DSK Bank EAD

Separate Financial Statements

For the year ended 31 December 2019,

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 2019

DSK BANK EAD
Report on the Management and Activity of DSK Bank EAD for the year ending 31 December 2019

Macroeconomic environment

The worldwide economy was strongly influenced by the geopolitical conjuncture and the processes of rearrangement of the trading relations between the developed countries, which logically led to a slow down. This trend is expected to continue also in short-term. Europe and specifically the euro area was also impacted by these global tendencies. The countries in the area are in front of many challenges related to increasing public debt and the imbalance in the investment activities. 2019 leaves also in front of the euro area the consequences of the Brexit, the unresolved structural problems, regulatory changes and the weight of the imbalance between the countries in the union.

Together with these processes, the demographic problem and the quality of the education remain the key issues for the long-term economic and social development. In the following mid-term period it is expected that the dynamic of the EU economy will remain rather in the slow pace of growth.

In the economical map of Europe, Bulgaria is standing out with its still high temp of economic growth. During the fourth quarter of 2019 the gross domestic product increased by 3.5% compared to the corresponding quarter of the previous year according to the seasonally adjusted data (expert valuation of NSI). The basic driver of the national economy remains the internal demand. A significant influence from the slow-down of the large European economies representing key trading counterparties of Bulgaria, is the drop of the share of the export in the composition of the domestic product. A confirmation of this dynamic can be observed also in the indicators of the business climate. A drop on annual base can be seen in the industry and at a lower level also in the service area. On the other hand, a still growing trend is observed in the retail sector. The construction activity also holds an increasing trend in conditions of a stable real estate market with positive price dynamic. During 2019 the consumer price index remained stable reporting an average annual inflation of 3.1%. The historically low levels of unemployment in the country (average annual 5.9% according to the Agency of employment) are in line with the stable trend of growth of the wage, which reports an increase of 11.1% compared to previous year. On the other hand, the low unemployment is a serious indication for the increasing lack of work force. There is a necessity of timely measures related to the demographic policy and measures in the area of education in order to mitigate the increasing risk in this area.

As a conclusion it could be summarized that the Bulgarian economy enters 2020 in good investment position considering the low state debt, which represents a reasonable buffer for the government against unexpected economic shocks as well as the existing currency board, which is proven to be a good condition for lasting price stability.

In front of the banking unit and ERM II, the local banking system remains stable and reasonably capitalized. Confirmation of this were also the results of the performed ECB stress-tests in 2019. The profit of the system in 2019 remains at the level of previous year (close to BGN 1.7 bn) and the indicators for capital adequacy and liquidity remained high and above the average levels in the EU. The lending activity of the banks increases while the non-performing loans continue to decrease. As a result of the favorable economic environment in the Bulgarian banking system is observed an increased investment activity towards acquisitions and mergers.

Summary

During 2019 DSK Bank continued to be a leader on the market of retail loans and deposits and retained its stability related to the liquidity and capital position. As of December 2019 the bank is on the second place on the lending market (without loans to credit institutions) with a market share of 13.4% compared to 13.3% by the end of 2018. On the deposit portfolio (without funds from credit institutions) the bank is also second in the local banking system with a share of 13.8% compared to 13.7% at 2018 end. Despite that the bank continues to follow its strategy for effective management of the free liquidity, the retention of the deposit portfolio remains high and above the average of the market.

During 2019, beside its current activity and the performance of the set targets, DSK Bank made a significant change in its strategic development. Aiming to optimize its free resources, to affirm its market positions in retail banking, to strengthen its presence in the wholesale and to increase its operative efficiency and return, on the 15th of January 2019 after decision of the management bodies of OTP Bank and DSK Bank, DSK Bank acquired the shares of Societe Generale S.A. (France) in Societe Generale Expressbank AD. After the acquisition, during 2019 both banks continue to operate as separate entities actively preparing their systems and processes for the merger of Expressbank in DSK Bank, which is expected to be realized in the first half of 2020. As of December 2019 Expressbank holds a share of 7.3% on the lending market and is on the second place in the second group of the banking system and on the seventh in the entire banking system. With a share of 20.7% both banks together take the leadership on the local market. With regard to the deposit market, by the end of 2019 Expressbank reports a share of 5.7%, while both banks are positioned at 19.5% share in the customer attracted funds on the banking market.

The main target for 2020 after the integration of the activities of both banks, is to keep the leading position on the banking market stable limiting any potential client outflow as a result of the integration process. The strategy of the bank in the long-term is also driven by the priority to retain the strong positions in retail banking. On the other hand, the activity in the wholesale segment will aim to affirm the consolidated position after the merge of the two portfolios.

For 2019 DSK Bank reports a profit after tax to the amount of BGN 245.9 m.

As a result of the process for management of problem loans, which includes continuous improvements, the bank continues the positive trend in the dynamic of the portfolio quality and reports better than the planned quality at year end.

The Cost-to-Income as of December 2019 is 50.3%, which is marginally above the average level of the banking system in the country. The increase of this ratio is mainly due to the costs, which the bank starts to spend related to the project for the integration of both banks. Without these costs the ratio would amount to 48% at 2019 end, which shows the stable efficient management of the investment policy and the control over the operating expenses.

During 2019 DSK Bank continues to offer traditional lending and deposit products for the households and retains its leading positions in this segment.

The market and the credit risk are regularly monitored and evaluated from the corresponding responsible units. DSK Bank is compliant with the regulatory as well as the internal rules related to these risks. There are no indications for increasing of the risk above the levels, which the bank is able to absorb, in the segments or in different products, as well as in general concerning the entire balance sheet of the bank related to the asset quality, liquidity, currency position, trading limits and capital adequacy.

DSK Bank uses different types of financial instruments for the management of the liquidity and the market risks on its own account and supporting the customers.

For customers of the bank are offered financial instruments for management of currency and interest rate risk like currency forwards, currency and interest rate swaps and currency options. The positions as result of customer orders are managed according to the policy for management of the market risks and are mostly closed on the interbank market.

The bank offers investment services on the account of customers complying with Ordinance 38 from 25.07.2007 on the requirements to the activities of the investment intermediaries and Ordinance 58 from 28.02.2018 of the Financial supervision commission (FSC) on the requirements for protection of the financial instruments and the monetary funds of clients, for management of products and offering or receiving of remunerations, commissions, other pecuniary or non-pecuniary benefits, as well as the accepted internal rules related to this Regulation.

The bank keeps the entire documentation related to the concluded customer contracts and the execution of customer orders, including documents, which ensure the identification of the clients according to the requirements of the Law on measures against money laundering. The bank also maintains reporting and accounts for separate customer accounts for the entrusted client assets so that the letter can be distinguished from the financial instruments owned by the bank and can be individualized.

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 is monitored by Finance and strategy division, Legal directorate and Compliance department. 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 limiting of the operational risk.

In 2019, DSK Bank did not have any research and development activities.

As of 31.12.2019 the Bank has not acquired and does not possess own shares.

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).

As of December 31, 2019 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
Ilona Török - member of the SB
Krisztián Selmeczy – 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
Slaveyko Slaveykov – member of the MB and Executive Director
Yuriy Genov - member of the MB and Executive Director
Boyan Stefov – - member of the MB and Executive Director
Arnaud Leclair - member of the MB and Executive Director
Mihail Komitsky – member of the MB

The changes in the Bank's senior management in 2019 were follows:

As of March 25, 2019, have been registered as new members of the MB:

- Arnaud Renee Julien Leclair, Executive Director
- Slaveyko Lyubomirov Slaveykov, Executive Director
- Mihail Rumenov Komitsky

As of 01.04.2019 the follows members of the MB and executive directors have been removed:

- Margarita Dobreva Petrova-Karidi
- Dorothea Nikolaeva Nikolova

On September 18, 2019, Boyan Stefov was registered as the Executive Director.

In the Supervisory Board, the personal changes in 2019 were follows:

- As of April 30, 2019 heve been removed as a members of the Supervisory Board:
  - Attila Kozsik

- As of 19.08.2019 new members have been registered:
  - Krisztián Selmeczy
  - Ilona Török

In 2019, DSK Bank has no contracts under Art. 240b of the Commerce Act with members of the Management Board.

The total remuneration received by the management during the year was in accordance with management contracts and amounted to BGN 3.6 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 2019, as representatives of DSK Bank is as follows:

Name	Company	Position
Violina Marinova	PIC DSK Rodina AD Borica AD	Chairperson of SB Vice-Chairman of BD
Diana Miteva	DSK Asset Management AD DSK Mobile AD DSK Dom AD	Member of SB Chairperson of SB Chairperson of BD
Slaveyko Slaveykov	DSK Trans Security EAD Expressbank AD	Member of BD Member of SB
Arnaud Leclair	OTP Factoring Bulgaria AD	Chairperson of BD
Yuriy Genov	DSK Mobile AD	Member of SB
Mihail Komitsky	DSK Leasing AD OTP Leasing EOOD DSK AUTO LEASING EOOD DSK Operational Leasing EOOD	Chairperson of SB Director Director Director
Boyan Stefov	Expressbank AD	Member of SB

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

As at the end of 31 December 2019 DSK Bank EAD has 10 regional centers, 40 financial centers, 20 business centers and zones, 95 branches, 81 affiliated offices and 76 bank offices.

Financial result and profitability

For 2019 DSK Bank reported BGN 273.3 million profit before tax, which increased by 13% compared to 2018, mainly as a result of higher interest income.

The profit after tax for 2019 was BGN 245.9 million.

The net interest income amounted to BGN 437.2 million and grew by BGN 18.2 million or 4 % compared to 2018, mainly as a result of higher interest income on loans and advances to banks (BGN 9.2 million growth compared to 2018) and interest income on loans (BGN 5.3 million growth compared to 2018). Interest income increased by BGN 18.6 million year-on-year, as interest income from loans to individuals grew by BGN 7.9 million and those of MEs, corporate clients and SMEs dropped by BGN 2.8 million. The interest expenses slightly increased year-on-year by BGN 0.4 million.

The net non-interest income for 2019 amounted to BGN 190.4 million (a drop of 2% or BGN 3.8 million compared to 2018), which is mainly a result of the decrease of the net revenues from commercial operations by BGN 46 million. Net income from fees and commissions amounted to BGN 162.5 million and increased by BGN 0.9 million compared to 2018.

The operating expenses (incl. personnel expenses, amortization, hired services, material expenses and other) stood at BGN 315.7 million, and grew by BGN 24.8 million or 9% compared to 2018.

The increase also includes the additional expenses related to the integration project with Expresbank.

The headcount of the Bank as of 31 December 2019 was 4 250 (31 December 2018: 4 198).

The assets per employee ratio increased from BGN 3.44 million as of the end of 2018 to BGN 3.74 million as of the end of 2019. The profit per employee ratio increased from BGN 51.7 thousand for 2018 to BGN 57.9 thouand for 2019.

Balance sheet indicators

The total assets of DSK Bank EAD as at 31 December 2019 amounted to BGN 15 902.6 million and grew by BGN 1 451.3 million (or 10%) compared to 2018, which was a result of the household and company loans growth.

The market share of the Bank as of 31 December 2019 in the total banking assets in the country was 13.9% (as of December 2018: 13.7%).

Interest bearing assets comprised 78.8% relative share of the Bank's total assets.

The gross loan portfolio of DSK Bank as of 31 December 2019 was BGN 8 864.7 million, and increased by BGN 768.8 million or 9.5% year-on-year.

Loans to individuals amounted to BGN 5 694.3 million and grew by BGN 574.9 million (11%) compared to the previous year.

The market share of the Bank in terms of household loans was 23.9%, as in consumer loans (incl. non-residential mortgage loans) and overdrafts was 33.6%, and in housing – 19.1%. As of December 2019 the market share of household loans was 23.6%. The market share of non-financial companies as of December 2019 was 8.3% compared to 8.2% in 2018.

Company loans amounted to BGN 3 170.4 million and increased by BGN 193.9 million (6.5%) compared to 2018.

Impairment allowance of the loan portfolio amounted to BGN 566.2 million and decreased by BGN 49.6 million year-on-year.

Customer deposits amounted to BGN 12 673.1 million and grew by 9.7% or BGN 1 120.9 million compared to 2018.

Household deposits as at the end of 2019 were BGN 10 001 million and reported an increase of BGN 968.7 million or 10.7%.

The market share of the Bank in terms of household deposits as at the end of 2019 was 17.6% (2018: 17.2%).

Company deposits amounted to BGN 2 253 million as at the end of 2019 and grew by BGN 276.6 million compared to 2018.

Deposits from financial institutions amounted to BGN 419 million, and decreased by BGN 124.5 million compared to 2018.

Card transactions

The number of the cards issued by DSK Bank as of 31.12.2019 were 1 779.8 thousand. Debit cards amounted to 1 577.3 thousands. Credit cards of Retail Banking were 161.8 thousand, and the credit cards of corporate customers were 40.7 thousand.

As of December 2019 the Bank operated with 1 140 ATM and 10 800 POS devices. During the year the Bank installed 2 473 POS devices. The significant growth of card devices is due to the acquisition of Expressbank devices related to the preparation for the merger of Expressbank with DSK Bank.

Capital adequacy

The Bank constantly maintains a level of total capital adequacy, sufficient to cover the risks from its activity and to comply with the regulatory requirements. As at 31 December 2019 the total capital adequacy ratio on individual basis was 27.32%. In 2019 DSK Bank EAD provided BGN 1 844.5 million free capital above the total SREP capital requirement and the combined capital buffer, incl. capital conservation buffer (BGN 238.7 million), systemic risk buffer (BGN 286.4 million), O-SII buffer (BGN 71.6 million) and the specific for the institution countercyclical buffer (BGN 47.7 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 (64.2%) and company loans (without budget) (35.7%). Within household loans the credit risk is well allocated between consumer loans (54.1%) 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 2019 was as follows:

Total loan portfolio – 6.39%

According to the classification of the portfolio quality by stages in compliance with IFRS 9 the coverage with impairment of each group is as follows:

- Stage 1 – 1.2%
- Stage 2 – 8.5%
- Stage 3 – 62.8%

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 2019 the credit performing exposures including those with increased credit risk (classified in stage 1 or stage 2) were 92.2%, as the distribution within the products was as follows:

Consumer loans to individuals – 92.1%, point of sale loans to individuals – 87.6%, mortgage loans to individuals – 89.4%, loans to micro enterprises – 84.3%, loans to small and medium-sized enterprises – 92.5% and loans to corporate clients – 95.1%.

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.

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.

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 2019.

As part of the management of liquidity risk, the Bank holds liquid assets comprising cash and cash equivalents and debt securities, which can be readily sold to meet liquidity requirements.

Responsible liquidity management requires avoiding concentration of attracted funds from large depositors. Analysis of attracted funds is made periodically and diversification in the general portfolio of liabilities is observed.

Interest rate risk

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

Exchange rate risk

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.
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.

More details related to the goals and policy of the Bank on the financial risk management are disclosed in the "Separate Financial Statements For the year ended 31 December 2019 of DSK Bank EAD". Specific elements concerning the policy of the Bank on hedging of each major type of hedging position for which hedge accounting is applied are disclosed in point 3, par. (j).

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 planned 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 the "Operational risk management" department subordinated to the "General policy and risk management" directorate, which is part of the business independent "Risk management" division headed by a responsible Executive director of the Bank.
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.

As part of the operational risk management frame of the Bank is included also the management of the model risks derived from the used internal models. The model risk management aims to develop an environment with adequate controls via identification of the used models, their categorization and evaluation, as well as complying with the requirements of the implemented controls. The "Operational risk management" department prepares an annual report regarding the model risks, which is presented to the members of the ORMC and includes the different correspondence of the models in the different ranking categories to the control requirements.

On annual basis is performed a revision of the products offered by DSK Bank with focus on improvement of their quality. The aim is to avoid the possibility for occurrence of reputational risk due to applying of improper sales approach and limiting the risk from financial losses and loss of customer trust.

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 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 coveres 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 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 needs.

The operational risk management system 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 2019 the assessment of all audits is that the Bank has created an organization, procedures and controls concerning the operational risk management. They are adequate for the volume of activity and continuously changing environment and development of the Bank.

The National Bank of Hungary and Bulgarian National Bank Join Decision which approved DSK Bank to apply the Advanced Measurement Approach for the capital calculation purposes on the individual and also on the consolidated base has been in force since 31.03.2014.

During the 2019 year there are no registered events, which could potentially threaten the Bank activity.

Investment program

The investments of DSK Bank during the year amounted to BGN 44.2 million, including the expenses for the project related to the merge of Expressbank in DSK Bank.

The investments in IT projects were BGN 28.8 million, as their share in the total investments of the Bank was 65% (for 2018 this share was 74 %).

The capital investments during the year were BGN 5.9 million, aiming at optimization and improvements in strategic locations servicing the Head Office.

Investments of BGN 1.7 million were made for transformation of working places, upgrading lighting systems, visual communication and replacing air-conditioning systems.

Events after the reporting period

The management of DSK Bank considers the following events, which occurred after the end of the reporting period and may have significant impact on the activity of the Bank:

- Event, which is specific for DSK Bank activity and is in line with the expectations and strategy of the Bank - on February 27, 2020, the Management Board of the Bulgarian National Bank decided to authorize the transformation of Expressbank AD by merger under Art. 262 of the Commercial Law at DSK Bank EAD.

  The merger process is expected to be completed by May 2020.

- Event of global scale, impacting the entire banking system and the word-wide economy - the COVID-19 spreading has an impact on global demand and supply, with considerable uncertainty in economic activity, which will have a direct negative impact on credit activity and on the quality of the credit portfolio.

  At this stage of virus spreading and the dynamics of its development, it is difficult to estimate the realistic impact on the economic development of the Bank. In accordance with the measures undertaken by the Government of the country and by the Governing Council of the Bulgarian National Bank, the management of the Bank has undertaken actions by organizing a crisis headquarter for action plan and preventions.

Major goals for 2020:

(the major goals are prepared before the end of the reporting period and do not reflect potential changes, which may have an impact related to the events occurred after the end of the reporting period)

The managements of the Bank together with the management of the newly acquired bank has defined the following priorities for the business year 2020:

- Successful implementation of the project on integration of both banks;
- Increasing customer satisfaction by introducing new products and services and improving customer service processes;
- Optimal utilization of market potential in loan sales;
- Income growth according to the positive expectations for economic environment development and compensation of the adverse effects from the continuing, although with a slower pace, margin decrease;
- Defending market position in retail banking;
- Keeping the decrease in the positions in company banking in the segments where the Bank has a risk appetite;

- Maintaining price policy on attracted funds in order to continue the optimization of the income margin erosion related to accumulated liquidity;
- Increase overall customer activity and in particular the use of electronic channels.

The Report on the Management and the Activity of DSK Bank EAD for 2019 is approved by the Management Board with a protocol №11/17.03.2020.

Банка ДСК ЕАД
София
73
2115

Violina Marinova	Slaveyko Slaveykov
Chief Executive Officer	*Executive Director*

NON-FINANCIAL DECLARATION

Pursuant to art. 41 and art. 48 of the Law on Accounting Act

Purpose: DSK Bank strives to establish and maintain high banking standards, best management practices and ethical business standards in accordance with the law of the Republic of Bulgaria, the banking rules and regulations and the relevant EU law.

DSK Bank's team aims to support the development of sustainable business models by providing full and efficient financial service, as well as excellent customer experience. 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 the creation of long-term relations with clients. Last but not least, the Bank strives to uphold its position as a leader in trust among users of bank and financial services in Bulgaria and of a preferred employer by the Bulgarian students.

Strategy: The integration between DSK Bank and Expressbank is to create one of the largest and strongest bank institutions on the Bulgarian market, offering the full spectrum of cutting-edge financial products and services. Upon its completion, the new bank is to come close to the top position in terms of assets and credit portfolio, have the largest branch network and be first in deposits.

The clients of the two banks will benefit mostly from the integration due to the greater development and innovation possibilities, including in terms of branch and ATM networks and e-banking channels. Adopting the highest of standards from the two institutions and taking the best of their practices and experience, the new bank will continue to guarantee excellent customer service and protection of client funds and offer innovative products and services.

Organizational structure, infrastructure, products: As a part of 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, fast developing, modern and flexible, oriented to the needs of all client 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 process of integration of DSK Bank and Expressbank in 2019 included a full and thorough study and assessment of business processes, internal systems, branch networks, assets and resources of the two institutions, which made it possible to go forward with creating the best possible bank organization. The best of the two banks – history and traditions, business strategy, capacity and expertise, products and innovations, is to be made use so we can offer both our clients and employees optimum possibilities, at the same time taking the top position on the national bank market. The new bank would be able to use the best practices and experience of a strong European bank group – OTP Group, of which we are an integral part, as well as create new opportunities for our employees in terms of development and excellent work environment.

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 comply with their way of living.

A client-oriented institution, in 2019 the bank started redesigning its mobile banking app – DSK Smart (for the two operational systems Android and iOS) with a beta testing campaign among clients and we plan to take into consideration respondents' opinion regarding Smart's new design and functionalities, thus include ing client's input into the development of the bank's online services.

For clients' greater convenience and comfort, DSK Bank launched DSK mToken – a mobile application for smart devices operating under Android and iOS. The app is used to verify transfers and documents sent via the bank's e-banking platform for individuals DSK Direct and its mobile banking DK Smart.

This innovative solution meets the highest security standards and provides an alternative to the currently used digital certificates and token devices, offering a number of advantages and possibilities.

An established leader in terms of innovative products and digital services in the banking sector, DSK Bank develops different projects employing innovative approaches across the entire spectre of service. In late March 2019 the bank lunched a new electronic service – online application and disbursement of consumer loans, enabling clients to sign their contract and other necessary documents via their mobile phone, using a qualified e-signature by Eurotrust.

It is not by accident that at the start of 2019 DSK Bank was pronounced the best preferred and top of mind bank among Bulgarian users, following a regular Financial Intelligence survey done by GfK on the use of bank products and services. Respondents were asked to review banks in the country in terms of top of mind and their preference of bank institutions and services.

Last year we got another recognition - Superbrands Bulgaria 2019 pronounced DSK Bank the strongest brand in Financial Services/Banks category. The seventh independent research of the national consumer segment Superbrands Bulgaria 2019 was conducted in March in partnership with the leading market research institute GfK Bulgaria and DSK Bank became winner in this category for a second time after 2017.

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 68-year history, DSK Bank has proven its ability to combine very successfully tradition and innovation and demonstrates a notable ability to adapt to the ever changing regulatory and market conditions, as well as dynamically develop as per the ever- changing clients' needs and attitudes.

The policies followed by the bank comply with the long-term prospects of the Group and as an employer the Bank maintains responsible relationships based on partnerships, which stimulate loyalty, mutual respect and support. The Bank has a special focus on young people to whom it offers opportunities to develop and grow in a modern and friendly working environment, helping them to cultivate team work skills and preparing them to meet the challenges of the jobs of the future.

For years the Bank has followed a policy for wasteless bank administration the main purpose of which is environmental protection. Practically, this includes collection of all printer cartridges and ink cassettes across all bank branches 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 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.

In the eve of Earth Day, April 22, employees of DSK Bank and Expressbank gave their contribution for a purer air in the city of Sofia. Some 100 volunteers from the two banks planted around 1000 young acacia trees, supporting Sofia's New Forest project, organized by Sofia Municipality, which envisages that 125 000 trees overall be planted across a 225 dca zone in Souhodol area. This initiative strives to set up a green belt in the vicinity of Sofia, so as to facilitate the improvement of air quality by turning waste municipal land into forests.

Another charity event supported by DSK Bank and Expressbanks' employees was The Good Hearts bazar, organized on June 27, 2019. Our colleagues joined forces to lend their support to a noble cause – raising funds for EuroVelo for Everyone/Accessible Biking project. The raised funds were to be used to make a special-purpose thricycle with an electrical engine intended for disabled people, so they can be part of cycling trips and have full life. The bazar raised a total of BGN 4227.74 which were donated to the project.

In 2019 charity and sport brought to life another common tradition for DSK Bank and Expressbank – a charity run with participation of colleagues from the two banks. In May a joint team of DSK Bank and Expressbank, as well as their children, took part in a charity run - Run2Gether България 2019. Our team became part of the thousands who together with disabled people ran a 5-kilometer distance, aiming to raise awareness of sport for all and the need for equal access thus change the attitudes towards disabled people.

In June a joint team of twelve DSK Bank and Expressbanks' employees took part in the Business Run, an annual charity run with a cause organized by The Runner Sport Club. The event took place in Sofia Business Park and our two banks participated with three teams – women, men and mixed who ran a 4-kilometer relay.

In October 40 colleagues from DSK Bank and Expressbank once again participated in a charity relay run - Business Run Plovdiv 2019, organized by The Runner Sport Club in support of a cause of For Our Children Foundation, making it possible for as many children as possible to live and grow in a safe family environment through Early Childhood Intervention program, targeting disabled children and children with development issues.

At the end of September DSK Bank and Expressbank once again came together on the sport field for charity purposes. On September 28 and 29, in Sofia and Varna the first common event of such a scale *Sports Day of DSK Bank and Expressbank* was held under the motto Together We Build Success. Some 300 employees from the two banks took place, entering different sport competitions, building up closer informal relations and team spirit. With their participation our collages contributed to a noble cause - Ole Male of Maiko Mila Foundation, in support of mothers of disabled children to which DSK Bank donated BGN 5000.

As a socially responsible institution, DSK Bank supports a wide range of initiatives and programmes in order to underline its commitment to 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.

As one of the most loyal and generous partners and supporters of SOS Children's villages Bulgaria, in 2019 during the organization's annual awards DSK Bank received the *One Family* award, the big prize awarded by SOS to their largest corporate partners. The bank received this recognition in acknowledgement of its long-standing support by way of the Bank's annual donation of BGN 36 000 to the benefit of two SOS families located in the SOS villages in Tryavna and Pernik, donations through the Bank's ATM network and personal donations by employees. In 2019 the donations made on the Bank's ATMs amounts to around BGN 650 000.

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

The traditional support of DSK Bank for children chess 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 and young people. In 2019 the Bank once again gave its support for the Ivis Cup children chess tournament. We also supported the National University Chess Tournament in an effort to create appropriate opportunities for talented children and young people from all over the country and through long-term cooperation to facilitate the sport and intellectual development of the young generation in Bulgaria.

Every year DSK Bank supports different charitable initiatives - the Bulgarian Christmas, Support a Dream, etc. but the focus of the charity activity is the tradition to organize before Christmas an in-house event with a charitable purpos. It is usually in the form of a lunch for which colleagues who are willing to participate bring home-made food, which is sold during the event and the collected money is donated for different causes.

In 2019, following an internal inquiry, our colleagues chose to support ParaKids project by Shark Sports Club, which develops and promotes courses in adapted swimming, skiing, different specialized exercise programs and equipment, so that disabled children could be part of different sport activities together with kids their age and have full life.

In December 2019 employees from DSK Bank and Expressbanks' Head Offices took part in a series of charity events, where they brought and sold home-cooked meals, hand-made cards, jewellery and other articles. The sum raised by our colleagues who took part in these events – BGN 9000 was doubled by DSK Bank, so the total donation made to the benefit of ParaKids project amounted to BGN 18 000.

As a banking, financial and technological leader on the market, focusing on and investing in young people's knowledge, DSK Bank is aware of its responsibility to provide them with financial knowledge. For that purpose, in 2018 the Bank started developing its own financial literacy programme called National Financial Olympiade, which aims to increase the financial knowledge of students of different ages.

In early 2019 the first edition of the National Financial Olympiade took place in the form of a competition for students between 16 and 19 years between student-parent couples competing for the big prize – a BGN 300 scholarship for the next school year. The competition's semi-finals and finals were held live in Serdika Mall in Sofia. A total of 672 teams entered the competition and 12 teams from Sofia, Stara Zagora, Veliko Tarnovo and Rousse took part in the two-days semi-finals and final. Team Da Vinci – the 16-year old Zhanet Tablova and her father Stoyan Tablov from Sofia, came out the big winner, following a tight competition. Zhanet won the BGN 3000 scholarship for 2019/2020 school year.

The Bank's digital educational program continued with a summer edition. It consisted of three games held in the period April – September 2019 in the form of 20-question tests in finance. The competition was held online – at the special platform www.finansiada.bg and competitors were again student-parent couples (again for students between 16 and 19 years of age).

DSK Bank's National Financial Olympiade deservedly won several prizes throughout the year. In tight competition with 30 other entries it took home the prestigious first prize in the category Sustainable Development/Corporate Social Responsibility Campaign in the PR Prize 2019 competition organized by the Bulgarian Public Relations Society. The Bank's financial literacy program was acknowledged during the Annual b2b Media Awards – it was awarded the first prize in the category *Idea for Education*.

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 2019, for a second year in a row DSK Bank was pronounced preferred employer by students in Bulgaria in a Graduate Survey conducted by ToTheTop Agency.

8 241 students from 51 national and international universities took part in the survey, which measures students' opinion of their preferred employer. They responded to over 50 questions, covering a range of different emotional and functional characteristics of employers, among which strong managerial leadership, well-structured internship program, strong vision for the future, leading position in the respective sector and good future development outlook.

The fact that Bulgarian students have named DSK Bank as the best preferred employer to start their career with is one of the most valuable recognitions, as the Bank offers young people the opportunity to grow in a modern and friendly working environment, get equipped to meet the challenges of the jobs of the future and cultivate team work skills.

DSK Bank applies a balanced social policy. In 2019, the social expenses amounted to 7,9% of the total labour expenses.

The internal corporate development of the employees continued to be one of the priorities of the management. In 2019 over 250 employees were promoted in the Bank.

In 2019 1336 different forms of internal and external training of the employees were organized and conducted and the number of the participants in the trainings was 10818. DSK Bank successfully defended two global standards for the security and safety of card transactions and payments on the Internet – PCI DSS (Payment Card Industry Data Security Standard) and PCI 3DS (Payment Card Industry 3-D Secure).

The PCI DSS international standard for the security of card transactions includes a list of requirements in six main areas – building and maintaining a secure network, protection against data theft, developing and maintaining a vulnerability management program, applying access control measures, network monitoring and testing, and maintaining and applying an information security policy. Compliance with PCI DSS means that the IT infrastructure and the systems used for processing the card information of DSK Bank meet the criteria of the standard and securely store sensitive data such as card number, validity, verification code, client names, PIN code related data, etc.

The introduction of the standard for the security of card payments is of exceptional importance for DSK Bank also in the context of its forthcoming integration with Expressbank, which is expected to end in mid-2020. DSK Bank will then serve approximately 500 000 more card clients for whom the confirmed reliability of card payments in the bank is an additional advantage and guarantee for an exceptional client experience.

The rules of the PCI DSS standard are continuously renewed so that DSK Bank remains with a permanent commitment to regularly check and ensure that all requirements for providing the security of card transactions are complied with.

In parallel with the success in being certified under PCI DSS, DSK Bank defended another serious international security standard related to card transactions - Payment Card Industry 3-D Secure (PCI 3DS). As holder of such certificate, the financial institution guarantees the application of logical client security controls, which are to maintain the integrity and confidentiality of the process related to client card payments on the Internet. The main purpose of the PCI 3DS protocol is to facilitate and guarantee the secure exchange of data among internet traders and clients using bank cards as a means of payment.

Both certificates - PCI DSS and PCI 3DS, have been developed by the PCI Security Standards Council. The council was founded in 2006 by five global payment brands - American Express, Discover Financial Services, JCB International, Mastercard Worldwide and Visa Inc., and is responsible for developing, managing and maintaining information about the PCI security standards.

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 Director

Slaveyko Slaveykov
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 General policy and risk 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.

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

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

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

- Statute of DSK Bank EAD;
- Management Rules of DSK Bank EAD]
- Rules of Procedure of the Remuneration Committee.

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;
- Rules of Procedure of the Remuneration Committee
- 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

Slaveyko Slaveykov
Executive Director

INDEPENDENT AUDITORS' REPORT AND ANNUAL SEPARATE FINANCIAL STATEMENTS DECEMBER 31, 2019

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, 2019, 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 Company as at December 31, 2019, 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 Code of Ethics for Professional Accountants (including International Independence Standards) of the International Ethics Standards Board for 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. For each matter, included in the table below, the description of how this matter has been addressed in our audit has been made in this context.

Key audit matter	*How this key audit matter was addressed in our audit*
Impairment Loss Allowance for Loans and Advances to Customers ***See Notes 4 and 20 to the separate financial statements*** Loans and advances to customers represent a significant part (52%) of the total assets of the Bank as at December 31, 2019 with aggregate gross carrying amount of BGN 8,864,731 thousand and accumulated loss allowance of BGN 566,198 thousand. The Bank applies impairment model based on expected credit losses ("ECL") in accordance with the requirements of IFRS 9 "Financial Instruments". The assessment of loss allowance for loans and advances to customers, within the application of this model, requires Bank's Management to exercise a significant level of judgment, especially with respect to identifying impaired loans and receivables and quantifying expected credit losses. The key inputs and areas of judgement in the assessment of expected credit losses are related to the development of quantitative and qualitative criteria for: • identification of significant increase of credit risk (SICR) for staging of loans to customers; • determining the probability of default or loss (PD/PL), the loss given default or loss (LGD/LGL) and the exposure at default or loss (EAD); • imputing forward looking information (FLI) of macro-economic factors considering multiple scenarios in ECL estimation; • the comprehensiveness and completeness on input data and calculation logic within the applied by the Bank statistical models, with input parameters obtained from internal and external sources.. • the assumptions and estimates applied by Management in the review of individually significant credit impaired exposures pertaining to recent loss experience, ranges of possible scenarios based their outcomes	*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 and the consistency of application of the methodology and models 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: • Assessment, together with our credit risk experts of 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 in the context of the specifics of Bank's loan portfolio and the availability of internal historical and forward-looking information • Assessment of the appropriateness of staging classification based on the determined by the Bank classification criteria; • Analysis of the reasonableness of the PD/PL and LGD/LGL calculations by examining supporting information for the key assumptions used. • Independent recalculation, together with our credit experts, of the parameters applied in the loss allowance calculations for significant portfolios; procedures on sample basis on the inputs to the calculations were performed; • Observation of the expected credit loss calculation performed by the Bank to arrive at loan loss allowance as at December 31, 2019,

Key audit matter	How this key audit matter was addressed in our audit
for timing and amount of cash flows from future collections, including from collateral realization. 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 high uncertainty of assumptions and specific parameter-based model 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.	including data input, data processing and calculation. For a sample of loans we independently recalculated the expected credit losses and traced the results to Bank's calculation; • Evaluation of the appropriateness of provisioning methodologies and their application for a sample of individually significant loans in Stage III. 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 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 and the Public Offering of Securities 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 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 statutory auditors of the separate financial statements of the Bank for the year ended 31 December 2019 by the general meeting of shareholders (session of the sole owner) held on April 04, 2019 for a period of one year.
- The audit of the separate financial statements of the Bank for the year ended 31 December 2019 represents fifth total consecutive statutory audit engagement for that entity carried out by Deloitte Audit OOD and third 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 17, 2020, provided to the Bank's audit committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- 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:
    - Activities, related to the analysis of best practices in Central and Eastern Europe about premium retail segment, competition, customer research, distribution channels, customer value proposition.

- 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, 2019 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, 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;
    - Limited Review of group reporting package as of DSK Bank EAD as of June 30, 2019 and September 30, 2019, 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;
    - Analytical procedures on the group reporting package as of December 31, 2019 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 specified account balances and classes of transaction from the consolidated group reporting package as of December 31, 2019 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 specified account balances and classes of transaction from 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 group reporting package as of December 31, 2019 of Expressbank AD (controlled undertaking), prepared in accordance with the accounting policies of OTP Bank RT Group, Hungary, based on IFRS, in accordance with ISA;
    - Review of group reporting package of Expressbank AD (controlled company) as of June 30, 2019 and September 30, 2019, prepared in accordance with the accounting policies of OTP Bank RT Group, Hungary, based on IFRS, in accordance with ISA;
    - Agreed-upon procedures related to the application of BNB Ordinance 10 for the period January 01 – December 31, 2018 – observation of the current performance of the internal control systems of Expressbank AD (controlled undertaking), in accordance with the requirements of International Standard on Related Services 4400 "Engagements to Perform Agreed-upon Procedures regarding Financial Information", performed jointly with Ernst and Young Audit OOD.
    - Audit of the group reporting package as of December 31, 2019 of OTP Leasing EOOD (controlled undertaking), prepared in accordance with the accounting policies of OTP Bank RT Group, Hungary, based on IFRS, in accordance with ISA;
- 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, 2018 – observation of the current performance of the internal control systems of the Bank, in accordance with the requirements of International Standard on Related Services 4400 "Engagements to Perform Agreed-upon Procedures regarding Financial Information".

- Agreed-upon procedures related to the financial supervision, in accordance with International Standard on Related Services 4400 “Engagements to Perform Agreed-upon Procedures regarding Financial Information”, with respect to regulatory financial statements of POK “DSK-Rodina” AD (controlled undertaking) for 2018, 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 2018 and IFRS.

On behalf of Deloitte Audit OOD

Sylvia Peneva
Statutory Manager
Registered Auditor, in charge for the audit

103, Al. Stambolijski Blvd
1303 Sofia, Bulgaria

On behalf of AFA OOD

Renny Iordanova
General Manager
Registered Auditor, in charge for the audit

38, Oborishte Street
1504 Sofia, Bulgaria

March 17, 2020

Contents:

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

In thousands of BGN	Note	2019	2018
Interest income		450 053	431 442
Interest expense		(12 872)	(12 458)
Net interest income	5	**437 181**	**418 984**
Fee and commission income		189 846	177 197
Fee and commission expense		(27 329)	(15 553)
Net fee and commission income	6	**162 517**	**161 644**
Net trading income	7	10 396	56 849
Net income from other financial instruments at FVTPL	8	5 906	(4 185)
Net gains from derecognition of financial assets measured at amortised cost	9	7 575	12 225
Net losses from foreign exchange		(1 721)	(36 931)
Loss for the period from subsidiaries with a view for resale		(985)	-
Other operating income, net	10	5 717	4 602
Operating income		**626 586**	**613 188**
Impairment losses on financial assets, net	11	(18 884)	(77 841)
Impairment losses on non-financial assets, net	12	(9 788)	(17 056)
Net income/(expense) for provisions	29	(8 902)	13 922
Personnel expenses	13	(123 622)	(112 822)
Depreciation and amortisation	14	(44 729)	(32 163)
Other expenses	15	(147 364)	(145 882)
Profit before tax		**273 297**	**241 346**
Income tax expense	16	(27 422)	(24 168)
Profit for the year		**245 875**	**217 178**

The separate statement of profit or loss is to be read together with the notes from 1 to 37 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 17 March 2020.

Violina Marinova
Chief Executive Director

Slaveyko Slaveykov
Executive Director

17.03.2020
Sylvia Peneva
Registered Auditor
Deloitte Audit OOD

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 033

17.03.2020
Renny 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	**2019**	**2018**
Profit for the year	**245 875**	**217 178**
Items that may be reclassified subsequently to profit or loss		
Cost of hedging for forward element of a forward and currency basis spread when excluded from designation in a hedge relationship	(14 811)	(2 623)
Movement in the investment revaluation reserve for debt instruments measured at fair value through other comprehensive income	25 655	(13 392)
Income tax related to OCI items that may be reclassified subsequently to profit or loss	(2 593)	1 453
	8 251	(14 562)
Items that will not be reclassified subsequently to profit or loss		
Movement in revaluation reserve for equity instruments designated at fair value through other comprehensive income	3 207	1 434
Gains and losses on land and buildings revaluation	(28)	4 183
Remeasurements of net defined benefit liability	(1 445)	(619)
Income tax related to OCI items that will not be reclassified subsequently to profit or loss	(302)	(528)
	1 432	4 470
Other comprehensive income for the year, net of tax	**9 683**	**(10 092)**
Total comprehensive income	**255 558**	**207 086**

The separate statement of comprehensive income is to be read together with the notes from 1 to 37 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 17 March 2020.

Violina Marinova
Chief Executive Director

Slaveyko Slaveykov
Executive Director

March 17, 2020
Sylvia Peneva
Registered Auditor
Deloitte Audit OOD

March 17, 2020
Penny Iordanova
Registered Auditor
AFA OOD

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 033

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 015
АФА ООД

Separate statement of financial position

As at 31 December

In thousands of BGN	Note	31-Dec-2019	31-Dec-2018
Assets			
Cash and current accounts with the Central Bank and other banks	17	1 769 073	3 210 339
Trading financial assets	18	183 413	48 988
Derivative financial instruments	18	20 111	14 880
Loans and advances to banks	19	2 197 280	1 922 613
Loans and advances to customers	20	8 298 533	7 480 145
Investments in securities	21	1 826 018	1 259 059
Current tax assets		1 410	1 951
Investments in subsidaries and associates	35	1 150 957	43 676
Right-of-use assets	22	41 344	-
Property, plant and equipment	23	319 691	317 597
Intangible assets	24	56 833	49 307
Other assets	25	37 902	102 751
Total assets		**15 902 565**	**14 451 306**
Liabilities			
Deposits from banks	26	10 159	7 994
Derivative financial instruments	18	32 891	27 437
Deposits from customers	27	12 673 063	11 552 168
Loans from banks and financial institutions	26	38 793	11 129
Current tax liabilities		-	2 104
Lease liabilities	28	41 512	-
Provisions	29	70 767	61 608
Deferred tax liabilities	30	5 534	5 807
Other liabilities	31	105 806	114 577
Total liabilities		**12 978 525**	**11 782 824**
Shareholder's equity			
Share capital	32	1 327 482	1 327 482
Reserves		1 340 788	1 113 567
Retained earnings		255 770	227 433
Total shareholder's equity		**2 924 040**	**2 668 482**
Total liabilities and shareholder's equity		**15 902 565**	**14 451 306**

The separate statement of financial position is to be read together with the notes from 1 to 37 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 17 March 2020.

Violina Marinova
Chief Executive Director

Slaveyko Slaveykov
Executive Director

Одиторско дружество
София
Рег. № 033

March 17, 2020
Sylvia Poneva
Registered Auditor
Deloitte Audit OOD

March 17, 2020
Renny Iordanova
Registered Auditor
AFA OOD

Одиторско дружество
София
Рег. № 015
АФА ООД

Translated from Bulgarian

Separate statement of cash flows

For the year ended 31 December

In thousands of BGN	Note	2019	2018
Cash flow from operating activities			
Profit before tax		273 297	241 346
Adjustments for			
Impairment losses on financial assets, net	11	13 884	77 841
Impairment losses on non-financial assets, net	12	9 788	17 056
Depreciation and amortization	14	44 729	32 163
Net (gains) from operations with investments		(16 660)	(20 938)
Net losses from foreign exchange rate revaluation		1 721	36 931
Net interest income	5	(437 181)	(418 984)
Dividends	10	59	174
Loss on disposal of subsidiaries, acquired with a view of resale		985	-
Other non cash changes		14 470	8 464
Increase/(decrease) in provisions		8 902	(13 303)
Net cash flow used in operating activities before movements in operating assets and liabilities		**(81 006)**	**(39 250)**
Movements in operating assets			
Increase in securities held for trading		(142 485)	(60 237)
Increase in loans and advances to banks		(318 045)	(385 897)
Increase in loans and advances to customers		(844 734)	(720 058)
Decrease/(increase) in other assets		70 496	(65 501)
Movements in operating liabilities			
Increase/(decrease) in deposits from banks		2 165	(6 773)
Increase/(decrease) in loans from financial institutions		27 723	(4 390)
Increase in deposits from customers		1 106 950	1 242 268
Decrease in other liabilities		(18 164)	(39 807)
Cash generated from operations		**(197 100)**	**(79 645)**
Interest received		453 730	466 549
Interest paid		(8 820)	(28 671)
Tax paid		(32 100)	(23 417)
Net cash flow from operating activities		**215 710**	**334 816**
Cash flow from investing activities			
Acquisition of property, plant and equipment, and intangible assets net		(49 998)	(39 155)
(Acquisition)/proceeds from/of investments in securities, net		(475 069)	294 585
Acquisition of subsidiaries		(1 082 002)	(500)
Acquisition of associates		(475)	-
Acquisition of shares in controlled company		(37 620)	-
Disposal of subsidiaries acquired with a view for sale		5 715	-
Net cash flow (used in)/from investing activities		**(1 639 449)**	**254 930**
Cash flow from financing activities			
Issue of share capital	32	-	1 173 498
Dividends paid		-	(263 047)
Repayment of the lease liabilities		(10 472)	-
Net cash flow (used in)/from financing activities		**(10 472)**	**910 451**
Net (decrease)/increase in cash and cash equivalents		**(1 434 211)**	**1 500 197**
Effect of foreign exchange rate changes		768	460
Cash and cash equivalents at the beginning of the year	34	**3 210 339**	**1 709 682**
Cash and cash equivalents at the end of the year	34	**1 776 896**	**3 210 339**

The separate statement of cash flows is to be read together with the notes from 1 to 37 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 17 March 2020.

Violina Marinova
Chief Executive Director

Slaveyko Slaveykov
Executive Director

March 17, 2020
Sylvia Peneva
Registered Auditor
Deloitte Audit OOD

March 17 2020
Renny Iordanova
Registered Auditor
AFA OOD

Одиторско дружество
София
Рег. № 033

Одиторско дружество
София
Рег. № 015
АФА ООД

Translated from Bulgarian

Separate statement of changes in equity

For the year ended 31 December

In thousands of BGN	Share capital	Statutory and other reserves	Revaluation reserve -land and buildings	Revaluation reserve from financial assets	Cost of hedging	Defined Benefit Pension Reserve	Retained earnings	Total
Balance as of 1 January 2018	**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**
Comprehensive income	-	-	-	-	-	-	-	-
Net profit for the year	-	-	-	-	-	-	245 875	245 875
Other comprehensive income	-	-	(26)	25 965	(14 811)	(1 445)	-	9 683
Total comprehensive income	**-**	**-**	**(26)**	**25 965**	**(14 811)**	**(1 445)**	**245 875**	**255 558**
Transfer of revaluation reserve from land and buildings, net of tax	-	-	(308)	-	-	-	308	-
Distribution of profit for reserves	-	217 846	-	-	-	-	(217 846)	-
Balance as of 31 December 2019	**1 327 482**	**1 200 054**	**113 674**	**47 777**	**(16 020)**	**(4 697)**	**255 770**	**2 924 040**

The separate statement of changes in equity is to be read together with the notes from 1 to 37 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 17 March 2020.

Violina Marinova
Chief Executive Director

Slaveyko Slaveykov
Executive Director

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 033
ДЕЛОЙТ ОДИТ ООД

March, 17, 2020
Sylvia Peneva
Registered Auditor
Deloitte Audit OOD

Translated from Bulgarian

March 17 2020
Lenny Iordanova
Registered Auditor
AFA OOD

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 015
АФА ООД

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 2019 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, Ákos Ferenc Tisza-Papp, Ilona Török and Krisztián Selmeczy – members of the Supervisory Board.

As of 31 December 2019 the Management of the Bank is represented by the Management Board composed of 7 (seven) members, namely: Violina Marinova – Chairman of the Management Board and CEO; Diana Miteva, Slaveyko Slaveykov, Arnaud Leclair, Yuriy Genov, Boyan Stefov – Members of the Management Board and Executive Directors; Mihail Komitski– 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 2019, 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, 2019 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 and IFRS. The separate financial statements have to be treated as integral part of the consolidated financial statements of the Bank Group which is forthcoming to be approved by the Management Board.

(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 16 Leases initial application. In the adoption of IFRS 16 Leases, the Bank has applied the modified retrospective approach on its initial application and comparative data for the previous year (2018) is not recalculated.

The effects from initial application of the new standard IFRS 16 Leases are presented in Note 2.

(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 three stage model is implemented for IFRS purposes. The 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 signif icant increase of credit risk lifetime expected losses will be recognized.

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 2019 no reassessment of bank`s land and buildings has been performed. The last reassessment of these assets has been carried out as of December 31, 2018 in cooperation with independent licensed valuers, who have used a number of acceptable valuation methods and techniques (Note 23).

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 29).

2. Changes in Accounting policy

Changes related to the application of IFRS 16 Leases

The Bank has adopted IFRS 16, as issued by the IASB in January 2016, with a transition date of January 1, 2019, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements.

IFRS 16 Leases supersedes 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.

Impact on the lessee's reporting

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.

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.

The Bank as a lessee uses a modified retrospective approach. The application of the modified retrospective approach requires the lessee to present the cumulative effect of IFRS 16 as an adjustment to the opening balance of equity for the period in which the standard is first applied.

Impact of IFRS 16 on the financial statements

Following the adoption of IFRS 16, the Bank has recognized:

- right-of-use assets and lease liabilities related to leases in the separate statement of financial position, initially measured at the present value of lease payments receivable as at the date of commencement of the application of IFRS 16. Lease payments are discounted using the interest rate implicit in the lease or, if that rate can not be readily determined, the incremental borrowing rate.

- Depreciation of right-of-use assets and interest on leasing liabilities in the separate statement of profit or loss and
- Split the total amount of payments between the portion of the principal and the interest in the separate statement of profit or loss

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.

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 (under BGN 10 000) 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.

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.

In the Statement of Profit or Loss, IFRS 16 reflects a decrease in other expenses and an increase in depreciation and interest expense.

Initial recognition of right-of-use assets

In thousands of BGN	**Land, buildings and equipment**	**Vehicles**	**Total**
Right-of-use assets			
Initial recognition	40 288	1 412	41 700
Transferred from tangible assets	-	67	67
Total right-of-use assets as at 01 January 2019	**40 288**	**1 479**	**41 767**
Depreciation			
Transferred from tangible assets	-	63	63
Total depreciation as at 01 January 2019	**-**	**63**	**63**
Lease liabilities			
Initial recognition	40 288	1 412	41 700
Transferred from financial lease liabilities	-	31	31
Total lease liabilities as at 01 January 2019	**40 288**	**1 443**	**41 731**

The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets of BGN 41 767 thousand and lease liabilities of BGN 41 731 thousand.

It also resulted in a decrease in other expenses of BGN 10 945 thousand and an increase in depreciation of BGN 10 640 thousand and interest expense of BGN 305 thousand.

Vehicles under finance lease arrangements previously presented within Property, plant and equipment of BGN 67 thousand are presented within the line item Right-of-use assets. There has been no change in the amount recognised.

The lease liability on leases previously classified as finance leases under IAS 17 and previously presented within Other liabilities (Obligations under finance leases) of BGN 31 thousand is presented in the line Lease liabilities. There has been no change in the liability recognised.

Impact on the lessor's reporting

For the lessor, IFRS 16 retains the requirements and rules of IAS 17 for initial recognition and measurement. Leases should be classified as financial or operating under IFRS 16. Compared to IAS 17, IFRS 16 requires lessors to disclose more detailed information than previously, but overall the main features of accounting treatment are retained.

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.

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.

(d) Net trading income

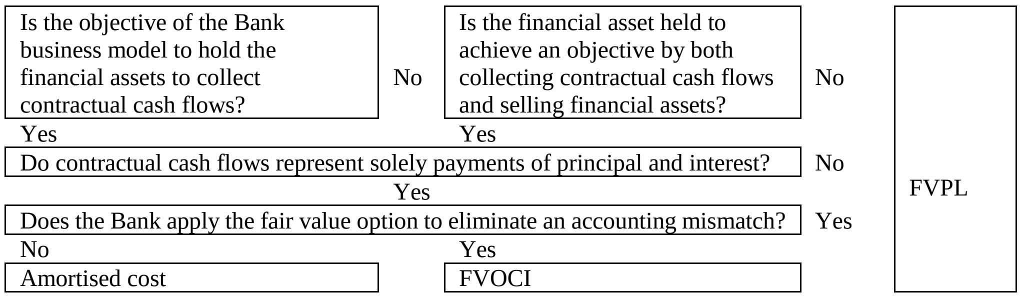
Net trading income comprises gains net from losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, and foreign exchange rate differences. Net trading income includes foreign currency exchange rate differences on investment financial assets.

(e) Financial instruments

(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:



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 from which are recognized in accordance with IFRS 9 paragraph 5.7.5; 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.

(10) Purchased credit-impaired financial assets

Purchased financial asset is an asset which is credit-impaired on initial recognition.

The Bank classifies the purchased credit-impaired financial assets as measured at amortized cost only if the following conditions are met simultaneously:

The financial asset is held by the Bank within a business model with the objective to hold financial assets in order to collect contractual cash flows; and

The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Amortised cost is the amount at which the credit-impaired financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation between that initial amount and the maturity amount, which for purchased credit-impaired financial assets is calculated by applying the credit-adjusted effective interest rate (CAEIR).

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 shall estimate 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.

The Bank only recognises the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance for purchased or originated credit-impaired financial assets. At each reporting date, the Bank shall recognise in profit or loss the amount of the change in lifetime expected credit losses as an impairment gain or loss. The Bank recognises favourable changes in lifetime expected credit losses as an impairment gain, even if the lifetime expected credit losses are less than the amount of expected credit losses that were included in the estimated cash flows on initial recognition.

(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 and associates

Investments in subsidiaries and associated entities are accounted for at cost in accordance with IAS 27 Separate Financial Statements.

The Bank's investments in subsidiaries and associates 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 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 approximations of the annual rates of depreciation used from the Bank are as follow:

	%
• 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) Leasing

Policy, applied from 01 January 2019

(1) General provisions

The recognition, measurement, presentation and disclosure of leases shall be made in accordance with the requirements of IFRS 16 Leasing, considering the terms and conditions of the contracts and all relevant facts and circumstances.

Upon initial recognition, the Bank determines whether a contract is a lease or contains a lease component. A contract is a lease or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Bank reassesses whether a contract is or contains a lease only if the terms and conditions of the contract are changed.

(2) Accounting for the lease when the Bank is a lessee

On the commencement date, the Bank recognizes a right-of-use asset and a lease liability. The Bank measures the right-of-use asset at cost. The cost of the right-of-use asset comprises of:

(a) the amount of the initial measurement of the lease liability;

(b) any lease payments made at or before the commencement date, less any lease incentives received;

(c) any initial direct costs incurred by the lessee; and

(d) an estimate of costs to be incurred by the Bank in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

At the commencement date, the Bank measures the lease liability at the present value of the lease payments that are not paid at that date.

The Bank includes prolongation options as part of the lease contracts of buildings with a shorter, irrevocable period (from three to five years).

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Bank uses its incremental borrowing rate. At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

(a) fixed payments, less any lease incentives receivable;

(b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

(c) amounts expected to be payable by the lessee under residual value guarantees;

(d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and

(e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

After the commencement date, the Bank measures the right-of-use asset applying a cost model. The right-of-use asset is measured at cost:

(a) less any accumulated depreciation and any accumulated impairment losses; and

(b) adjusted for any remeasurement of the lease liability.

If the lease transfers ownership of the underlying asset to the Bank by the end of the lease term or if the cost of the right-of-use asset reflects that the Bank will exercise a purchase option, the Bank depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Bank depreciates the right-of use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

After the commencement date, the Bank measures the lease liability by:

(a) increasing the carrying amount to reflect interest on the lease liability;

(b) reducing the carrying amount to reflect the lease payments made; and

(c) remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. The periodic rate of interest is the discount rate implicit in the lease, if that rate can be readily determined, or the Bank's incremental borrowing rate if the interest rate implicit in the lease cannot be readily determined or if applicable the revised discount rate.

After the commencement date, the Bank remeasures the lease liability to reflect changes to the lease payments. The Bank recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Bank recognises any remaining amount of the remeasurement in profit or loss.

The Bank recognizes a right-of-use asset and lease liability for all lease contracts (an unified balance approach) with two exceptions:

(a) short term leases - up to 12 months; and

(b) leases for which the underlying asset is of low value. For the purpose of the standard low-value assets are up to the BGN 10 000.

For short-term lease or lease, the underlying asset of which is of low value, the Bank recognizes the related lease payments as an expense on a straight-line basis over the term of the lease.

The effects of lease contracts of the Bank as lessee are disclosed in notes 5, 14, 15, 22 and 28.

(3) Accounting for the lease when the Bank is a lessor

The Bank as a lessor classifies each of its leases as either an operating lease or a finance lease. The leasing activity of the Bank involves lease of vehicles, industrial equipment, real estate and others, on finance lease contracts.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset and as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

Typical indicators, considered by the Bank for determining if all significant risks and benefits have been transferred include: present value of minimum lease payments in comparison with the fair value of the lease asset at the beginning of the lease contract, the term of the lease contract in comparison with the economic life of the leased out asset and also whether the lessee will acquire ownership over the leased asset at the end of the term of finance lease.

Lease classification is made at the inception date and is reassessed only if there is a lease modification. Changes in estimates (for example, changes in estimates of the economic life or of the residual value of the underlying asset), or changes in circumstances (for example, default by the lessee), do not give rise to a new classification of a lease for accounting purposes.

Minimum lease payments

Minimum lease payments are the payments that the lessee will or may be required to make during the term of the lease contract. From the Bank's point of view minimum lease payments also include the residual value of the asset guaranteed by a third party, not-related to the Bank, provided that such party is financially capable of fulfilling its commitments under the guarantee or under the repurchase agreement. In the minimum lease payments the Bank also includes the cost of exercising the option, which the lessee has for the purchase of the asset, as at the beginning of the lease contract it is to a large extent certain that the option will be exercised. Minimum lease payments do not include conditional rents, as well as costs of services and taxes to be paid by the Bank and subsequently re-invoiced to the lessee.

Initial and subsequent measurement

Initially the Bank recognizes a receivable under finance lease, equal to its net investment, which includes the present value of minimum lease payments and any unsecured residual value for the Bank. The present value is calculated by discounting the minimum lease payments due by the inherent to the lease contract interest rate. Initial direct costs are included in the calculation of the claim under finance lease. During the term of the lease contract the Bank accrues financial income (income from interest on finance lease) on net investment. Received lease payments are treated as a reduction of net investment (repayment of principal) and recognition of financial income in a manner to ensure a constant rate of return on net investment. Consequently, the net investment in finance lease contracts is presented net, after deduction of expected credit loss (see 3 (e) (*7*)).

Policy, applied till 31.12.2018

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) Classification and measurement of assets acquired from collaterals

Acquired assets, which prior to their acquisition were held as collateral of loans granted, are classified by the Bank as other assets. Upon the initial acquisition of these assets, the Bank's management makes judgements regarding their classification, based on its intentions and possibilities for future use and/or disposal. According to the Bank's accounting policy, assets classified as other assets acquired from collaterals, are subsequently measured at the lower of the their carrying amount and the fair value less costs for disposal.

(q) Inventories

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).

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.

(r) 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.

(s) 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.

(t) 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.

(u) 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.

(v) 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 29.

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.

(w) 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 16 Leases – adopted by the EU on October 31, 2017 (effective for annual periods beginning on or after January 1, 2019),
- Amendments to IFRS 9 Financial Instruments - Prepayment Features with Negative Compensation – adopted by the EU on March 22, 2018 (effective for annual periods beginning on or after January 1, 2019),
- Amendments to IAS 19 Employee Benefits - Plan Amendment, Curtailment or Settlement – adopted by the EU on March 13, 2019 (effective for annual periods beginning on or after January 1, 2019),
- Amendments to IAS 28 Investments in Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures – adopted by the EU on February 8, 2019 (effective for annual periods beginning on or after January 1, 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 – adopted by the EU on March 14, 2019 (effective for annual periods beginning on or after January 1, 2019),
- IFRIC 23 Uncertainty over Income Tax Treatments – adopted by the EU on October 23, 2018 (effective for annual periods beginning on or after January 1, 2019).

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 16.

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, there are no new standards, amendments to the existing standards nor interpretations which are issued by IASB and adopted by the EU and which are not yet effective.

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 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures - Interest Rate Benchmark Reform (effective for annual periods beginning on or after January 1, 2020);
- 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 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.

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.

4. Risk management disclosures

Structure and functions of the 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 risk management functions are performed by the following sub-units:

- Credit risk - Corporate clients Directorate having functions related to approval of exposures to corporate and MLE clients depending on the specified competencies, while maintaining low level of credit risk as well as functions related to ongoing monitoring of business clients;
- Credit risk – individual clients having functions related with development, maintaining and implementation of models and analytical system for credit risk assessment, performs monitoring and provides internal reporting on the loan portfolio quality;
- Retail loans Validation 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;
- Collateral Validation Department having functions related to approval of valuation and revaluation of real estate;
- General Policy and Risk Management Directorate having functions related to management of the counterparty, market and operational risk through adequate controls and methodologies, delivery of the regulatory reporting regarding the assumed risk and improvement of the risk management and risk reporting practices;
- Problem Loans Directorate having functions related to organization and coordination and perform activity on problem receivables management as well as carrying out the policy for sale of property - collaterals on problem loans and management of property acquired from problem loans;
- Credit Control and Administration Department having functions related to implementation of credit utilization control of business clients;

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 2019

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	**10 159**	**10 159**	10 159	-	-	-	-
Derivative financial instruments	**32 891**	**32 891**	6 083	5 760	15 035	6 013	-
Deposits from customers	**12 673 063**	**12 673 680**	10 545 880	703 506	1 405 608	18 686	-
Loans from banks and financial institutions	**38 793**	**38 765**	-	31 057	-	7 708	-
Lease liabilities	**41 512**	**42 357**	25	2 945	8 299	26 161	4 927
Provisions	**70 767**	**70 767**	14 699	956	8 837	46 182	93
Deferred tax liabilities	**5 534**	**5 534**	-	-	-	5 534	-
Other liabilities	**105 806**	**105 806**	14 849	3 507	38 453	25 178	23 819
Total liabilities	**12 978 525**	**12 979 959**	**10 591 695**	**747 731**	**1 476 232**	**135 462**	**28 839**
Unused loan commitments	-	1 530 742	75 362	81 608	652 850	512 723	208 199
Total liabilities and commitments	**12 978 525**	**14 510 701**	**10 667 057**	**829 339**	**2 129 082**	**648 185**	**237 038**

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
Deposits from customers	**11 552 168**	**11 553 126**	9 404 705	710 641	1 413 799	23 981	-
Loans from financial institutions	**11 129**	**11 129**	-	-	-	-	11 129
Current tax liabilities	**2 104**	**2 104**	1 293	811	-	-	-
Provisions	**61 608**	**61 608**	459	1 570	9 972	49 393	214
Deferred tax liabilities	**5 807**	**5 807**	-	-	-	5 807	-
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**

The tables below set out the remaining expected maturities of the Bank's assets and liabilities based on their contractual dates of repaiment as at 31 December 2019 and 31 December 2018. The tables do not reflect adjustments by maturity buckets, depending on the retention periods of funds borrowed from clients.

Maturity table of assets and liabilities as of 31 December 2019

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	**10 159**	10 159	-	-	-	-	-
Derivative financial instruments	**32 891**	6 083	5 760	15 035	6 013	-	-
Deposits from customers	**12 673 063**	10 545 767	703 367	1 405 283	18 646	-	-
Loans from banks and financial institutions	**38 793**	-	-	31 085	-	7 708	-
Lease liabilities	**41 512**	-	2 898	8 104	25 615	4 895	-
Provisions	**70 767**	14 699	956	8 837	46 182	93	-
Deferred tax liabilities	**5 534**	-	-	-	5 534	-	-
Other liabilities	**105 806**	14 849	3 507	38 453	25 178	23 819	-
Total liabilities	**12 978 525**	**10 591 557**	**716 488**	**1 506 797**	**127 168**	**36 515**	**-**
Unused loan commitments	-	75 362	81 608	652 850	512 723	208 199	-
Total liabilities and commitments	**12 978 525**	**10 666 919**	**798 096**	**2 159 647**	**639 891**	**244 714**	**-**
Derivatives liabilities							
Trading:	11 989						
Outflow		(375 929)	(102 723)	(126 207)	(11 198)	(6 918)	-
Inflow		373 983	101 878	127 244	2 994	-	-
Hedge accounting:	20 902						
Outflow		-	-	-	(1 000 760)	(24 620)	-
Inflow		-	-	-	977 915	-	-
Total derivatives	**32 891**	**(1 946)**	**(845)**	**1 037**	**(31 049)**	**(31 538)**	**-**
Assets							
Cash and current accounts with the Central Bank and other banks	**1 769 073**	1 769 073	-	-	-	-	-
Trading financial assets	**183 413**	20 867	1 867	6 186	145 941	8 552	-
Derivative financial instruments	**20 111**	5 996	4 225	1 401	7 143	1 346	-
Loans and advances to banks	**2 197 280**	7 822	-	20 659	2 145 054	23 745	-
Loans and advances to customers	**8 298 533**	196 859	299 093	1 696 150	2 692 715	3 413 716	-
Investments in securities	**1 826 018**	159 572	98 944	108 139	730 382	710 561	18 420
Current tax assets	**1 410**	1 410	-	-	-	-	-
Investments in subsidiaries and associates	**1 150 957**	-	-	-	-	-	1 150 957
Right-of-use assets	**41 344**	-	-	-	-	-	41 344
Property, plant and equipment	**319 691**	-	-	-	-	-	319 691
Intangible assets	**56 833**	-	-	-	-	-	56 833
Other assets	**37 902**	3 639	2 886	6 845	5 642	18 599	291
Total assets	**15 902 565**	**2 165 238**	**407 015**	**1 839 380**	**5 726 877**	**4 176 519**	**1 587 536**
Derivatives assets							
Trading:	13 009						
Outflow		(337 072)	(219 252)	(210 455)	(218 312)	(393 309)	-
Inflow		338 341	219 404	209 679	220 175	395 491	-
Hedge accounting:	7 102						
Outflow		-	-	-	(585 611)	-	-
Inflow		-	-	-	586 749	-	-
Total derivatives	**20 111**	**1 269**	**152**	**(776)**	**3 001**	**2 182**	**-**

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	-	-	-	-
Provisions	**61 608**	459	1 570	9 972	49 393	214	-
Deferred tax liabilities	**5 807**	-	-	-	5 807	-	-
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	-	-	-	-	-
Trading financial assets	**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 in 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**	**-**

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 2019.

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-2019**	**31-Dec-2018**
Government bonds		
Rated Baa2	153 036	23 108
Rated Baa3	10 090	7 489
Rated Ba2	20 287	18 391
Total	**183 413**	**48 988**

(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 2019

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	**42 189**	**-**	**-**	**-**	**-**	**1 726 884**	**1 769 073**
Fixed rate	-	-	-	-	-	-	-
Floating rate	42 189	-	-	-	-	-	42 189
Non-interest bearing	-	-	-	-	-	1 726 884	1 726 884
Trading financial assets	**20 719**	**-**	**6 215**	**66 179**	**90 300**	**-**	**183 413**
Fixed rate	20 719	-	6 215	66 179	90 300	-	183 413
Floating rate	-	-	-	-	-	-	-
Non-interest bearing	-	-	-	-	-	-	-
Derivative financial instruments	**4 460**	**2 597**	**2 921**	**-**	**-**	**10 133**	**20 111**
Fixed rate	-	-	-	-	-	-	-
Floating rate	4 460	2 597	2 921	-	-	-	9 978
Non-interest bearing	-	-	-	-	-	10 133	10 133
Loans and advances to banks	**8 213**	**-**	**44 013**	**2 145 054**	**-**	**-**	**2 197 280**
Fixed rate	7 822	-	20 659	2 145 054	-	-	2 173 535
Floating rate	391	-	23 354	-	-	-	23 745
Non-interest bearing	-	-	-	-	-	-	-
Loans and advances to customers	**8 191 775**	**6 159**	**22 495**	**11 676**	**66 428**	**-**	**8 298 533**
Fixed rate	3 636	6 159	22 495	11 676	66 428	-	110 394
Floating rate	8 188 139	-	-	-	-	-	8 188 139
Non-interest bearing	-	-	-	-	-	-	-
Investments in securities	**155 243**	**263 318**	**106 236**	**90 591**	**1 192 210**	**18 420**	**1 826 018**
Fixed rate	155 243	89 154	106 236	90 591	1 192 210	-	1 633 434
Floating rate	-	174 164	-	-	-	-	174 164
Non-interest bearing	-	-	-	-	-	18 420	18 420
Total interest sensitive assets	**8 422 599**	**272 074**	**181 880**	**2 313 500**	**1 348 938**	**1 755 437**	**14 294 428**
Fixed rate	187 420	95 313	155 605	2 313 500	1 348 938	-	4 100 776
Floating rate	8 235 179	176 761	26 275	-	-	-	8 438 215
Non-interest bearing	-	-	-	-	-	1 755 437	1 755 437
Deposits from banks	**5 712**	**-**	**-**	**-**	**-**	**4 447**	**10 159**
Fixed rate	35	-	-	-	-	-	35
Floating rate	5 677	-	-	-	-	-	5 677
Non-interest bearing	-	-	-	-	-	4 447	4 447
Derivative financial instruments	**3 946**	**9 945**	**8 781**	**-**	**-**	**10 219**	**32 891**
Fixed rate	-	-	-	-	-	-	-
Floating rate	3 946	9 945	8 781	-	-	-	22 672
Non-interest bearing	-	-	-	-	-	10 219	10 219
Deposits from customers	**12 619 227**	**20 076**	**25 371**	**-**	**-**	**8 389**	**12 673 063**
Fixed rate	47 628	20 076	25 371	-	-	-	93 075
Floating rate	12 571 599	-	-	-	-	-	12 571 599
Non-interest bearing	-	-	-	-	-	8 389	8 389
Loans from banks and financial institutions	**-**	**-**	**38 793**	**-**	**-**	**-**	**38 793**
Fixed rate	-	-	31 085	-	-	-	31 085
Floating rate	-	-	7 708	-	-	-	7 708
Non-interest bearing	-	-	-	-	-	-	-
Lease liabilities	**924**	**1 974**	**8 104**	**9 129**	**21 381**	**-**	**41 512**
Fixed rate	311	622	2 672	2 405	1 077	-	7 087
Floating rate	613	1 352	5 432	6 724	20 304	-	34 425
Non-interest bearing	-	-	-	-	-	-	-
Total interest sensitive liabilities	**12 629 809**	**31 995**	**81 049**	**9 129**	**21 381**	**23 055**	**12 796 418**
Fixed rate	47 974	20 698	59 128	2 405	1 077	-	131 282
Floating rate	12 581 835	11 297	21 921	6 724	20 304	-	12 642 081
Non-interest bearing	-	-	-	-	-	23 055	23 055

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
Trading financial assets	**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 in 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
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
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
Loans from financial institutions	**-**	**11 129**	**-**	**-**	**-**	**-**	**11 129**
Fixed rate	-	-	-	-	-	-	-
Floating rate	-	11 129	-	-	-	-	11 129
Non-interest bearing	-	-	-	-	-	-	-
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

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 - 200 basis points change for equity and 100 basis points for profit or loss. The change in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit or loss		**Equity**	
Effect in thousands of BGN	**100 bp increase**	**100 bp decrease**	**200 bp increase**	**200 bp decrease**
31 December 2019				
As at 31 December	(24 651)	24 651	(103 114)	103 114
Average for the period	(33 788)	33 788	(107 054)	107 054
Maximum for the period	(24 651)	42 472	(85 285)	128 100
Minimum for the period	(42 472)	24 651	(128 100)	85 285
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

(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 2019 and 2018 are as follows:

In thousands of BGN	**2019**	**2018**
At 31 December	5	34
Average for the period	28	29
Maximum for the period	67	125
Minimum for the period	5	1

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

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

(2) 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-2019	31-Dec-2018
Concentration by sector		
Central banks	1 154 794	2 709 168
Other banks	2 225 229	1 957 363
Total	**3 380 023**	**4 666 531**
Concentration by region		
Europe	3 370 953	4 656 070
America	8 149	10 225
Asia	906	236
Australia	15	-
Total	**3 380 023**	**4 666 531**

Loans and advances to customers at amortised cost

In thousands of BGN	31-Dec-2019	31-Dec-2018
Concentration by sector		
Retail:		
Mortgages	2 412 331	2 151 703
Other retail loans	2 875 782	2 521 132
Corporate:		
Agriculture and forestry	232 783	222 157
Construction	165 565	139 361
Financial and insurance activities	45 273	27 808
Hotels and catering	296 723	220 520
Manufacturing	934 321	838 748
Real estate activities	375 329	460 513
State Budget	2 936	1 932
Trade and services	674 755	632 765
Transport and communications	80 374	101 593
Other industry sectors	202 361	161 913
Total	**8 298 533**	**7 480 145**
Concentration by region		
Europe	8 284 278	7 467 645
North America	5 958	5 467
Asia	5 040	3 689
Africa	2 841	2 902
Australia	341	365
South America	75	77
Total	**8 298 533**	**7 480 145**

Investment securities

In thousands of BGN	31-Dec-2019	31-Dec-2018
Concentration by sector		
Investments in instruments measured at fair value through other comprehensive income		
Government debt securities	1 633 434	1 067 476
Equity instruments	18 136	14 929
Investments in instruments mandatory measured at fair value through profit or loss		
Equity instruments	284	289
Government debt securities	-	2 999
Corporate debt securities	174 164	173 366
Total	**1 826 018**	**1 259 059**
Concentration by region		
Europe	1 666 815	1 251 982
North America	159 203	7 077
Total	**1 826 018**	**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 and financial guarantee contracts

In thousands of BGN	31-Dec-2019	31-Dec-2018
Concentration by sector		
Retail:		
Mortgages	52 301	46 503
Other retail loans	251 297	229 324
Corporate:		
Agriculture and forestry	67 704	54 027
Construction	187 030	192 489
Financial and insurance activities	66 521	60 070
Hotels and catering	46 141	15 832
Manufacturing	531 675	464 864
Real estate activities	36 698	71 613
State Budget	4 844	77
Trade and services	413 588	347 342
Transport and communications	36 004	36 463
Other industry sectors	90 808	99 735
Total	**1 784 611**	**1 618 339**
Concentration by region		
Europe	1 779 924	1 618 067
North America	1 816	24
Asia	1 241	209
Africa	1 599	35
Oceania	24	-
South America	7	4
Total	**1 784 611**	**1 618 339**

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-2019			
In thousands of BGN	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Grades 1-3: Low risk	3 380 479	-	-	3 380 479
Total gross carrying amount	**3 380 479**	**-**	**-**	**3 380 479**
Loss allowance	(456)	-	-	(456)
Carrying amount	**3 380 023**	**-**	**-**	**3 380 023**

	31-Dec-2018			
In thousands of BGN	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
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

In thousands of BGN	31-Dec-2019 Stage 1 12-month ECL	 Stage 2 Lifetime ECL	 Stage 3 Lifetime ECL	 Total
Grades 1-3: Low risk	3 560 788	55 758	-	3 616 546
Grades 4-6: Moderate risk	2 995 682	37 442	-	3 033 124
Grades 7-8: Increased risk	864 912	169 668	-	1 034 580
Grade 9: High risk	9 970	188 884	-	198 854
Grade 10: Default	-	-	692 803	692 803
Municipality, PSE	8 144	-	865	9 009
Not rated	269 841	9 974	-	279 815
Total gross carrying amount	**7 709 337**	**461 726**	**693 668**	**8 864 731**
Loss allowance	(91 329)	(39 437)	(435 432)	(566 198)
Carrying amount	**7 618 008**	**422 289**	**258 236**	**8 298 533**

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	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

	31-Dec-2019			
In thousands of BGN	**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 to fair risk	1 651 570	-	-	1 651 570
Investments in instruments mandatory measured at fair value through profit or loss				
Grades 1-3: Low to fair risk	174 448	-	-	174 448
Total carrying amount	**1 826 018**	**-**	**-**	**1 826 018**
Loss allowance	(859)	-	-	(859)

	31-Dec-2018			
In thousands of BGN	**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 and financial guarantee contracts

	31-Dec-2019			
In thousands of BGN	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Grades 1-3: Low risk	720 484	10 983	-	731 467
Grades 4-6: Moderate risk	601 496	1 933	-	603 429
Grades 7-8: Increased risk	291 195	2 086	-	293 281
Grade 9: High risk	3 139	8 428	-	11 567
Grade 10: Default	-	-	9 594	9 594
Municipality, PSE	472	-	-	472
Not rated	134 713	88	-	134 801
Total amount committed	**1 751 499**	**23 518**	**9 594**	**1 784 611**
Loss allowance	(23 395)	(1 344)	(2 072)	(26 811)

	31-Dec-2018			
In thousands of BGN	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Grades 1-3: Low risk	877 810	10 434	-	888 244
Grades 4-6: Moderate risk	447 005	2 910	-	449 915
Grades 7-8: Increased risk	166 621	2 245	-	168 866
Grade 9: High risk	11 539	1 574	-	13 113
Grade 10: Default	-	-	9 271	9 271
Municipality, PSE	770	-	-	770
Not rated	88 160	-	-	88 160
Total amount committed	**1 591 905**	**17 163**	**9 271**	**1 618 339**
Loss allowance	(12 233)	(356)	(2 580)	(15 169)

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

Loss allowance or provision by class of exposure

In thousands of BGN	**31-Dec-2019**	**31-Dec-2018**
Loans and advances to banks at amortised cost	(456)	(397)
Loans and advances to customers at amortised cost	(566 198)	(615 791)
Debt investment securities at FVTOCI	(859)	(1 136)
Loan commitments and financial guarantee contracts	(26 811)	(15 169)
Total	**(594 324)**	**(632 493)**

Loss allowance - Loans and advances to banks at amortised cost

	31-Dec-2019			
In thousands of BGN	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Loss allowance as at 31 December 2018	**(397)**	**-**	**-**	**(397)**
Changes in the loss allowance				
New financial assets originated or purchased	(456)	-	-	(456)
Financial assets that have been derecognised	397	-	-	397
Loss allowance as at 31 December 2019	**(456)**	**-**	**-**	**(456)**

	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	**(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

In thousands of BGN	31-Dec-2019 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 31 December 2018	**(101 984)**	**(41 382)**	**(472 425)**	**(615 791)**
Changes in the loss allowance				
Transfer to stage 1	(9 516)	6 613	2 903	-
Transfer to stage 2	4 437	(20 574)	16 137	-
Transfer to stage 3	1 236	9 295	(10 531)	-
Increases due to change in credit risk	(16 643)	(15 396)	(150 117)	(182 156)
Decreases due to change in credit risk	41 277	21 625	65 821	128 723
Write-offs	-	-	67 314	67 314
New financial assets originated or purchased	(31 413)	(6 315)	(20 669)	(58 397)
Financial assets that have been derecognised	21 277	6 697	66 135	94 109
Loss allowance as at 31 December 2019	**(91 329)**	**(39 437)**	**(435 432)**	**(566 198)**

In thousands of BGN	31-Dec-2018 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 31 December 2017	(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-2019			
In thousands of BGN	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Loss allowance as at 31 December 2018	**(1 136)**	**-**	**-**	**(1 136)**
Changes in the loss allowance				
Increases due to change in credit risk	(49)	-	-	(49)
Decreases due to change in credit risk	408	-	-	408
New financial assets originated or purchased	(244)	-	-	(244)
Financial assets that have been derecognised	162	-	-	162
Loss allowance as at 31 December 2019	**(859)**	**-**	**-**	**(859)**

	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	**(1 345)**	**-**	**-**	**(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 and financial guarantee contracts

	31-Dec-2019			
In thousands of BGN	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Loss allowance as at 31 December 2018	**(12 233)**	**(356)**	**(2 580)**	**(15 169)**
Changes in the loss allowance				
Transfer to stage 1	(226)	86	140	-
Transfer to stage 2	147	(155)	8	-
Transfer to stage 3	13	10	(23)	-
Increases due to change in credit risk	(7 520)	(884)	(771)	(9 175)
Decreases due to change in credit risk	3 414	106	1 003	4 523
New loan commitments originated or purchased	(10 087)	(259)	(74)	(10 420)
Financial assets that have been derecognised	3 097	108	225	3 430
Loss allowance as at 31 December 2018	**(23 395)**	**(1 344)**	**(2 072)**	**(26 811)**

	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	**(17 163)**	**(446)**	**(2 624)**	**(20 233)**
Changes in the loss allowance				
Transfer to stage 1	(133)	72	61	-
Transfer to stage 2	118	(218)	100	-
Transfer to stage 3	8	(10)	2	-
Increases due to change in credit risk	-	(2)	(362)	(364)
Decreases due to change in credit risk	6 049	320	-	6 369
New loan commitments originated or purchased	(5 286)	(168)	(103)	(5 557)
Financial assets that have been derecognised	4 174	96	346	4 616
Loss allowance as at 31 December 2018	**(12 233)**	**(356)**	**(2 580)**	**(15 169)**

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-2019			
	Stage 1	Stage 2	Stage 3	
In thousands of BGN	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Gross carrying amount as at 31 December 2018	**4 666 928**	**-**	**-**	**4 666 928**
Changes in the gross carrying amount				
Increases due to change in credit risk	22 803	-	-	22 803
Decreases due to change in credit risk	(1 585 708)	-	-	(1 585 708)
New financial assets originated or purchased	2 199 131	-	-	2 199 131
Financial assets that have been derecognised	(1 922 675)	-	-	(1 922 675)
Gross carrying amount as at 31 December 2019	**3 380 479**	**-**	**-**	**3 380 479**
Loss allowance as at 31 December 2019	(456)	-	-	(456)

	31-Dec-2018			
	Stage 1	Stage 2	Stage 3	
In thousands of BGN	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Gross carrying amount as at 31 December 2017	**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

In thousands of BGN	**31-Dec-2019** **Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Gross carrying amount as at 31 December 2018	**6 846 819**	**465 501**	**783 616**	**8 095 936**
Changes in the gross carrying amount				
Transfer to stage 1	142 176	(133 887)	(8 289)	-
Transfer to stage 2	(193 107)	236 174	(43 067)	-
Transfer to stage 3	(59 882)	(65 035)	124 917	-
Increases due to change in credit risk	317 725	4 950	21 266	343 941
Decreases due to change in credit risk	(755 055)	(56 685)	(32 365)	(844 105)
Write-offs	-	-	(67 314)	(67 314)
New financial assets originated or purchased	2 489 212	66 581	43 327	2 599 120
Financial assets that have been derecognised	(1 078 551)	(55 873)	(128 423)	(1 262 847)
Gross carrying amount as at 31 December 2019	**7 709 337**	**461 726**	**693 668**	**8 864 731**
Loss allowance as at 31 December 2019	(91 329)	(39 437)	(435 432)	(566 198)

In thousands of BGN	**31-Dec-2018** **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 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)

Debt investment securities at FVTOCI

	31-Dec-2019			
In thousands of BGN	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Carrying amount as at 31 December 2018	**1 067 476**	**-**	**-**	**1 067 476**
Changes in the carrying amount				
Increases due to change in credit risk	24 399	-	-	24 399
Decreases due to change in credit risk	(6 879)	-	-	(6 879)
New financial assets originated or purchased	693 582	-	-	693 582
Financial assets that have been derecognised	(145 144)	-	-	(145 144)
Carrying amount as at 31 December 2019	**1 633 434**	**-**	**-**	**1 633 434**
Loss allowance as at 31 December 2019	(859)	-	-	(859)

	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	**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 and financial guarantee contracts

In thousands of BGN	31-Dec-2019 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Total amount committed as at 31 December 2018	**1 591 905**	**17 163**	**9 271**	**1 618 339**
Changes in the amount committed				
Transfer to stage 1	4 934	(4 396)	(538)	-
Transfer to stage 2	(9 539)	9 576	(37)	-
Transfer to stage 3	(1 297)	(207)	1 504	-
Increases due to change in credit risk	222 878	8 371	3 634	234 883
Decreases due to change in credit risk	(392 471)	(7 184)	(3 848)	(403 503)
New loan commitments originated or purchased	699 694	5 919	406	706 019
Financial assets that have been derecognised	(364 605)	(5 724)	(798)	(371 127)
Total amount committed as at 31 December 2019	**1 751 499**	**23 518**	**9 594**	**1 784 611**
Loss allowance as at 31 December 2019	(23 395)	(1 344)	(2 072)	(26 811)

In thousands of BGN	31-Dec-2018 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Total amount committed as at 31 December 2017	**1 531 085**	**15 255**	**12 294**	**1 558 634**
Changes in the amount committed				
Transfer to stage 1	3 137	(2 703)	(434)	-
Transfer to stage 2	(6 818)	7 068	(250)	-
Transfer to stage 3	(1 074)	4	1 070	-
Increases due to change in credit risk	288	81	254	623
Decreases due to change in credit risk	(252 316)	(7 023)	(314)	(259 653)
New loan commitments originated or purchased	629 555	9 503	514	639 572
Financial assets that have been derecognised	(311 952)	(5 022)	(3 863)	(320 837)
Total amount committed as at 31 December 2018	**1 591 905**	**17 163**	**9 271**	**1 618 339**
Loss allowance as at 31 December 2018	(12 233)	(356)	(2 580)	(15 169)

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-2019		31-Dec-2018	
In thousands of BGN	**Gross carrying amount**	**Loss allowance**	**Gross carrying amount**	**Loss allowance**
0-30 days	8 304 562	(203 029)	7 483 070	(218 310)
31-60 days	81 629	(20 864)	81 555	(20 874)
61-90 days	57 978	(19 154)	61 535	(18 793)
91-180 days	43 834	(18 511)	39 309	(20 206)
More than 181 days	376 728	(304 640)	430 467	(337 608)
Total	**8 864 731**	**(566 198)**	**8 095 936**	**(615 791)**

As a result of the Bank's forbearance activities financial assets might be modified.

The carrying amount of the modified loans as of 31 December 2019 is BGN 62 793 thousand and BGN 74 393 thousand as of 31 December 2018.

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-2019 Gross carrying amount	31-Dec-2019 Loss allowance	31-Dec-2018 Gross carrying amount	31-Dec-2018 Loss allowance
LTV ratio				
Less than 50%	556 287	(3 259)	464 481	(1 672)
51-70%	765 489	(4 621)	680 775	(2 918)
71-90%	918 611	(5 368)	749 136	(4 151)
91-100%	45 251	(466)	63 662	(603)
More than 100%	50 145	(1 794)	67 773	(1 854)
Total	**2 335 783**	**(15 508)**	**2 025 827**	**(11 198)**

Credit impaired - mortgage lending

In thousands of BGN	31-Dec-2019 Gross carrying amount	31-Dec-2019 Loss allowance	31-Dec-2018 Gross carrying amount	31-Dec-2018 Loss allowance
LTV ratio				
Less than 50%	40 027	(14 208)	36 992	(7 376)
51-70%	39 773	(15 589)	43 837	(9 522)
71-90%	36 156	(16 482)	42 834	(12 718)
91-100%	12 338	(6 676)	19 284	(6 874)
More than 100%	147 753	(131 036)	173 259	(142 642)
Total	**276 047**	**(183 991)**	**316 206**	**(179 132)**

Loan commitments - Mortgage lending

In thousands of BGN	31-Dec-2019 Amount committed	31-Dec-2019 Loss allowance	31-Dec-2018 Amount committed	31-Dec-2018 Loss allowance
LTV ratio				
Less than 50%	2 671	10	2 510	5
51-70%	8 328	27	8 272	21
71-90%	5 090	16	5 905	16
91-100%	983	3	914	4
More than 100%	35 229	244	28 902	230
Total	**52 301**	**300**	**46 503**	**276**

Assets obtained by taking possession of collateral

In 2019 the Bank acquired real estate, collateral for loans amounting to BGN 1 523 thousand (2018: BGN 1 319 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-2019**	**31-Dec-2018**
Secured by mortgages	3 175 316	2 980 203
Cash collateral	23 389	14 626
Government securities	1 951 879	1 586 075
Other types of collateral*	3 652 739	4 119 881
Without collateral	3 441 887	4 062 079
Total	**12 245 210**	**12 762 864**

***** 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

	31-Dec-2019		**31-Dec-2018**	
In thousands of BGN	**Carrying amount**	**Collateral**	**Carrying amount**	**Collateral**
Advances to banks	1 970 759	1 999 701	1 586 075	1 610 685
Total	**1 970 759**	**1 999 701**	**1 586 075**	**1 610 685**

(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 Risk Management Section as part of "General policy and risk management" Directorate of DSK Bank, an independent from the business units Directorate 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 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 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 2019 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 2019 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;

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 11.88%, buffers including. The total capital adequacy ratio should be higher than 14.25%, buffers including.

(2) Capital ratios

Total own funds for solvency purposes

	Basel III 2019	**Basel III 2018**
In thousands of BGN		
Tier 1 capital	2 608 224	1 157 537
Common equity Tier 1 capital	2 608 224	1 157 537
Additional Tier 1 capital (AT1)	-	-
Tier 2 capital	-	-
Own funds	**2 608 224**	**1 157 537**

Credit risk capital requirement	706 486	513 281
Market risk capital requirement	4 008	3 581
Operational risk capital requirement	53 223	46 935
Total requirement regulatory capital	**763 717**	**563 797**
Surplus of total capital	**1 844 507**	**593 740**
CET1 capital ratio (%)	27,32%	16,42%
Capital adequacy ratio (%)	**27,32%**	**16,42%**

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. From the beginning of the fourth quarter of 2019 BNB changed the level of the countercyclical capital buffer from 0% to 0.5%. The specific for the Bank countercyclical capital buffer as of December 31, 2019 is 0.49%. The capital requirements are also increasing by introducing other systemically important institutions buffer, which is calculated at 0.75% of the total risk exposures of the Bank for 2019.

According to joint decision of the Bulgarian National Bank and Hungarian Central Bank the Bank has to keep additional capital requirement of 1.12% for 2019 (1.38% for 2018) 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-2019				
Assets				
Trading financial assets	183 413	-	-	183 413
Derivative financial instruments	-	20 111	-	20 111
Investments in securities	1 807 598	284	18 136	1 826 018
Total	**1 991 011**	**20 395**	**18 136**	**2 029 542**
Liabilities				
Derivative financial instruments	-	32 891	-	32 891
Total	**-**	**32 891**	**-**	**32 891**
31-Dec-2018				
Assets				
Trading financial assets	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**

The following tables analyze 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:

As of 31 December 2019

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	586 330	1 182 743	-	**1 769 073**	**1 769 073**
Loans and advances to banks	-	2 197 280	-	**2 197 280**	**2 197 280**
Loans and advances to customers	-	-	8 376 122	**8 376 122**	**8 298 533**
Liabilities					
Deposits from banks	-	10 159	-	**10 159**	**10 159**
Deposits from customers	-	12 673 076	-	**12 673 076**	**12 673 063**
Loans from banks and financial institutions	-	38 793	-	**38 793**	**38 793**
Lease liabilities	-	41 512	-	**41 512**	**41 512**

As of 31 December 2018

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	2019	2018
Interest income		
Loans and advances to banks	17 581	8 347
Loans and advances to customers	406 229	400 957
Investments in securities	20 831	20 735
Deposits from banks (negative interest)	852	414
Deposits from customers (negative interest)	4 560	989
Total	**450 053**	**431 442**
Interest expense		
Deposits from banks	(5 995)	(5 474)
Deposits from customers	(3 734)	(3 684)
Loans from banks and financial institutions	(12)	(6)
Lease liabilities	(305)	-
Investments in securities (negative interest)	(34)	(3)
Loans and advances to banks (negative interest)	(2 687)	(3 236)
Loans and advances to customers (negative interest)	(105)	(55)
Total	**(12 872)**	**(12 458)**
Net interest income	**437 181**	**418 984**

6. Net fee and commission income

In thousands of BGN	2019	2018
Fee and commission income		
In Bulgarian Leva		
Payment and settlement transactions	56 556	50 740
Credit related deals	16 222	15 363
Deposit related deals	59 189	60 508
Other	17 310	14 307
	149 277	**140 918**
In foreign currencies		
Payment and settlement transactions	29 224	25 347
Credit related deals	5 438	4 732
Deposit related deals	2 781	2 940
Other	3 126	3 260
	40 569	**36 279**
Total	**189 846**	**177 197**
Fee and commission expense		
In Bulgarian Leva	(22 056)	(10 238)
In foreign currencies	(5 273)	(5 315)
Total	**(27 329)**	**(15 553)**
Net fee and commission income	**162 517**	**161 644**

7. Net trading income

In thousands of BGN	2019	2018
Net interest income from trading	(8 468)	1 903
Net income on FX derivarives revaluation	10 398	41 366
Net income on non FX derivarives revaluation	1 102	545
Securities trading and revaluation	(450)	(4 602)
Foreign exchange trading	7 541	17 467
Ineffective hedge net gain	273	170
Total	**10 396**	**56 849**

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

In thousands of BGN	2019	2018
Gains/(Losses) on hedged assets	14 683	(677)
Gains/(Losses) on the hedging instruments	(14 410)	847
Hedge ineffectiveness recognised immediately in the income statement	**273**	**170**

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 income from other financial instruments at FVTPL

In thousands of BGN	2019	2018
Debt instruments	5 911	(4 181)
Equity instruments	(5)	(4)
Total	**5 906**	**(4 185)**

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

In thousands of BGN	2019	2018
Write-off of financial assets	3 014	3 226
Sale of financial assets	4 561	8 999
Total	**7 575**	**12 225**

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

10. Other operating income, net

In thousands of BGN	2019	2018
Net income of securities measured at fair value through other comprehensive income		
Government bonds	68	(232)
Equity investments	-	288
Dividends	59	174
Rental fees	1 441	1 560
Card operators	1 481	-
Net gain from non financial assets disposal	545	950
Other services	1 115	-
Other	1 008	1 862
Total	**5 717**	**4 602**

11. Impairment losses on financial assets, net

In thousands of BGN	2019	2018
Impairment (loss)/gain on bank deposits or loans, net	(59)	385
Impairment (losses) on loans, net	(17 721)	(77 648)
Impairment (losses) on other assets, net	(1 381)	(794)
Impairment gain on financial assets at FVTOCI, net	277	216
Total	**(18 884)**	**(77 841)**

12. Impairment losses on non-financial assets, net

In thousands of BGN	2019	2018
Impairment gains/(losses) on tangible assets	24	(11 048)
Impairment (losses) on collaterals acquired	(3 696)	(6 008)
Impairment (losses) on subsidiaries	(6 116)	-
Total	**(9 788)**	**(17 056)**

13. Personnel expenses

In thousands of BGN	**2019**	**2018**
Wages and salaries	96 509	88 081
Social payments	25 404	23 007
Other	1 709	1 734
Total	**123 622**	**112 822**

The average number of staff in the Bank is 4 237 for 2019 and 4 198 for 2018.

14. Depreciation and amortisation

In thousands of BGN	Note	**2019**	**2018**
Right-of-use assets	22	10 640	-
Property, plant and equipment	23	19 880	19 460
Intangible assets	24	14 209	12 703
Total		**44 729**	**32 163**

15. Other expenses

In thousands of BGN	**2019**	**2018**
Services expense	88 550	86 790
Guarantee Funds instalments	35 312	37 293
Materials	14 212	11 534
Operating lease expenses of buildings and vehicles	-	7 368
Expenses related to short-term leases	3 848	-
Expense relating to leases of low value assets	206	-
Other expenses	5 236	2 897
Total	**147 364**	**145 882**

The contracted fees for independent financial audit for 2019 are BGN 652 thousand and for regulatory agreed-upon procedures under ISRS 4400 of BGN 55 thousand (2018: BGN 528 thousand independent financial audit and BGN 55 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.

16. Income tax expense

In thousands of BGN	2019	2018
Current tax expense	(30 590)	(22 250)
Current tax expense connected with initial application of IFRS 9	-	(891)
Deferred tax (expense)/income related to origination and reversal of temporary tax differences	3 168	(1 027)
Total	**(27 422)**	**(24 168)**

In thousands of BGN	2019	2018
Accounting profit	273 297	241 346
Income tax using the statutory corporate tax rate	(27 330)	(24 135)
Tax on permanent tax differences	(92)	(33)
Income tax expense	**(27 422)**	**(24 168)**
Effective tax rate	10,03%	10,01%

Current taxes are calculated using a tax rate of 10% for 2019 and 2018.

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

In thousands of BGN	31-Dec-2019	31-Dec-2018
Cash on hand		
In Bulgarian Leva	525 627	410 138
In foreign currencies	60 703	56 283
Current accounts with the Central Bank and other banks		
In Bulgarian Leva	1 140 555	2 705 511
In foreign currencies	42 188	38 407
Total	**1 769 073**	**3 210 339**

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 935 565 thousand and BGN 894 196 thousand as of 31 December 2019 and 2018 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, USD, GBP, CHF and HUF with total balance as of December 31, 2019 BGN 2 642 thousand.

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.

The Bank has nostro accounts with other OTP Bank Group members denominated in RON, RUB and RSD with total balance as of December 31, 2019 BGN 2 504 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.

18. Financial assets held for trading and derivative financial instruments

In thousands of BGN	**31-Dec-2019**	**31-Dec-2018**
Government securities – Republic of Bulgaria denominated in Bulgarian Leva	13 255	12 809
Government securities – Republic of Bulgaria denominated in foreign currencies	139 781	10 299
Foreign issuers debt securities denominated in foreign currencies	30 377	25 880
Total	**183 413**	**48 988**

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, 2019 between 0.30% and 5.00% and government securities denominated in EUR earn interest between 1.875% 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, 2019 between 1.00% and 3.875% and government securities denominated in USD earn interest between 4.375% and 6.625%.

Derivative financial instruments as of 31 December 2019

Type of restructuring	Carrying value Assets	Liabilities	Notional amount
In thousands of BGN			
Derivatives held for trading			
Interest rate swaps	9 979	7 754	973 152
Foreign exchange contracts	3 030	4 235	1 409 644
Total	**13 009**	**11 989**	**2 382 796**
Derivatives used as fair value hedges			
Interest rate swaps	-	14 918	392 639
Foreign exchange contracts	7 102	5 984	1 585 939
Total	**7 102**	**20 902**	**1 978 578**
Total derivative financial instruments	**20 111**	**32 891**	**4 361 374**

Derivative financial instruments as of 31 December 2018

Type of restructuring	Carrying value Assets	Liabilities	Notional amount
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**

As of 31 December 2019 DSK Bank has the following intragroup deals:

- Interest rate swaps with OTP Bank Group members – assets BGN 1 974 thousand, liabilities BGN 20 929 thousand, notional amount BGN 760 783 thousand;

- Derivative deals for foreign exchange with OTP Bank Group members - assets BGN 8 283 thousand, liabilities BGN 7 995 thousand, notional amount BGN 2 150 500 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 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.

Type of hedge	Type of instrument	Type of risk	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument as at 31 December 2019		Changes in fair value used for calculating hedge ineffectiveness for the year
				Assets	Liabilities	2019
In thousands of BGN						
Fair value hedge	Interest rate swap	Interest rate risk	397 860	-	(14 918)	(14 410)
Fair value hedge	Currency swap	Currency Risk	2 151 413	1 118	-	10 703

Type of hedge	Type of instrument	Type of risk	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument as at 31 December 2018		Changes in fair value used for calculating hedge ineffectiveness for the year
				Assets	Liabilities	2018
In thousands of BGN						
Fair value hedge	Interest rate swap	Interest rate risk	389 531	-	(299)	(678)
Fair value hedge	Cross-currency swap	FX risk	1 564 664	-	(14 481)	(12 966)

Type of hedge	Type of risk	Carrying amount of the hedging instrument as at 31 December 2019		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item as at 31 December 2019		Type of hedged item
		Assets	**Liabilities**	**Assets**	**Liabilities**	
In thousands of BGN						
Fair value hedge	Interest rate risk	435 390	-	13 960	-	Bond
Fair value hedge	Currency Risk	1 559 539	-	-	(6 595)	Repo

Type of hedge	Type of risk	Carrying amount of the hedging instrument as at 31 December 2018		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item as at 31 December 2018		Type of hedged item
		Assets	**Liabilities**	**Assets**	**Liabilities**	
In thousands of BGN						
Fair value hedge	Interest rate risk	409 078	-	3 448	(4 172)	Bond
Fair value hedge	FX risk	1 575 465	-	11 886	-	Repo

19. Loans and advances to banks

(a) Analysis by type

In thousands of BGN	31-Dec-2019	31-Dec-2018
Deposits with domestic and foreign banks		
In Bulgarian Leva	-	9 999
In foreign currencies	203 114	323 805
Encumbered assets with foreign banks	391	3 131
Loans granted	23 472	-
Loans under repurchase agreements	1 970 759	1 586 075
Less impairment loss allowances	(456)	(397)
Total	**2 197 280**	**1 922 613**

(b) Geographical analysis

In thousands of BGN	31-Dec-2019	31-Dec-2018
Domestic banks	23 354	29 485
Foreign banks	2 173 926	1 893 128
Total	**2 197 280**	**1 922 613**

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 2019 DSK Bank has the following intragroup deals:

- Repurchase agreements with OTP Bank are denominated in HUF and amount to BGN 1 950 100 thousand with original maturity of two years. Interest rates vary from (-0.25)% to 0.7145%. 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 391 thousand.
- A long term deposit with OTP Bank denominated in EUR amounting to BGN 194 955 thousand with two years original maturity and maturing in February 2021. The deposit bears negative interest of (-0.418)%.
- Subordinated loan denominated in EUR, amounting to 12 000 thousand is acquired by substitution as part of the deal of Expressbank AD purchase. As of December 31, 2019 the carrying amount of the loan is BGN 23 354 thousand and interest rate 2.468%

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.

20. Loans and advances to customers

In thousands of BGN	**31-Dec-2019**	**31-Dec-2018**
Individuals		
In Bulgarian Leva		
Consumer loans	3 022 036	2 681 637
Housing and mortgage loans	2 336 111	1 991 597
In foreign currencies		
Consumer loans	60 468	95 806
Housing and mortgage loans	275 719	350 436
Companies		
In Bulgarian Leva		
Working capital loans	1 038 643	928 576
Investment loans	704 298	681 846
Commercial factoring	29 091	18 843
In foreign currencies		
Working capital loans	441 607	401 541
Investment loans	912 218	924 695
Commercial factoring	41 694	19 672
State Budget		
In Bulgarian Leva	1 981	306
In foreign currencies	865	981
Less impairment loss allowances	(566 198)	(615 791)
Total loans and advances to customers	**8 298 533**	**7 480 145**

Impairment allowances of loans and advances to customers

In thousands of BGN	**31-Dec-2019**	**31-Dec-2018**
Balance at 1 January	**615 791**	**602 546**
Net change for the year through profit or loss	17 721	77 648
Decrease	(67 314)	(64 403)
Balance at 31 December	**566 198**	**615 791**

The interest rates on receivables from loans as at 31 December 2019 are ranged as follows: receivables from individuals from 1.45% to 40.35%; receivables from companies from 0.75% to 16.00%; receivables from State Budget from 0.33% to 2.70%.

In accordance with the policy of DSK Bank in 2019 the carrying amount of the sale of problem loans to OTP Factoring Bulgaria is BGN 48 227 thousand and the impairment allowance amounts to BGN 37 504 thousand. DSK Bank income on sale of problem lons to OTP Factoring Bulgaria is BGN 1 054 thousand. The sale of problem loans to parties outside the Bank Group are to the amount of BGN 9 179 thousand and the impairment allowance amounts to BGN 9 179 thousand.

Write-off on account of impairment, including on loan sales to third parties, reported during the year 2019 amounted to BGN 21 111 thousand, of which BGN 14 416 thousand are with partial termination of the balance sheet reporting.

As of 31 December 2019 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 2020 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 2020 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 2020 and interest rate 4.2%. As of the statement date the credit line is not disbursed.

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.

21. Investments in securities

In thousands of BGN	**31-Dec-2019**	**31-Dec-2018**
Investments in instruments measured at fair value through other comprehensive income		
Equity instruments	18 136	14 929
Government debt securities	1 634 293	1 068 612
Less impairment loss allowances	(859)	(1 136)
Total investments in instruments measured at fair value through other comprehensive income	**1 651 570**	**1 082 405**
Investments in instruments mandatory measured at fair value through profit or loss		
Equity instruments	284	289
Government debt securities	-	2 999
Corporate debt securities	174 164	173 366
Total investments in instruments mandatory measured at fair value through profit or loss	**174 448**	**176 654**
Total	**1 826 018**	**1 259 059**

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).

As of 31 December 2019 DSK Bank reports in its mandatory FVTPL portfolio perpetual bond issued in EUR from OTP Bank (ISIN XS0274147296) with nominal value BGN 188 626 thousand and carrying amount BGN 174 164 thousand. The bond is with variable interest rate – as of the statement date it is 2.61%.

As of 31 December 2018 DSK Bank reports in its mandatory FVTPL portfolio perpetual bond issued in EUR from OTP Bank (ISIN XS0274147296) with nominal value BGN 188 626 thousand and carrying amount BGN 173 366 thousand. The bond is with variable interest rate – as of the statement date it is 2.681%.

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 4.625% 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 2019, securities pledged as collateral and blocked in favour of the Ministry of Finance on deposits from the State Budget amount to BGN 246 476 thousand and securities pledged as collateral for repo deals amount to BGN 31 068.

22. Right-of-use assets

In thousands of BGN	**Land, buildings and equipment**	**Vehicles**	**Total**
Cost or revalued amount			
Balance as of 31 December 2018	-	-	-
Changes on initial application of IFRS 16	40 288	1 479	41 767
Balance as of 1 January 2019	**40 288**	**1 479**	**41 767**
Additions due to new contracts	8 410	231	8 641
Derecognition due to expired contracts	-	-	-
Changes from reassessment and modification	1 500	-	1 500
Cost or revalued amount as of 31 December 2019	**50 198**	**1 710**	**51 908**
Depreciation			
Balance as of 31 December 2018	-	-	-
Changes on initial application of IFRS 16	-	63	63
Balance as of 1 January 2019	**-**	**63**	**63**
Depreciation for the period	10 091	549	10 640
Derecognition due to expired contracts	-	-	-
Changes from reassessment and modification	(139)	-	(139)
Depreciation as of 31 December 2019	**9 952**	**612**	**10 564**
Net book value 31 December 2019	**40 246**	**1 098**	**41 344**

23. Property, plant and equipment

Movement of property, plant and equipment during the year 2019

In thousands of BGN	**Land and buildings**	**IT equipment**	**Office equipment**	**Other equipment**	**Total**
Cost or revalued amount					
Balance as of 31 December 2018	397 984	79 938	91 176	9 641	578 739
Changes on initial application of IFRS 16	-	-	-	(67)	(67)
Balance as of 1 January 2019	**397 984**	**79 938**	**91 176**	**9 574**	**578 672**
Additions	-	-	-	27 521	27 521
Disposals	(1 362)	(3 960)	(5 582)	(4 134)	(15 038)
Transfers	4 603	11 502	4 119	(20 224)	-
Cost or revalued amount as of 31 December 2019	**401 225**	**87 480**	**89 713**	**12 737**	**591 155**
Depreciation					
Balance as of 31 December 2018	124 032	63 959	71 417	1 734	261 142
Changes on initial application of IFRS 16	-	-	-	(63)	(63)
Balance as of 1 January 2019	**124 032**	**63 959**	**71 417**	**1 671**	**261 079**
Charge for the period	6 852	6 839	6 107	82	19 880
Disposals	(848)	(3 925)	(4 722)	-	(9 495)
Depreciation as of 31 December 2019	**130 036**	**66 873**	**72 802**	**1 753**	**271 464**
Net book value 31 December 2019	**271 189**	**20 607**	**16 911**	**10 984**	**319 691**
Net book value 31 December 2018	**273 952**	**15 979**	**19 759**	**7 907**	**317 597**

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					
Balance 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					
Balance 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**

In “Land and buildings” are included leasehold improvements to the amount of BGN 3 264 thousand as of 31 December 2019 and BGN 4 467 thousand as of 31 December 2018.

In “Other equipment” are included property, plant and equipment under construction and acquisition of property plant and equipment to the amount of BGN 10 888 thousand as of 31 December 2019 and BGN 7 723 thousand as of 31 December 2018.

As of 31 December 2019, 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 6 743 thousand, IT equipment: to the amount of BGN 48 534 thousand, office equipment: to the amount of BGN 45 860 thousand, other equipment: to the amount of BGN 1 733 thousand.

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.

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 2019 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).

24. Intangible assets

Movement of intangible assets during 2019

In thousands of BGN	Intangible assets	Assets under construction	Total
Cost			
Balance as of 31 December 2018	145 939	17 294	163 233
Additions	-	22 886	22 886
Disposals	(9 795)	(1 017)	(10 812)
Transfers	17 656	(17 656)	-
Cost as of 31 December 2019	**153 800**	**21 507**	**175 307**
Depreciation			
Balance as of 31 December 2018	113 926	-	113 926
Charge for the period	14 209	-	14 209
Disposals	(9 661)	-	(9 661)
Depreciation as of 31 December 2019	**118 474**	**-**	**118 474**
Net book value 31 December 2019	**35 326**	**21 507**	**56 833**
Net book value 31 December 2018	**32 013**	**17 294**	**49 307**

Movement of intangible assets during 2018

In thousands of BGN	Intangible assets	Assets under construction	Total
Cost			
Balance 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 as of 31 December 2018	**145 939**	**17 294**	**163 233**
Depreciation			
Balance 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**

As of 31 December 2019, 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 83 020 thousand.

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.

25. Other assets

In thousands of BGN	31-Dec-2019	31-Dec-2018
Deficiencies in assets	717	599
Advances to suppliers	1 065	1 005
Receivables in litigation	1 602	1 595
Collateral provided	1 623	-
Depository accounts	2 073	54 955
Materials, spare parts	2 606	1 660
Deferred expenses	5 094	4 632
Clearing and bank settlement assets	5 378	12 451
Acquired collaterals	20 340	21 733
Other assets	17 283	19 053
Impairment	(19 879)	(14 932)
Total	**37 902**	**102 751**

At 31 December 2019 the amount of impairment of assets acquired against non-collectable loans is BGN 11 244 thousand.

At 31 December 2018 the amount of impairment of assets acquired against non-collectable loans is BGN 7 552 thousand.

Depositary accounts represent temporary balances to secure transactions with securities.

26. Deposits from banks and loans from financial institutions

In thousands of BGN	31-Dec-2019	31-Dec-2018
Deposits from banks		
Current accounts	10 159	7 994
Total deposits from banks	**10 159**	**7 994**
Loans from banks		
Short term loans	31 085	-
Loans from financial institutions		
Long term loans	7 708	11 129
Total loans from financial institutions	**38 793**	**11 129**

On 5 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, 2018 the interest rate on the outstanding amount is 0.44%, as of December 31, 2019 it is 0.338%.

OTP Bank Group members have loro accounts with DSK Bank denominated in BGN and EUR with total balance as of December 31, 2019 BGN 7 902 thousand.

OTP Bank Group members have loro accounts with DSK Bank denominated in BGN and EUR with total balance as of December 31, 2018 BGN 1 544 thousand.

The Bank has not had any defaults of principal or interest or other breaches with respect to its liabilities during the periods 2018 and 2019.

27. Deposits from customers

In thousands of BGN	**31-Dec-2019**	**31-Dec-2018**
Individuals		
In Bulgarian Leva		
Term deposits	2 446 166	2 298 859
Demand deposits	5 051 417	4 387 383
In foreign currencies		
Term deposits	1 313 631	1 242 950
Demand deposits	1 189 822	1 103 111
Companies		
In Bulgarian Leva		
Term deposits	75 097	73 244
Demand deposits	1 346 812	1 210 275
In foreign currencies		
Term deposits	51 505	59 674
Demand deposits	542 064	478 795
State Budget		
In Bulgarian Leva		
Term deposits	824	942
Demand deposits	168 489	119 478
In foreign currencies		
Term deposits	47	47
Demand deposits	68 177	33 935
Financial institutions		
In Bulgarian Leva		
Term deposits	16 313	19 094
Demand deposits	293 261	117 618
In foreign currencies		
Term deposits	402	393
Demand deposits	109 036	406 370
Total	**12 673 063**	**11 552 168**

The interest rates on deposits as at 31 December 2019 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 1.76%; deposits from financial institutions from -1.10% to 0.25%.

As of 31 December 2019 DSK Bank has the next intra group deals:

- Current accounts of group members denominated in BGN and EUR amounting to BGN 98 866 thousand;
- Term deposits of group members denominated in BGN amounting to BGN 1 814 thousand.

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.

28. Lease liabilities

In thousands of BGN	**31-Dec-2019**
With maturity of up to 1 year	11 002
With maturity from 1 to 5 years	25 615
With maturity over 5 years	4 895
Total liabilities from operating lease	**41 512**

29. Provisions

Movement in provisions during 2019

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 2018	8 463	37 976	15 169	61 608
Additions during the year	991	2 893	40 820	44 704
Reversal during the year	-	(6 623)	(29 179)	(35 802)
Amounts paid	(612)	(577)	1	(1 188)
Other movements	1 445	-	-	1 445
Total	**10 287**	**33 669**	**26 811**	**70 767**

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**

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	**2019**	**2018**
Defined benefit obligations at 1 January	8 463	7 800
Benefits paid by the plan	(612)	(719)
Current service costs	846	770
Interest cost	90	115
Remeasurements:		
Experience adjustments	795	797
Actuarial (gains) losses from changes in demographic assumptions	(407)	31
Actuarial (gains) losses from changes in financial assumptions	1 112	(331)
Defined benefit obligations at 31 December	**10 287**	**8 463**

Expense recognized in statement of profit or loss

In thousands of BGN	2019	2018
Current service costs	846	770
Interest on obligation	90	115
Actuarial (gains) losses	55	(122)
Total	**991**	**763**

Actuarial assumptions

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

	2019	2018
Discount rate at 31 December	0,60%	1.00%
Future salary increases	3,00%	5.00%

30. Deferred tax liabilities

Deferred income taxes for 2019 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	2019	2018	2019	2018	2019	2018
Pension severance payments under Labour Code and other personnel liabilities	(1 641)	(1 364)	-	-	(1 641)	(1 364)
Business reorganisation	-	-	443	443	443	443
Fixed assets	-	-	11 486	11 542	11 486	11 542
Provisions for litigation and others	(3 367)	(3 797)	-	-	(3 367)	(3 797)
Unused annual leave and other	(1 387)	(1 017)	-	-	(1 387)	(1 017)
Net deferred tax (assets)/liabilities	**(6 395)**	**(6 178)**	**11 929**	**11 985**	**5 534**	**5 807**

Movement in temporary differences during 2019

In thousands of BGN	**Balance as of 31 December 2018**	**Recognised in the statement of profit or loss 2019**	**Recognised in equity 2019**	**Balance as of 31 December 2019**
Pension severance payments under Labour Code and other personnel liabilities	(1 364)	(277)	-	(1 641)
Business reorganisation	443	-	-	443
Financial assets	-	(2 898)	2 898	-
Fixed assets	11 542	(53)	(3)	11 486
Provisions for litigation and other liabilities	(3 797)	430	-	(3 367)
Unused annual leave and other	(1 017)	(370)	-	(1 387)
Total	**5 807**	**(3 168)**	**2 895**	**5 534**

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 available for sale	(10)	1 361	(1 351)	-
Fixed assets	12 112	(1 027)	457	11 542
Contingent liabilities	(4 888)	1 091	-	(3 797)
Unused annual leave and other	(602)	(415)	-	(1 017)
Total	**5 674**	**1 027**	**(894)**	**5 807**

31. Other liabilities

In thousands of BGN	31-Dec-2019	31-Dec-2018
Liabilities for centralisation of State Budget with BNB	334	11 734
Deferred income	5 357	5 528
Liabilities to suppliers	8 314	7 610
Liabilities to personnel and management	9 501	10 547
Money transfers for execution	13 342	12 130
Liabilities under condition for financial asset refunding	54 043	57 285
Other	14 915	9 743
Total	**105 806**	**114 577**

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.

32. Shareholder's equity

(a) Face value of registered shares

In thousands of BGN	31-Dec-2019	31-Dec-2018
Ordinary registered voting shares	1 327 482	1 327 482

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, 2019 are as follows:

Name	Number of shares	Ownership	Voting rights
Hungarian Oil and Gas Company (MOL)	24 000 000	8.57%	8.58%
KAFIJAT Ltd.	19 278 248	6.89%	6.89%
OPUS Securities SA	14 496 476	5.18%	5.18%
Groupama	14 335 422	5.12%	5.13%

(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.

33. Contingent liabilities and commitments

(a) Off balance sheet liabilities and commitments

In thousands of BGN	**31-Dec-2019**	**31-Dec-2018**
Litigation against the Bank and other contingent liabilities	35 183	39 756
Bank guarantees and letters of credit		
in Bulgarian Leva	172 725	229 204
in foreign currencies	81 144	83 822
	253 869	**313 026**
Commitments for undrawn credit facilities		
in Bulgarian Leva	1 007 600	878 882
in foreign currencies	523 142	426 431
	1 530 742	**1 305 313**
Forward and spot deals - sell		
in Bulgarian Leva	1 200 602	158 140
in foreign currencies	7 393 288	3 625 674
	8 593 890	**3 783 814**
Other	2 596	2 061
Total	**10 416 280**	**5 443 970**

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

As of 31 December 2019 DSK Bank has the next intra group deals:

- DSK Bank issued a guarantee to group members amounting to BGN 290 thousand.
- An overdraft of BGN 1 600 thousand has granted on a current account of OTP Bank. As of 31 December 2019 and 31 December 2018 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 29).

(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 35 183 thousand (principal and accrued interest) as of December 31, 2019. 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 33 669 thousand (note 29) are allocated as at the end of 2019.

(d) Assets pledged as collateral

As of 31 December 2019 DSK Bank has pledged Government bonds to the amount of BGN 246 476 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. It also pledged Government bonds to the amount of BGN 31 068 thousand as collateral for repo deals.

As of 31 December 2019 DSK Bank has pledged deposits collateralising derivative deals with OTP Bank amounting to BGN 391 thousand and with other foreign banks amounting to BGN 1 623 thousand.

34. Cash and cash equivalents

In thousands of BGN	**31-Dec-2019**	**31-Dec-2018**
Cash on hand	586 330	466 421
Balances with the Central Bank	1 154 794	2 709 168
Receivables from banks with maturity up to 3 months	35 772	34 750
Total	**1 776 896**	**3 210 339**

35. 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.

On January 15, 2019 DSK Bank finalized the transaction for acquisition of 99.74% of the capital of Expressbank AD (former Societe Generale Expressbank AD) and indirect control over its subsidiaries Express Factoring EOOD (former Societe Generale Factoring EOOD), OTP Leasing EOOD (former Sogeliz-Bulgaria EOOD and Regional Fund for Urban Development AD from the French banking group Société Générale. Simultaneously, was also finalized the transaction for the acquisition of Express Life Insurance AD (former Sogelife Bulgaria AD) through the indirect acquisition of 41.55% of the capital of Sogelife Bulgaria AD, owned Expressbank AD, and the direct acquisition of the remaining 58.45% of the capital from Sogecap SA. Express Life Insurance AD is classified as a subsiary with a view for resale at acquisition date. The company is sold to Groupama Life Insurance in October 2019.

Subsidiaries

In thousands of BGN	**% ownership**	**Carrying amount, 31-Dec-2019**
DSK Tours EOOD*	100,00%	7 137
DSK Rodina Pension Company AD	99,75%	10 972
DSK Assets Management AD	66,00%	7 300
DSK Leasing AD **	60,02%	1 962
DSK Mobile EAD	100,00%	7 200
DSK Dom EAD	100,00%	500
OTP Factoring Bulgaria EAD***	100,00%	37 620
Expressbsnk AD****	99,74%	1 075 302
Total		**1 147 993**

* 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.

*** DSK Bank owns indirectly Project Company Complex Banya EOOD which is 100% owned by OTP Factoring Bulgaria EAD.

**** DSK Bank owns indirectly through Expressbank AD shares from: 99.74 % of Express Factoring EOOD, 99,74 % of OTP Leasing EOOD and 51,86 % of Regional Urban Development Fund AD.

Associates

In thousands of BGN	**% ownership**	**Carrying amount, 31-Dec-2019**
Cash Services Company AD	25,00%	2 964
Total		**2 964**

Net asset value

In thousands of BGN	**31-Dec-2019**	**31-Dec-2018**
Cash Services Company AD	15 090	13 783

36. 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 and balances as of and for the year ended 31 December 2019 are as follows:

In thousands of BGN

Related party	Type of transaction	2019	2018
Directors and executive officers	Loans extended	10 617	9 330
Subsidiaries	Current and deposit accounts with DSK Bank	100 680	56 861
Subsidiaries	Current and deposit accounts in Group members	36 734	-
Subsidiaries	Loans granted	23 472	-
Subsidiaries	Right of use assets - gross carrying amount	1 759	-
Subsidiaries	Liabilities	3 333	1 485
Subsidiaries	Other receivables	597	595
Subsidiaries	Interest income	976	-
Subsidiaries	Interest expense	148	2
Subsidiaries	Services expense	10 975	10 839
Subsidiaries	Income from sale of loans	1 054	-
Subsidiaries	Services income	25	21
Subsidiaries	Rentals received	329	297
Subsidiaries	Rentals paid and operating lease	-	462
Subsidiaries	Fees received	162	47
Subsidiaries	Fees paid	2 016	-
Subsidiaries	Guarantees granted	300	283
Subsidiaries	Liabilities for currency exchange contracts	13 838	-
Subsidiaries	Receivables for currency exchange contracts	13 712	-
Subsidiaries	Fair value of derivatives	(67)	-
Subsidiaries	Gains (losses) on derivative deals / on trading activities	(18)	-
Subsidiaries	Credit line off balance liability	26 213	-
Associates	Services expense	2 538	1 933
OTP Bank	Current and deposit accounts in OTP Bank	2 148 425	1 589 891
OTP Bank	Bond issued by OTP Bank	174 164	173 366
OTP Bank	Current and deposit accounts in DSK Bank	2 250	1 543
OTP Bank	Fair value of derivatives	(18 630)	(16 855)
OTP Bank	Other liabilities	6	6
OTP Bank	Interest income	30 514	5 541
OTP Bank	Interest expense	30 749	3 104
OTP Bank	Services income	1 100	-
OTP Bank	Fees paid	481	437
OTP Bank	Fees received	2	1
OTP Bank	Gains (losses) on trading activities	32 081	19 654
OTP Bank	Gains (losses) on bond issued by OTP Bank	819	(4 321)
OTP Bank	Liabilities for currency exchange contracts	2 856 950	2 694 309
OTP Bank	Receivables for currency exchange contracts	2 838 813	2 654 892
OTP Bank	Off balance liability on unutilised overdraft	1 600	1 600
Other OTP Group members	Current and deposit accounts in Group members	2 504	670
Other OTP Group members	Liabilities	-	922
Other OTP Group members	Current and deposit accounts in DSK Bank	3	10 170
Other OTP Group members	Interest income	2	23
Other OTP Group members	Fees received	19	115
Other OTP Group members	Fees paid	-	2 649
Other OTP Group members	Rentals received	-	255
Other OTP Group members	Income from sale of loans	-	1 044
Other OTP Group members	Services income	15	-
Other OTP Group members	Guarantees granted	-	10
Other OTP Group members	Liabilities for currency exchange contracts	48 013	6 353
Other OTP Group members	Receivables for currency exchange contracts	47 700	6 357
Other OTP Group members	Credit line off balance liability	-	24 213

The remuneration of the key management personnel for 2019 includes current income amounting to BGN 3 550 thousand (2018: BGN 2 869 thousand).

37. Events after the reporting period

On February 27, 2020, the Management Board of the Bulgarian National Bank decided to authorize the transformation of Expressbank AD by merger under Art. 262 of the Commercial Law at DSK Bank EAD.

The merger process is expected to be completed by May 2020.

The COVID-19 spreading has an impact on global demand and supply, with considerable uncertainty in economic activity, which will have a direct negative impact on credit activity and on the quality of the credit portfolio.

At this stage of virus spreading and the dynamics of its development, it is difficult to estimate the realistic impact on economic development of the bank. In accordance with the measures undertaken by the Government of the country and by the Governing Council of the Bulgarian National Bank, the management of the Bank has undertaken actions by organizing a crisis headquarter for actions plan and preventions.

There are no other significant events identified after the end of the reporting period.