of derivatives	(16 855)	(46 251)
OTP Bank	Other liabilities	6	6
OTP Bank	Interest income	5 541	28 274
OTP Bank	Interest expense	3 104	(777)
OTP Bank	Fees paid	437	177
OTP Bank	Fees received	1	1
OTP Bank	Gains (losses) on trading activities	19 654	(27 734)
OTP Bank	Gains (losses) on bond issued by OTP Bank	(4 321)	-
OTP Bank	Liabilities for currency exchange contracts	2 694 309	1 713 134
OTP Bank	Receivables for currency exchange contracts	2 654 892	1 672 013
OTP Bank	Off balance liability on unutilised overdraft	1 600	1 600
Other OTP Group members	Current and deposit accounts in Group members	670	554
Other OTP Group members	Liabilities	922	686
Other OTP Group members	Current and deposit accounts in DSK Bank	10 170	1 859
Other OTP Group members	Loans extended	-	4 158
Other OTP Group members	Interest income	23	231
Other OTP Group members	Interest expense	-	30
Other OTP Group members	Fees received	115	120
Other OTP Group members	Fees paid	2 649	3 165
Other OTP Group members	Rentals received	255	255
Other OTP Group members	Income from sale of loans	1 044	11 702
Other OTP Group members	Gains (losses) on derivative deals	-	(23)
Other OTP Group members	Guarantees granted	10	10
Other OTP Group members	Liabilities for currency exchange contracts	6 353	98
Other OTP Group members	Receivables for currency exchange contracts	6 357	98
Other OTP Group members	Credit line off balance liability	24 213	22 065

The remuneration of the key management personnel for 2018 includes current income amounting to BGN 2 869 thousand (2017: BGN 3 041 thousand).

34. Events after the reporting period

Societe Generale Group entities aqcuisition

On 15th January 2019, DSK Bank EAD finalized the acquisition of Societe Generale Expressbank AD, the Bulgarian subsidiary of Société Générale Group, and other local subsidiaries held by Societe Generale Expressbank in Bulgaria. The transaction led to an increase in investments in subsidiaries as at acquisition date of BGN 1 082 002 thousand.

With a market share of 6.1% of total assets of the bank system, Societe Generale Expressbank is the 7th largest bank on the Bulgarian banking market. As an universal bank it has been active in the retail and in the corporate segment as well.

Comprehensive Assessment by the European Central Bank

DSK Bank is undergoing a Comprehensive Assessment by the European Central Bank. The Comprehensive Assessment includes an Asset Quality Review as well as stress tests and are performed in accordance with methodological note for the 2018 EU-Wide Stress Test, and the relevant Frequently Asked Questions published in the European Banking Authority intranet. Finalisation results are expected by end of June 2019.