

**NON-FINANCIAL DECLARATION**  
**As per Art. 41 and Art.48 of the Accountancy Act**

**PURPOSE**

DSK Bank Group strives to establish and maintain high client service standards, advanced and suitable products and services, best corporate and ethic practices in its relations with all interested parties following the relevant legislation.

One of DSK Bank AD key objectives is also to become a market leader in regard to all banking segments, and at the same time to emphasize on many initiatives in the field of sustainable development. The Bank Group maintains its trusted leader position among the users of bank and financial services in the country and most preferred bank employer for the students.

**STRATEGY**

Facing the challenges of the environment - shrinking interest margins, strong competition and increasing regulatory requirements, and last but not least, the constraints associated with the COVID 19 pandemic, combined with internal pain points, our ambition is to transform the Bank Group with the aim to accomplish the business strategy while continuously improving the Bank Group's financial results.

The strategy is built on four pillars for future development:

Defensive – preserve cash loans market share and prevent interest margin erosion.

Offensive – speed up in specific areas where we see potential for gaining market share – Small business – target to increase the loan portfolio by 40% in three-years horizon; Credits cards – target to achieve 25% increase in portfolio in three years period; Consumer financing – 3 times higher portfolio in 2024; Investment funds – ambition to transfer 10% of deposits in investment products; Leasing market – strengthen the leading role on the market by achieving 30% market share in 2024; Housing market – continue expanding the market share.

Digital transformation- Launch Digital Transformation to digitize the existing core products and services in a customer centric way, following a journey-by-journey approach with the objective of creating market leading and loveable digital solutions; Build/expand select winning business propositions enabled through technology – home and car marketplaces, “buy now – pay later”.

Regulatory- NPL strategy for decreasing NPL portfolio – aiming to meet ECB expectations of NPL; ESG – beginning to create launching internal policy aiming to meet regulatory expectations; Managing potential Euro transition – possible Eurozone joining in 2024.

**ORGANIZATIONAL STRUCTURE, INFRASTRUCTURE, PRODUCTS:**

DSK Bank is owned by the Hungarian OTP Bank – the parent-bank of OTP Group, which is the biggest provider of financial services in Hungary and a regional market leader for Central and South-east Europe. OTP Group offers high quality financial solutions to more than 18 million clients in eleven countries using its branch network of over 1 600 offices, significant ATM network and innovative digital channels.

Together with its affiliated companies DSK Bank provides a wide range of additional services, such as: pension insurance, assets management, security, transport and collection activity, tourist services.

## **POLICIES APPLIED IN REGARD TO THE MAIN AND AUXILIARY ACTIVITIES:**

### **Client Services**

The focus on the client is of key importance for DSK Bank Group activity. That is why, in year 2020 and during the corona virus pandemic, the bank continues its efforts to ensure more flexible services and products according to the clients' individual needs, in order to they to be able to make the proper financial decisions in an extraordinary situation. DSK Bank Group reacted in fast and adequate manner, in order to ensure the **safety of its employees and clients**. Special selection is developed and offered on the corporate web site, as well as visual materials used by the clients as to receive current information about the procedures for safe servicing in the branches, the possibilities for using remote services and other useful information. During the periods of active virus spread in the country, DSK Bank Group provided safe access to customers to its offices, recommended the use of a wide network of machine channel - ATM, electronic banking DSK Direct and mobile banking DSK Smart, as well as cashless payments to merchants (incl. Online). In order to avoid the concentration of a large number of clients, DSK Bank Group continued to promote the service among the clients to pre-request an appointment for a visit to the larger offices. For employees from all units of the HQ continued to apply the opportunity to home office, incl. by schedule.

In support of clients affected by the pandemic mitigation measures in place, various options have been offered for deferral and settlement in order to ensure stability, calm and security. In 2021, the clients of DSK Bank Group continued to use options for deferral of loans under the Procedure for deferral and settlement of due liabilities to banks, in connection with the state of emergency imposed on March 13, 2020. Also, DSK Bank Group extended the term and proposed new additional deferral schemes, which actually enabled its clients to use a longer grace period, initially agreed under the moratorium. Additionally, we have retained the opportunity for our customers to use under the Program for guaranteeing interest-free loan for people who cannot exercise their occupational activities due to the situation caused by COVID-19, on the basis of agreement entered with the Bulgarian Development Bank (BDB). DSK Bank Group has supported also its business clients, small and medium enterprises, by providing an option for BDB guaranteed loans with an agreement for portfolio guarantees in supporting the liquidity.

Generally DSK Bank Group has well established traditions for measuring the satisfaction of its banking clients. In 2020 DSK Bank has implemented new metrics for measuring customer experience that allows the client to rate the services immediately after a visit to the bank office. This approach guarantees the transparency and provides an opportunity for immediate actions for improving the services in every bank office. As metric, the bank uses a world leading indicator on customer experience measurement – transactional Net Promoter Score (NPS). Transactional NPS for 2021 has increased compared to 2020 and remained stable throughout the year. This result shows high service quality level and positive experience that customers receive in DSK Bank Group.

DSK Bank Group continues to work for **improving the client services**. In 2021 actively developed its strategic initiative (**New Service Vision**), aimed to ensuring outstanding client services.

Following the trends of the recent years and mainly the reorientation of a numerous part of transactions to machine and electronic channels, as well as based on local legislation related to consumer loan act pre-contractual information and advice for the most appropriate financial products and services customer needs, the Bank Group has started implementing a New service model in a hole branch network for mass customers. The model ensures specialized customer service, those who visited the office only for a payment transaction can rely on faster service with significant decrease of waiting time, on the other hand the customers who are interested in a banking product / service can rely on professional consultancy and individual approach by financial. The purpose of the New service model is to offer an even better customer experience with the Bank Group, improve the management of customer flow in the branches and support employees in the process of improving their confidence, upgrading their skills and competence.

And last, but not least, for improving the client services, DSK Bank Group **performs regular research of the financial services market**, in order to discover new opportunities and niches for improving the services offered and to monitor the development of the standard already adopted by the market in regard to the client services.

## **MODERN PRODUCTS AND SERVICE CHANNELS**

As an acknowledged leader on the market of innovative products and digital services in the banking field, DSK Bank Group develops various projects with the approach of **complete online servicing**. In order to improve the clients' experience, and to provide easy and fast access to our financial products and services, DSK Bank Group constantly develops the functionality of its remote banking platforms. As a result of the difficult situation in the country and the increased use of electronic banking channels – DSK Direct and DSK Smart, the team of the financial institution continues to work on their improvement so to make them as far as possible more comfortable and easier for use by the clients.

Using the Evrotrust application the clients of DSK Bank Group may **apply, receive and use their consumer loan totally online without visiting bank offices**. The process is very simplified in order to make it comfortable and accessible for the clients. They can receive a loan contract through the application on their mobile phone, to read and sign it, and then returned it to DSK Bank. Option for documents signing using the QES is provided also for the Premium clients, as thus they save time, perform their operations faster and more efficiently, and have 100% security of their personal data. Using Evrotrust and the call centre of the financial institution, the clients who are temporary out of the country, may perform remote electronic operations, which require signing. For example – access to electronic and mobile banking, application for signing method, registration of mobile phone number for 3D password required for online shopping, opening a bank account, issuing of debit cards for individuals, etc.

Since 2012 DSK Bank has provided for the **students a comfortable option to pay their educational fees using the DSK Direct electronic banking, and this service became especially relevant in 2020**. This application makes the payment of university fees very easy, only a few clicks. In addition to time saving, the payment through DSK Direct saves resources, as the bank fees for electronic transfer are lower than those on site at the bank offices. The above advantages may be used by the students at the Naval Academy “N.I.Vaptsarov”, Varna, the University of National and World Economy, the Technical University, New Bulgarian University and Varna Medical University.

## **INTERNAL PROGRAMS AND INNOVATION INITIATIVES**

DSK Bank Group seeks to expand its innovative activities also through partnership with new, perspective companies. As a **partner of OTP Startup Partner Program**, DSK Bank Group is looking for cooperation with dynamic startups. The fourth edition of the program that started in September 2020 with invitation for applications, provided an opportunity for a flying start for innovative startup and scaleup companies, which would like to test their developments in the banking field in relation to the user experience and services, internal efficiency, product innovations in retail banking and banking for small and medium enterprises, etc. As a result of the of the participation in the 4<sup>th</sup> edition of the program DSK Bank is in the process of implementation of 2 innovative solutions [www.dskhome.bg](http://www.dskhome.bg) platform for real estates and mortgages and implementation of chat bot and voice assistant for contact center and corporate web site of the bank. In 2022 5<sup>th</sup> edition of the Program stated and DSK Bank is again part of the event searching for new challenges.

In July 2020 DSK Bank and OTP LAB (the innovative hub of OTP Bank) have started a common work on the **implementation of internal Ideas Portal**. This is an easy-to-use platform purposed to be new ideas generator – to use, develop and support the internal potential of the bank. The Ideas Platform is the place where any team member may share his/ her idea and to become part of the change. The first campaign for innovative ideas under the name “Innovations under isolation”, or how to successfully manage the situation caused by the corona virus, completed and idea winners are under implementation. Idea Portal acting as main tool for idea generation with organization of Idea contests – there were organized 5 challenges and at the moment there is active one related to operational efficiency of the contact center. For less than 2 years we have 2 149 registered colleagues which is around 45% of total employee number, 454 idea applications. 55 ideas are selected for implementation, 16 of which are implemented, 12 are dropped out due to technical restrictions and 27 ideas are under implementation.

## **SUSTAINABLE DEVELOPMENT AND CORPORATE SOCIAL RESPONSIBILITY**

### ***Ethics Code and Anti-Corruption Policy***

DSK Bank Group as part of OTP Group is committed to the fight against corruption and states zero tolerance to any kinds of bribery. The Bank Group has adopted a Policy for corruption prevention, where the principles of anti-corruption activity are defined, as well as the main fields with risk of corruption.

In the course of and in connection with the Bank Group's activities, all staff members and any other contractual partners of the Bank Group are strictly prohibited from performing any act of corruption and from participating or being involved in corruption. The Bank Group consistently and resolutely stands up against corruption. In case of a violation of the Policy by any person, the Bank Group shall take all steps necessary to avert potential negative consequences and to avoid similar events in the future. The Bank Group ensures the full enforcement of all Bulgarian, European Union and international anti-corruption regulations, and requires all of its staff members and contractual partners to comply with such regulations.

In addition, the Ethics Code of the Group defines the clear principles and requirements for the employees and the partners of the Bank, as well as its affiliated companies, in relation to the adherence to the ethical norms at work. The main emphasis of the Ethics Code includes – the right of the employees to participate in the political or public life, ensuring safe and healthy occupational environment, promotion of mutual respect, prohibition for discrimination and abuse, integrity in business relations, zero tolerance to corruption and attempts for influence, limitations for offering and accepting gifts above the specified value. In case of doubt or possible violations of the norms of the Ethics Code and the Policy, the employees are offered an option to report it, including anonymously, to Regulatory Compliance Department, which will undertake the measures necessary as per the internal rules.

The Ethics Code of DSK Bank Group and the Policy for corruption prevention are publicly accessible on DSK Bank official website.

### ***Financial education and innovations***

During 2021 the Bank Group kept its educational campaign – Secure in Internet, dedicated to enhanced consumer awareness of safe banking and safe use of the Internet. The campaign was purposed not only for the Bank Group clients, but also for everyone using online financial and other services. The purpose of this campaign is easier and clear way to present the main issues related to the safe online banking and surfing in Internet. As a responsible and committed DSK Bank Group has its mission to provide knowledge to the users, so as they to be safe and secure when using the electronic banking channels or the online environment resources.

### ***Early children development***

During the year DSK Bank Group continued its successful partnership with SOS Children's Villages Bulgaria – social development organization, which aims to guarantee that every child has family and lives in an environment of love, respect and security. The partnership dates back to 2011 when the Bank Group committed to take care for two SOS families.

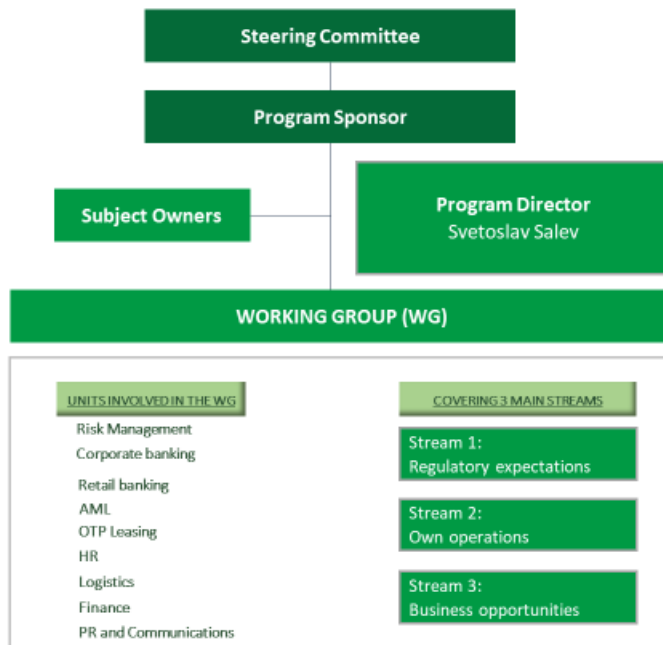
This year we celebrated 10 years of partnership under the motto "10 years together", along with several other joint initiatives. A child, from the foster families we take care of, was a trainee in DSK Bank for 6 months, we also sent the children gifts for the beginning of the school year and 1<sup>st</sup> of June (Children's Day). In October we started online courses for financial literacy, which are led by volunteers from the Bank every Friday, in the afternoons. This training targets the teenagers from the Youth SOS Centers.

We did not pass without awards. The CEO, Mr Tamas Hak-Kovacs, was honored with a special "10 years together" award, while DSK Bank won in a consecutive year the prize for the biggest corporate sponsor and partner of the organization.

In 2021, over BGN 600 000 in the form of donations were accumulated through the different banking channels. Overall, BGN 4 506 000 were provided to SOS Children's Villages for the last 10 years, thanks to the successful partnership.

**Climate and Environmental risks**

In Q4 2021 DSK Bank Group commenced a project named ECO in order to set the foundations of a systemic management of environmental risks within DSK Bank’s Group, and a proper alignment with OTP ESG Strategy. The Project sponsor is the Bank’s Chief Risk Officer, who is also a Steering Committee member, along with the Chief Executive Officer and the Head of Corporate Banking Division of the Bank, plus two representatives from OTP HQ. This way the project structure ensures the appropriate management focus and strategic alignment with the objectives of OTP Group to be the regional leader in financing a fair and gradual transition to a low-carbon economy and building a sustainable future through responsible solutions.



**Steering Committee:** Key governing body of the Program

Members:

- Tamás Hák-Kovács (CEO)
- Arnaud Leclair (CRO and Program Sponsor)
- Boyan Stefov (Corporate Banking)
- Gergely Pókos (OTP)
- Tünde Barabás (OTP)

**Subject Owners:** Responsible for the execution of the tasks and for assuring respective resources.

- Svetoslav Salev – Program Director and covering Business environment, Business strategy, Management body and organizational structure, Risk management framework, Credit risk management;
- Lyuba Doykova – covering Risk appetite, Reporting, Operational risk management, Market risk management, Liquidity risk management, Stress-testing;
- Nevyana Filipova - covering Disclosures and DSK own operations (Pillar 2).

**Project Members:** Manage the daily execution of the tasks. To be continuously updated until project scope and exact tasks are finalized

During 2021 the ECO project focussed predominantly on establishing a methodology to assess the impact of climate related and environmental risks on the Bank Group’s risk profile, based on ECB’s guidance. For the purpose of the assessment climate-risk materiality is defined as the sensitivity of traditional risk types (credit risk, liquidity risk, operational risk, etc.) and related key risk indicators (KRIs) to the impact of climate and environmental changes. KRIs are derived from the Risk Appetite Framework of the Bank Group and are considered based on their input components. Sensitivity is therefore assessed at component level. To assess the components’ sensitivity, the transmission channels are considered for each of the traditional risk types, split by climate transition risk channels, climate physical risk channels and environmental risk channels. Considering the limitations of available data, the method is based on expert assessment supported by portfolio analytics (e.g. exposure by segments, sectors, geographical distribution of collaterals, etc.). With such quantification support experts and senior managers assessed the sensitivity of KRI components on short-, mid-, and long term, using Low to High scale, and documenting the articulated assessment rationale. Based on these inputs the method derives KRI level and risk category level materiality assessment on a 5-step scale from Low to High materiality. Materiality level of Medium to High shows that the impact of climate related and environmental risks on the Bank Group’s risk profile is material over the respective time horizon. This way the outcome of the assessment leads to the conclusion that DSK Bank’s Group is materially exposed to climate related and environmental risks in the long-term perspective (i.e. more than 5 years).

DSK Bank’s Management Board reviewed and approved the elaborated materiality assessment methodology and provided mandate to the Chief Risk Officer to lead the integration of climate-risk management in DSK Bank Group, in coordination with the OTP Green Program Directorate and OTP Credit Approval and Risk Management Division.

The ECO project team also proposed, and the Management Board of DSK Bank Group approved a roadmap to address the ECB guidelines. The Risk Management Division is working on an estimation of the resource needs for 2022 in order to meet the targets of the Roadmap.

Considering the potential strategic impact of transition and/or physical risks in the long term (as concluded from the materiality assessment), the Chief Risk Officer is also mandated by the Management Board to develop a proposal for the ESG strategy of DSK Bank Group by the end of the second quarter of 2022. Further on, the Management Board requested to receive quarterly updates on the progress of ECO project.

In the context of its key role in implementation of the overall business strategy and the risk strategy of DSK Bank Group, Management Board of the Bank oversees the climate-related and environmental risks and bears the primary responsibility for their managing. The Board approves key policies, procedures and methodologies relevant to climate-related and environmental risks and decides on the major actions to be taken with regard to them.

Qualitative performance criteria are determined in 2022 targets of those Management Board's members who are assigned with direct responsibilities for ensuring compliance with the envisaged approach to climate-related and environmental risks management.

In addition to the personal commitment of the senior management, DSK Bank considers to further enhance the role and engage the collective responsibility of different committees within the Bank for embedding climate-related and environmental risks into their agenda. First reporting of ESG roadmap and progress review by the Risk Committee which is an advisory body to the Supervisory Board is planned for Q1 2022.

#### ***DSK Bank Group's own emissions***

OTP Group is setting ambitious goals in terms of its own operations, including the reduction of its own emissions. The energy consumption data is collected from all subsidiaries, incl. DSK Bank, and available since 2016. Scope 1 and 2 own emissions related to systems that are within reasonable control of an entity, such as onsite and purchased energy, are mandatory part of OTP Group reporting process. The Group uses GRI Standard and indicators for writing its sustainability reports. The emission calculation methodology is based on the GHG Protocol, which is the best method currently used.

DSK Bank Group decided to start disclosing separately its own GHG emissions from 2021 by providing relevant data for the entire DSK Bank's Group. Here below the energy consumption data is presented in evolution for the last three years:

<b>Energy consumption within the organisation (GJ)</b>			
	without Expressbank	with Expressbank	with all the consolidated subsidiaries
	<b>2019</b>	<b>2020</b>	<b>2021</b>
Natural gas	0	3890	5441
Motor vehicles mineral	5579,17	4861,87	19508,67
<b>Total non-renewable fuel sources</b>	<b>5579,17</b>	<b>8751,87</b>	<b>24949,67</b>
Motor vehicles biogen *	0	0	1158
<b>Total renewable fuel sources</b>	<b>0</b>	<b>0</b>	<b>1158</b>
Electricity	62870,40	88480,80	83091,60
District heating	3342	6830	2795
<b>Total indirect energy purchased</b>	<b>66212,40</b>	<b>95310,80</b>	<b>85886,60</b>
<b>Total energy consumption</b>	<b>71791,57</b>	<b>104062,67</b>	<b>111994,27</b>
<b>Total energy consumption per capita</b>	<b>18,59</b>	<b>23,19</b>	<b>20,07</b>

*\* Motor vehicles biogen consumption collected separately since 2021*

Energy consumption data points are calculated based on the real quantities indicated in the invoices and processed through ERP Navision system that is fully operational since July 2020. Another information (e.g. freon used for repair of air-conditioners) is obtain directly from the suppliers.

The total Bank Group's own energy consumption for the last two years has increased because the consumption of Expressbank has been included in the reporting data since 2020, and the DSK Bank's subsidiaries consumption data has been comprehensively collected and added in the calculations for the first time in 2021. The most significant increase is observed in the vehicles fuel consumption which is due to one of subsidiaries with cash collection activity that requires the use of a large fleet and frequent car trips. Actually, the stand-alone fuel consumption of DSK Bank has decreased from 120 510 liters for 2020 to 97 700 liters for 2021 and is lower for both years compared to 2019.

Consumption of electricity energy and district heating has decreased in 2021 compared to 2020 mainly due to reducing the number of bank offices and work from home of employees due to Covid-19 pandemic. Furthermore, some improvements in HQ buildings and Branch Network offices were made like implementation of simple Building Management Systems, optimizing Heating Ventilation and Air-conditioning systems to work in a night mode with low capacity, switching off the secondary lighting, replacement of diesel heating systems with energy-efficient air-conditioning systems, partial replacement of depreciated air-conditioning systems, etc. All renovated bank branch offices are constructed in compliance with the vision of the Banking group, using power-saving facades, and the whole Branch Network uses power-saving bulbs. The reconstruction of all offices includes the use of energy-efficient and contemporary heating, cooling, ventilation and isolation systems and solutions, as well as ecological materials and elements.

<b>Scope 1 and Scope 2 CO2e emission (t)</b>			
	without Expressbank	with Expressbank	with all the consolidated subsidiaries
	<b>2019</b>	<b>2020</b>	<b>2021</b>
<b>Direct (Scope 1)</b>	<b>748,05</b>	<b>985,02</b>	<b>2088,22</b>
from motor vehicles mineral	415,84	360,83	1459,59
from the use of natural gas	0	218,62	302,63
from air-conditioning equipment	332,21	405,57	326
<b>Indirect (Scope 2)</b>			
<b>Indirect location-based</b>	<b>7766,88</b>	<b>9455,47</b>	<b>8707,61</b>
from electricity	7631,59	9130,97	8574,82
from district heating	135,28	324,49	132,79
<b>Indirect market-based</b>	<b>7773,51</b>	<b>9470,46</b>	<b>8721,69</b>
from electricity	7638,23	9145,97	8588,90
from district heating	135,28	324,49	132,79
<b>Total (Scope 1 + 2) location-based</b>	<b>8514,93</b>	<b>10440,48</b>	<b>10795,83</b>
<b>Total (Scope 1 + 2) market-based</b>	<b>8521,57</b>	<b>10455,48</b>	<b>10809,91</b>
Biogenic CO2e emissions	0	0	83
<b>Per-capita location-based</b>	<b>2,21</b>	<b>2,33</b>	<b>1,94</b>
<b>Per capita market-based</b>	<b>2,21</b>	<b>2,33</b>	<b>1,94</b>

The consumption and own emissions data are regularly monitored by the responsible units within the Bank Group and considered in the investment planning.

As a part of ongoing efforts to reduce our carbon footprint, in November 2021 DSK Bank Group launched a procedure for design and installation of photovoltaic plants on the roof of three DSK Bank's buildings in Sofia and Stara Zagora.

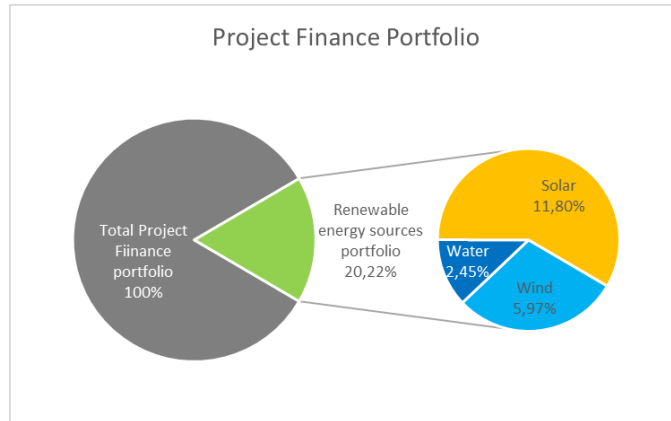
Under development is technical specification for launching a procedure for energy efficiency audit. Initially the audit is meant to cover part of the largest buildings – 3 in Sofia, 1 in Stara Zagora and 1 in Burgas. After the audit additional actions will be defined based on the conclusions – repairs, replacement of windows, lights, etc. The final output will be improved energy efficiency.

### ***Responsible financing***

We understand our influence on society, and therefore search appropriate solutions to reduce CO2 emissions not only of our own operations, but also on the part of our clients. Therefore, when providing credits, DSK Bank Group requires a maximum adherence to the legislation.

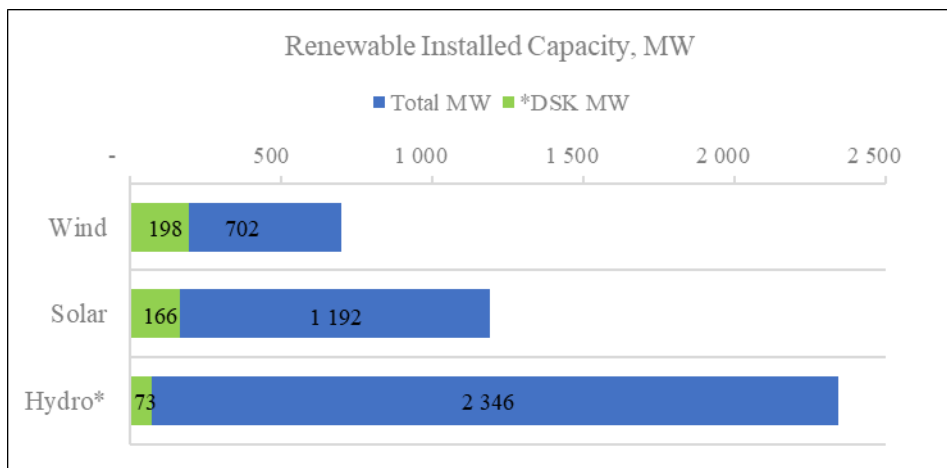
In 2021 we continued to support our business customers through financing renewable energy source projects, to ensure smooth transition to a low-carbon economy.

The largest green energy production financing is provided through our Project Finance unit, and such projects form 20% of its portfolio – 95,32 MEUR out of 471,41 MEUR.



DSK Bank Group is well positioned in the Renewable sector, as the DSK Bank Group’s share of financed renewables in MW represents significant part of the total installed MW in Bulgaria, in particular for wind and solar energy:

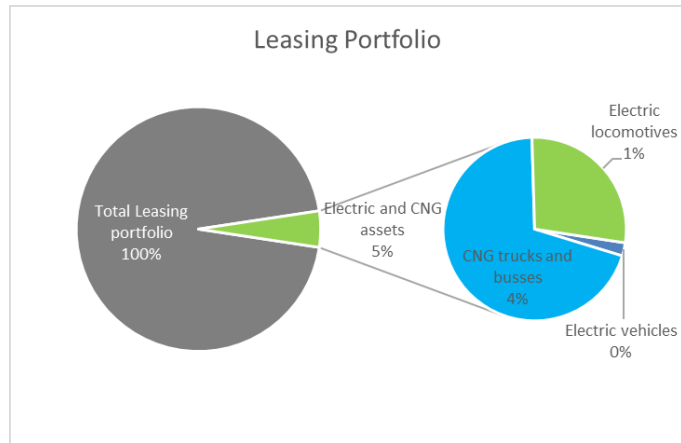
- ~28% of total installed wind capacity
- ~14% of total installed solar capacity
- Hydro is not comparable as back in time huge capacity was installed. Nowadays the utilization is 25-40%, and most of it is government owned hydropower plants



Furthermore, we support smaller projects for companies that aim energy independence and are constructing powerplants to meet their own electricity consumption needs.



As Bulgaria is still in the beginning of its transition period, leasing financing of zero-emission or low-emission assets is not at full speed. Only 5% (or 28,73 MEUR) of the total OTP Leasing's portfolio of 574,68 MEUR present electric and CNG assets, however the demand for electric vehicles and the infrastructure for their utilization (mostly charging stations) is increasing.



Our intention is to continue the efforts for providing sustainable business solutions to our clients and responding to society's needs by responsible financing. It includes, among others, the development and introduction to the market of green products to support the inevitable green transition of economy.

#### ***Scenario analysis and stress testing***

OTP Group's own climate risk stress testing framework was under development in 2021 and is expected to be approved in Q1 2022. After approval it will be accommodated into DSK Bank Group's stress testing framework as well.

#### ***ESG Risk assessment***

In 2021 OTP Group introduced the ESG Risk Management Framework in loan origination and monitoring which was adopted by DSK Bank Group. ESG risk categories are applied on client and on transaction level. Assignment of the risk categories is based on the main business activity of the client and the tenor of the transaction considering the environmental and social impact of the related sectors.

The Group defines the risk category of the clients through the ESG Risk Heat Map which categorises industries in four ESG risk categories, representing different risk levels:

- a) Low ESG risk: Industries that typically involve business activities with minimal or no adverse environmental and social impacts;
- b) Medium ESG risk: Industries that typically involve business activities with specific environmental and social impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures and international best practice. Potential adverse environmental impacts on human populations or environmentally important areas are less adverse than those of Medium-High and High ESG risk.
- c) Medium-High ESG risk: Industries that typically involve business activities with High ESG risks in nature but are considered important in reaching long-term sustainable social balance and economic growth in emerging markets.
- d) High ESG risk: Industries that typically involve business activities with significant adverse environmental and social impacts that are sensitive, diverse, or unprecedented. A potential impact is considered sensitive, if it may be irreversible (such as loss of a major natural habitat), affect vulnerable groups or ethnic minorities, involve involuntary displacement and resettlement, or affect significant cultural heritage sites.

To determine the ESG risk category of transactions, two factors should be considered: the ESG risk category of the client as indicated above and the (residual) length of the transaction determined according to ESG Transaction Risk Matrix. The length of the transaction is determined as follows:

- a) Short-term: residual maturity is equal to or less than 1 year (including the expired transactions or transactions with no fixed maturity, i.e. “until further notice”);
- b) Medium-term: residual maturity is more than 1 year, but equal to or less than 5 years;
- c) Long-term: residual maturity is more than 5 years.

ESG risk category of leasing transactions is determined according to the environmental impacts of the engine types (EURO engine standards) of the underlying assets and the EU directives regulating the subject. When determining the ESG risk category of a leasing transaction, the age of the engine of the underlying asset is taken into consideration as an approximation of the EURO engine standards.

For the riskiest sectors from ESG perspective, where a pre-defined exposure threshold is exceeded, an ESG due diligence questionnaire applies. The information gathered is channelled to the risk analysis and decision-making procedures.

Our Group requires – and verifies – compliance with applicable environmental regulations in lending. At the time of the internal approval of the financing of a project and before first disbursement, the availability of the necessary permits is required; in the case of specialized financing transactions the verification of permits is typically conducted with the involvement of external consultants (legal and/or technical experts). The credit agreements stipulate sanctions for any breaches of commitments. Our credit policy regulates the credit risk classification of each sector and provides guidance for our lending activities to different sectors. The policy is reviewed at least annually, but also in case of material changes in the business environment or underlying credit risks.

### ***ESG Risk Appetite Statement***

As a member of OTP Group, DSK Bank Group supports its aim of becoming the regional leader in financing a fair and gradual transition to a low-carbon economy and building a sustainable future through responsible financial products and services. Managing ESG-related risks is key for achieving such an aim.

In 2021, DSK Bank Group approved the ESG Risk Management Framework in Loan Origination and Monitoring to consider ESG factors in loan origination and to further incorporate them into existing risk management frameworks taking a proportionate and risk-based approach.

In relation to our customers, the adopted ESG exclusion list is the central steering document that lists the activities that are not supported by us. Our new customers should not engage in the activities listed in the ESG Exclusion List, which incorporates the following:

- Transactions with the purpose to violate legal regulations of the host country or international law, like:
  - Illegal arms trade;
  - Prohibited gambling;
  - Illegal trading in drugs;
  - Production or trade in products containing PCBs (Polychlorinated biphenyls are a group of highly toxic chemicals);
  - Production or trade in pharmaceuticals, pesticides/herbicides and other hazardous substances subject to international phase-outs or bans;
  - Production or trade in ozone depleting substances subject to international phase out;
  - Trade in wildlife or wildlife products regulated under CITES;
  - Transboundary movements of waste prohibited under international law.
- Trade in goods without required export or import licenses or other evidence of authorisation of transit from the relevant countries of export, import and, if applicable, transit.
- Activities prohibited by host country legislation or international conventions relating to the protection of biodiversity resources or cultural heritage.
- Drift net fishing in the marine environment using nets in excess of 2.5 km in length.

- Shipment of oil or other hazardous substances in tankers which do not comply with IMO requirements.
- Mining, exploration and upgrading of shale gas in Europe.
  
- Coal mining using “Mountain Top Removal” technique.
- The keeping of animals for the primary purpose of fur production or any activities involving fur production.
- The manufacture, placing on the market and use of asbestos fibres, and of articles and mixtures containing these fibres added intentionally.
- The export of mercury and mercury compounds, and the manufacture, export and import of a large range of mercury added products.

In 2022, the credit risk framework will be updated to address regulatory requirements and supervisory expectations on the integration of climate and environmental factors into customer onboarding, evaluation and monitoring processes.

Recent efforts have focused on integrating climate-related and social risks in the credit risk framework while integration with other financial risk frameworks is planned to start in 2022. To support this work, we participate in external and regulatory initiatives aimed at developing methods for assessing transitional and physical climate impacts.

### ***KPIs***

We are planning to set up quantitative and qualitative KPIs for monitoring and measuring our performance on the road to achieve the goals defined by OTP Group and the targets that will be established with adoption of ESG Strategy of DSK Bank Group in the second quarter of 2022, and to start reporting the achievements in our future disclosures. Meanwhile, we have to analyze various internal and external data, part of which is still not available, and we intend to gradually collect the missing data, as well as to make improvements in our IT systems so that be able to maintain, process and monitor the collected information.

In view of the regulatory requirements under Art.8 of Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment (Taxonomy Regulation) that obliges all institutions which publish non-financial information according to Directive 2013/34/EU on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings (NFRD) to report on how and to what extent their activities are associated with economic activities that qualify as environmentally sustainable, and considering that the core business of the Bank Group is not covered by the Taxonomy Regulation, we report “zero” value of the indicators related to Turnover, CapEx and OpEx from eligible activities.

Information related to the Green Asset Ratio calculation, and in particular for Y2021 – the Taxonomy-eligibility of activities of our customers, is provided here below:

		Gross carrying amount, MBGN
1	Taxonomy eligible assets*	82
2	Taxonomy non-eligible assets	14539
3	Exposures to central governments, central banks and supranational issuers	4398
4	Exposures to non-NFRD undertakings	800
5	Financial assets held for trading (debt securities and equity holdings)	142
6	On-demand inter-bank loans	2017
7	Derivatives	33
8	GAR assets	19993
9	Total assets	24534
10	<u>Eligible proportion /GAR asset</u>	0,41%
11	<u>Non-eligible proportion /GAR asset</u>	72,72%
12	<u>Proportion of on-demand inter-bank loans /GAR asset</u>	10,09%
13	<u>Proportion of derivatives /GAR asset</u>	0,17%
14	<u>Proportion of non-NFRD undertakings /GAR asset</u>	4,00%
15	<u>Proportion of trading portfolio /Total asset</u>	0,58%
16	<u>Proportion to central gov., etc. /Total asset</u>	17,93%
17	<u>Proportion of cash + cash related + other assets /GAR asset</u>	12,54%

\* Article 1(5) of the Disclosures Delegated Act defines an eligible economic activity as an activity that is described in the delegated acts adopted under Article 10(3), Article 11(3), Article 12(2), Article 13(2), article 14(2) and Article 15(2) of the Taxonomy Regulation.

The screening of the portfolio and the assessment of eligibility is completed on the base of the NACE codes. The data collection is based on the table in Annex 6 of the Regulation and only refers to companies subject to NFRD (i.e. large public-interest companies with more than 500 employees).

Methodology applied: Exposures of companies with more than 500 employees were examined by NACE code, and only those that are exposures of listed companies were included in the eligibility category (row 1 of the table above). The clients who have over 500 employees but are not listed on a stock exchange, were not assessed as they are not subject to NFRD regulation.

### ***Scope 3 financed emissions***

In 2021 DSK Bank Group initiated actions for preparing a methodology to be used for measuring and estimating Scope 3 financed emissions. After identifying the data gaps, methodology gaps, etc. we will set up granular plan for measuring carbon intensity by portfolios so that be able to start disclosing Scope 3 emissions in alignment with the regulatory requirements and the OTP Group timelines.

### ***Protection of natural resources***

The purpose of DSK Bank Group is to mitigate the impact on the environment. For years now, the Bank Group fulfils the policy for **no-waste banking administration**, which main goal is protection of environment. In practice this includes collection of all used toners and inkjet cartridges of the printing devices in all Bank Group branches and their recycling. The Bank Group applies also a policy of responsible paper consumption by optimizing the printing activities through migration of transactions to the electronic channels, double-sided printing, reducing the number of pages of the contract general terms and conditions for the products.

For several years the Bank Group has created organization for voluntary collection by the employees of plastic caps and their disposal for recycling. This activity unites the care for the nature and the support for noble causes – the plastic caps are delivered for recycling at the designated points and the amount collected is spent for different charity initiatives.

In 2021, DSK Bank, together with MasterCard, supported the ‘One Tree’ project. The initiative included a series of events in various parts of Sofia, which marked the beginning of the creation of a digital map of Sofia's trees. Marking the city trees on the streets and park alleys in Sofia was easy through all kinds of mobile devices at address ednodarvo.io. Everyone could join, all that was needed was to register on the platform. With this project, OneTree drew the attention of all citizens to take care of the trees in the city by participating in their mapping - an important step for smarter city management, which aims to increase general knowledge about the green system and contribute for its better planning and management.

The events for the project were 5 in total, starting on May 15 from Borisova Gradina and ending on June 12 in Lagera Park. Within one month, more than 12 226 were mapped and more than 380 volunteers took part.

At the end of the year, DSK Bank joined the global Mastercard Wildlife Impact Card program for the protection of the planet's biodiversity. Thanks to the efforts of the Bank and Mastercard, Bulgaria becomes the first European market to join the Program. It will enable debit card holders to become involved in the conservation of critically endangered species, including the African elephant, the black-and-white maned lemur, the yellow-tailed woolly monkey and the pangolin. The vision of the card draws attention to the message: "Until this card expires, many endangered species may become extinct." The debit card will be easily integrated into mobile wallets, and the plastic card will be made from recycled materials.

For each Mastercard Wildlife Impact card issued, DSK Bank and Mastercard will donate \$ 1 to the international organization Conservation International to help conserve and restore wildlife habitats. By 2030, this project will cover priority areas equal to 40 million hectares of land and 4.5 million square kilometers of water areas worldwide.

Consumers will have the opportunity to join the program by ordering their new card in the first quarter of 2022.

### ***Charity events with the participation of the employees***

In 2020 the employees took part in various events gathering together two activities – running and charity. On 19 September 2020 the next edition of the mini-marathon “Run2Gether” took place with the idea of combining the efforts of people with different capabilities. The participation of DSK Bank Group in this event was the way for the Group to show its support for people from disadvantaged groups.

In August 2021, 13 teams from DSK Bank participated in the Business Run event. The race with a cause of sport club “Begach” took place for 8th consecutive time. In the relay race each team consist of 4 athletes, each running 4 km. By tradition, 30% of the proceeds are donated for charity.

### ***Support for cultural projects and town development projects***

This year the Bank Group also contributed to the development of local projects for cultural and urban development. Together with Regional Urban Development Fund, DSK Bank co-financed the project for modernization of “Chitalishte Bratya Grancharovi – 2002” in Gorna Oryahovitsa. Its building and the managed by it Summer theater, which is the biggest open scene in the region with capacity of over 2 000 people, will be renovated as per initiative of Gorna Oryahovitsa Municipality. A significant cultural center, with area of 3 975 sq.m., will be renovated under the project.

A memorial complex “Tutrakan Epopee” will also be created, as a result of the co-financing from DSK Bank and Regional Urban

Development Fund. The complex will be built on the land in village Shumentsi, Tutrakan Municipality. The emblematic location was recognized in 2018 as a historical cultural valuable of national significance. The project envisages the construction of an energy-efficient (energy independent) exhibition environment, with futuristic design and modern interactive equipment and furniture. The building will be located on an area of about 800 sq.m. and will include a main exhibition hall, a diorama, a space for commercial activity and technical premises. Within the project the area around the memorial and the building will be meliorated and a green recreational zone will be created.

In 2021, activities for the renovation of the multimedia visitor center Tsarevgrad Turnov and the Museum of the Revival and Constituent Assembly in Veliko Turnovo were started. Within the project “Enlargement of the Multimedia Visitor Center Tsarevgrad Turnov”, the existing center, known also as the “museum of silicon figures” will also be expanded, by utilizing two more floors from the same building, situated at str. Nikola Pikolo № 6, Veliko Turnovo. The realization of the project will enrich the collection of figures, recreating commemorative events from the period of the Second Bulgarian Kingdom, thus enhancing the impact of the tourist attraction, unique by its nature. Among the new scenes, to be recreated as dioramas, are the “Battle of Klokotnitsa” from 1230, the “Tetraevangelia of Ivan Alxander”, the so called “Medieval market”, as well as other interesting restorations. It is expected that the renovation activities will commence in the beginning of 2022 and will end in the beginning of 2023.

The strategic goal of these projects is to preserve the traditions and culture, as well as to attract more visitors and to use the potential and advantages of the city more hospitably and effectively.

In 2021 DSK Bank Group started its own social responsibility project “City Like People” for improvement of the urban environment. The initiative aims to ennoble the capital, as well as to draw attention to the problem of vandalism and the ugly inscriptions. The idea of the campaign is to transform the scribblings at a central location in the capital into street art (mural), with the support of acknowledged Bulgarian graffiti artists.

The project will be implemented in three stages. During the 1<sup>st</sup> stage we challenged the residents and guests of the capital to suggest location and building, candidate for artistic transformation. This was done via the special webpage of the campaign - <https://dskbank.bg/grad-kato-horata>. A place was selected – one of the walls in the underpass at bul. Bulgaria and bul. acad. Ivan Geshov and was transformed with the help of the graffiti artists from “140 ideas”.

During the 2<sup>nd</sup> stage of the campaign, the artists together with the ambassadors of the campaign Elitsa Behar, Divna and Naum Shopov, transformed the selected location. The mural recreates in a beautiful and colorful way the theme for continuity and tolerance among people in the city. In this way, the Bank Group, the artists and the ambassadors stood behind the idea that there is a beautiful way to change the appearance of the city, as opposed to the hate drawings.

### ***Support for other social projects***

DSK Bank Group continues its partnership with the BCause foundation, and the activity of this foundation is focused on the development of the donation culture, the policies in the field of sponsorship and social investments, etc. In 2021 the Bank Group provided a financial support for the foundation campaign for collecting funds in favour of the Fund supporting women – victims of domestic abuse. The funds are directed to the crisis centres providing services for women and children, being victims of domestic abuse.

### ***DSK Bank Group in its capacity of an employer***

Personal and leadership qualities are very important for the Group to move forward. And so is the diversity of professionals working in the Bank Group. This is the focus set by the Bank Group in 2021 for its ongoing campaign “Everyone can look for an employee, we look for people”, represented by the employees themselves – successful within their own area of expertise, inspiring and motivating their colleagues. The strategic vision of the campaign includes overall initiatives and visualizations of Bank Group employees, because we believe that employees are the best recommendation for every employer. The Bank Group regularly participates in different career forums, which is another connection of the institution with young talents and proven professionals. “DSK New beginning” program is active in 2021 and is focused on the most common bank position – clients relationship expert, providing mobility and structured training program for new colleagues. This is a specialized program for introducing employees with different or no bank experience in the financial sector.

## **AWARDS**

Last year DSK Bank Group has won several awards.

In February 2021 DSK Bank was awarded first place prize in the category of „Services” in the prestigious advertising festival, distinguishing the efficiency of marketing communications in Bulgaria – Effie Bulgaria.

During the same month, our campaign “Everyone can look for an employee, we look for people” was awarded the best PR campaign for the employers` mark of awards by B2B Media.

In May 2021 our financial literacy initiative “Financial Olympics” won the prestigious 3rd place in the Corporate Social Responsibility Campaign category.

Definitely the month of June was the most generous in the Bank Group awards. At the awards of the Bulgarian company for public relations, DSK Bank was the winner of 6 awards: for crisis communication, for employers` mark campaign, special event in digital campaign, as well as two special awards.

In June, DSK Bank was presented its fifth award for Most Generous and Significant Corporate Partner from SOS Children's Villages Bulgaria. George Yotov – Head of “Development and testing of bank applications and systems” division was distinguished the prestigious IT manager of the year award in the Management category of IT Manager of the year Contest organized by the Club of IT Managers in Bulgaria.

In July DSK Bank was pronounced Best Bank of the Year by the Bank Association in Bulgaria and was distinguished in “Dynamics in development” category.

In July DSK Bank was pronounced The Best Bank in Bulgaria for 2021, according to the specialized magazine Euromoney.

In November, Global Finance recognized DSK Bank as the Best service supplier of foreign exchange operations in Bulgaria.

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Tamás Hák-Kovács  
*Chief Executive Director*

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Slaveyko Slaveykov  
*Executive Director*