

DSK Bank Group

Consolidated Financial Statements
For the year ended 31 December 2020,
report on the management and activity
declaration of corporate governance
and independent auditors' report





DSK Bank Group

**Consolidated Financial Statements
For the year ended 31 December 2020,
report on the management and activity
declaration of corporate governance
and independent auditors' report**

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

FOR 2020

DSK BANK GROUP
Report on the Management and Activity
of DSK Bank AD and the Companies of the Group for the year ending
31 December 2020

Basis for consolidation

As at the end of 2018 DSK Bank EAD has investments in subsidiaries, controls and has significant influence over the financial and operating activity of these companies. The financial statements of the subsidiaries are included in the consolidated financial statements of DSK Group as follows (the listed information shows the % of share of DSK Bank in the capital of the companies and the book value of the participation):

- PIC DSK Rodina BGN 10.972 million (99.75%);
- DSK Tours BGN 7.137 million (100%);
 - DSK Trans Security is 100% owned by DSK Tours EOOD
- DSK Asset Management BGN 7.300 million (66%);
- DSK Leasing AD BGN 1.962 million (60.02%)
 - DSK Leasing AD owns 100% of the capital of DSK Auto Leasing EOOD, DSK Operational Leasing EOOD and OTP Insurance Broker EOOD.
- OTP Leasing EOOD BGN 49.725 million (100%)
- DSK Mobile EAD BGN 7.200 million (100%)
- DSK Dom EAD BGN 0.500 million (100%)
- OTP Factoring Bulgaria EAD BGN 37.620 million (100%)
- Regional Urban Development Fund AD BGN 0,208 million (52%).

On 30 April 2020 Expressbank merged into DSK Bank, thus DSK Bank became direct owner of the capital of its subsidiaries (100% of OTP Leasing EOOD and Express Factoring EOOD and 52% of the capital of Regional Urban Development Fund AD).

On 31 December 2020 Express Factoring EOOD merged into DSK Bank.

In November 2020 Project Company Complex Banya, 100% ownership of OTP Factoring Bulgaria EAD was sold.

DSK Bank holds investments in associated companies as follows:

- Cash Services Company BGN 2.965 m (25%).

DSK Bank Group

Macroeconomic environment

In 2020 the world economy was severely affected by the global pandemic caused by the spread of the new Coronavirus. The entire population of the planet has faced an unprecedented situation, which has led to the complete blocking of entire sectors of the world economy. A number of factors, together with the high level of uncertainty and the restrictive measures taken to reduce the health crisis, have contributed to the rapidly raising of socio-economic tension. The Bulgarian economy also bore the brunt of the negative consequences of Covid-19. Export-oriented sectors, parts of industry and services have stricken through stagnant exports to the major trading partners. Transportation, along with the blocked tourism and all economic areas affected by the imposed measures, such as culture, restaurants and to a large extent non-food trading have reshaped the map of the national economy.

Based on the NSI's flash estimates as regards the produced domestic product in the last quarter of the year, our expectations for an economic downturn in 2020 will reach about minus 4%. Public finances fully met the expectations of the projected estimates, thus the balance of the Consolidated Fiscal Program at the end of 2020 is negative, amounting to BGN 3 532 million (minus 3.0% of projected GDP) or represents 100.5% of the crisis amendment of the Law from April. The source of deficit funding is the Government debt issued during the year. At the end of 2020 its total volume amounted to BGN 27 505 million or 23.3% of the projected GDP. Compared to the same period of the previous year, the debt increased by BGN 5 482 million (24.9%). Foreign direct investments in the country marked a significant annual decline, and amounts to EUR 562 million (or 0.93% of GDP) for January-December 2020, reporting a decline of EUR 577 million (or 50.7%) compared to the same period of 2019 (when cumulatively were reported EUR 1 139 million or 1.9% of GDP). The total price level remained stable during the year, as the measured annual inflation at the end of December was 0.1%. A decrease was reported mainly in the pricing levels in transportation (as a result of declined fuel prices on international markets) and clothing, compensating the relative growth in other groups of goods and services – the index for the food products reported an increase by 1.9%, for hotels and restaurants by 3.1%. The unemployment rate at the end of December 2020 was 6.7% according to the Employment Agency, which is 0.8 percentage points higher than the level of the indicator by the end-2019. The total number of unemployed persons increased by 25 577, and at the end of the year

their total amount is 220 292 people. The applied anti-crisis measures related to “60/40” and “80/20” programs contribute to the certain stability of the labor market.

An event that will also be remembered during 2020 is the accession of the country to the Exchange Rate Mechanism (ERM II) and the Banking Union. As a result, the country's credit rating has been raised by the most of world's leading agencies. Thus, despite the current uncertainty, expectations for the Bulgarian economy are positive, based on price stability, favorable investment position and still low levels of government debt, which represents a good buffer for the Government against further unexpected economic shocks. Timely taken measures are still needed in terms of demographic policy and limiting the trend of increasing labor shortage, as well as certain measures in the field of education preventing from growing risk in the area.

The banking system in the country remained stable and well capitalized. The profit in the sector in 2020 marked a natural decline compared to its level from the previous year (and amounted to nearly BGN 815 million), but the indicators of capital adequacy and liquidity remained high and exceeded the average levels for the European Union. Banks' main activity remained stable and contributed by the reasonable management and supported by the introduction of a Private Moratorium in the country, non-performing loans remained on relatively low levels.

Summary

During 2020 DSK Bank AD finalized the integration process with Expressbank AD. Despite the unfavorable influence of the macro environment, on 01.05.2020 the successful merger with the acquired in the beginning of 2019 Societe Generale Expressbank AD took place, observing the initially set deadlines. Owing to the huge efforts of all employees, in both technical and operational fields, the Bank was able to adapt its activities on time, ensuring the smooth transition and did not outstep from their high standard of service. As a result of the completed integration, the new DSK Bank strengthened its position on the banking market, managing to narrow the customer outflow and to minimize the effects of the deteriorating economic climate. It remained the leader on the market of retail loans and deposits and retained its stability related to the liquidity and capital position. As of the end of December 2020, the Bank takes the first place on by customer exposures (excluding the loans to credit institutions) with a market share of 20.2% compared to 20.7% at the end of 2019 (includes consolidated DSK Bank and Expressbank). In terms of customer deposits (excluding attracted funds from credit institutions), the Bank also has a leading position in the banking system with a market share of 19.1% compared to 19.5% at the end of 2019 (consolidated DSK Bank and Expressbank). It should be considered that in order to be more precise obtaining organic dynamics, the volumes used for measuring the market position have been adjusted with the applicable consolidation effects. 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.

In 2020, along with its usual activities and following the planned goals, DSK Bank performed a significant change in its strategy. The main events that marked the development of the Bank during the year were the rapidly changing and uncertain operational environment, affected by the global pandemic, and the successfully finalized the merger process with Expressbank. In the conditions of unprecedented pandemic situation, the main priority for the Bank's management was to preserve the health of its employees and customers. The necessary measures were taken immediately, implementing all best world practices in the fight against Covid-19. Continuation of the Bank's activity was ensured through the introduction of home-office, by supplying additional protection in the offices and to all points for direct contact, by maximizing operations through the electronic channels and etc. Along with the processes of free liquidity management, strengthening the positions in retail and company segments, DSK Bank made efforts to increase operational efficiency, as the main priority was the loan quality management through optimization in collection processes. The Bank's long-term strategy is also directed in maintaining the Bank's strong positions in retail banking and in other segments.

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

The Cost-to-Income as of December 2020 of the Group is 51%, which is below the average level of the banking system in the country. This is a result of the continuing work efficiency improvement, good management of the investment policy and control over the current expenses.

During 2020 DSK Bank continues to offer traditional lending and deposit products for the households and retain their leading position in this segment.

The market and the credit risk are regularly monitored and evaluated from the corresponding responsible units. The Group 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 Banking group is able to absorb, in the segments or in different products, as well as in general concerning the entire balance sheet of the Group related to the asset quality, liquidity, currency position, trading limits and capital adequacy.

Different types of financial instruments are used for the management of the liquidity and the market risks on its own account and supporting the customers.

For customers of the banks 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 Markets in Financial Instruments Act and the respective second level legal act as Ordinance 38 from 21.05.2020 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 banks keep 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. Both banks 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 banks 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 2020, the companies included in DSK Bank Group did not have any research and development activities.

On 30 April 2020 the Bank was transformed from a solely owned joint stock company (EAD) into a joint stock company (AD) as a result of the issuance of new shares acquired by shareholders other than OTP Bank.

General information about the Management and the Structure of the Group

DSK Bank AD 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 AD has a two-tier management system. The Governing bodies are: Supervisory Board (SB) and Management Board (MB).

As of December 31, 2020 DSK Bank AD 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
 Violina Marinova - member of the SB
 László Wolf - 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

Tamas Hak-Kovacs - 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
 Dorothea Nikolova-Ilcheva - 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 2020 were as follows:

As of May 18, 2020, have been registered as new members of the MB and Executive Director:

- Dorothea Nikolaeva Nikolova-Ilcheva

As of 17.11.2020 have been removed as a Chairperson of the Management Board and Chief Executive Officer:

- Violina Marinova Spasova

As of 17.11.2020 has been registered as a Chairperson of the Management Board and Chief Executive Officer:

- Tamas Hak-Kovacs

Changes as follows on 18.05.2020:

Diana Decheva Miteva – Executive Director
 Arnaud Rene Julien Leclair - Executive Director
 Slaveyko Lyubomirov Slaveykov - Executive Director
 Mihail Rumenov Komitsky
 Boyan Filipov Stefov - Executive Director
 Dorothea Nikolaeva Nikolova-Ilcheva - Executive Director – new circumstance
 Yuriy Blagoev Genov - Executive Director
 Violina Marinova Spasova - Chief Executive Officer

Manner in which the mandate is determined: for Violina Marinova Spasova the mandate expires on 31.12.2021; for Yuriy Blagoev Genov, Diana Decheva Miteva and Boyan Filipov Stefov the mandate expires on 28.10.2020, for Dorothea Nikolaeva Nikolova-Ilcheva the mandate is 3 (three) years, as of the date of her registration as a member of the Management Board in the Commercial Register.

Changes as follows on 17.11.2020:

Diana Decheva Miteva – Executive Director
 Arnaud Rene Julien Leclair - Executive Director
 Slaveyko Lyubomirov Slaveykov - Executive Director
 Mihail Rumenov Komitsky
 Boyan Filipov Stefov - Executive Director
 Dorothea Nikolaeva Nikolova-Ilcheva - Executive Director
 Yuriy Blagoev Genov - Executive Director
 Violina Marinova Spasova - Chief Executive Officer – deleted circumstance
 Tamas Hak-Kovacs - Chief Executive Officer – new circumstance

Manner in which the mandate is determined: for Tamas Hak-Kovacs the mandate is 3 (three) years, as of the date of his registration as a member of the Management Board in the Commercial Register, for Yuriy Blagoev Genov, Diana Decheva Miteva and Boyan Filipov Stefov the mandate expires on 28.10.2023, for Dorothea Nikolaeva Nikolova-Ilcheva the mandate is 3 (three) years, as of the date of her registration as a member of the Management Board in the Commercial Register.

In the Supervisory Board, the personal changes in 2020 were as follows:

- As of November 17, 2020 have been removed as a member of the Supervisory Board:
 - András Takács
- As of November 17, 2020 new member of the Supervisory Board have been registered:
 - Violina Marinova Spasova

Changes as follows on 17.11.2020:

László Wolf
 Violina Marinova Spasova – new circumstance
 Krisztián Selmeczy
 Ilona Török
 Ákos Ferenc Tisza-Papp
 Gábor Kuncze
 András Takács – deleted circumstance
 László Bencsik

Manner in which the mandate is determined: for Violina Marinova Spasova the mandate is 3 (three) years, as of the date of her registration as a member of the Supervisory Board in the Commercial Register, and for the other members - until 28.10.2021.

In 2020, 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 of DSK Bank during the year was in accordance with management contracts and amounted to BGN 8.7 million.

The total remuneration received by the management of DSK Group during the year was in accordance with management contracts and amounted to BGN 10.7 million.

Participation of Management and Supervisory Board members of DSK Bank 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 Management Board members of DSK Bank in management and supervisory bodies of other companies by the end of 2020, as representatives of DSK Bank is as follows:

Name	Company	Position
Tamas Hak-Kovacs	Without participation	
Diana Miteva	DSK Asset Management AD DSK Mobile AD DSK Dom AD	Member of SB Chairperson of SB Chairperson of BD
Slaveyko Slaveykov	OTP Factoring Bulgaria EAD	Member of BD
Dorothea Nikolova-Ilcheva	DSK Asset Management AD PIC DSK Rodina AD OTP Factoring Bulgaria EAD	Member of MB Chairperson of MB Chairperson of BD
Arnaud Leclair	Without participation	
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 MB Director Director Director
Boyan Stefov	Without participation	

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

As at the end of 31 December 2020 DSK Bank AD has 9 regional centers, 49 financial centers, 23 business centers and zones, 103 branches, 157 bank offices.

The management bodies of the other companies in the Group as of end of 2020 are as follows:**PIC DSK Rodina AD**

Two-tier management system.

Management Board

Dorothea Nikolaeva Nikolova-Ilcheva
Nikolay Ivanov Marev
Rumyana Boyanova Sotirova,
Mihail Petrov Sotirov

Supervisory Board

Violina Marinova Spasova,
Choba Nagy
Yanaki Sevastiyarov Yanakiev.

The total remuneration received by the management during the year was in accordance with management contracts and amounted to BGN 0.63 million.

DSK Tours EOOD

The company is represented by the manager Andrey Stoyanov Andonov.

The total remuneration received by the management during the year was in accordance with management contracts and amounted to BGN 0.02 million.

DSK Trans Security EAD

The company is managed by a Board of Directors consisting of:

Momchil Lyubomirov Momchilov,
Tsvetoslav Naidenov Dimov,
Zhivko Minchev Minchev.

In February 2020 Svetlin Bonev was substituted by Zhivko Minchev as a member of the Board of Directors and Executive Director. In April 2020 Slaveyko Slaveykov was dismissed as a member of the Board of Directors. In September 2020 Krassimir Ivanov Kerchev was dismissed as a member of the Board of Directors and Momchil Lyubomirov Momchilov was registered.

The total remuneration received by the management during the year was in accordance with management contracts and amounted to BGN 0.11 million.

DSK Mobile AD

Two-tier management system.

Management Board

Vasil Georgiev Dimitrov
Damyan Evgeniev Medarov
Emil Stefanov Hristov

Supervisory Board

Diana Decheva Miteva
Yuriy Blagoev Genov
Peter Benjo.

The total remuneration received by the management during the year was in accordance with management contracts and amounted to BGN 0.04 million.

OTP Factoring Bulgaria EAD

One-tier management system.

Supervisory Board

Ilka Georgieva Dimova- Mazgaleva
Dorothea Nikolaeva Nikolova-Ilcheva
Slaveyko Lyubomirov Slaveykov
Imre Babinski

In April 2020 Pal Valachai was dismissed as a member of the Board of Directors.

In May 2020 Andr ash Nemeth and Arnaud Renee Julien Leclair were dismissed as members of the Board of Directors, and Slaveyko Lyubomirov Slaveykov and Dorothea Nikolaeva Nikolova-Ilcheva were registered as members of the Board of Directors.

The total remuneration received by the management during the year was in accordance with management contracts and amounted to BGN 0.16 million.

Project company Banya complex EOOD – the company’s shares were transferred to „GRAND HOTELS MANAGEMENT“ EOOD, ID 204453995, registered in the Commercial Register on 20.11.2020.

OFB Projects EOOD – the company was deleted.

DSK Dom AD

The Company is managed by a Board of Directors consisting of:

Diana Decheva Miteva,
Veselin Hristov Petrov,
Dimitar Aleksandrov Aleksandrov,
Rózsa Dévényi

The company is represented by the Executive Director Veselin Hristov Petrov.

The total remuneration received by the management during the year was in accordance with management contracts and amounted to BGN 0.19 million.

DSK Leasing AD

Two - tier management system.

Management Board

Krum Ivanov Krumov
Kostadin Dimitrov Karadzov
Mihail Rumenov Komitsky
Borislav Veselinov Matakiev

In November 2020 Dincher Veli was dismissed as a member of the Management Board and Krum Krumov was registered.

Supervisory Board

Zoltán Tuboy
Zsolt Baksay
Ivan Atanasov Atev

In February 2020 Krisztián Selmeczy was dismissed as a member of the Supervisory Board and Zsolt Baksay was registered.

The total remuneration received by the management of DSK Leasing AD and its subsidiaries during the year was in accordance with management contracts and amounted to BGN 0.09 million.

DSK Auto Leasing EOOD

Management Board

Borislav Veselinov Matakiev
Mihail Rumenov Komitsky

OTP Insurance broker EOOD

The company is represented by Kostadin Dimitrov Karadzov

DSK Operating Leasing EOOD

Management Board

Borislav Veselinov Matakiev
Mihail Rumenov Komitsky.

DSK Asset Management AD

Two - tier management system.

Management Board

Petko Krustev Krustev
Dorothea Nikolaeva Nikolova,
Svetoslav Spasov Velinov

Supervisory Board

Benedek Balázs Köves
Diana Decheva Miteva
Péter János Haas

The total remuneration received by the management during the year was in accordance with management contracts and amounted to BGN 0.396 million.

OTP Leasing EOOD

The company is represented by the manager Mihail Rumenov Komitsky.

The total remuneration received by the management during the year was in accordance with management contracts and amounted to BGN 0.29 million.

Regional Urban Development Fund AD

Management Board

Kamen Marinov Kolchev
Martin Mihaylov Zaimov
Alis Kirkor Magardichyan
Anastasia Dimitrova Chorbadjieva
Anatoli Vladev Belchev

In April 2020 Asen Iliev Asenov and Didier Cossel were dismissed as members of the Board of Directors and Alis Kirkor Magardichyan, Anastasia Dimitrova Chorbadjieva and Anatoli Vladev Belchev were registered.

The total remuneration received by the management during the year was in accordance with management contracts and amounted to BGN 0.03 million.

Express Factoring EOOD – merged into DSK Bank.

Financial result and profitability

Financial indicators of the Group

For the year 2020 DSK Bank group reports profit before tax to the amount of BGN 193.9 m and decreases by 44% compared to 2019 mainly as a result of higher impairment allowances due to COVID-19 pandemic.

The profit after tax amounts to BGN 175.5 m.

The net interest income reaches BGN 618.8 m. The interest income amounts to BGN 633.6 m and the interest expenses are BGN 14.9 m. The net interest income is lower by BGN 24.8 m compared to 2019 or 3.9% as a result of lower interest income on loans and advances to banks by BGN 18.7 m and lower interest income on loans by BGN 19.9 m.

The net non-interest income for 2020 is BGN 322.9 m and increases compared to 2019 by BGN 7.7 m or 2.4%.

The net fee income is BGN 256.6 m and remains almost at the level from 2019 (BGN 256.3 m).

The operational expenses (including staff costs, depreciation, services and utilities) amount to BGN 480 m. and decrease by 2.1% on annual basis.

The average headcount of DSK Bank Group by the end of 2020 is 5 863 (as of 31 of December 2019: 6 777).

The assets per employee ratio is BGN 3.90 m by the end of 2020. The profit per 1 employee is BGN 29.9 thousand.

Balance sheet indicators of the Group

The total assets of the DSK Bank Group amount to BGN 22 882.9 m as of 31 of December 2020 and increase by 1 237.3 m (or 5.7%) compared to end of 2019.

The market share of the Bank as of 31 December 2020 in the total banking assets in the country was 18.4% (as of December 2019: 19.5%; the total assets as of the period, not adjusted with the consolidation effect).

The gross loan portfolio (customer loans and advances) of DSK Bank Group as of 2020 end amounts to BGN 12 950 m and reports an annula growth of 2%.

The loans to individuals at gross book value before impairment amount to BGN 8 000.5 m.

The market share of the Bank in terms of household loans was 30.9% by the end-2020 (2019: 31.5%), as in consumer loans (incl. non-residential mortgage loans) and overdrafts was 41.6% (42.4% in 2019), and in housing – 24.8% (25.5% in 2019). The market share of non-financial companies as of December 2020 was 13.1% compared to 13.8% in 2019. It should be considered that in order to be more precise obtaining organic dynamics, the volumes used for measuring the market position have been adjusted with the applicable consolidation effects.

The wholesale loans (incl. budget loans) at gross book value before impairment amount to BGN 4 949.6 m.

The impairment of the loan portfolio (customer loans and advances) as of 31.12. 2020 is BGN 1 002 m (as of 31.12.2019: BGN 863.7 m).

Total customer deposits amount to BGN 19 207.1m by end of 2020 and report an annual growth of 7.4%. BGN 15 105.6 m are deposits from individuals which is 10.2% growth compared to 2019.

The market share of the Bank in terms of household deposits as at the end of 2020 was 24.1% and remains stable compared to 2019 for both banks (DSK and Expressbank).

Wholesale deposits (incl. budget) amount to BGN 3 813.4 m at 2020 year end, while deposits from financial institutions are BGN 288.1 m.

Capital adequacy

DSK Bank Group 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 2020 the total capital adequacy ratio on consolidated basis was 22.44%. In 2020 the Group provided BGN 1 021.7 million free capital above the total SREP capital requirement and the combined capital buffer, incl. capital conservation buffer (BGN 343.3 million), systemic risk buffer (BGN 412 million), O-SII buffer (BGN 137.3 million) and the specific for the institution countercyclical buffer (BGN 68.7 million).

Credit risk

In 2020 the coronavirus pandemic reached Europe. As a result lockdowns were implemented in a number of European countries, incl. Bulgaria (for Bulgaria it entered into effect on March 13th 2020). To support the credit situation of clients with loans, and in line with the EBA Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis, DSK Bank offered to its clients renegotiation instruments, mainly under the non-legislative moratorium, but also under its own forbearance instruments. In the latter case the loans are classified and reported as forborne.

As set out in the EBA guidelines on payment moratoria, loans which have been granted a concession through the non-legislative general payment moratorium, or through any other modification (including any ongoingly provided forbearance measures) are identifiable and monitored.

The main credit risk to which DSK Bank AD 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 (57.1%) and company loans (incl. budget) (42.9%). Within household loans the credit risk is well allocated between consumer loans (52.5%) and mortgage loans.

DSK Bank AD measures credit risk in compliance with the IFRS requirements (officially adopted by the Bulgarian legislation) and according to the adopted impairment policy of DSK Bank AD 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 2020 was as follows:

Total loan portfolio – 6.4%

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 – 1.0%
- Stage 2 – 12.2%
- Stage 3 – 65.3%

The risk arising 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 2020 the credit performing exposures including those with increased credit risk (classified in stage 1 or stage 2) were 93.3%, as the distribution within the products was as follows:

Consumer loans to individuals – 89.8%, point of sale loans to individuals – 86.8%, mortgage loans to individuals – 92.7%, loans to micro enterprises – 82.0%, loans to small and medium-sized enterprises – 89.8% and loans to corporate clients – 97.1%.

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 the DSK Bank's activities and the management of its positions. It includes both the risk of being unable to settle liabilities and the risk of a financial loss caused by forced sale of financial assets in order to provide liquidity.

The goal of liquidity risk management is to ensure that institution will always have sufficient level of liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses from selling liquid assets or expensive financing.

The executive Body, responsible for managing the liquidity is Asset and Liability Committee (ALCO). The liquidity management is based on key information regarding the bank activities, presented regularly to ALCO.

In addition to monitoring the liquidity position, the banks also analyse 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.

To analyse the liquidity, maturity tables for assets and liabilities are prepared, in which the cash flow from different assets and liabilities are distributed in different time bands, according to their payment date.

The expected cash flows on some financial assets and financial liabilities vary significantly from the contractual cash flows. The principal differences could arise due to the following factors::

- Lack of contractual maturities for demand deposits from customers. They are expected to remain stable or increase;
- Residential and non-residential mortgage loans to individuals have average original contractual maturity of 23 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 5 years in view of actual observed volume of earlier repayments during 2020.

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. DSK Bank manages separately the interest rate risk in the banking book and in its trading book.

The 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, the Group 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. DSK Bank analyzes the interest rate risk in the banking book by classifying its financial assets and liabilities into time zones according to their sensitivity to changes in interest rates and into different currency groups.

In 2020 DSK Bank AD reviewed its interest rate risk in the banking book management policy (IRRBB) and brought it in line with European Banking Authority requirements (EBA/GL/2018/02). The Bank measures its exposure to the IRRBB by calculating two main indicators – the change in net interest income (income-based indicator) and the change in the economic value of capital (value-based indicator), based on the interest rate scenarios described in the EBA guidelines. They represent the sensitivity of the DSK Bank's income and capital to changes in market interest rates.

DSK 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.

Exchange rate risk

DSK Bank is exposed to exchange rate risk when conducting transactions with financial instruments denominated in foreign currencies.

As a result of the implementation of Currency Board in Bulgaria, the Bulgarian currency rate to the euro is fixed at 1.95583. The national reporting currency is the Bulgarian lev therefore the 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's senior management sets limits on maximum open positions - total and by currency, stop-loss and VaR (Value at Risk) to manage the exchange rate risk. DSK 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.

DSK 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, the bank manages the net exposure by buying and selling foreign currencies at spot rates when considered appropriate, keeping approved limits for open currency position.

Operational risk

Operational risk is the risk of loss, incurred for inadequate or failed internal processes, people and systems, or from external events including legal risk.

The operational risk management in DSK Group is coordinated by Operational Risk Management Committee (ORMC), which is a permanent consultative body subordinated to the Management Board (MB) and includes the heads of the major units of DSK Bank Head Office. The meetings are held after the end of each quarter, as on these meetings a report is being presented for consideration of the level of operational risk and measures for mitigation/elimination of operational risks' consequences, identified in the previous quarter are planned. The main focus of ORMC activity is the prevention of operational risks by implementing a comprehensive approach, aiming at limiting the preconditions, that lead to occurrence of operational events.

The responsibility for maintenance and further development of the Operational risk management system is assigned to "Operational Risk Management" Section subordinated to "General policy and risk management" Directorate of DSK Bank, which is a part of the Risk management Division. The Division is independent from the business units and is headed by a responsible Executive Director.

Operational risk management includes activities such as identification and registration of the operational risk events, measurement of the operational loss amount, and determination of the capital required to cover the risk of potential loss. Currently the Group risk exposure to operational risk is monitored both by type of the risk events and by different business lines.

The Group has a unified system for operational risk management, based on centralized collection of data for the operational events and periodical reporting to the management of the Group about the level of operational risk. The system is based on the so-called Risk Responsible Person - people, which are employees on management positions in Head office, branch network and Bank's subsidiaries. They are responsible for the management of operational risk in their units, following the decentralized approach of operational risk management in OTP Group.

Potential risks are considered as a part of the business processes and for this reason they are subject of identification in the self-assessments process within the Group's units, and their classification is performed annually on the basis of a standardized taxonomy of operational risks. The purpose of the self-assessment process is to identify and assess possible weaknesses in the processes and to assign additional measures to limit the residual operational risk.

As a part of the Group's operational risk management framework, the management of model risks arising from the used internal models is included. The model risk management aims to build an environment with proper controls by identifying the used models, their categorization and evaluation, as well as compliance with the requirements of the implemented controls. The Operational

Risk Management Section prepares and provides to the members of the ORMC an annual report on the model risks, including also the manner in which the models in the different categories meet the control requirements.

An inventory of the products provided by the Bank is carried out annually, with focus on the improving of the quality of the sales practices. The purpose of the process is to mitigate the incurrence of reputational risk resulting from incorrect sales practices and to minimize the risk of financial loss and loss of customers' trust. The Rules for coordination of credit, payment and deposit products of DSK Bank AD stipulates that when the development of products requires the implementation of a new process, system or activity, or the implementation of significant changes in existing ones, they must be analyzed and assessed in terms of all risks associated with them, including the various categories of operational risk in order to determine their impact on the risk profile of the Bank and to ensure the introduction of appropriate measures for their management and control. The unit that prepares the concept for a new product or change of an existing one is responsible for initiating the operational risk assessment.

In addition, prior to the implementation of a new process, system or 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 Section for further evaluation and analysis. Risk Self-Assessment Forms are used for the preparation of the evaluation. In cases when IT systems are implemented, the assessment shall be made by the business unit(s) which has (have) defined the business requirements of the development.

The actual level of operational risk is monitored with the Key Risk Indicator system which covers the main risk factors, causing significant operational risk losses and disruption of the critical business processes. The system functions on the basis of critical zones, which determine whether the level of operational risk is low and within the expected value or it is necessary to analyze the reasons for the increase in the value of a particular indicator and to take preventive or corrective measures. The system of key risk indicators is reviewed and updated annually jointly between the Operation Risk Management Section and each of the units responsible for monitoring a specific indicator.

"The level of tolerance to operational risk in DSK Bank AD" also aims to monitor the acceptable maximum exposure threshold that DSK Bank is willing to take in case of occurrence of operational events for a certain period of time. Thresholds for all individual risk categories for operational risk are defined and updated annually. In determining the loss thresholds, the distribution of losses by individual risk categories for the previous ten years is examined and their average values are used, which furtheron are intracconnected with the assumption for each category of operational risk, approved by the Management Board of DSK Bank.

The methodology for potential risk identification is based on decentralised assessment performed by different units, using the methodological support from the Operational Risk Management Section. As part of this process, the so-called scenario analysis is prepared, aimed to assess the potential effects on the financial position of the Group and the ongoing processes in it, at a certain change in the risk factors associated with probable occurrence of an event with catastrophic consequences.

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. The information collected and analyzed is used in calculating the amount of own assessment of capital adequacy for operational risk.

Joint decision of the Hungarian National Bank and the Bulgarian National Bank which approved the Group 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. In the internal capital adequacy assessment process (ICAAP) a detailed analysis of the impact of individual types of risk on the capital position of the bank is performed, including by applying a set of stress tests. The methodology developed and implemented for operational risk stress testing is based on Monte Carlo simulations and is used for the assessment of the Group's capital adequacy regarding operational risk.

The process of identifying, measuring and managing the risks related to the outsourcing of banking activities is also within the scope of operational risk management and reflects the current requirements of the European and national legislation. The classification of the banking activities and the differentiation of the critical or important ones for the Bank, the established mechanisms for control and influence on the external providers by the Bank and the supervisory bodies, the defined minimum obligatory contractual conditions, the assessments of the external providers and the developed exit strategies for alternative execution of the outsourced activities aim to limit the risks from the execution of activities by external providers and to avoid the risk of concentration and strong dependence on external contractors in carrying out critical or important activities for the Bank. Operational Risk Management Section is responsible for the reporting of the risks related to the outsourcing of critical or important banking activities to the Operational Risk Management Committee and the Management Board of DSK Bank.

The Group also has a Business Continuity Strategy on the basis of which a detailed Business Continuity Plan has been developed, aimed at ensuring the recovery of the most important business processes to levels predetermined by its business needs. In accordance with it and the Procedures for restoration of the business processes in the bank, a BCP test is performed annually to certify the readiness of the Bank to restore its processes in case of unforeseen circumstances and crisis scenarios.

In 2020, the global pandemic and spread of COVID-19 was the main challenge for DSK Bank AD in the field of operational risk. The extraordinary crisis situation for the country was overcome by making firm decisions and taking timely measures that protected the life, safety and health of employees and customers of the Group at highest possible level and ensured the business continuity.

The operational risk management is subject to regular inspections by the "Bank Supervision" Department of Bulgarian National Bank, "Internal audit" Directorate of DSK Bank and specialized audits initiated and conducted by OTP Bank's program. The recommendations addressed to the Bank in 2020 by the Banking Supervision Department of the BNB and related to operational risk management have been implemented in accordance with regulatory requirements and on time. For 2020 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 Group.

Investment program

The investments of DSK Bank Group during the year amounted to BGN 27.4 million, including those related to the integration of Expressbank.

The investments in IT projects were BGN 21.3 million, as their share in the total investments of the Bank was 78% (for 2019 this share was 65 %).

The capital investments during the year amounted to BGN 1.1 million, aiming at optimization and improvements in strategic locations servicing the Head Office.

Investments of BGN 0.4 million were made for transformation of working places, upgrading lighting systems, visual communication and replacing air-conditioning systems

PIC DSK Rodina AD

Pension Insurance Company DSK Rodina is licensed for performing activities on supplementary social insurance. It has registered and manages four pension insurance funds – Universal Pension Fund, Occupational Pension Fund, Voluntary Pension Fund and Voluntary Pension Fund under Occupational Schemes.

For the year ending 2020 DSK Rodina reported a profit after tax of BGN 15.4 million (2019: BGN 15.5 million). The revenues from the management of the four pension funds amounted to BGN 31.1 million, which represented a growth of 12.4% compared to the previous year.

At the end of 2020 the number of the insured individuals reached 814 thousand, which was an increase of 7.3% compared to 2019. The net assets managed by the company rose to BGN 3 035.6 million, growing by 17.8% year-on-year. As of December 2020 DSK Rodina reached a market share in terms of number of insured individuals of 16.89% and 17.55% in terms of net managed assets (2019: respectively 15.93% and 16.50%).

DSK Trans Security EAD

DSK Trans Security is a company, specialized in the field of security, cash collection services and construction of structural cabling systems. The company provides its services mainly to DSK Bank but at the same time extends its activity and attracts external clients. Regarding its main activity “cash pick-up services”, including ATM servicing, DSK Trans Security is among the leading companies on the market, due to its well-trained employees and good technical equipment.

In 2020, the company performed a comprehensive review of the structure and efficiency of its activities, cost optimization and recalculation of the pricing of the provided services.

The reported financial result was a profit standing at BGN 0.97 million (2019: BGN 1.13 million loss). The y-o-y increase was driven mainly by lower material costs, external services and personnel costs (staff number reduction), as well as revised pricing, that compensated the decrease of the revenues from operating activity.

DSK Tours EOOD

The main activity of DSK Tours is related to the management of the tourist premises of DSK Bank, hotel and restaurant services, tour operator and travel agency activity. The company manages premises for seaside and mountain tourism, balneology and ecological tourism.

The company offers complex tourist services: hotel reservations and organized trips in the country and abroad, specialized spa programs, business meetings, conferences, seminars, seaside and mountain tourism, rent-a-car services, etc.

The reported financial result for 2020 was a loss of BGN 0.23 million (2019: BGN 0.03 million profit, considering that during the year an income from a tourist premise sale was realized).

DSK Asset Management AD

At the end of 2019 DSK Asset Management manages 12 mutual funds – DSK Alternative; DSK Alternative 1 ((previous name DSK Money Market Fund in BGN) and DSK Alternative 2 (previous name DSK Money Market Fund in Euro) – funds in short-term bonds; DSK Standard, DSK Euro Active (funds in bonds), DSK Balance (balanced fund), DSK Global defensive companies (previous name DSK Properties), DSK Growth and DSK Global companies (funds in shares), DSK Stability - European Equities and DSK Stability - German Equities (funds with principal protection). Since 2018 the company has a license to manage DSK

Dynamics mutual fund, which adheres to a flexible investment strategy for absolute return. In the fourth quarter of 2020, the Financial Supervision Commission licensed a new fund National Mutual Fund „DSK-OTP Premium mix”, which has not yet started distribution. The Fund will invest primarily in units of companies for open-ended collective investing, following absolute return strategy on portfolio management or such, investing mainly in shares and /or in financial instruments (derivatives) related to commodities managed by the management company OTP Fund Management, Hungary, and to a lesser extent in units of mutual funds investing in bonds managed by DSK Asset Management. The fund may also invest in debt securities, money market instruments, derivatives, as well as in bank deposits.

The reported profit after tax of the company for 2020 amounted to BGN 0.06 million (2019: BGN 0.12 million).

As at the end of 2020 the total assets managed by DSK Asset Management stood at BGN 191.8 million (2019: BGN 205.3 million).

OTP Factoring Bulgaria EAD

OTP Factoring Bulgaria (OFB) was registered in 2010 with scope of activity - factoring activity, including purchase and collection of receivables.

The company was established with the aim of improving the management process of DSK Bank's non-performing loans. The collaboration of the company with DSK Bank is related to sales of the bank's problem loans to the company, transferring all benefits and risks, as well as assigned services on problem loans that remain on the balance sheet of the Bank against fee remuneration. The activity of OFB is financed only by loans from DSK Bank. Respectively the risk for the Bank arises from the probability the company to be unable to entirely collect the sold receivables that are the main source for repayment of its liabilities.

As at the end of 2020 the company reported a profit after tax amounting to 14.76 million (2019: BGN 9.06 million). The increase y-o-y was mainly driven by realized income of the sale of its subsidiary company Project Copany Complex Banya EOOD and lower risk costs.

OTP Leasing EOOD

The company was established in 2005. Following the merge of Expressbank into DSK Bank, the Bank became a sole owner of its capital. OTP Leasing is a company specialized in the field of financial and operating leasing, offering its services to all sectors of the economy and industry, except for the time being to the real estate sector. Its main activity is financial leasing of production, construction and transport equipment, and cars.

The company is among the leading companies on the leasing market in Bulgaria, despite the increased competitive environment. The net financial lease portfolio of OTP Leasing at the end of 2020 amounted to BGN 921.9 million. The realized profit for 2020 stood at BGN 0.6 million (2019: BGN 13.6 million). The drop compared to the previous year was mainly driven by higher risk costs.

DSK Leasing AD

DSK Leasing was registered in April 2005. In the second half of 2005 a separate leasing company for car leasing named DSK Auto Leasing, 100% owned by DSK Leasing was established with main activity – leasing of cars. In 2007 a second subsidiary leasing company – DSK Leasing Insurance Broker EOOD was registered (the name was changed to OTP Insurance Broker EOOD). Further in 2014 DSK Leasing registered a 100% subsidiary – DSK Operating Leasing EOOD, specialized in offering operating leasing of cars and transport vehicles.

In 2020, the company continued to serve mainly its customers under existing contracts, with the new business being taken over mainly by the subsidiary OTP Leasing.

For the reporting period DSK Leasing Group reported a profit after tax amounting to BGN 4.34 million (2019: 5.59 million).

DSK Mobile EAD

In September 2016 DSK Mobile EAD was established in connection with DSK Bank's long-term strategy of digitalization of banking services and linking them to non-banking services in order to provide higher quality of complex banking products and services. The main activity of the company is acting as intermediary in trade with goods and services, marketing and advertising activities, development and operation of information systems for data processing.

The company started operating activity in 2020. Contracts for provision of services have been concluded, and the development of specialized software for the purposes of these services has been purchased, the delivery and integration of which was completed in the beginning of 2021.

The reported net financial result as of 31.12.2020 was a loss amounting to BGN 0.10 million.

DSK Dom EAD

In August 2018 DSK Bank EAD established its subsidiary DSK Dom EAD with main activity credit intermediation. DSK Dom is a tied credit intermediary, working exclusively with DSK Bank and connecting directly or indirectly with the Bank the clients seeking credit financing.

DSK Dom has a wide network of representatives throughout the country (over 1200) offering its clients a broad range of housing and mortgage loans.

As at the end of 2020 DSK Dom realized a profit after tax of BGN 0.27 million (2019: 0.18 million).

Express Factoring EOOD

The company was established in 2008 with main scope of activity factoring of client's obligations. Following the merger of Expressbank with DSK Bank on 30.04.2020, DSK Bank became owner of 100% of its capital.

In October Express Factoring merged into DSK Bank.

The reported profit as of September 2020 amounted to BGN 2.45 million.

Regional Urban Development Fund AD

The company was established in 2011, with scope of activity financing of projects, through lending or equity, with funds provided for the purposes of the implementation of targeted projects and programmes of the European Union. The financing is through long-term low-interest loans.

Following the merger of Expressbank with DSK Bank on 30.04.2020, DSK Bank became the main shareholder of the Fund (52% share in the capital).

The realized financial result in 2020 was a profit amounting to BGN 0.34 million (2019: BGN 0.36 million).

Associates

Cash Services Company AD

Cash Services Company was registered in 2007 with shareholders DSK Bank EAD, UniCredit Bulbank, Bulgarian National Bank and United Bulgarian Bank. In 2008 Raiffeisenbank has been incorporated as a shareholder. All shareholders have 20% share of the capital. In August 2019 Raiffeisenbank Bulgaria sold its shares to the other shareholders, and respectively their share in the capital of the company increased to 25%.

The company reported a profit after tax for 2020 amounting to BGN 1.36 million (2019: BGN 1.33 million).

Events after the end of the reporting period

The COVID-19 pandemic has continued to impact the global demand and supply after the end of the reporting period. The considerable uncertainty in economic activity remains, and it 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.

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

Major goals for 2021:

The management of the Bank has defined the following priorities for the business year 2021:

- The whole budget is built on the assumption for spreading an efficient vaccine against Covid-19 in Q1 and starting recovery of the economy in Q2 leads to GDP growth of 4.3% in 2021
- Protecting market positioning – balanced policy between volumes and prices with main purpose to keep current market shares levels

- Diversified revenues strategy – focusing on fees & commissions (especially the non-transactional one) in order to neutralize the difficulties from the over-liquid and low-interest rate environment
- Cost efficiency and optimization policy – realization of the synergy plan and capturing additional opportunities for costs optimization
- Keeping sound risk cost profile – efforts to mitigate the impact from the Covid-19 especially on the most sensitive sectors, careful policy in the loan origination process and targeting an efficient collection
- Optimization of excess liquidity – focusing on both sides – decreasing the excess liquidity and optimal from risk and profitability point of view placements
- Maintaining solid capital adequacy – conservative policy of keeping 5% buffer above the minimum regulatory requirements (15%).

The major goals of the companies from the Banking Group in 2021 are as follows:

DSK Rodina – in 2021 the company plans to be among the leading companies on the pension insurance market. DSK Rodina expects to strengthen its market positions, increasing its market shares in terms of number of insured and assets under management.

DSK Trans Security – in 2021 the company will focus on enhancing its efficiency and competitiveness. Among the planned goals are optimization of the organizational structure and processes, expansion of the activity, an increase of the revenues from provided services to external customers, as well as automation of the processes. The establishment of a high-tech monitoring center is also in progress.

DSK Tours - the company will keep its business model also in 2021, increasing its revenues from tour agent activity.

DSK Asset Management – in 2021 the activity of the company will be accomplished in accordance with its main targets: growth of the assets under management in Mutual funds; stable and sustainable price increases of the funds units; increasing investor interest in collective investment schemes by implementing marketing and awareness campaigns.

DSK Leasing - in 2021 the company will continue to serve its clients mainly on existing contracts, as the new business is taken over mainly by the subsidiary company OTP Leasing.

OTP Leasing – the company plans to expand its activity and to continue to be among the leaders on the leasing domestic market. The major challenges in front of the management team of OTP Leasing AD in the next year will be the implementation of adequate policy with respect to the challenges of the economic environment, focused mainly on preserving the excellent quality of the leasing portfolio while maintaining optimal profitability.

Regarding to the above stated, the Company's management plans to concentrate its efforts on the strict monitoring of the existing leasing contracts, increasing the risk profile requirements of all potential leasing customers, while at the same time trying to expand the achieved market share.

DSK Dom - affirming DSK Dom as the largest credit intermediary in Bulgaria with the most numerous customer network; sustainable growth of mortgage loan sales; maintaining high quality loan portfolio; established structure of representatives with lasting and loyal relations with DSK Dom.

DSK Mobile – the company will continue to develop the activity started in 2020, as the services provided to clients are expected to start in the second quarter of 2021.

Regional Urban Development Fund – regarding the resource and fulfillment of its commitments under the JESSICA program and the financial instrument Urban Development Fund North, in 2021 the efforts will be focused on identifying new projects and faster negotiation and allocation of available resources. The company will monitor the development of its portfolio and the obligations of its borrowers.

The Report on the Management and the Activity of DSK Bank AD for 2020 is approved by the Management Board with protocol № 6 from 16.03.2021.



Tamas Hak-Kovacs
Chief Executive Officer




Slaveyko Slaveykov
Executive Director

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

PURPOSE

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

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

STRATEGY

2020 turned out to be the key year in the history and development of DSK Bank Group. Despite the insecure operating environment caused by the rapidly growing COVID-19 pandemic and the resulting social and economic crisis, the Bank Group succeeded to successfully complete the merger with Expressbank on 4 May 2020. As a result, the new consolidated bank group moved forward to the leading position in regard to the assets, has the biggest branch and ATMs network in the country, and is the market leader in regard to the deposits and loan portfolio with over 2.5 million clients.

Bank Group's new vision is implemented at the end of year 2020 – **DSK Bank to be the leading bank in regard to each one of the segments of the Bulgarian banking market.** In regard to the negative interest trends DSK Bank plans to develop the sales of its investment products and increase the crediting activities. In addition, the Bank will develop its digital channels for services and will offer more fully remote services. One of Bank's strategic goals is also to provide outstanding client services. At the end of year 2020 DSK Bank started a new initiative - New Service Vision (new service model), aiming to improve the clients' experience and the interaction between the teams.

DSK Bank Group realizes also its responsibility for the sustainability and stability of the Bulgarian banking system, and the systematic significance for the development of the Bulgarian economy. Both protection of clients' funds and provision of innovative products and services are amongst the Bank's strategic priorities.

Bank as it should be

The new identity of the united bank is based on the idea of the doubled potential and capabilities of the institution and was communicated in year 2020 through the special image campaign "DSK Bank – Bank As It Should Be". This new vision strengthens bank's position as stronger, more connected and a company united more than ever, which strives for the trust of every client on daily basis and works to meet clients' needs and expectations.

ORGANIZATIONAL STRUCTURE, INFRASTRUCTURE, PRODUCTS:

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

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

The integration process between DSK Bank and Expressbank was completed in May 2020. Thus, the business activities, internal systems, branch network, assets and resources of the two banks were united and the best possible banking organization was established. After the merger, the best of both institutions is used – history and traditions in the banking field, business strategies, expertise and capacity, products and innovations, in order to continue to offer to our clients and employees the optimum opportunities and simultaneously to occupy the leader market position in the banking sector of the country. The new united bank has the chance to apply the best practices and experience of the strong European OTP Group, which we are inseparable part of, as well as to create new possibilities for development and work in an excellent environment for its employees.

POLICIES APPLIED IN REGARD TO THE MAIN AND AUXILIARY ACTIVITIES:

Client Services

The work on the merger of DSK Bank and Expressbank created also the **new corporate values** of the consolidated bank. They are result of the common work of the managers from all levels during the integration project and include – focus on the client, responsibility, recognition and team work.

The focus on the client is of key importance for the Bank activity. That is why, in year 2020 and during the corona virus pandemic, the bank directed its efforts to ensure more flexible services and products according to the needs and clients' individual requirements, in order to they to be able to make the proper financial decisions in an extraordinary situation. The Bank reacted in fast and adequate manner, in order to ensure the **safety of its employees and clients**. Special selection is developed and offered on the corporate web site, as well as visual materials used by the clients as to receive current information about the procedures for safe servicing in the branches, the possibilities for using remote services and other useful information. DSK Bank Group asked for visiting the branch network only in case of ultimate need and recommended the use of the wide ATM network, the DSK Direct e-banking and the DSK Smart mobile banking, as well as the bank card for non-cash payments. In case of pressing need to visit a bank office, DSK Bank provided an option for its clients to request preliminary their time for the visit in the bigger offices, using the functionality "Book time for consultation". A fast and effective organization was completed for ensuring the remote access and home office for the employees of all headquarters units.

In order to provide support and assistance for our clients affected by the Covid-19 crisis, we have implemented **mitigation measures for deferral and settlement of liabilities**, and thus to ensure stability, calmness and security. DSK Bank has joined the Procedure for deferral and settlement of due debts to the banks in relation to the emergency situation announced on 13 March 2020. Furthermore, the bank has provided for its clients also the option for interest-free consumer loans for individuals under the Program for guaranteeing interest-free loan for people who cannot exercise their occupational activities due to the situation caused by COVID-19, on the basis of agreement entered with the Bulgarian Development Bank (BDB). DSK Bank has supported also its business clients, small and medium enterprises, by providing an option for BDB guaranteed loans with an agreement for portfolio guarantees in supporting the liquidity.

DSK Bank Group has well established traditions for measuring the satisfaction of its banking clients. In 2020 DSK Bank Group has implemented new metrics for measuring the clients' satisfaction that allows the client to rate the services immediately after a visit to the bank office. This approach guarantees the transparency and provides an opportunity for immediate actions for improving the services in every bank office. The results show that the clients appreciate the approach and more than 3 000 clients positively assessed the services.

DSK Bank Group continues to work **for improving the client services**. New strategic initiative for new service vision has started at the end of the year (**New Service Vision**), aimed to ensuring outstanding client services.

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

Bank's efforts for continuous improvement of the quality of the services and products offered and meeting the clients' needs, show results also in the researches carried out in 2020. The satisfaction level in regard to the services offered remains stable and during this difficult year more than 80% of the bank clients state their satisfaction and 2/3 of them are willing to recommend DSK Bank to their friends and relatives. DSK Bank shows the highest score for the Bulgarian market also according to the NPS (Net promoter score) index - +54.

Data of the national representative research, carried out in September – October 2020 by Kantar Marketing Research Agency, show clearly that DSK Bank Group still holds the leader position on the market in regard to trademark popularity, share of clients, loyalty and considering the option of using bank services. Data show also the best performance in relation to the most important attributes of a bank – stability, reliability, constantly developed and strong emotional relation with the clients. The research demonstrates that 99% of the population of age recognize and know the DSK brand, as the bank is the first mentioned for 33% of them, and 90% - mention the name spontaneously. $\frac{3}{4}$ of the research participants state that they could use the services offered by DSK Bank Group, and 99% of the current clients do not intend to change their bank.

MODERN PRODUCTS AND SERVICE CHANNELS

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

In 2020 the mobile banking, DSK Smart, added advanced functionality and new design developed based on users' recommendations. The new version offers better navigation, simplified design and many options and competitive advantages. The development follows the current trends and standards for mobile applications.

At the end of the year DSK Bank implemented also the option for **completely online activation of DSK Direct electronic banking**. The registration includes only a few easy steps eliminating the need for visiting a bank office. In order to activate DSK Direct the client need to have an open current account at the bank and activated bank card issued by DSK Bank.

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

In relation to the challenges resulting from COVID - 19, the clients of DSK Bank, who have temporary difficulties, now may request **completely online their will for loans deferral, and later to sign also the additional agreement about the loan**, again using the qualified electronic signature (QES) of Evrotrust. Thus, protecting the health and under the conditions of the emergency situation, they have the option to use this service remotely.

For the period of migration of the clients of Expressbank to the new card system of DSK Bank an **innovative way for debit cards delivery – courier service**, was used, to preliminary specified address, ensuring maximum comfort and security for the clients.

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

INTERNAL PROGRAMS AND INNOVATION INITIATIVES

DSK Bank Group seeks to expand its innovative activities also through partnership with new, perspective companies. As a **partner of OTP Startup Partner Program**, the DSK Bank Group is looking for cooperation with dynamic startups. The fourth edition of the program that started in September 2020 with invitation for applications, provided an opportunity for a flying start for innovative startup and scaleup companies, which would like to test their developments in the banking field in relation to the user experience and services, internal efficiency, product innovations in retail banking and banking for small and medium enterprises, etc.

In July 2020 DSK Bank Group and OTP LAB (the innovative hub of OTP Bank) have started a common work on the **implementation of internal Ideas Portal**. This is an easy-to-use platform purposed to be new ideas generator – to use, develop and support the internal potential of the bank. The Ideas Platform is the place where any team member may share his/ her idea and to become part of the change. The first campaign for innovative ideas under the name “Innovations under isolation”, or how to successfully manage the situation caused by the corona virus, is under realization and currently proposals with intriguing ideas are submitted by 726 colleagues and 52 teams. 49 ideas are classified for the final of the first edition.

SUSTAINABLE DEVELOPMENT AND CORPORATE SOCIAL RESPONSIBILITY

Ethics Code

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

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

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

Financial education and innovations

As a financial and technological leader on the market, oriented and investing in young people’s knowledge, DSK Bank Group undertakes the responsibility to provide knowledge in the financial field. In this regard the bank started in 2018 its own program for financial education, named “National financial competition”. It is purposed to increase the financial knowledge of the students aged 14 to 19 years and their parents as well. In 2020 the bank has developed the program through a special media campaign with ambassadors popular for the young people, who share interesting content and valuable advices for how they plan and manage effectively their personal financial funds.

And in 2020 the competition was carried out in the form of competitions between the teams of students and parents, as the participants were divided in two age groups – 14 – 16 years of age and 17 – 19 years, and the teams competed for winning not one but total of 6 scholarships provided by DSK Bank – 3 per each age group. The semi-finals and the finals of the National financial competition were realized in an attractive and completely new digital form, using the Zoom platform and the digital game solution with educational content - Kahoot. The winners were chosen among total of 992 registered teams that started in the first phase of the competition.

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

Early children development

The focus of the social practices is the partnership with SOS Children’s Villages Bulgaria – an organization for social development that guarantees the right of every child to have a family and grow in an environment of love, respect and security. This partnership has started in 2011, when the bank made the commitment to take case of two SOS families.

As one the most loyal, generous and long-term partners and associates of SOS Children’s Villages, in 2020 DSK Bank Group received the biggest award for the largest sponsor during the annual awards “One family”. The grounds for this award are the bank’s group long-term support. In 2020 the amount granted to SOS Children’s Villages through the different channels of DSK Bank is over BGN 800 000.

Protection of natural resources

DSK Bank Group realizes that the investment projects and activities, carried out with its financial support, have influence on the use of natural resources. Therefore, when providing credits, the bank requires a maximum adherence to the legislation.

The DSK Bank Group actively finances “green projects” related to the construction of renewable energy sources, such as photovoltaic plants, water power plants, biogas plants, construction of equipment for recycling, etc. In addition, in partnership with the Regional Town Development Fund (RTDF) the bank support sustainable projects related to the improvement of energy efficiency for many public buildings in the country, amongst which libraries, stadiums, swimming pools, etc. Furthermore, in partnership with the RTDF and the affiliated company – OTP Leasing, DSK Bank takes part in the financing of many ecological transport projects.

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

All renovated bank branch offices are constructed in compliance with the vision of the bank group, using power-saving facades, and the whole branch network uses power-saving bulbs. The reconstruction of all offices includes the use of energy-efficient and contemporary heating, cooling, ventilation and isolation systems and solutions, as well as ecological materials and elements.

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

In 2020 the Bank Group created also its own initiative for the employees for saving nature and protection of environment. It is a part of the policy for corporate social responsibility of DSK Bank Group, but also a way of personal commitment for every employee. The initiative was carried out in two separate weeks focused on different ecological topics. The first edition took part in the summer under the tag line “DSK Bank – Thinking about tomorrow!”, and the theme was **water protection**. Within 7 days the employees had the chance to receive interesting information, facts and advices on the selected topic, as well as to participate in different initiatives purposed for their commitment and water protection. Electronic box for ‘green ideas’ was created and the employees sent their proposals regarding reducing the consumption of water resources and their protection. They also participated in a photo competition named “Water”, and the best photos were exhibited in the four buildings of the headquarters in Sofia and Varna, and published on the bank page in LinkedIn as well. The second “Green week” was dedicated to the **waste management** with main focus on the steps for decreasing the wastes. The employees took part also in the challenge “Something from nothing”, where they had to use their imagination and creativity and to prepare different objects of recycled or waste materials.

Charity events with the participation of the employees

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

In October 2020 the Business Run event was carried out with the participation of record numbers of employees of DSK Bank Group – 52 people. Run with a cause organized by the Runner Sport Club was carried out for 7th time in a row. The relay race was for 4 runner teams, as every runner run 4 km. 30% of the event fees was as usually donated by the organizers.

The employees of DSK Bank Group again followed the good tradition and at the end of September spent one day together at the sport field, thus supporting a cause of social importance. On 26 September about 200 employees took part in the 2020 Sports Day, competing in football, basketball, volleyball, tennis, ping pong, archery, and enjoyed folk dance, aerobics, yoga and salsa classes. The participation in this event was a contribution by all team members for the cause of Children Treatment and Rehabilitation Fund to the BCause Foundation, as DSK Bank made a donation for the families with children suffering of chronic and genetic diseases.

Donations for hospitals

At the end of March DSK Bank and DSK – Rodina Pension Insurance Company donated the amount of BGN 200 000 to the University General Active Treatment Hospital “Aleksandrovska” EAD for the fight with corona virus and in particular – for purchasing an equipment for the medical faculty on Anaesthesiology and Intensive Care, as well as for the intensive care unit to the Cardiology medical faculty. In April the employees, together with clients and partners of the bank and PIC DSK Rodina donated more funds in support of other hospitals in the country. BGN 15 036,68 were provided for medical consumables for the general active treatment hospitals in Vratsa, Lovech and Sofia. The Christmas charity initiative added over BGN 2000 for Christmas presents for the medical personnel at the Covid unit of the UGACEC N.I.Pirogov, who spent the holidays taking care for the life and health of the patients.

Support for cultural projects and town development projects

Last year the Bank Group contributed also for the development of local projects on culture and town development. Together with the Regional Urban Development Fund, DSK Bank signed agreements with Gabrovo Municipality for the development of the town in regard to four projects aiming to preserve the historical and cultural landmarks, to contribute to the renewal and establishment of modern conditions for creative cultural tourism and improvement of town environment, in relation to the Regional ethnographic open museum “Etar”, renovation of the Regional ethnographic museum, construction of souvenirs shop in the Humour and Satire Museum, and financing for the purchase of electrical buses. The strategic goal of these projects is to preserve the traditions and the culture, as well as to attract more visitors and to use the potential and advantages of the town with greater hospitality and efficiency.

Support for other social projects

DSK Bank Group continues its partnership with the BCause foundation, and the activity of this foundation is focused on the development of the donation culture, the policies in the field of sponsorship and social investments, etc. In 2020 the bank provided a financial support for the foundation campaign for collecting funds in favour of the Fund supporting women – victims of domestic abuse. The funds are directed to the crisis centres providing services for women and children, being victims of domestic abuse.

Bank in its capacity of an employer

DSK Bank Group is focused on the young people, ensuring opportunities for their development in a modern and friendly working environment, and to be ready to meet the challenges of the future professions, while building teamwork skills. The Bank Group is in partnership with different universities in the country, looking for the most appropriate ways to interact with the young people. Within the **internship program – DSK Start in the career**, with the participation of bank managers and experts, the students have the chance to monitor in details the different processes and the nature of the work in a bank. Besides the attractive working conditions, the bank group offers also opportunities for career development based on excellent professional qualities

The personal and leadership qualities of the employees have an important role. Focusing on the latter, in 2020 DSK Bank Group has started also its human campaign “**Everyone looks for employees, we are looking for people**”, and the face of this campaign are the bank group employees themselves, all renowned in their field and capable to inspire their colleagues. Included in the campaign vision are complete initiatives and visualizations with bank group employees, because we believe that the employees are the best factor for recommending an employer. That was aim for starting also in the last days of 2020 the Program “Recommend a friend” of DSK Bank, which is already demonstrating great success.

The Bank Group is a regular participant also in various **career forums**, which are yet another connection between the institution and young talents and renowned professionals. In 2020 DSK Bank Group took part in 8 career exhibitions Scale Up Your Career, Career UNWE, Career days in UNWE, Career Show 2020, the exhibition being part of the “Career Days – IT, communications and outsourcing”, etc. During these forums the Bank met not only students and young specialists, but also people of experience. All of them were attracted by the image of DSK Bank and the opportunities offered by a stable and innovative financial institution. In general, these forums contribute to the connections between the businesses, the universities, help for the professional development of the students, and the Bank has the chance to find potential employees.

One of these opportunities is the Program New Beginning for the most common position – Client Service officer in the branch network; it allows mobility and clear training program for the new colleague. This Program started in 2020. It is a specialized program for introducing the employees without experience or with experience in the non-banking field, to the financial sector. 13 employees were employed under this program in year 2020, on the position Front Office.

DSK Bank Group has implemented a balanced social policy. In 2020 the social costs are 6,35% of the total labour costs.

The internal corporate development of the employees continues to be one of the management priorities. In 2020 over 396 employees have developed their internal career in the Bank Group.

In 2020 1 248 various forms of internal and external training and self-training of the employees were carried out, as the number of participations in these training is 35 582 (one employee is counted every time he/ she participates in a training).

AWARDS

Last year DSK Bank Group has won several awards. In January DSK Bank was honoured by Forbes Business Awards with the special award “Transaction of the year” for the acquisition of Societe Generale Expressbank. In February and for the fourth time we were honoured with the award “Most generous and significant corporate partner” by SOS Children’s Villages Bulgaria. In November the bank was ranked 12th place in the rank list SEE Top 100 Banks of SEE News Agency for the largest banks in South-eastern Europe. The Bank received also three awards in the competition “Website of the year”. The corporate site was ranked 3rd place in the category “Company website”, and the mobile application DSK Smart was ranked 3rd place in the category “Mobile applications”, both by the jury and by the public. In November DSK Bank was honoured by the international financial edition Global Finance as the best provider of services related to foreign exchange operations in Bulgaria. At the end of the year the competition “Bank of the year 2020” of the British Financial Edition The Banker awarded DSK Bank as “Bank of the year in Bulgaria 2020”.



Tamás Hák-Kovács
Chief Executive Director



Slaveyko Slaveykov
Executive Director

CORPORATE MANAGEMENT DECLARATION
According to Art.39 of the Accountancy Act and Art. 100n POSA

1. Information as per Art.100 m, para.8, item 1, letter “a”

DSK Bank AD follows duly the National code of corporate management published on the website of the Bulgarian Stock Exchange in compliance with Art.100m of the POSA;

2. Information as per Art.100m, para.8, item 3

Description of the main characteristics of the internal control and risk management systems of the issuer in regard to the financial reporting process

The internal control system of DSK Bank is based on the efficient internal management and internal control framework that includes clear organizational structure and well-functioning independent units for internal risk management, regulatory compliance and internal audit, having the necessary powers, status and resources to fulfil their functions. The risk management units and the regulatory compliance unit are subject to review by the internal audit unit.

The managers of the internal control functions can act autonomously and independently, as well as to express their considerations and to warn the managing authority of supervisory function, if necessary, when an unfavourable development of any risk has or may have influence on the Bank.

The established internal control framework of DSK Bank AD ensures:

- a. the performance of efficient and effective operations;
- b. reasonable fulfilment of activity;
- c. appropriate detection, measurement and mitigation of the risks the bank is exposed to
- d. reliability of the financial and non-financial information reported;
- e. reliability of the financial and non-financial information and reporting;
- h. compliance with laws and bylaws, supervision requirements and the internal policies, procedures, rules and decision implemented by the institution.

The process of Bank operating activity includes also the fulfilment of internal financial control – preliminary, current and subsequent. Systems of internal control on the financial reporting are adopted within the Bank activity.

The preliminary control is performed for all types of accounting operations and precedes the fulfilment of the accounting operations, aiming to ensure their lawful realization.

The current control for operations with high level of operating risk is carried out during the process of bank operations realization and aims the current elimination of deviations from the implemented rules and order for performing and documenting the accounting operations, ensuring their lawful fulfilment, timely elimination of mistakes made, etc.

The subsequent control covers all actions and measures, aiming to find out the illegal actions and operations, omissions and errors, misuses, waste and other irregularities that are present despite the measures undertaken during the preliminary and current control.

The internal control environment established in the Bank ensures the reliability of the reporting information. The control functions on the financial reporting cover: organizational and operating independence of the unit responsible for the financial reporting of the business departments; coherence between the organizational structure and the control and management processes for the related risks in way of clear definition of responsibilities; integrated information systems enabling the option for preparation of detailed reports and enquiries; developed framework of procedures and rules related to the financial reporting and information security; definition and adherence to the levels of approval and system of internal control processes;

Part of the structure of DSK Bank AD is the Risk Management Department, which main tasks are related to: maintaining an adequate policy for taking a risk and risk assessment methodology, in compliance with the risk appetite and the adopted strategy on risk management; organization and provision of adequate system for measuring, reporting and efficient risk management; planning and management of the fulfilment of projects in the field of risk management; provisioning of regulatory and internal reporting related to the management of credit, market and operational risk.

The risk control and management in the Bank is determined depending on the risk appetite and Bank's capabilities to perform monitoring on the risks undertaken by it. For these purposes, DSK Bank AD has clearly defined competency levels according to the type and total amount of the risk to be undertaken in regard to a client/ partner and client's group. The units involved with control and approval functions in the credit process, are independent from the business departments.

The Bank uses internal rating system for assessing the creditworthiness of its clients.

Except by means of client's and partner's limits, DSK Bank limits the concentration of its exposures also through sectoral limits for the companies. The sectoral limits are determined according to the methodology approved with the Rules on risk undertaking, and approved by the Credits and Limits Council, and their following is controlled by the Risk Management Department. Review or update of limits could be proposed in case of change of the business plan for the risk exposures to the companies, being clients of the Bank, in case of changes in the macroeconomic framework; risks, which cause or could cause a significant influence on the development of the companies from that sector, respectively, on the financial indicators of the sectors or in case of business expanding beyond the approved annual plan.

Used in the market risk field are the positioning limits, stop-loss limits, VaR limits, etc., which support the appropriate management of these risks. Compliance with the partner's limits is ensured through their integration in the system for treasury transaction, and thus that play the role of a preventive control. Market Risk Management Unit performs the subsequent control for the market limits (VaR, Stop loss, BPV). There are established specialized analytic environments within the bank group, which allow for the timely monitoring and management of the risks. There is an escalation system in case of limit violation, and specific terms are defined for undertaking corrective measures in case of violation. The limits themselves are subject to regular review and update depending on the changes in the business plans and the business environment.

The Bank has implemented a reliable system for identification, registration and subsequent update of all events occurring and causing financial damages, as well as for events that could have influence on the image and reputation of the Bank. The information gathered is regularly analysed and presented before the competent bank management authorities. Response emergency plans are developed for cases of extraordinary circumstances, so as to ensure the bank working capacity and limit the financial and reputation effects of these events' occurrence.

Regulatory Compliance Directorate ensures proper risk identification, measurement and management in relation to the regulatory compliance, which DSK bank may suffer as result of incompliance with the applicable laws, supervisory requirements, codes of conduct and standards in the fields of compliance applicable for the banking activity. The Directorate exercises the control on the adherence to the existing legal framework, the supervisory requirements and the internal acts of DSK Bank and OTP Group, including the Ethical Code, Rules on conflict of interests, personal data protection, application of sanction programs, etc. The unit performs a compliance assessment for the product proposals in regard to the existing legal framework, and, if appropriate, in regard to all known pending changes in the legislation and the supervisory requirements. Regulatory Compliance Directorate provides methodical support and exercise control on the activity of DSK Bank in its capacity of an investment mediator, and proposes measures for eliminating the inconsistencies in this filed;

Internal Audit Department is a structural unit for independent internal audit.

The organizational positioning ensures independency in planning and performing the internal audit activity, and the reporting is carried out at highest management level – Board of Management, Supervisory Council, Internal Audit Department of OTP Bank Hungary.

The purpose, powers and responsibilities of Internal Audit Department are regulated by the Internal Audit Rules of DSK Bank AD Group. The Rules are in compliance with the applicable stipulations of: the Bulgarian National Bank Act, Credit Institutions Act, Regulation № 10 of Bulgarian National Bank dated 24 April 2019 on the organization, management and internal control of banks, Financial Supervision Commission Act, Act on the public offering of securities, Act on the special investment purpose companies, Act on the implementation of measures against market misuse with financial facilities, Financial Facilities Markets Acts.

The activity focus is determined by the risk assessment for the individual types of activities and management units of DSK Bank and its affiliates; by the expectations of the senior management, by the strategic plan of the bank and the business continuity plan; by the business plan, the budget and the investment policy of the Bank; by the continuous optimization of management processes and banking operations, centralization of activities and processes, offering of new banking products and the related software, development and implementation of new software products.

3. Information as per Art.100m, para. 8, item 4

Information as per Article 10, paragraph 1, letters “c”, “d”, “e”, “g” and “j” of Regulation 2004/25/EC of the European Parliament and the Council dated 21 April 2004 regarding the merger proposals

- 3.1. DSK Bank AD has no significant direct or indirect shareholder participation under the meaning of Art. 85 (cancelled) of Regulation 2001/34/EC;
- 3.2. DSK Bank AD has no shareholders possessing shares with special control rights;
- 3.3. DSK Bank AD has no restrictions implemented on the shareholders’ vote rights;
- 3.4. The rules used for regulating the appointment or change of the Board of Management and the Supervisory Council and amendments of the Statutes are:
 - The Statute of DSK Bank AD;
 - Section IV. “Mechanism for decision making” to the Rules on the management of DSK Bank AD;
 - Policy for assessing the aptitude of the members of the Board of Management/ Council of Directors and the Supervisory Council, the executive directors and key personnel in DSK Bank and its affiliates
 - Rules on the conflict of interests.
- 3.5.1 The powers of the Supervisory Council and the Board of Management of DSK Bank AD are defined in:
 - The Statute of DSK Bank AD;
 - Section IV. “Mechanism for decision making” to the Rules on the management of DSK Bank AD.
- 3.5.2. The members of the Supervisory Council and the Board of Management of DSK Bank AD have no right to make decision for shares emission or redemption.

4. Information as per Art.100m, para.8, item 5

Composition and functioning of the administrative, management and supervisory councils and the committees thereto

- 4.1. The composition and the requirements on the composition of the management and supervisory councils, the Audit Committee, the Committee on assets and liabilities management, the Investment Committee, the Risk Committee, the Selection Committee, the Committee on remunerations, and the Committee on products development, pricing and sales of DSK Bank AD are defined in:
 - The Statute of DSK Bank AD;
 - Rules of management of DSK Bank AD;
 - Operating rules/ procedures of the relevant committee.

4.1.1. Composition of the Supervisory Council

The Supervisory Council consists of at least 3 and no more than 7 members meeting the requirements of Art.10 and Art.11 of the CIA, regulations of the BNB for their implementation and Guidelines EBA/GL/2017/11 and EBA/GL/2017/12 of the EBA.

One third of the members of the Supervisory Council are independent as per the meaning of Art. 10a, para. 2 of the CIA and Guidelines EBA/GL/2017/12 of the EBA.

4.1.2. Composition of the Board of Management

The Board of Management consists of at least 3 and no more than 9 members meeting the requirements of Art.10 and Art.11 of the CIA, regulations of the BNB for their implementation and Guidelines EBA/GL/2017/11 and EBA/GL/2017/12 of the EBA.

4.1.3. Composition of the Audit Committee

The Audit Committee consists of three members, meeting the requirements set in the Independent Financial Audit Act, as two of the members need to meet the independence requirements.

4.2. The functioning of the management and supervisory authorities and committees of DSK Bank AD is defined in:

- The Rules on the operation of the Supervisory Committee;
- The Rules on the operation of the Board of Management;
- The Rules on the operation of the Investment Committee;
- Rules on the activity of the Committee for operating risk management;
- The Rules on the operation of the Risk Committee at DSK Bank AD;
- The procedure on the operation of the Selection Committee;
- The Rules on the operation of the Committee on assets and liabilities management;
- The Rules on the operation of the Committee on products development, pricing and sales of DSK Bank AD
- The Rules on the operation of the Committee on the remunerations
- Statute of the Audit Committee

4.3. The functions of the Supervisory Council of the Bank are as follows:

- Performing general supervision on the legality and expediency of the banking activity and the work of the executive authorities.
Controls the implementation of the decisions of the Shareholders General Meeting and the Board of Management.
- Appoints and dismisses the members of the Board of management and determined their remuneration and mandate.
Changes in the composition of the Board of Management shall not be valid if there is no approval by the BNB.
- Approves the decisions of the Board of management for appointment or dismissal of the chairman and the deputy chairman of the Board of management (if any), the chief executive officer and the executive directors.
- Approves the strategic and annual business plan and the budget of the Bank.
- Approves the decisions on starting and termination of activities within the obtained banking activity license.
- Calls meetings of the Shareholders General Meeting and the Board of management.
- Verifies and proposes for approval by the Shareholders General Meeting of the annual financial statements, the report of Bank's activity and the proposal of the Board of management for profit allocation.
- Approves changes in the Bank structure through opening or closing of branches or changes of the headquarters structure through opening or closing of independent units.
- Approves decisions on the establishment of other funds, except the mandatory ones, and determines the conditions on their use.
- Selects amongst its members, the members of the Selection Committee, the Risk Committee and the Committee on the remunerations, and adopts their operation rules. The rules determine, along with the other conditions, the role, composition and tasks of each of the committees and the procedure for exchange of information between the relevant committee, the Supervisory Council and the Board of Management, and other stakeholders.
- Approves the rules on the operation of the Board of Management.

- Approves the policies on the income in the Bank and the Bank Group and supervises the implementation of the Policy on the remunerations.
- Approves the adoption of general rules and policies, when this is stipulated in these Rules on management.
- Approves the decisions on providing internal loans, when this is stipulated in the regulatory acts or in the internal acts of the Bank.
- Approves investment, which are not included in the investment program for the relevant year.
- Approves the decisions on incorporation of companies.
- Approves the decisions on acquisition and disposal of companies' shares and stocks possessed by the Bank, resulting in acquisition or loss of majority participation and where the acquisition/ disposal is not stipulated in the annual business plan and in the investment plan.
- Verifies and approves the quarterly reports on the activity of the Board of Management.
- On its own judgment may request from the Board of management to provide information or reports on every matter referring to the activity of the Bank.
- Performs other functions stipulated by law, in the Statute or other internal acts of the Banks, and gives opinion on every matter presented to it by the Shareholders General Meeting.

4.4. The functions of the Board of Management of the Bank are as follows:

- Makes decisions on the performance of the bank policy and represents the Bank.
- Makes decisions on the start or termination of activities within the obtained banking activity license.
- Prepares the strategic and annual business plan the budget of the Bank.
- Makes decisions on the appointment and dismissal of the chairman and the deputy chairman of the Board of Management (if any), the chief executive offices and the executive directors.
- Reviews the quarterly statements of the Bank; accepts and proposes the annual financial statements for approval by the Shareholders General Meeting through the Supervisory Council.
- Proposes, through the Supervisory Council, to the Shareholders General Meeting, a method for profit allocation/ distribution, by defining the part of it that goes to Reserves Fund and other funds, as well as the part to be used for dividends distribution or used for increasing the capital.
- Proposes to the Shareholders General Meeting to appoint two audit companies, which together to perform the independent financial audit of the annual financial statements of the Bank and the supervisory statement required by the BNB.
- Accepts the rules for the operation of the Board of Management.
- Takes responsibility for the appropriate and effective internal management and approves internal rules and policies regarding the Bank activities, including: 1) the organization and the activity of the internal control; 2) avoidance of conflict of interests; 3) guaranteeing the reliability of the systems for accounting and financial reporting; 4) guaranteeing the financial and operating control and compliance with the regulatory requirements and standards.
- Adopts internal acts regulating the individual and collective assessment of the aptitude of the members of the Board of Management and the Supervisory Council and the people occupying the key positions in the Bank. The acts stipulate also the rules on the composition and succession for members of the councils.
- Responsible for the approval of the corporate culture and values of DSK Bank, which promote responsible and ethical behaviour, by adopting the relevant internal acts.
- Responsible for the exercising of effective control on the direct subordinates of the Chief Executive Officer and the Managers of Departments, senior managers.
- Approves the policy and the methods for credit risk management, as well as the methods for determination of limits when undertaking risks and the assessment of the risk exposures.

- Makes decisions for changes in the organizational and management structure of the Banks, as far as they are not assigned to another authority or persons.
- Determines the levels of risk appetite and risk tolerance.
- Performs efficient control on the decisions of the Committee on assets and liabilities management in regard to the liquidity risk management.
- Reviews the quarterly statements of the Committee on the assets and liabilities management and approves the quarterly assessment of the liquidity, currency, interest, market and operating risks.
- Approves the policy on liquidity management, as well as the plan on liquidity management in case of a liquidity crisis.
- Approves the Internal analysis of the liquidity adequacy (IALA).
- Approves the Internal analysis on the capital adequacy (IACA), which presents the adequacy of the regulatory and internal capital for covering the risks related to the Bank activity.
- Makes decisions on providing internal, large and other loans, when this is stipulated as per the regulatory acts or the internal acts of the Bank.
- Makes decisions on Banks receiving credits and credit lines and establishment of securities, including in favour of third parties.
- Makes decisions for investments, which are not included in the annual investment program.
- Adopts the methodology and process of planning and the principles of controlling.
- Approves the rules on the policy of incomes in the bank and the bank group.
- Performs control on following the process of announcement and communication with the competent institutions and other stakeholders.
- Makes decisions on the incorporation of companies, acquisitions and disposal of shares and share participations.
- Makes decisions on exercising the Bank rights in regard to possessed shares and stocks in companies, regarding the company capital, its composition and authorities, profit allocation and other important matters.
- Makes decisions for the long-term cooperation, including inter-banking cooperation and membership in international organizations or networks, annual review of the results of the long-term cooperation.
- Makes decision for appointing a procurist.
- Makes decision for establishment of other funds, except the mandatory ones, and determines the conditions for their use.
- Reports its activity before the Supervisory Council at least once on every three months.
- Immediately notifies the chairman of the Supervisory Council about the occurrence of circumstances that may reasonably considered to be of great significance for the Bank or its operations.
- Makes decision on all other matters related to the banking activity, if this is stipulated in a regulatory act, the Statute, these Rules or other internal acts or if considers it necessary and if the matters are not of the explicit competency of the Shareholders General Meeting or the Supervisory Council.

4.5. Functions of the Audit Committee

- Informs the Board of Management about the results of the mandatory audit and clarifies how the mandatory audit contributes to the credibility of the financial reporting, as well as the role of the Audit Committee in this process;
- Monitors the process of financial reporting and gives recommendations and proposals in order to guarantee its efficiency;
- Monitors the effectiveness of the internal control system, the risk management system and the activity on the internal audit in regard to the financial reporting in the bank;

- Monitors the mandatory audit of the annual financial statements, taking into account the findings and conclusions of the Commission on the public supervision on the registered auditors in relation to verification made on the work of the registered auditor for guaranteeing the work quality;
- Verifies and monitors the independence of the registered auditors in compliance with the regulatory requirements, including the expedience of provision of non-prohibited services, out of the bank audit, by giving preliminary approval for signing of contracts with the registered auditor for such services assignment;
- Notifies the Commission on the public supervision on the registered auditors and the Board of Management within 7 days after the date of each approval for signing a contract for rendering the non-prohibited services, out of the audit;
- Responsible for the procedure for selection of auditor's companies, which together to perform the audit of the annual financial statements of the Bank, recommends to the Board of management to propose to the Shareholders General Meeting the appointment of these audit companies;
- Reports its activity before the Shareholders General Meeting;
- Prepares and provides, by 31 May, to the Commission on the public supervision on the registered auditors its annual activity report.

5. Information as per Art.100m, para.8, item 6

Description of the diversity policy applied in regards to the administrative, management and supervisory bodies

DSK Bank ensures the diversity in way of:

- Balanced gender and age structure on all levels of management and control;
- Educational level and various fields of knowledge (finances, law, IT) in compliance with the national regulatory requirements;
- Appropriate professional experience for the relevant positions in compliance with the regulatory requirements.

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

Tamás Hák-Kovács
Chief Executive Director



Slaveyko Slaveykov
Executive Director

**INDEPENDENT AUDITORS' REPORT AND
ANNUAL CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020**

*This document is a translation of the original Bulgarian text,
in case of divergence the Bulgarian text is prevailing.*

INDEPENDENT AUDITORS' REPORT

To the shareholders of DSK Bank AD

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements of DSK Bank AD (the "Bank"), and its subsidiaries (together referred as "DSK Bank Group" or "the Group") which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statement of profit and loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020, and its consolidated financial performance and its consolidated 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 consolidated financial statements section of our report. We are independent of the Group 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 consolidated 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated 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.

<i>Key audit matter</i>	<i>How this key audit matter was addressed in our audit</i>
<p data-bbox="191 258 807 325"><i>Impairment Loss Allowance for Loans and Advances to Customers</i></p> <p data-bbox="191 359 807 426"><i>See Notes 3 and 19 to the consolidated financial statements</i></p> <p data-bbox="191 464 807 762">Loans and advances to customers represent a significant part (52%) of the total assets of the DSK Bank Group as at December 31, 2020 with aggregate gross carrying amount of BGN 12,950,030 thousand and accumulated loss allowance of BGN 1,002,038 thousand. The Group applies impairment model based on expected credit losses (“ECL”) in accordance with the requirements of IFRS 9 “Financial Instruments”.</p> <p data-bbox="191 800 807 1129">The determination of loss allowance for loans and advances to customers, within the application of this model, requires Bank’s Management to exercise a significant degree of judgment, specifically 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:</p> <ul data-bbox="191 1167 807 1883" style="list-style-type: none"> • identification of significant increase of credit risk (SICR) for staging of loans to customers; • determining the probability of default/ 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 Group statistical models, with input parameters obtained from internal and external sources; • the assumptions and estimates applied by the Management in the review of individually significant credit impaired exposures pertaining to recent loss experience, ranges of possible scenarios based their outcomes for timing and amount of cash flows from future collections, including from collateral 	<p data-bbox="812 258 1437 325"><i>In this area, our audit procedures included, among others:</i></p> <ul data-bbox="812 359 1437 1003" style="list-style-type: none"> • Inquiries and obtaining an updated understanding of the Group'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 Group’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 Group 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. <p data-bbox="812 1041 1437 1205">Based on the procedures set out above, we developed tailored audit procedures to enable us to address the risks of material misstatement associated with the recorded loss allowances on loans and advances to customers:</p> <ul data-bbox="812 1205 1437 1883" style="list-style-type: none"> • Analysis and 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 Group’s loan portfolio and the availability of internal historical and forward-looking information for parameters development; • Analysis and assessment of the appropriateness of staging classification based on the determined by the Group 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, including review of calculation logic, together with our credit experts, of the parameters applied in the loss allowance calculations for significant

Key audit matter

How this key audit matter was addressed in our audit

realization.

- the impact on these assumptions, estimates, parameters and expected cash flows as a result of the socio-economic consequences of the COVID-19 virus crisis, including the moratorium and other events in 2020.

Due to the significance of the circumstances set out above that: (a) the process of determining the loss allowance for loans and advances to customers assumes a number of judgments, inherent high degree of uncertainty related to 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 consolidated financial statements of the Group, as noted above, we have considered this matter as a key audit matter.

portfolios; procedures on sample basis on the respective inputs to the calculations were performed;

- Observation of the expected credit loss calculation performed by the Group for the purpose of recording loss allowance on loans as at December 31, 2020, including data input, data processing and calculation. For a sample of loans, an independent recalculation of the expected credit losses and comparing the results to Group's calculation was performed;
- Review and evaluation of the appropriateness of provisioning methodology and its application for a sample of individually significant loans in Stage 3. We performed tests of details on the sampled exposures to assess the adequacy of the loss allowances on loans recorded. For the respective exposures in the sample were performed the following audit procedures:
 - analysis and assessment of the key assumptions and judgments of Group's management, including assessment of the adequacy of applied scenarios and their respective weightings, as well as expected cash flow recoveries,
 - independent analysis of the financial position and results of borrowers;
 - inspection of evidence supporting the servicing of the exposures by respective borrowers; as well as
 - analysis and evaluation of collateral valuation reports for the respective exposures;
- Assessment, together with our credit experts, of adequacy of Management's analysis and adjustments resulting from the impact made by the COVID-19 pandemic crisis, and its impact on the economic environment and on all aspects of the estimation of expected credit losses and reflecting the effects on the respective amounts
- Assessment of the relevance and adequacy of the disclosures in the Group's consolidated financial statements related to the loss allowances on loans and advances to customers.

<i>Key audit matter</i>	<i>How this key audit matter was addressed in our audit</i>
<p data-bbox="191 264 805 327"><i>Merger into the Bank of subsidiaries acquired in prior year in a business combination</i></p> <p data-bbox="191 365 805 428"><i>See Notes 1.h. and 39 to the consolidated financial statements</i></p> <p data-bbox="191 466 805 1369">On April 30, 2020, the subsidiary Expressbank AD was transformed through merger into DSK Bank AD, parent-company (under Article 262 of the Commercial Act). In prior period, on January 15, 2019 DSK Bank AD acquired 99.74% of the share capital of Expressbank AD and indirect control over its subsidiaries for a consideration (cost of the investment). At this point, for the purposes of the acquisition, a purchase price allocation was performed, as a result of which the cost of the investment was allocated between the acquired identifiable assets and liabilities, non-controlling interests and goodwill (fully allocated to Expressbank AD), with the latter being measured under requirements of IFRS 3 “Business Combinations”. As disclosed in Note 1.h. to the consolidated financial statements, the legal merger of Expressbank AD into DSK Bank AD that happened subsequently is not a business combination within the scope of IFRS 3, as in substance it is a transaction under common control. Respectively, the acquired by the Bank in this transformation identifiable net assets were recognized, classified and measured at their carrying amounts reported in the consolidated financial statements of the Bank as at the date of the merger (April 30, 2020).</p> <p data-bbox="191 1402 805 1801">The legal transformation of Expressbank AD through a merger into DSK Bank AD is a significant event occurring in the current reporting period, associated with significant effects and changes in the process of consolidation. The accounting and reporting for this transaction is complex, as it requires a level of assumptions and assessments from the Management of the Group, and a technical migration of large databases from the source systems of the acquired entity (Expressbank AD) into the target systems of DSK Bank AD. Specifically with respect to:</p> <ul data-bbox="191 1806 805 1902" style="list-style-type: none"> • Judgements over the accounting and reporting for the merge transaction within the consolidated financial statements of the Group 	<p data-bbox="812 264 1437 327"><i>In this area, our audit procedures included, among others:</i></p> <ul data-bbox="812 365 1437 1008" style="list-style-type: none"> • Inquiries and obtaining of understanding of the accounting policy and the reporting for the transformation via merger of Expressbank AD into DSK Bank AD; • Inspection and review of the internal documents and procedures, related to the merger process. Inquiries to the Group’s experts, responsible for the management and the organization of the process. • Inquiries and obtaining an understanding of the process of current reporting and migration of data and financial information in DSK Bank AD. • Inspection and review of internal documents related to the migration process. Assessment of design and implementation, as well as tests of operating effectiveness of key controls in the migration process, performed together with our IT experts. <p data-bbox="812 1041 1437 1243">Based on the procedures set out above, we developed tailored audit procedures to enable us to address the risks of material misstatement associated with the merger and the migration of financial information and data of Expressbank AD into the target systems of the Bank:</p> <ul data-bbox="812 1247 1437 1885" style="list-style-type: none"> • Reconciliation of the transferred balances from the final trial balance of Expressbank AD as at April 30, 2020 with the recognized within the merger in the target systems of the Bank, for completeness, appropriate classification and arithmetical accuracy, including tracing the transfer of the adjustments to fair value of the assets and liabilities recognized in the business combination, as well as the subsequent amortization and other changes to these assets and liabilities up to the date of the merger; • Detailed reconciliation of the individual items in the deposit base and loan portfolio for key parameters and balances between the data of Expressbank AD before the merger and these reflected in the combined financial information of DSK Bank AD; • Selected tests of controls, analytical procedures and tests of details on a sample basis over data

<i>Key audit matter</i>	<i>How this key audit matter was addressed in our audit</i>
<p>including its effects;</p> <ul style="list-style-type: none"> • Classification, mapping and aggregation of balances and transactions within the merger; as well as • Assessment, analysis and procedures for confirming the completeness and integrity of the data and financial information transferred within the technical migration. <p>Due to the significance of the circumstances set out above that: (a) the process of technical integration is complex and assumes significant processing of transferred data and an assessment as to its integrity and (b) the significance of the merger as a whole for the consolidated financial statements of the Group, as noted above, we have considered this matter as a key audit matter.</p>	<p>for balances and classes of transactions of Expressbank AD, as of and for the four months ending April 30, 2020, for inspecting the completeness and accuracy of the financial information before its migration;</p> <ul style="list-style-type: none"> • Assessment of the relevance and adequacy of the disclosures in the Group's consolidated financial statements related to the reporting of transformation via merger of acquired in prior year subsidiaries.

Information other than the consolidated financial statements and auditors' report thereon

The 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 consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group 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 Group’s financial reporting process.

Auditors’ responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group’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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements.
- We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated 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

In addition to our reporting responsibilities according to ISAs described in section "Information other than the consolidated 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 the applicable in Bulgaria, Chapter Seven of the Accountancy Act and Art. 100m, paragraph 8, where applicable, of the Public Offering of Securities Act.

Opinion under Art. 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 consolidated financial statements have been prepared, is consistent with the consolidated 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, paragraph 8, where applicable, of the Public Offering of Securities Act is presented in the corporate governance statement covering the financial year for which the consolidated financial statements have been prepared.
- The non-financial declaration, covering the financial year for which the consolidated financial statements have been prepared, has been provided and prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

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 consolidated financial statements of the Group for the year ended December 31, 2020 by the general meeting of shareholders held on March 27, 2020 for a period of one year.
- The audit of the consolidated financial statements of the Group for the year ended December 31, 2020 represents sixth total consecutive statutory audit engagement for that entity carried out by Deloitte Audit OOD and fourth 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 12, 2021, provided to the Group'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 Group.
- For the period to which our statutory audit refers, Deloitte Bulgaria EOOD has provided to the Group, the following service which has not been disclosed in Group's management report or consolidated financial statements:
 - Supervisory Review and Evaluation Process (SREP) Gap analysis
- For the period to which our statutory audit refers, Deloitte Audit OOD has provided to the Group, in addition to the statutory audit, the following services which have not been disclosed in Group's management report or consolidated financial statements:
 - Audit of the consolidated group reporting package as of December 31, 2020 of DSK Bank AD, 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, 2019 of DSK Bank AD, 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, 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 as of DSK Bank AD as of September 30, 2020, 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 consolidation reporting package as of December 31, 2020 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 consolidation 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;
 - Analytical procedures on the group consolidation reporting package as of December 31, 2020 of DSK Asset Management AD (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 consolidation reporting package as of December 31, 2019 of DSK Asset Management 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 consolidation reporting package as of December 31, 2020 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 consolidation 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 the group reporting package as of December 31, 2020 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;
 - 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, AFA OOD has provided to the Group, in addition to the statutory audit, the following service which has not been disclosed in Group’s management report or separate financial statements:
 - Training of employees of DSK Bank AD for financial statements analysis.
 - For the period to which our statutory audit refers, Deloitte Audit OOD and AFA OOD have provided jointly to the Group, in addition to the statutory audit, the following services which have not been disclosed in Group’s management report or consolidated financial statements:
 - Agreed-upon procedures under the requirements BNB Ordinance 14 for the period January 01 – December 31, 2019 – description of the state 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 under the requirements of BNB Ordinance 14 for the period January 01 – December 31, 2019 – description of the state 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”.
 - 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) and the managed by it funds for 2019, 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 2019 and IFRS; as well as 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 the governance systems of the pension company and the managed funds, as of December 31, 2019.

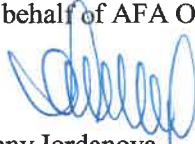
On behalf of Deloitte Audit OOD


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

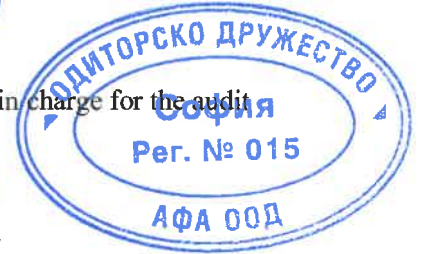
103, Al. Stambolijski Blvd
1303 Sofia, Bulgaria



On behalf of AFA OOD


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

38, Oborishte Street
1504 Sofia, Bulgaria



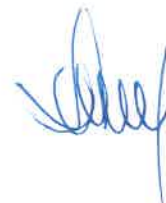
March 16, 2021

Contents:

Consolidated statement of profit or loss	1
Consolidated statement of comprehensive income	3
Consolidated statement of financial position	4
Consolidated statement of cash flows	5
1. Basis of preparation and legal status and governance	8
2. Significant accounting policies	20
3. Risk management disclosures	45
4. Net interest income	96
5. Net fee and commission income	97
6. Net trading income	97
7. Net income from other financial instruments at FVTPL	98
8. Net gains from derecognition of financial assets measured at amortised cost	98
9. Other operating income, net	99
10. Impairment losses on financial assets, net	99
11. Impairment losses on non-financial assets, net	99
12. Personnel expenses	100
13. Depreciation and amortisation	100
14. Other expenses	100
15. Income tax expense	101
16. Cash and current accounts with the Central Bank and other banks	102
17. Financial assets held for trading and derivative financial instruments	102
18. Loans and advances to banks	107
19. Loans and advances to customers	108
20. Receivables under factoring agreements	109
21. Net receivables from finance lease	110
22. Investments in securities	111
23. Goodwill	112
24. Investment property	113
25. Right-of-use assets	114
26. Property, plant and equipment	116
27. Intangible assets	119
28. Other assets	120
29. Deposits from banks and loans from banks and financial institutions	121
30. Deposits from customers	122
31. Lease liabilities	123
32. Provisions	123
33. Deferred tax liabilities	125
34. Other liabilities	127
35. Share capital and reserves	127
36. Contingent liabilities and commitments	129
37. Cash and cash equivalents	130
38. Associates	130
39. Business combinations	131
40. Related party transactions	135
41. Disclosures required by the Law on Credit Institutions	137
42. Events after the reporting period	137

Consolidated statement of profit or loss
For the year ended 31 December 2020

<i>In thousands of BGN</i>	Note	2020	2019 restated
Interest income		633 645	669 715
Interest expense		<u>(14 872)</u>	<u>(26 120)</u>
Net interest income	4	<u>618 773</u>	<u>643 595</u>
Fee and commission income		295 789	304 751
Fee and commission expense		<u>(39 201)</u>	<u>(48 405)</u>
Net fee and commission income	5	<u>256 588</u>	<u>256 346</u>
Net trading income	6	191 088	26 761
Net income from other financial instruments at FVTPL	7	(1 936)	9 018
Net gains from derecognition of financial assets measured at amortised cost	8	10 215	6 991
Net losses from foreign exchange		(162 260)	(1 732)
Other operating income, net	9	<u>29 243</u>	<u>17 872</u>
Operating income		<u>941 711</u>	<u>958 851</u>
Impairment losses on financial assets, net	10	(281 120)	(93 238)
Impairment losses on non-financial assets, net	11	(912)	(8 603)
Net income/(expense) for provisions	32	10 865	(21 294)
Personnel expenses	12	(197 780)	(192 433)
Depreciation and amortisation	13	(80 713)	(91 839)
Other expenses	14	(201 556)	(205 885)
Profit on sale of subsidiaries	39	3 098	-
Share of profit of associates, accounted for using the equity method	38	<u>331</u>	<u>541</u>
Profit before tax		<u>193 924</u>	<u>346 100</u>
Income tax expense	15	(18 403)	(32 346)
Profit for the year from continuing operations		<u>175 521</u>	<u>313 754</u>
Discontinued operations – subsidiaries with a view for resale:			
Loss from subsidiaries acquired with a view for resale		<u>-</u>	<u>(1 783)</u>
Profit for the year		<u>175 521</u>	<u>311 971</u>



Consolidated statement of profit or loss
For the year ended 31 December 2020
(continued)

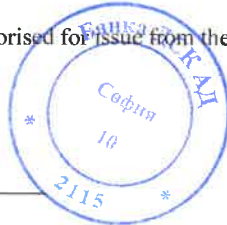
<i>In thousands of BGN</i>	Note	2020	2019 restated
Profit for the year attributable to:			
Owners of the parent:			
Profit for the year from continuing operations		173 563	311 180
Loss from subsidiaries acquired with a view for resale		-	(1 780)
		173 563	309 400
Non-controlling interest:			
Profit for the year from continuing operations		1 958	2 574
Loss from subsidiaries acquired with a view for resale		-	(3)
		1 958	2 571


The consolidated statement of profit or loss is to be read together with the notes from 1 to 42 forming an integral part of the consolidated financial statements.

The consolidated financial statements are authorised for issue from the Management Board and signed on behalf of DSK Bank AD on 16 March 2021.




 Tamás Hák-Kovács
 Chief Executive Director





 Slaveyko Slaveykov
 Executive Director

Signed according to auditor's report:



 Sylvia Peneva
 Registered auditor responsible for the audit



Deloitte Audit OOD

Date: *March 16, 2021*



 Renny Iordanova
 Registered auditor responsible for the audit



AFA OOD


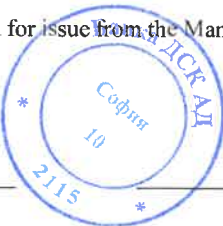

Date: *March 16, 2021*

Consolidated statement of comprehensive income
For the year ended 31 December 2020

	2020	2019 restated
<i>In thousands of BGN</i>		
Profit for the year	175 521	311 971
<i>Items that may be reclassified subsequently to profit or loss</i>		
Cost of hedging for forward element of a forward and currency basis spread when excluded from designation in a hedge relationship	(9 613)	(14 811)
Movement in the investment revaluation reserve for debt instruments measured at fair value through other comprehensive income	22 984	36 515
Income tax related to OCI items that may be reclassified subsequently to profit or loss	<u>(1 464)</u>	<u>(2 593)</u>
	<u>11 907</u>	<u>19 111</u>
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Movement in revaluation reserve for equity instruments designated at fair value through other comprehensive income	239	3
Gains and losses on land and buildings revaluation	-	(28)
Remeasurements of net defined benefit liability	(99)	(1 351)
Income tax related to OCI items that will not be reclassified subsequently to profit or loss	<u>(51)</u>	<u>(3)</u>
	<u>89</u>	<u>(1 379)</u>
Other comprehensive income for the year, net of tax	<u>11 996</u>	<u>17 732</u>
Total comprehensive income	<u>187 517</u>	<u>329 703</u>
Attributable to:		
Owners of the parent	185 559	327 104
Non-controlling interest	1 958	2 599

The consolidated statement of comprehensive income is to be read together with the notes from 1 to 42 forming an integral part of the consolidated financial statements.

The consolidated financial statements are authorised for issue from the Management Board and signed on behalf of DSK Bank AD on 16 March 2021.

 Tamás Hák-Kovács <i>Chief Executive Director</i>		 Slaveyko Slaveykov <i>Executive Director</i>
--	---	--

Signed according to auditor's report:

 Sylvia Peneva Registered auditor responsible for the audit Deloitte Audit OOD Date: <u>March 16, 2021</u>		 Renny Iordanova Registered auditor responsible for the audit AFA OOD Date: <u>March 16, 2021</u>	
---	---	---	---

Consolidated statement of financial position
As at 31 December 2020

<i>In thousands of BGN</i>	Note	31-December-2020	31-December-2019 restated
Assets			
Cash and current accounts with the Central Bank and other banks	16	3 741 532	2 707 191
Financial assets held for trading	17	63 111	208 318
Derivative financial instruments	17	62 769	31 536
Loans and advances to banks	18	2 393 813	2 951 256
Loans and advances to customers	19	11 947 992	11 827 941
Receivables under factoring agreements	20	179 099	222 578
Net receivables from finance lease	21	990 039	1 050 803
Investments in securities	22	2 752 511	1 832 493
Current tax assets		15 381	7 447
Investments in associates	38	3 626	3 773
Goodwill	23	78 547	78 547
Investment property	24	19 854	20 297
Right-of-use assets	25	26 339	67 406
Property, plant and equipment	26	422 614	440 809
Intangible assets	27	91 101	120 742
Other assets	28	94 557	74 405
Total assets		22 882 885	21 645 542
Liabilities			
Deposits from banks	29	36 897	77 557
Derivative financial instruments	17	86 191	43 493
Deposits from customers	30	19 206 792	17 877 638
Loans from banks and financial institutions	29	54 220	285 207
Current tax liabilities		712	1 243
Lease liabilities	31	24 393	65 166
Provisions	32	86 885	101 488
Deferred tax liabilities	33	13 770	15 700
Other liabilities	34	118 013	108 384
Total liabilities		19 627 873	18 575 876
Shareholder's equity			
Share capital	35	1 328 660	1 327 482
Reserves	35	1 668 877	1 370 943
Retained earnings		245 244	356 083
Equity attributable to the owners of the parent		3 242 781	3 054 508
Non-controlling interest		12 231	15 158
Total shareholder's equity		3 255 012	3 069 666
Total liabilities and shareholder's equity		22 882 885	21 645 542

The consolidated statement of financial position is to be together with the notes from 1 to 42 forming an integral part of the consolidated financial statements.

The consolidated financial statements are authorised for issue from the Management Board and signed on behalf of DSK Bank AD on 16 March 2021.

Tamás Hák-Kovács
Chief Executive Director

Slavayko Slavaykov
Executive Director

Signed according to auditor's report:

Sylvia Peneva
 Registered auditor responsible for the audit
 Deloitte Audit OOD
 Date: March 16, 2021

Renny Iordanova
 Registered auditor responsible for the audit
 AFA OOD
 Date: March 16, 2021

Consolidated statement of cash flows
For the year ended 31 December 2020

		2020	2019 restated
<i>In thousands of BGN</i>	Note		
Cash flow from operating activities			
Profit before taxation		193 924	346 100
<i>Adjustments for:</i>			
Impairment losses on financial assets, net	10	281 120	93 238
Impairment losses on non-financial assets, net	11	912	8 603
Depreciation and amortization	13	80 713	91 839
Net losses/(gains) from operations with investments		(189 152)	(10 439)
Net losses from foreign exchange rate revaluation		162 260	1 732
Net interest income	4	(618 773)	(643 595)
Dividends	9	(40)	(59)
Share of profit of associates		(331)	(541)
Profit on disposal of a subsidiary	39	(3 098)	-
Increase/(decrease) in provisions		(10 865)	21 294
Other non cash changes		14 154	(5 848)
Net cash flow used in operating activities before movements in operating assets and liabilities		(89 176)	(97 676)
Movements in operating assets			
Decrease/ (increase) in securities held for trading		138 788	(119 077)
Decrease/ (increase) in loans and advances to banks		590 743	(960 166)
Increase in loans and advances to customers		(346 143)	(4 448 866)
Decrease/ (increase) in receivables from factoring contracts		25 934	(184 410)
Decrease/ (increase) in finance lease receivables		41 667	(899 909)
Decrease/(increase) in other assets		17 403	46 469
Movements in operating liabilities			
(Decrease)/ increase in deposits from banks		(40 660)	64 931
(Decrease)/increase in loans from banks and financial institutions		(230 987)	86 298
Increase in deposits from customers		1 437 333	6 330 759
Increase in other liabilities		5 838	36 186
Cash generated from operations		1 550 740	(145 461)
Interest received		609 197	660 545
Interest paid		(8 141)	(27 788)
Tax paid		(30 316)	(37 790)
Net cash flow from operating activities		2 121 480	449 506
Cash flow from investing activities			
Acquisition of property, plant and equipment, and intangible assets net		(35 789)	(257 751)
(Acquisition)/proceeds from/of investments in securities, net		(860 267)	(207 862)
Dividends received		518	59
Acquisition of subsidiaries, net of cash acquired		-	(311 399)
Acquisition of associates		-	(475)
Acquisition of shares in controlled company		-	(37 620)
Disposal of subsidiaries, net of cash	39	3 111	-
Disposal of subsidiaries acquired with a view for sale		-	(1 783)
Net cash flow used in investing activities		(892 427)	(816 831)


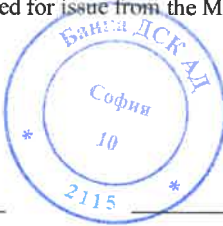



Consolidated statement of cash flows
For the year ended 31 December 2020
(continued)

<i>In thousands of BGN</i>	Note	2020	2019 restated
Cash flow from financing activities			
Dividends paid		(2 171)	-
Repayment of the lease liabilities		(11 146)	(18 050)
Net cash flow used in financing activities		(13 317)	(18 050)
Net increase/ (decrease) in cash and cash equivalents		1 215 736	(385 375)
Effect of foreign exchange rate changes		(2 739)	768
Cash and cash equivalents at the beginning of the year	37	2 825 764	3 210 371
Cash and cash equivalents at the end of the year	37	4 038 761	2 825 764

The consolidated statement of cash flows is to be read together with the notes from 1 to 42 forming an integral part of the consolidated financial statements.

The consolidated financial statements are authorised for issue from the Management Board and signed on behalf of DSK Bank AD on 16 March 2021.

 <hr/> Tamás Hák-Kovács <i>Chief Executive Director</i>		 <hr/> Slaveyko Slaveykov <i>Executive Director</i>
--	--	---

Signed according to auditor's report:

 <hr/> Sylvia Peneva Registered auditor responsible for the audit Deloitte Audit OOD Date: <i>March 16, 2021</i>	
---	---

 <hr/> Renny Jordanova Registered auditor responsible for the audit AFA OOD Date: <i>March 16, 2021</i>	
---	---

Consolidated statement of changes in equity
For the year ended 31 December 2020

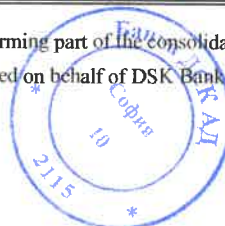
In thousands of BGN

	Share capital	Statutory and other reserves	Revaluation reserve - land and buildings	Investment revaluation reserve - financial instruments	Cost of hedging	Defined Benefit Pension Reserve	Retained earnings	Total Equity attributable to the owners of the parent	Non-controlling interest	Total equity
Balance as of 1 January 2019, restated (Note 1(g))	1 327 482	1 002 125	114 008	18 835	(1 209)	(3 284)	287 965	2 745 922	38 140	2 784 062
Total comprehensive income										
Net profit for the year	-	-	-	-	-	-	309 400	309 400	2 571	311 971
Other comprehensive income	-	-	(26)	33 892	(14 811)	(1 351)	-	17 704	28	17 732
Total comprehensive income	-	-	(26)	33 892	(14 811)	(1 351)	309 400	327 104	2 599	329 703
Transfer of revaluation reserve from land and buildings, net of tax	-	-	(308)	-	-	-	308	-	-	-
Distribution of profit for reserves	-	223 072	-	-	-	-	(223 072)	-	-	-
Recognition of non-controlling interests as a result of business combinations	-	-	-	-	-	-	-	-	2 737	2 737
Effects from change in non-controlling interests	-	-	-	-	-	-	(18 518)	(18 518)	(28 318)	(46 836)
Balance as of 31 December 2019, restated (Note 1(g))	1 327 482	1 225 197	113 674	52 727	(16 020)	(4 635)	356 083	3 054 508	15 158	3 069 666
Total comprehensive income										
Net profit for the year	-	-	-	-	-	-	173 563	173 563	1 958	175 521
Other comprehensive income	-	-	-	21 708	(9 613)	(99)	-	11 996	-	11 996
Total comprehensive income	-	-	-	21 708	(9 613)	(99)	173 563	185 559	1 958	187 517
Transfer of revaluation reserve from land and buildings, net of tax	-	-	(300)	-	-	-	300	-	-	-
Distribution of profit for reserves	-	286 210	-	-	-	-	(286 210)	-	-	-
Distribution of dividends	-	-	-	-	-	-	-	-	(2 171)	(2 171)
Equity changes as a result of merger of subsidiaries (Note 39)	1 178	-	-	28	-	-	1 508	2 714	(2 714)	-
Balance as of 31 December 2020	1 328 660	1 511 407	113 374	74 463	(25 633)	(4 734)	245 244	3 242 781	12 231	3 255 012

The consolidated statement of changes in equity is to be read together with the notes from 1 to 42 forming part of the consolidated financial statements.

The consolidated financial statements are authorised for issue from the Management Board and signed on behalf of DSK Bank AD on 16 March 2021.

Tamás Hák-Kovács
Chief Executive Director



Slaveyko Slaveykov
Executive Director

Renny Jordanova
Registered auditor responsible for the audit
AFA OOD

Date: March 16, 2021



Signed according to auditor's report:

Sylvia Peneva
Registered auditor responsible for the audit
Deloitte Audit OOD

Date: March 16, 2021



1. Basis of preparation and legal status and governance

(a) Legal status and governance

DSK Bank AD (The "Bank") was incorporated on 2 March 1951 in Bulgaria as a centralised deposit accepting institution under the name "State Savings Bank". In 1998, when the Act of DSK transformation was 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.

In 2020 the subsidiaries Expressbank AD and Express Factoring EOOD merged into DSK Bank based on agreements for transformation through merger registered in the Commercial Register on 30 April 2020 and 30 September 2020, respectively. The transformations have been undertaken with the aim to optimise the structure, enhance effectiveness of processes, decrease expenses and improve customer service.

On 30 April 2020 the Bank issued new shares in favour of the non-controlling shareholders of the transforming bank Expressbank AD (see also Note 35). As a result, the Bank was re-registered from a solely owned joint stock company (EAD) to a joint stock company (AD) as of the same date.

The Bank has a two-tier system – Management Board composed of 8 (eight) members and Supervisory Board with 7 (seven) members.

As of 31 December 2020 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, Violina Marinova, Gábor Kuncze, Ákos Ferenc Tisza-Papp, Ilona Török and Krisztián Selmeczy – members of the Supervisory Board.

As of 31 December 2020 the Management of the Bank is represented by the Management Board composed of 7 (seven) members, namely: Tamás Hák-Kovács – Chairman of the Management Board and CEO; Diana Miteva, Slaveyko Slaveykov, Arnaud Leclair, Yuriy Genov, Boyan Stefov and Dorothea Nikolova – 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 2020, the Audit Committee is composed of: Chairman - Natashka Lazarova; members - Zoltan Tuboly and Vasilka Koycheva.

The consolidated financial statements of DSK Group for the year ended 31 December 2020 comprise DSK Bank AD and its subsidiaries and associates (together referred to as the Group).

(b) Going concern

The management has made an assessment of the ability of the Group 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 Group ability to continue as a going concern. Despite the spread of COVID-19 throughout the year and as of the date of approval of these financial statements, the Group continues to discharge its liabilities as they become due, maintain liquidity and meet capital requirements. Therefore, the financial statements continue to be prepared on the going concern basis.

(c) COVID-19

On 11 March 2020 the World Health Organisation declared a COVID-19 pandemic, and on 13 March 2020 the Bulgarian Parliament imposed a state of emergency in Bulgaria, as a result of which a number of restrictive measures were taken.

On 24 March 2020, the State of Emergency Act was promulgated, imposing measures for the period of the pandemic state of emergency in various areas – employment relations and social security, taxation and annual financial closure, default and forced execution, terms and deadlines, etc. Decisions and orders of the Council of Ministers and the Ministry of Health were adopted for implementing anti-epidemic measures on the territory of the country aimed to protect and preserve the population's life and health in relation to: a ban on entering the country and applying measures (quarantine or provision of a negative lab result from a PCR test prior to entering the country) for countries with high COVID-19 rates and significant pandemic spread; observing requirements on physical distance, hand hygiene, disinfection and wearing protective face masks in indoor public places; temporary suspension or restriction of the operations of public sites and/or other sites or services rendered to citizens, etc.

On 10 April 2020 the Bulgarian National Bank approved a "Procedure for deferral and settlement of liabilities payable to banks and their subsidiaries – financial institutions, in relation to the state of emergency imposed by Parliament on 13 March 2020" (the "Procedure"), resulting from the COVID-19 pandemic and consequences thereof. The Procedure allowed borrowers affected by the restrictive measures applied to defer the repayment of their debts to financial institutions. The Procedure initially provided for deferral possibility for up to 6 months, not later than 31 December 2020. Consequently, the Procedure was amended and the period was extended to 31 March 2021. Pursuant to a new BNB decision, dated 10 December 2020, the Procedure's effect was extended until 31 December 2021, and borrowers were allowed to defer repayments to financial institutions for a period of 9 months.

As a result of the restrictions imposed in Bulgaria and in most countries around the world, the normal operations of businesses in a number of economic sectors was disrupted. There were difficulties with the supplies of raw and other materials from suppliers, shipments to clients, and procuring workforce. Almost all entities, though to a different extent, had to impose certain actions and measures to reorganise business operations, work schedules, business communications and other aspects of their relations to counterparties, partners, and state institutions.

The effects on the elements of the consolidated financial statements, estimates and judgements, and management risk policies are disclosed in notes 1(h), 3(b), 3(c), 3(d) and 26.

(d) Statement of compliance and representation

These consolidated 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, 2020 and adopted by the Commission of European Union (EU). 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 Supplementary provisions of Accounting Act under the name International Accounting Standards (IAS).

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

(e) Basis of measurement

The consolidated financial statements of the Group have been prepared on the historical cost basis except for the derivative financial instruments, financial assets and financial liabilities held for trading and financial assets measured at fair value through other comprehensive income, which are carried at fair value, and land and buildings that are stated at revalued amounts.

(f) Functional and presentation currency

These financial statements are presented in BGN, which is the Group's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

(g) Comparative information

In these financial statements, the Group 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.

During the current year the Group revised the classification of one issuer's preference shares previously reported as equity instruments measured at fair value through other comprehensive income (FVTOCI). The Group has decided that based on the business model and the characteristics of the contractual cash flows of these financial assets, as well as the availability of a conversion option with a variability element, it would be more appropriate to classify them as financial instruments measured mandatorily at fair value through profit and loss (FVTPL). Accordingly, the Group has reclassified these instruments retrospectively as a correction of an error, in order to meet the requirements of IFRS 9 "Financial Instruments" for classification of financial assets at the date of initial application of the standard.

As a result of the restatement, no changes have occurred in the presentation and measurement of the reclassified assets in the consolidated statement of financial position. As of 31 December 2019 and 1 January 2019 the reserves have decreased, and retained earnings increased, with the amount of gains recognized from revaluation of the shares to fair value, net of tax, to the amount of BGN 5 882 thousand and BGN 2 977 thousand, respectively. The restatement has had the following effect on the consolidated statement of profit or loss and the statement of comprehensive income as of, and for the year ending, 31 December 2019:

<i>In thousands of BGN</i>	2019 before restatement	2019 restated
Consolidated statement of profit or loss		
Net income from other financial instruments at FVTPL	5 814	9 018
Income tax expense	(32 047)	(32 346)
Statement of other comprehensive income		
Movement in revaluation reserve for equity instruments designated at fair value through other comprehensive income	3 207	3
Income tax related to OCI items that will not be reclassified subsequently to profit or loss	(302)	(3)

The disclosure in Note 22 has been amended, whereby the amount of BGN 10 132 thousand as of 31 December 2019 has been reclassified from equity instruments carried at FVTOCI to corporate debt securities measured mandatorily through profit or loss.

Additionally, the Group has revised the presentation in the consolidated statement of financial position of the receivables and payables for cash collaterals granted and received, respectively, on derivative deals and loans granted to customers. As at the end of the previous period, such collaterals were reported as other assets and other liabilities due to the associated restrictions on collateral. However, since these items are still financial assets and financial liabilities, which, in their nature, are identical in all material respects to the related loans and deposits, in order to enhance presentation, the Group has reclassified those assets and liabilities to loans granted and deposits received, respectively.

The restatements and reclassifications described above have had the following effects on the consolidated statement of financial position as of 31 December 2019:

Consolidated statement of financial position

	31- December- 2019 before restatement	31- December- 2019 restated
<i>In thousands of BGN</i>		
Assets		
Loans and advances to banks (collateral on derivative transactions only)	2 949 633	2 951 256
	76 028	74 405
Other assets (collateral on derivative transactions only)		
Total assets	3 025 661	3 025 661
Liabilities		
Deposits from banks (collateral on derivative transactions only)	69 143	77 557
Deposits from customers (collateral on loans granted only)	17 832 064	17 877 638
Other liabilities (collateral on loans granted and derivative transactions)	162 372	108 384
Total liabilities	18 063 579	18 063 579
Shareholder's equity		
Reserves	1 376 825	1 370 943
Retained earnings	350 201	356 083
Total shareholder's equity	1 727 026	1 727 026

The Group believes that the reclassifications described above have an insignificant share in its total assets and liabilities, moreover, they do not have a material effect on the information presented in the consolidated statement of financial position as of the beginning of the previous year. Consequently, the Group has not presented a third statement of financial position as at the beginning of the preceding period in accordance with para. 40A (b) of IAS 1 Presentation of Financial Statements.

The effects of the restatements and reclassifications described above have been reflected in the consolidated statement of cash flows by adjusting the items concerned. In addition, the Group also changed the disclosure in Note 37 in order to reflect a correction of error related to an intragroup elimination, which has led to a decrease of the receivables from banks with maturity of up to 3 months with the amount of BGN 151 541 thousand as of 31 December 2019. In the statement of cash flows for the previous year the decrease of cash and cash equivalents as of 31 December 2019 has affected the increase of receivables from banks for the year then ending. Additionally, the Group has shown the dividends received for 2019 separately from "(Purchases)/sales of securities, net" in order to ensure comparability with the current period, and reclassified an amount of BGN 118 thousand from the net cash flows from operating activities to the net cash flows used in investing activities.

(h) 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 Group Audit Committees the development, selection and disclosure of the Group's critical accounting policies and estimates, and the application of these policies and estimates.

COVID-19 Pandemic Considerations

As described in Note 1c above, on March 11, 2020, COVID-19 was declared a global pandemic by the World Health Organization. As a result of the heightened uncertainty associated with the unprecedented nature of the COVID-19 pandemic, developing reliable estimates and applying judgment has become even more challenging. ECL accounting has become particularly difficult in the current circumstances and requires significant judgment. The ECL model is forward-looking and is based on a probability-weighted approach. Measurement of ECLs at each reporting period reflects reasonable and supportable information about past events, current conditions, and forecasts of future events and economic conditions. During this period of greater economic uncertainty, it is very difficult to forecast future events and the macroeconomic inputs used in ECL modelling. Determining macroeconomic scenarios and assigning probabilities to these scenarios requires significant judgment. The Bank applies expert credit judgment to adjust modelled ECL results when it becomes evident that known or expected risk factors and information were not considered in the credit rating and modelling process. As a result of COVID-19 and the recent economic downturn, significant measurement uncertainty exists in determining ECLs, especially regarding key inputs used in the model. Management has estimated that the effect of COVID-19 on loans and receivables from clients under the baseline scenario (if applied with 100% probability) would result in total impairment that would be some 7% lower than the actual reported for 2020. Under the stress scenario (if applied with 100% probability) the total amount of ECL would be approximately 29% higher than the one reported for 2020.

Determination of control over investment and pension funds

The Group acts as a fund manager to a number of investment funds - DSK Global Defensive Companies, DSK Standard, DSK Euro Active, DSK Balance, DSK Growth, DSK Stability – European Equities, DSK Stability – German Equities, DSK Alternative, DSK Alternative 1, DSK Alternative 2, DSK Global Companies and DSK Dynamics. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the fund (comprising any carried interest and expected management fees) and the investors' rights to remove the fund manager. For all funds managed by the Group, the investors are not able to vote to remove the fund manager without cause, and the Group's aggregate economic interest is insignificant. As a result, the Group has concluded that it acts as agent for the investors in all cases, and therefore has not consolidated these funds.

Universal Pension Fund, Professional Pension Fund, Voluntary Pension Fund, and Voluntary Pension Fund with Occupational Schemes of Rodina Pension Company are excluded from the Consolidated Financial Statements of the Group as these funds are managed by the Rodina Pension Company on behalf of third parties and Rodina Pension Company acts as agent for the investors in all cases.

Determining control over companies with no equity participation

When assessing whether the Group exercises control over a company with no equity participation, the Group focuses on the assessment of the elements of control, namely: powers in the company, exposure to or rights in variable returns, as well as the ability to use power to affect these returns.

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 Group 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 significant increase of credit risk lifetime expected losses will be recognized.

Accounting for acquisition of subsidiaries

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The application of the acquisition method requires significant assumptions and estimates with respect to determining the acquisition date and the recognition and measurement the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree, as well as the recognition and measurement of goodwill. The applied management assumptions and judgements are based on the share purchase agreements terms, other relevant documents and the application of industry accepted valuation models.

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 3 (f)). The year 2020 was marked by the wide spread of the COVID-19 global pandemic. The stock exchange prices dropped sharply in the second half of the first quarter of 2020 by approximately 30% following the initial shock caused by COVID-19; however, losses were fastly covered owing to the quick reactive measures of central banks. In reality the cyclical nature of markets is dependent on the expectations of numerous market participants as to what the social and economic processes and trends will be, and how they will affect the future performance of companies, and the market as a whole. Through the introduction of a variety of vaccines and speeding up of vaccination plans, the impact and risks associated with COVID-19 are expected to gradually diminish.

Revaluation of land and buildings

As of each reporting date, and in accordance with its accounting policy and with the assistance of external licensed appraisers, the Group performs a general analysis of the changes in value of the land and buildings subject to fair value appraisal, the type of available data and the possible factors for observed changes.

As of 31 December 2020 and 2019 no revaluation of the Group's land and buildings has been performed. The Group decided not to revalue these assets because analyses have shown that there have been no significant fluctuations in the prices or significant changes in the behavior of the markets for such types of assets. Based on the analysis performed as of 31 December 2020, the Group has concluded that the real estate market prices have not been significantly impacted by the spread of the COVID-19 pandemic during the year. The last revaluation of these assets was carried out as of December 31, 2018 in cooperation with independent licensed appraisers, who have used a number of acceptable valuation methods and techniques (Note 26).

Provisions for litigation settlements

For all open cases against the Group, 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 Group is distinguished or in case of potential risks of increase in claims from the Group's customers concerning contract payments for products and services (Note 32).

Impairment of goodwill and intangible assets

In order to determine the recoverable amount of goodwill and the intangible assets recognized in business combinations, the Group uses models, incorporating future cash flows and a number of assumptions, including discount rates, customer churn rate, useful life of intangible assets, etc. For the future cash flows, the Group uses the budgets approved by management which reflect current and expected market conditions. The COVID-19 pandemic is not yet under control and its unpredictability, and government, business and consumer responses create heightened uncertainty as to the reasonableness of judgements used in determining the recoverable amount of goodwill and intangible assets, as well as the eventual need for impairment.

(i) Basis of consolidation

The consolidated financial statements of the Bank incorporate the separate financial statements of the Bank and those of the entities controlled by the Bank (its subsidiaries) as of 31 December each year. Control is achieved when the Bank:

- has the power over the investee;
- is exposed, or has rights, to variable return from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control over the subsidiary. Specifically, the results of subsidiaries over which control is acquired or lost during the year are included in the consolidated statement of profit or loss from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the owners of the Bank and to the respective non-controlling interests (NCI). Total comprehensive income of the subsidiaries is attributed to the owners of the Bank and to the NCI even if this results in the NCI having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies.

In the consolidated financial statements, the financial information of the subsidiaries is consolidated under the 'full consolidation' method, line-by-line. The investments of the parent company are eliminated against its share in the equity of the subsidiaries at the date of acquisition. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation, with the exception of foreign currency gains and losses on intragroup monetary items denominated in a foreign currency of at least one of the parties.

NCI in subsidiaries are identified separately from the Group's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the NCI's proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of NCI is the amount of those interests at initial recognition plus the NCI's share of subsequent changes in equity.

Changes in the Group's interests in subsidiaries already controlled, that do not result in a loss of control, are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Parent Company.

When the Group loses control of a subsidiary, the gain or loss on disposal recognised in profit or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as required/permitted by applicable IFRS Standards). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 Financial Instruments when applicable, or the cost on initial recognition of an investment in an associate or a joint venture.

(1) *Accounting for business combinations*

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. Applying the acquisition method requires:

- a. identifying the acquirer;
- b. determining the acquisition date;
- c. recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; and
- d. recognising and measuring goodwill or a gain from a bargain purchase.

Recognition principles

At the acquisition date, the Group (the acquirer) recognizes the acquiree's identifiable assets, liabilities and contingent liabilities at their fair values at the acquisition date and recognises goodwill which is subsequently tested for impairment.

To qualify for recognition, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in the Conceptual Framework and the respective IFRS at the acquisition date.

At the acquisition date the identifiable assets acquired and liabilities assumed are classified or designated as necessary to apply other IFRS Standards subsequently. The Group makes those classifications and designations on the basis of contractual terms, economic conditions, its operating or accounting policies and other pertinent conditions as they exist at the acquisition date.

When a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is provisional by the end of the reporting period in which the combination occurs, the Group reports provisional amounts (with a certain degree of estimation) for the items for which the accounting is still in progress. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Goodwill

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period. On disposal of a cash generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

As of the acquisition date, the Group recognises, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree.

(2) *Accounting for business combinations of entities under common control*

Business combinations of entities under common control are transactions whereby the combining entities are ultimately controlled by the same party both before, and after the transaction, and control is not transitory. In contrast to the separate financial statements, in which a legal merger of an entity previously acquired, represents a business combination under IFRS 3 that should be accounted for under the acquisition method, and the acquired identifiable net assets are recognized at their carrying amounts from the consolidated financial statements as at the merge date, the legal merger of a subsidiary into its parent company DSK Bank is reported as a common control transaction in the consolidated financial statements, which does not affect the Group structure from the Group's perspective. Accordingly, common control transactions are out of the scope of IFRS 3 as regards the consolidated financial statements. For this reason, the Group management has applied its own judgement in the selection and application of such accounting policies, which provide the most appropriate, relevant and reliable financial information in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

The Group has selected to apply the so called "pooling of interests method" in accounting for common control transactions, including merger of subsidiaries that have been consolidated prior to the merger (see Note 39). Under this method, the carrying amounts of assets and liabilities of the merging company as per the consolidated financial statements become assets and liabilities of the successor entity (the Bank), while the consolidated financial statements remain unchanged after the merger. When the non-controlling shareholders of the merging entity become shareholders in DSK Bank, it is accounted for as a transaction between owners. The Group continues to report the goodwill recognized on the acquisition of the merging subsidiary, however allocated to the already united (merged) cash generating unit.

(3) *Subsidiaries*

Subsidiaries are those companies controlled by the Bank. The Group controls an entity when has power over the company and it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

As of 31 December 2020 and 2019 DSK Bank has the following fully consolidated subsidiaries:

	Main activity	Ownership interest %	
		31-Dec-2020	31-Dec-2019
DSK Tours EOOD	Tour operator and agent	100.00%	100.00%
DSK Rodina Pension Company AD	Pension fund management	99.75%	99.75%
DSK Asset Management AD	Investment scheme management	66.00%	66.00%
DSK Trans Security EAD *	Incasso, transport and security of cash	100.00%	100.00%
DSK Leasing AD **	Finance lease	60.02%	60.02%
DSK Mobile EAD	Marketing, development and implementation of information systems	100.00%	100.00%
DSK Dom EAD	Credit intermediary	100.00%	100.00%
OTP Factoring Bulgaria EAD ***	Factoring of receivables	100.00%	100.00%
Expressbank AD****	Credit institution	-	99.74%
Express Factoring EOOD	Factoring of receivables	-	99.74%
OTP Leasing EOOD	Finance lease	100.00%	99.74%
Regional Urban Development Fund AD	Financing of urban development projects	52.00%	51.86%

* DSK Bank controls DSK Trans Security indirectly through its investment in DSK Tours, the latter owning 100% of the share capital of DSK Trans Security.

** DSK Leasing owns 100% of the share capital of DSK Auto Leasing EOOD, DSK Operative Leasing EOOD and OTP Insurance Broker EOOD.

*** As of 31 December 2019 the Bank controls indirectly Project Company Complex Banya EOOD, which is 100% owned by OTP Factoring Bulgaria EAD. This entity was sold in 2020 to a third party (Note 39).

**** As of 31 December 2019 the Bank effectively controls Express Factoring EOOD, OTP Leasing EOOD and Regional Urban Development Fund AD through its investment in Expressbank AD. As of 31 December 2020 Expressbank and Express Factoring are erased from the Commercial Register as a result of their transformation through merger in DSK Bank.

(4) *Subsidiaries acquired with a view for resale*

Subsidiaries acquired exclusively with a view of resale are classified as disposal groups, held for sale, when they meet the following requirements:

At initial recognition, the identifiable liabilities acquired are measured at fair value, while the identifiable assets of subsidiaries acquired with a view to resale are measured at fair value less costs to sell, plus the fair value of liabilities acquired. At the end of the reporting period the Group remeasures the liabilities acquired in accordance with relevant IFRSs, and the disposal group at fair value, the total assets are equal to the amount of the liabilities at the end of the period plus the value of the disposal group. The Group presents assets and liabilities of disposal groups separately from other assets and liabilities in its consolidated financial statements.

In the statement of comprehensive income, the Group presents the post-tax profit or loss of the subsidiary acquired with a view of resale and the post-tax gain or loss recognised on its subsequent remeasurement.

(5) *Associates*

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Investments in associates are accounted for under the equity method. Equity accounting involves recognition of the Bank's share of the total recognized gains and losses of associates for the year in the statement of profit or loss. The Bank's interest in the associates is carried in the statement of financial position at an amount that reflects its share of the net assets of the associate.

DSK Bank owns 25% of the equity in Cash Services Company and has significant influence over the financial and operating policies of the company.

2. Significant accounting policies

(a) Interest income and expenses recognition

In the consolidated statement of profit or loss interest income and expenses 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 consolidated 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 Group 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 and purchased credit-impaired receivables, including with delays in payments over 90 days on a collective assessment basis.

For these financial assets, the Group 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 and purchased credit-impaired receivables 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 Group 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 commissions

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	<p>The Group provides to its customers a variety of services, related to withdrawals and depositing funds into bank accounts, payments in local and foreign currency, according to which different fees are applied.</p> <p>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 Group'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.</p> <p>For services resulting in bank transfer of money, the fee is charged when the transaction takes place. These fees are defined in fixed amount or in %.</p> <p>The Group performs a regular pricing review of applicable fees and commissions.</p>	<p>Transaction-based fees are charged when the transaction takes place or monthly at the end of the month.</p>
Fees and commissions related to credit deals	<p>The Group offers a number of account management services for both retail and companies, also provides its clients` with various types of credit cards charged at differentiated levels.</p> <p>Fees related to these services are mainly connected with account management, credit card issuing, annual bank card fees and other fees for usual account services.</p> <p>Annual bank card fees are defined as fixed amount depending on the card type.</p> <p>The Group performs a regular pricing review of applicable fees and commissions.</p>	<p>Fees for current account management services are on a monthly basis.</p> <p>Fees on one – off services are charged at the moment of service delivery.</p>
Fee type	Nature and timing of satisfaction of performance obligations, and the significant payment terms	Revenue recognition under IFRS
Fees and commissions related to deposit deals	<p>The Group offers a wide range of account management services to both individuals and enterprises, for which respective fees are charged, in addition they are provided with various debit cards charged differently.</p> <p>Fees related to these services are mainly connected with 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.</p> <p>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.</p> <p>Monthly and annual fees on bank cards are set in fixed amount. They depend on the type of the bank card.</p>	<p>Fees for current account management services are on a monthly basis.</p> <p>Fees on one – off services are charged at the moment of service delivery.</p>

Fees for one – off services of occasional type are charged in the moment the client makes use of the service. These fees can be fixed or determined in %.

The Group regularly reviews applied fees.

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 of bank certificate, issuing of bank reference, photocopies of documents, etc.	Long – term service fees related to the period the client takes benefit of this service.
-----------------------------------	---	--

These fees concern long – term services provision (bank safekeeping) or one – off administrative services.	One – off fees are charged on the moment of service delivery.
--	---

Fees and deductions related to asset management of DSK Rodina are reported in this category. They include fees from security contributions, initial charges, investment fees and others.	Revenues are recognized along the time, as the contract progress is measured on the basis of time elapsed (on a linear basis - monthly).
--	--

Fees and deductions related to asset management of Group Funds are fixed in % and are defined according to the local legal requirements and the rules of procedure of the respective pension fund.

(d) Net trading income

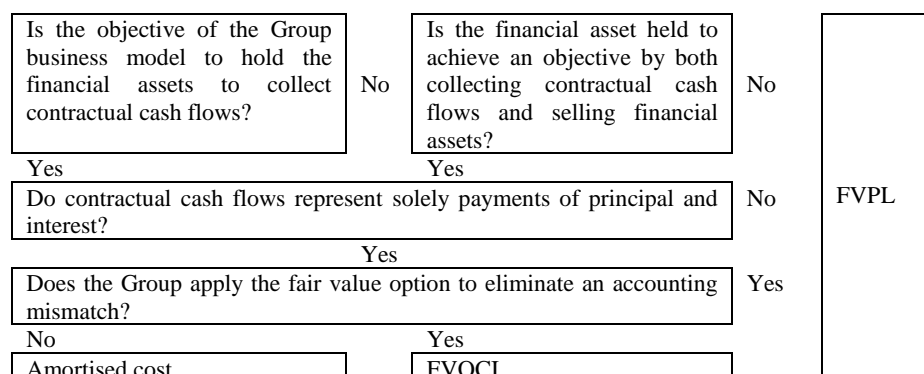
Net trading income comprises gains net from losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, and foreign exchange rate differences. Net trading income includes foreign currency exchange rate differences on investment financial assets.

(e) Financial instruments

(1) Classification

In accordance with the IFRS 9 provisions the Group 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 Group 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 Group’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 Group can have more than one business model for managing its financial instruments. The Group 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 Group 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 Group may have the same type of instrument in all three categories, depending on the asset management model.

(2) *Recognition*

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

Unconditional receivables and payables are recognised as assets or liabilities when the Group 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 Group 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 Group 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 Group. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the Group, 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group is recognised as a separate asset or liability.

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

The Group 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 Group 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 Group 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 Group 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 Group 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 of financial assets*

The Group 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 Group 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 Group, 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 Group 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 Group 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 Group 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 Group changes its business model for managing financial assets the Group reclassifies all affected financial assets measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss.

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

If the Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 (applied by analogy the requirements for derecognition of financial liabilities), but results in a material change in the net present value of the asset above a certain threshold below which it is considered insignificant (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 Group 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 Group 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 Group 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 Group 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 Group 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 Group shall recognise in profit or loss the amount of the change in lifetime expected credit losses as an impairment gain or loss. The Group 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) Investments in securities

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

(i) Derivatives

The Group 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 or financial liabilities at fair value on the settlement date. The changes in market value of derivatives are recognised in the Statement of profit or loss. For derivatives designated as hedging instruments see further below.

The objective of hedge accounting is to represent, in the financial statements, the effect of an Group'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 Group 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 Group 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 Group applies hedge accounting to hedging relationships that meet the qualifying criteria in paragraph 6.4.1 of IFRS 9.

Rebalancing refers to the adjustments made to the designated quantities of the hedged item or the hedging instrument of an already existing hedging relationship for the purpose of maintaining a hedge ratio that complies with the hedge effectiveness requirements. Rebalancing is accounted for as a continuation of the hedging relationship. On rebalancing, the hedge ineffectiveness of the hedging relationship is determined and recognised immediately before adjusting the hedging relationship. Adjusting the hedge ratio allows the Group to respond to changes in the relationship between the hedging instrument and the hedged item that arise from their underlyings or risk variables.

The Group 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.

(j) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group 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 Group 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.

(k) Receivables under factoring arrangements

Upon initial recognition, receivables under factoring contracts are recognised at fair value, including costs directly attributable to the acquisition of the financial asset. Subsequently, receivables are carried at amortised cost, less any costs of impairment. Factoring receivables are derecognised when the derecognition criteria applicable to financial assets are met.

Non-recourse factoring receivables

Pursuant to the non-recourse factoring contract, the supplier (Assignor) transfers to the Factor receivables originating from a contract for the sale of goods and provision of services concluded between the supplier and its customers (the Debtors). The Group recognises its non-recourse factoring receivables by measuring them initially at fair value depending on the level of risks and benefits assumed associated with the ownership of the receivables being transferred.

A local factoring is a factoring of receivables from commercial activity carried out on the territory of Bulgaria.

Recourse factoring receivables

Recourse factoring receivables are reported up to the amount paid, which is the advance provided to customers with whom factoring contracts have been concluded.

(l) Property, plant and equipment

The Group applies a policy to measure subsequently land and buildings at revalued amounts 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 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 Group are as follows:

	%
▪ Buildings	1 - 33
▪ Machines and equipment	8 - 50
▪ Motor cars	8 - 25
▪ Vehicles (without motor cars)	8 - 10
▪ Computers, according to their class and useful life	15 - 50
▪ Fixtures and fitting and other depreciable fixed assets	15

Assets are depreciated from the date they are brought into use.

An item of property, plant and equipment is derecognized from the statement of financial position when it is permanently retired from active use and no future benefits are expected from its use, or it is sold. The gain or loss on sale is determined as the difference between sales proceeds and the carrying amount of the asset at the date of disposal. It is reported net under the heading "Other operating income, net" on the face of the statement of profit or loss for the year. The revaluation reserve of the sold item of land and buildings is transferred directly to retained earnings in the statement of changes in equity.

(m) Investment property

Investment properties are presented in the financial statements at historical cost less accumulated depreciation and impairment losses.

Depreciation is charged on a straight-line basis at a depreciation rate of 4% over the estimated useful life of the asset.

Rental income from investment property is recognised as revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Rental income from other property is recognised as other income.

(n) Intangible assets

Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortization and any impairment losses. Intangible assets can be acquired as part of a business combination transaction (see Business combinations 1 h (1)), or acquired separately.

Amortization of intangible assets is calculated on a straight-line basis over the expected useful life of the asset, except for an asset acquired in a business combination (customer base), which is amortized using the reducing balance method.

The annual rates of amortization are as follows:

	%
▪ Computer software and licenses, according to class and useful life	10 - 50
▪ Assets acquired in business combinations	12.5 - 35

An intangible asset is derecognized from the statement of financial position when it is permanently retired from active use and no future benefits are expected from its use, or it is sold. The gain or loss on sale of separate assets from the “intangible assets” group is determined as the difference between sales proceeds and the carrying amount of the asset at the date of disposal. It is reported net under the heading “Other operating income, net” on the face of the statement of profit or loss for the year.

(o) Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated. Goodwill is tested annually for impairment.

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. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

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 first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed.

For other assets, 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.

(p) Leasing

(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 Group 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 Group 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 Group is a lessee

On the commencement date, the Group recognizes a right-of-use asset and a lease liability. The Group 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 Group 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 Group measures the lease liability at the present value of the lease payments that are not paid at that date.

The Group 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 Group 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 Group 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 Group by the end of the lease term or if the cost of the right-of-use asset reflects that the Group will exercise a purchase option, the Group depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Group 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 Group 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 Group'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 Group remeasures the lease liability to reflect changes to the lease payments. The Group 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 Group recognises any remaining amount of the remeasurement in profit or loss.

The Group 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 BGN 10 000.

For short-term lease or lease, the underlying asset of which is of low value, the Group 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 Group as lessee are disclosed in notes 4, 13, 14, 25 and 31.

(3) *Accounting for the lease when the Group is a lessor*

The Group as a lessor classifies each of its leases as either an operating lease or a finance lease. The leasing activity of the Group 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 Group 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 date of the lease contract 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 Group's point of view minimum lease payments also include the residual value of the asset guaranteed by a third party, not-related to the Group, 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 Group 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 Group and subsequently re-invoiced to the lessee.

Initial and subsequent measurement

Initially the Group 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 Group. 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 Group 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)).

(q) Assets acquired from collaterals

Acquired assets, which prior to their acquisition were held as collateral of loans granted, are classified by the Group as investment property and other assets. Upon the initial acquisition of these assets, the Group's management makes judgements regarding their classification, based on its intentions and possibilities for future use and/or disposal. According to the Group'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.

(r) 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 Group, these assets are estimated of the net realizable value on the most reliable existing data at the valuation date.

(s) Provisions

Provisions are current liabilities and incurred expenses of the Group 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 Group when:

- The Group has a present obligation (legal or constructive) as a result of past events;
- Probability exists that to repay the obligation, an outflow of economic benefits will be required; 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.

(t) Pension reserves

By managing the additional pension assurance Fund, DSK Rodina Pension Company AD guarantees its obligations towards the insured individuals by forming specialized reserves, as stipulated by the provisions of the Social Assurance Code.

(u) Deposits

Deposits are one of the Group'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 Group 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 Group's financial statements.

(v) Contingent liabilities

Contingent liabilities are:

- Unused funds on loans and credit lines authorized by the Group;
- Possible obligations of the Group 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 Group; 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 The Group's activity arising and subject of a review for the needs of their recognition and provision are related with:

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

(w) Income taxes

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.

(x) 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 Group'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 Group'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 Group has obligation to pay certain amounts to each employee who retires with the Group 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 Group is obliged to pay compensations amounted to two gross monthly salaries. In case the employee's length of service in the company, or in the group to which the company belongs, 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 DSK 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 Group 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 32.

The Group 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 Group 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 Group 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 Group 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 Group recognises as a liability the undiscounted amount of the estimated costs related to unused annual paid leave expected to be used by the employees in subsequent periods.

(y) **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:

- Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” - Definition of Material - adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after January 1, 2020);
- Amendments to IFRS 3 “Business Combinations” - Definition of a Business - adopted by the EU on 21 April 2020 (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 - adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020);

- Amendments to IFRS 16 “Leases” - Covid-19-Related Rent Concessions (adopted by the EU on 9 October 2020 and effective at the latest, as from 1 June 2020 for financial years starting on or after 1 January 2020);
- Amendments to References to the Conceptual Framework in IFRS Standards adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).

The adoption of these amendments to the existing standards has not led to any material changes in the Group’s financial statements except 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 consolidated financial statements, the following new standards, amendments to the existing standards nor interpretations which are issued by IASB and adopted by the EU, but are not yet effective:

- Amendments to IFRS 4 Insurance Contracts “Extension of the Temporary Exemption from Applying IFRS 9” adopted by the EU on 16 December 2020 (the expiry date for the temporary exemption from IFRS 9 was extended from 1 January 2021 to annual periods beginning on or after 1 January 2023);
- Amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement”, IFRS 7 “Financial Instruments: Disclosures”, IFRS 4 “Insurance Contracts” and IFRS 16 “Leases” - Interest Rate Benchmark Reform — Phase 2 adopted by the EU on 13 January 2021 (effective for annual periods beginning on or after 1 January 2021).

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 January 1, 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” including amendments to IFRS 17 (effective for annual periods beginning on or after January 1, 2023);
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (effective for annual periods beginning on or after 1 January 2023);
- Amendments to IAS 16 “Property, Plant and Equipment” - Proceeds before Intended Use (effective for annual periods beginning on or after 1 January 2022);

- Amendments to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” - Onerous Contracts — Cost of Fulfilling a Contract (effective for annual periods beginning on or after 1 January 2022);
- Amendments to IFRS 3 “Business Combinations” - Reference to the Conceptual Framework with amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022);
- 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 various standards due to “Improvements to IFRSs (cycle 2018 -2020)” resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated.).

The Group anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the financial statements of the Group 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 Group’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.

3. Risk management disclosures

Structure and functions of the Risk Management Unit

The credit risk management of the Group is the responsibility of a unit which is independent from the business units and is managed by an Executive Director. The various credit risk management functions are performed by the following sub-units:

- 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 automatic 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;
- Credit Control and Administration Department having functions related to implementation of credit utilization control of business clients;
- Collection Division - a stronger segregation of duties between loan origination, risk monitoring and collection/restructuring is in place in DSK Bank in 2020. In line with the OTP Group decision, based on recommendation from the Hungarian National Bank, the collection activity (which was previously hosted under the Risk Management Division) moved from May 1st 2020 into a newly established Collection Division. The Head of the Collection Division is also a member of the Management Board. In accordance with the ECB Guidance to banks on non-performing loans, the Collection Division is operationally independent from the units responsible for loan origination and classification.

Below are represented the various risks, to which the Group is exposed, 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 the Group's activities and the management of its positions. It includes both the risk of being unable to settle liabilities and the risk of a financial loss caused by forced sale of financial assets in order to provide liquidity.

The Group maintains active trading positions in a limited number of derivative and non-derivative financial instruments. Most of the Group'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 Group is to ensure that it will always have sufficient level of liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses from selling liquid assets or expensive financing.

The executive Body, responsible for managing the liquidity is Asset and Liability Committee (ALCO).

To analyze the liquidity, the Group 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 the Group distributed by their remaining term to maturity into relevant maturity zones based on undiscounted cash outflows.

Residual contractual maturities of liabilities as of 31 December 2020

	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	Without maturity
<i>In thousands of BGN</i>								
Liabilities								
Deposits from banks	36 897	36 897	36 897	-	-	-	-	-
Derivative financial instruments	86 191	86 191	9 760	20 646	54 333	7	1 445	-
Deposits from customers	19 206 792	19 208 014	16 592 231	835 692	1 671 446	58 060	50 585	-
Loans from banks and financial institutions	54 220	54 815	8	9	-	17 103	37 695	-
Current tax liabilities	712	712	435	13	264	-	-	-
Lease liabilities	24 393	24 858	2 282	5 323	15 693	1 560	-	-
Provisions	86 885	87 432	743	2 592	176	79 045	4 244	632
Deferred tax liabilities	13 770	13 770	-	203	771	12 796	-	-
Other liabilities	118 013	121 826	29 636	8 264	4 646	37 871	41 224	185
Total liabilities	19 627 873	19 634 515	16 671 992	872 742	1 747 329	206 442	135 193	817
Unused loan commitments	-	2 919 688	148 253	314 945	1 460 292	591 559	404 639	-
Total liabilities and commitments	19 627 873	22 554 203	16 820 245	1 187 687	3 207 621	798 001	539 832	817

Residual contractual maturities of liabilities as of 31 December 2019

	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	Without maturity
<i>In thousands of BGN</i>								
Liabilities								
Deposits from banks	77 557	77 557	77 557	-	-	-	-	-
Derivative financial instruments	43 493	43 493	6 629	6 439	16 518	6 033	7 874	-
Deposits from customers	17 877 638	17 878 550	14 934 208	929 368	1 894 112	111 620	9 242	-
Loans from financial institutions	285 207	294 243	84 665	31 249	(4 132)	145 132	37 329	-
Current tax liabilities	1 243	1 243	1 216	27	-	-	-	-
Lease liabilities	65 166	66 887	507	4 229	7 767	46 390	7 994	-
Provisions	101 488	101 488	14 699	956	8 055	73 928	3 778	72
Deferred tax liabilities	15 700	15 701	(185)	-	(985)	16 983	-	(112)
Other liabilities	108 384	108 384	29 823	27 064	20 098	17 926	13 325	148
Total liabilities	18 575 876	18 587 546	15 149 119	999 332	1 941 433	418 012	79 542	108
Unused loan commitments	-	2 220 675	17 383	243 170	1 025 213	581 422	272 340	81 147
Total liabilities and commitments	18 575 876	20 808 221	15 166 502	1 242 502	2 966 646	999 434	351 882	81 255

The tables below set out the remaining expected maturities of the Group's assets and liabilities based on their contractual dates of repayment. 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 2020

<i>In thousands of BGN</i>	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	36 897	36 897	-	-	-	-	-
Derivative financial instruments	86 191	9 760	20 646	54 333	7	1 445	-
Deposits from customers	19 206 792	16 591 928	835 553	1 671 160	57 866	50 585	-
Loans from banks and financial institutions	54 220	8	9	-	17 103	37 100	-
Current tax liabilities	712	435	13	264	-	-	-
Lease liabilities	24 393	2 282	5 323	15 693	1 095	-	-
Provisions	86 885	743	2 592	176	79 045	4 244	85
Deferred tax liabilities	13 770	-	203	771	12 796	-	-
Other liabilities	118 013	29 636	4 151	4 646	37 871	41 224	185
Total liabilities	19 627 873	16 671 689	868 490	1 747 043	205 783	134 598	270
Unused loan commitments	-	148 253	314 945	1 460 292	591 559	404 639	-
Total liabilities and commitments	19 627 873	16 819 942	1 183 435	3 207 335	797 342	539 237	270
Derivatives liabilities							
Trading:	57 991						
Outflow		(473 473)	(614 648)	(254 109)	-	(80 215)	-
Inflow		469 368	610 006	249 596	-	80 215	-
Hedge accounting:	28 200						
Outflow		(15 939)	(478 464)	(413 250)	-	-	-
Inflow		68 536	510 341	328 775	-	-	-
Total derivatives	86 191	48 492	27 235	(88 988)	-	-	-
Assets							
Cash and current accounts with the Central Bank and other banks	3 741 532	3 706 362	-	-	-	-	35 170
Trading financial assets	63 111	1	11 109	165	42 980	8 856	-
Derivative financial instruments	62 769	8 353	17 447	35 240	24	1 705	-
Loans and advances to banks	2 393 813	297 114	676 338	1 414 576	-	5 775	10
Loans and advances to customers	11 947 992	370 395	516 825	2 536 004	3 881 069	4 636 078	7 621
Receivables under factoring agreements	179 099	36 495	10 430	52 324	79 850	-	-
Net receivables from finance lease	990 039	33 674	59 907	256 897	622 405	17 156	-
Investments in securities	2 752 511	5 077	379 240	94 312	1 425 212	824 101	24 569
Current tax assets	15 381	14 561	-	-	820	-	-
Investments in associates	3 626	-	-	-	-	-	3 626
Goodwill	78 547	-	-	1 175	-	-	77 372
Investment property	19 854	-	-	-	-	-	19 854
Right-of-use assets	26 339	89	178	804	2 181	-	23 087
Property, plant and equipment	422 614	10	16	59	819	1 711	419 999
Intangible assets	91 101	-	-	1	2 728	10 906	77 466
Other assets	94 557	21 124	5 693	9 256	38 614	19 851	19
Total assets	22 882 885	4 493 255	1 677 183	4 400 813	6 096 702	5 526 139	688 793
Derivatives assets							
Trading:	62 769						
Outflow		(568 756)	(684 042)	(338 474)	(24 737)	(80 215)	-
Inflow		571 848	688 279	345 382	24 801	80 215	-
Hedge accounting:	-						
Outflow		-	-	-	-	-	-
Inflow		-	-	-	-	-	-
Total derivatives	62 769	3 092	4 237	6 908	64	-	-

Maturity table of assets and liabilities as of 31 December 2019

<i>In thousands of BGN</i>	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	77 557	77 557	-	-	-	-	-
Derivative financial instruments	43 493	6 629	6 439	16 518	6 033	7 874	-
Deposits from customers	17 877 638	14 933 876	929 196	1 893 749	111 575	9 242	-
Loans from banks and financial institutions	285 207	84 665	38	25 938	129 531	45 035	-
Current tax liabilities	1 243	1 216	27	-	-	-	-
Lease liabilities	65 166	462	4 141	7 395	45 293	7 875	-
Provisions	101 488	14 699	956	8 055	73 928	3 778	72
Deferred tax liabilities	15 700	(186)	-	(985)	16 983	-	(112)
Other liabilities	108 384	29 823	27 064	20 098	17 926	13 325	148
Total liabilities	18 575 876	15 148 741	967 861	1 970 768	401 269	87 129	108
Unused loan commitments	-	17 383	243 170	1 025 213	581 422	272 340	81 147
Total liabilities and commitments	18 575 876	15 166 124	1 211 031	2 995 981	982 691	359 469	81 255
Derivatives liabilities							
Trading:	22 591						
Outflow		(417 719)	(137 683)	(215 905)	(12 763)	(80 454)	-
Inflow		415 240	136 100	206 389	4 559	71 209	-
Hedge accounting:	20 902						
Outflow		-	-	-	(1 000 760)	(24 620)	-
Inflow		-	-	-	977 915	-	-
Total derivatives	43 493	(2 479)	(1 583)	(9 516)	(31 049)	(33 865)	-
Assets							
Cash and current accounts with the Central Bank and other banks	2 707 191	2 626 367	-	-	-	-	80 824
Trading financial assets	208 318	20 867	2 025	6 316	162 719	16 391	-
Derivative financial instruments	31 536	6 588	4 922	2 928	7 163	9 935	-
Loans and advances to banks	2 951 256	120 807	294	20 571	2 809 311	273	-
Loans and advances to customers	11 827 941	389 679	529 261	2 679 813	3 950 882	4 278 306	-
Receivables under factoring agreements	222 578	172 267	47 542	2 769	-	-	-
Net receivables from finance lease	1 050 803	28 671	68 119	267 142	681 765	5 106	-
Investments in securities	1 832 493	159 572	98 944	108 139	730 382	710 561	24 895
Current tax assets	7 447	7 266	-	181	-	-	-
Investments in associates	3 773	-	-	-	-	2 225	1 548
Goodwill	78 547	-	-	-	-	-	78 547
Investment property	20 297	-	-	-	-	-	20 297
Right-of-use assets	67 406	282	152	593	2 535	-	63 844
Property, plant and equipment	440 809	36	10	49	270	3 302	437 142
Intangible assets	120 742	143	2	3	3	-	120 591
Other assets	74 405	9 837	6 075	21 290	16 483	19 471	1 249
Total assets	21 645 542	3 542 382	757 346	3 109 794	8 361 513	5 045 570	828 937
Derivatives assets							
Trading:	24 433						
Outflow		(381 838)	(256 386)	(287 825)	(219 877)	(504 404)	-
Inflow		383 704	257 458	297 650	221 740	508 913	-
Hedge accounting:	7 103						
Outflow		-	-	-	(585 611)	-	-
Inflow		-	-	-	586 749	-	-
Total derivatives	31 536	1 866	1 072	9 825	3 001	4 509	-

In addition to monitoring the liquidity position, the Group 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 Group.

The Group'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 23 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 5 years in view of actual observed volume of earlier repayments during 2020.

As part of the management of liquidity risk, the Group 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 Group'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.

In a COVID 19 situation DSK Bank continues to apply and monitor the stop/loss limits and triggers of the trading book, and takes action in accordance with relevant internal procedures if the limits are reached.

The Group holds trading assets for which it is able to manage the risk. In the table below is represented the credit quality of the maximum credit exposure, on the basis of the ratings issued from Moody's:

	31-Dec-2020	31-Dec-2019
<i>In thousands of BGN</i>		
Government bonds		
Rated Baa1	48 952	-
Rated Baa2	-	177 941
Rated Baa3	-	10 090
Rated Ba1	14 159	-
Rated Ba2	-	20 287
Total	63 111	208 318

(1) *Interest rate risk*

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

Group'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, the Group 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 Group'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 Group manages the interest rate risk in its trading book and limits the risk level through defining limits for interest rate sensitivity.

The Group 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 2020

	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
<i>In thousands of BGN</i>							
Cash and current accounts with the Central Bank and other banks	125 903	-	-	-	-	3 615 629	3 741 532
Fixed rate	14 582	-	-	-	-	-	14 582
Floating rate	111 321	-	-	-	-	-	111 321
Non-interest bearing	-	-	-	-	-	3 615 629	3 615 629
Trading financial assets	-	10 941	95	13 369	38 706	-	63 111
Fixed rate	-	10 941	95	13 369	38 706	-	63 111
Derivative financial instruments	5 170	13 667	-	-	1 706	42 226	62 769
Floating rate	5 170	13 667	-	-	1 706	-	20 543
Non-interest bearing	-	-	-	-	-	42 226	42 226
Loans and advances to banks	305 013	636 976	1 451 824	-	-	-	2 393 813
Fixed rate	297 114	636 976	1 451 824	-	-	-	2 385 914
Floating rate	7 899	-	-	-	-	-	7 899
Loans and advances to customers	10 675 772	37 416	181 062	163 761	823 461	66 520	11 947 992
Fixed rate	32 460	37 338	180 865	163 505	739 714	-	1 153 882
Floating rate	10 643 312	78	197	256	83 747	-	10 727 590
Non-interest bearing	-	-	-	-	-	66 520	66 520
Receivables under factoring agreements	179 099	-	-	-	-	-	179 099
Floating rate	179 099	-	-	-	-	-	179 099
Net receivables from finance lease	33 554	59 770	256 389	275 549	364 777	-	990 039
Fixed rate	4 799	8 271	35 685	38 849	54 664	-	142 268
Floating rate	28 755	51 499	220 704	236 700	310 113	-	847 771
Investments in securities	-	531 692	89 432	484 734	1 622 084	24 569	2 752 511
Fixed rate	-	365 455	89 432	484 734	1 622 084	-	2 561 705
Floating rate	-	166 237	-	-	-	-	166 237
Non-interest bearing	-	-	-	-	-	24 569	24 569
Total interest sensitive assets	11 324 511	1 290 462	1 978 802	937 413	2 850 734	3 748 944	22 130 866
Fixed rate	348 955	1 058 981	1 757 901	700 457	2 455 168	-	6 321 462
Floating rate	10 975 556	231 481	220 901	236 956	395 566	-	12 060 460
Non-interest bearing	-	-	-	-	-	3 748 944	3 748 944
Deposits from banks	16 328	-	-	-	-	20 569	36 897
Fixed rate	1 152	-	-	-	-	-	1 152
Floating rate	15 176	-	-	-	-	-	15 176
Non-interest bearing	-	-	-	-	-	20 569	20 569
Derivative financial instruments	10 638	17 872	16 881	7	1 445	39 348	86 191
Floating rate	10 638	17 872	16 881	7	1 445	-	46 843
Non-interest bearing	-	-	-	-	-	39 348	39 348
Deposits from customers	19 145 800	19 811	29 365	-	-	11 816	19 206 792
Fixed rate	9 244	19 811	29 365	-	-	-	58 420
Floating rate	19 136 556	-	-	-	-	-	19 136 556
Non-interest bearing	-	-	-	-	-	11 816	11 816
Loans from banks and financial institutions	-	12 530	-	-	41 690	-	54 220
Floating rate	-	12 530	-	-	41 690	-	54 220
Lease liabilities	871	1 409	5 450	5 608	11 055	-	24 393
Fixed rate	871	1 409	5 450	5 608	11 055	-	24 393
Total interest sensitive liabilities	19 173 637	51 622	51 696	5 615	54 190	71 733	19 408 493
Fixed rate	11 267	21 220	34 815	5 608	11 055	-	83 965
Floating rate	19 162 370	30 402	16 881	7	43 135	-	19 252 795
Non-interest bearing	-	-	-	-	-	71 733	71 733

Exposure to interest rate risk table as of 31 December 2019

	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
<i>In thousands of BGN</i>							
Cash and current accounts with the Central Bank and other banks	430 563	-	-	-	-	2 276 628	2 707 191
Fixed rate	394 023	-	-	-	-	-	394 023
Floating rate	36 540	-	-	-	-	-	36 540
Non-interest bearing	-	-	-	-	-	2 276 628	2 276 628
Trading financial assets	20 719	158	6 345	66 179	114 917	-	208 318
Fixed rate	20 719	158	6 345	66 179	114 917	-	208 318
Derivative financial instruments	4 460	2 597	2 921	-	-	21 558	31 536
Floating rate	4 460	2 597	2 921	-	-	-	9 978
Non-interest bearing	-	-	-	-	-	21 558	21 558
Loans and advances to banks	121 198	-	20 747	2 809 311	-	-	2 951 256
Fixed rate	119 184	-	20 717	2 809 311	-	-	2 949 212
Floating rate	2 014	-	30	-	-	-	2 044
Loans and advances to customers	8 578 763	1 769 947	252 945	205 854	995 999	24 433	11 827 941
Fixed rate	199 792	74 287	246 614	205 854	995 999	-	1 722 546
Floating rate	8 378 971	1 695 660	6 331	-	-	-	10 080 962
Non-interest bearing	-	-	-	-	-	24 433	24 433
Receivables under factoring agreements	172 267	47 542	2 769	-	-	-	222 578
Fixed rate	5 154	2 848	-	-	-	-	8 002
Floating rate	167 113	44 694	2 769	-	-	-	214 576
Net receivables from finance lease	28 867	68 026	266 800	644 701	42 409	-	1 050 803
Fixed rate	4 220	9 906	38 552	101 632	846	-	155 156
Floating rate	24 647	58 120	228 248	543 069	41 563	-	895 647
Non-interest bearing	-	-	-	-	-	-	-
Investments in securities	155 243	263 318	106 236	90 591	1 192 210	24 895	1 832 493
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	-	-	-	-	-	24 895	24 895
Total interest sensitive assets	9 512 080	2 151 588	658 763	3 816 636	2 345 535	2 347 514	20 832 116
Fixed rate	898 335	176 353	418 464	3 273 567	2 303 972	-	7 070 691
Floating rate	8 613 745	1 975 235	240 299	543 069	41 563	-	11 413 911
Non-interest bearing	-	-	-	-	-	2 347 514	2 347 514
Deposits from banks	73 110	-	-	-	-	4 447	77 557
Fixed rate	64 668	-	-	-	-	-	64 668
Floating rate	8 442	-	-	-	-	-	8 442
Non-interest bearing	-	-	-	-	-	4 447	4 447
Derivative financial instruments	3 946	9 945	8 781	-	-	20 821	43 493
Floating rate	3 946	9 945	8 781	-	-	-	22 672
Non-interest bearing	-	-	-	-	-	20 821	20 821
Deposits from customers	17 050 254	245 029	489 659	66 927	17 380	8 389	17 877 638
Fixed rate	4 550 792	245 029	489 659	66 927	17 380	-	5 369 787
Floating rate	12 499 462	-	-	-	-	-	12 499 462
Non-interest bearing	-	-	-	-	-	8 389	8 389
Loans from financial institutions	8 370	38	71 506	88 012	91 329	25 952	285 207
Fixed rate	-	-	11 735	-	-	-	11 735
Floating rate	8 370	38	59 771	88 012	91 329	-	247 520
Non-interest bearing	-	-	-	-	-	25 952	25 952
Lease liabilities	1 272	3 064	11 072	25 581	23 887	290	65 166
Fixed rate	658	1 709	5 630	18 838	3 578	-	30 413
Floating rate	614	1 355	5 442	6 743	20 309	-	34 463
Non-interest bearing	-	-	-	-	-	290	290
Total interest sensitive liabilities	17 136 952	258 076	581 018	180 520	132 596	59 899	18 349 061
Fixed rate	4 616 118	246 738	507 024	85 765	20 958	-	5 476 603
Floating rate	12 520 834	11 338	73 994	94 755	111 638	-	12 812 559
Non-interest bearing	-	-	-	-	-	59 899	59 899

Financial assets and liabilities in the table above are grouped by the earlier of the next contractual repricing date or maturity date.

In 2020 the Group reviewed its risk management policy in regards to the interest rate risk in the banking book (IRRBB) and aligned it with the requirements of the European Banking Authority

(EBA/GL/2018/02). The Bank measures the exposure to the IRRBB by calculating two main indicators – change in the net interest income (earning based indicator) and change in the economic value of equity (value-based indicator) under the interest rate scenarios specified in the EBA guidelines. They represent the sensitivity of DSK Bank’s earnings and equity to market interest rates changes. Based on this approach for management of the interest rate risk in the banking book the effect on equity and net interest income from the supervisory outlier test, parallel shift of interest rates by 200 bp, is presented in the table below:

	Net interest income		Equity	
	200 bp increase	200 bp decrease	200 bp increase	200 bp decrease
<i>Effect in thousands of BGN</i>				
31 December 2020				
As at 31 December	(3 342)	(1 979)	55 883	1 374
31 December 2019				
As at 31 December	(28 655)	(11 034)	18 643	23 666

(2) *Exchange rate risk*

The Group 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 Group’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 Group senior management sets limits on maximum open positions - total and by currency, stop-loss and VaR (Value at Risk) to manage the Bank Group’s exchange rate risk. Bank Group’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 Group.

The Group 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 Group uses historical observations for currency exchange changes for 250 working days.

The statistics of the model for 2020 and 2019 are as follows:

<i>In thousands of BGN</i>	2020	2019
At 31 December	14	5
Average for the period	21	29
Maximum for the period	122	65
Minimum for the period	1	5

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, the Group manages the 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 Group. The Group'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 Group considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes.

Non-legislative moratorium in COVID-19 crisis

In 2020 the coronavirus pandemic reached Europe. As a result lockdowns were implemented in a number of European countries, incl. Bulgaria, where state of emergency entered into effect on March 13th 2020. To support the credit situation of clients with loans, and in line with the EBA *Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis*, DSK Bank, OTP Leasing and DSK Leasing offered to their clients renegotiation instruments, mainly under the non-legislative moratorium. DSK Bank also applies its own forbearance instruments, in which case the loans are classified and reported as forborne.

As set out in the EBA guidelines on payment moratoria, loans which have been granted a concession through the non-legislative general payment moratorium, or through any other modification (including any ongoingly provided forbearance measures) are identifiable and monitored.

Significant increase in credit risk

The Group 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 Group will measure the loss allowance based on lifetime rather than 12-month ECL.

In the context of the COVID-19 crisis the identification and measurement of credit risk had to address the specific situation of the loans included in the non-legislative moratorium in Bulgaria. For all loans in or outside of the moratorium DSK Bank continued estimating monthly whether a significant increase of credit risk has occurred. The assessment is performed either in the process of individual case-by-case monitoring and review, or in line with the automatic triggers applicable, such as days past due, default on other loans in the retail individuals segment (as long as it does not trigger a cross-default), watchlist status, forbearance (as long as it does not trigger NPL classification it serves as a Stage 2 trigger), or significant increase of credit risk determined based on the behavior PD model (the behavior model uses up-to-date information on account history, status of the loans in the Central Credit Registry, etc.).

As of 31 December 2020 the exposures with significant increase in credit risk identified based on the COVID-19 crisis impact have been determined in the non-retail segment on the grounds of the risk classification of the industry (e.g. hotels) and on case-by-case assessment of the borrowers' financial positions in the current environment. In retail, the assessment is based on the behavior PD estimation.

Unlikeliness-to-pay assessment

The Group performs a monthly unlikeliness to pay assessment to all the credit exposures. The monthly assessment includes also the exposures, which received concessions (both through the moratorium or through standard forbearance). In the retail segment this assessment is mostly driven by standard automated checks (cross-default, legal procedures against the borrower, constraints on accounts, etc.). For non-retail clients case-by-case analysis and monitoring checks apply.

The Group will start to apply the new definition of default in accordance with EBA/ GL/2016/07; EBA/RTS/2016/06; (EU) 2018/1845 as of 1 January 2021, which is the date it becomes effective. The new definition represents a change in accounting estimate and not a change in accounting policy, therefore it will not be applied retrospectively. The expected effect from the change is not material as it is less than 0.5% of the amortized cost of the loans granted by the Group. The effect is due mostly to the application of the objective criterion for default, which until the end of 2020 was based on the days past due counted from the date on which the past due amount first became due. As of 1 January 2021 the objective criterion for default will be based on the number of consecutive days for which there is a past due amount above a materiality threshold.

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

When determining the credit risk of a deal, the Group 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 Group 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 Group are three major types:

▪ **Application PD model**

The purpose of application PD model 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 model**

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 Group 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 Group has developed behaviour models for the individuals using mass products in the retail banking – mortgage loans, revolving and consumer loans. The Group enforces these types of models for managing of the loan portfolio.

▪ **Model 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 Group. When on the basis of the model high probability for deterioration of certain exposures is estimated, the Group undertakes actions to collect it with the aim for minimisation of risk.

▪ **Expert model**

The expert models for assessment of customers applying for credits is based on the experts' expectations regarding the reasonable parameters to be used, their weights and cut-off levels. Finally a matrix is determined, which provides the basis for pooling the customers into risk groups. The Group 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 Group has an expert models 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 (ECL)*

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 within OTP Group 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 Group'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 Group uses EAD models that reflect the characteristics of the portfolios.

The Group 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 contract 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 Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. For such financial instruments the Group 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 Group 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 Group 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 Group 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 Group monitors credit risk per class of financial instrument.

An analysis of the Group'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

	31-Dec-2020	31-Dec-2019
<i>In thousands of BGN</i>		
Concentration by sector		
Central banks	2 970 049	1 938 099
Other banks	2 490 093	3 080 539
Total	<u>5 460 142</u>	<u>5 018 638</u>
Concentration by region		
Europe	5 419 888	5 001 686
America	39 511	15 428
Asia	240	918
Australia	503	606
Total	<u>5 460 142</u>	<u>5 018 638</u>

Loans and advances to customers at amortised cost

	31-Dec-2020	31-Dec-2019
<i>In thousands of BGN</i>		
Concentration by sector		
Retail:		
Mortgages	3 522 220	3 208 981
Other retail loans	3 730 672	3 773 570
Corporate:		
Agriculture and forestry	336 290	283 230
Construction	200 500	198 975
Financial and insurance activities	50 660	104 145
Hotels and catering	360 345	394 212
Manufacturing	1 816 026	1 779 863
Real estate activities	480 561	386 767
State Budget	57 719	41 163
Trade and services	963 771	1 175 961
Transport and communications	116 557	170 845
Other industry sectors	312 671	310 229
Total	<u>11 947 992</u>	<u>11 827 941</u>
Concentration by region		
Europe	11 934 372	11 815 883
North America	5 595	5 958
Asia	6 503	5 041
Africa	1 108	643
Australia	315	341
South America	99	75
Total	<u>11 947 992</u>	<u>11 827 941</u>

Receivables under factoring agreements

	31-Dec-2020	31-Dec-2019
<i>In thousands of BGN</i>		
Corporate:		
Agriculture and forestry	1 166	626
Construction	3 134	1 936
Financial and insurance activities	577	257
Hotels and catering	-	3
Manufacturing	63 376	105 781
Trade and services	83 219	98 590
Transport and communications	7 888	10 117
Other industry sectors	19 739	5 268
Total	179 099	222 578
 Concentration by region		
Europe	177 328	220 380
North America	543	-
Asia	1 219	-
Africa	-	2 198
Australia	9	-
Total	179 099	222 578

Finance lease receivables

	31-Dec-2020	31-Dec-2019
<i>In thousands of BGN</i>		
Concentration by sector		
Retail:		
Households	194 781	233 330
Corporate:		
Agriculture and forestry	81 653	80 141
Construction	56 372	56 694
Financial activities	14 147	1 875
Hotels and catering	5 387	6 733
Manufacturing	70 124	78 034
Real estate activities	3 799	4 291
Trade and services	222 505	250 186
Transport and communications	281 194	310 077
Administrative and Support Service Activities	38 817	24 223
Other industry sectors	21 260	5 219
Total	990 039	1 050 803
 Concentration by region		
Europe	990 039	1 050 803
Total	990 039	1 050 803

Investments in securities

	31-Dec-2020	31-Dec-2019
<i>In thousands of BGN</i>		
Concentration by sector		
<i>Investments in instruments measured at fair value through other comprehensive income</i>		
Government debt securities	1 983 609	1 633 434
Equity instruments	18 614	12 596
<i>Investments in instruments mandatory measured at fair value through profit or loss</i>		
Equity instruments	565	12 299
Corporate debt securities	171 628	174 164
<i>Investments in instruments measured at amortized cost</i>		
Government debt securities	578 095	-
Total	<u>2 752 511</u>	<u>1 832 493</u>

Concentration by region

Europe	2 571 795	1 673 290
North America	122 117	159 203
Asia	58 599	-
Total	<u>2 752 511</u>	<u>1 832 493</u>

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

The Group 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

31-Dec-2020

31-Dec-2019

In thousands of BGN

Concentration by sector

Retail:

Mortgages	71 904	57 332
Other retail loans	319 255	315 100

Corporate:

Agriculture and forestry	120 557	99 024
Construction	280 192	240 491
Financial and insurance activities	74 784	74 661
Hotels and catering	17 575	51 145
Manufacturing	1 049 099	704 883
Real estate activities	98 596	36 698
State Budget	16 302	10 431
Trade and services	707 178	673 032
Transport and communications	199 118	185 977
Other industry sectors	132 683	117 601

Total

3 087 243

2 566 375

Concentration by region

Europe	3 086 922	2 565 677
North America	29	56
Asia	188	204
Africa	78	407
Oceania	23	24
South America	3	7

Total

3 087 243

2 566 375

Factoring agreement commitments

	31-Dec-2020	31-Dec-2019
<i>In thousands of BGN</i>		
Concentration by sector		
Corporate:		
Agriculture and forestry	3 793	1 920
Construction	11 689	6 563
Financial and insurance activities	202	237
Hotels and catering	-	1 625
Manufacturing	205 149	162 257
Real estate activities	100	-
State Budget	4 500	4 500
Trade and services	95 202	48 554
Transport and communications	18 251	3 078
Other industry sectors	15 953	4 802
Total	354 839	233 536
Concentration by region		
Europe	345 834	229 547
North America	2 424	1 760
Asia	2 759	1 037
Africa	3 440	-
Oceania	382	-
South America	-	1 192
Total	354 839	233 536

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

An analysis of the Group'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 instruments 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 before they are accepted by the Management of the Group as adequate for the purpose of estimation of increased credit risk from initial recognition.

Loans and advances to banks at amortised cost

	31-Dec-2020			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
<i>In thousands of BGN</i>				
Grades 1-3: Low risk	5 466 111	-	-	5 466 111
Total gross carrying amount	5 466 111	-	-	5 466 111
Loss allowance	(5 969)	-	-	(5 969)
Carrying amount	5 460 142	-	-	5 460 142

	31-Dec-2019			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
<i>In thousands of BGN</i>				
Grades 1-3: Low risk	5 019 610	-	-	5 019 610
Total gross carrying amount	5 019 610	-	-	5 019 610
Loss allowance	(972)	-	-	(972)
Carrying amount	5 018 638	-	-	5 018 638

Loans and advances to customers at amortised cost

31-Dec-2020

	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	Lifetime ECL	
<i>In thousands of BGN</i>					
Grades 1-3: Low risk	5 169 322	167 065	-	332	5 336 719
Grades 4-6: Moderate risk	4 393 790	525 403	-	1 250	4 920 443
Grades 7-8: Increased risk	491 873	520 175	-	1 394	1 013 442
Grade 9: High risk	3 322	181 424	-	893	185 639
Grade 10: Default	-	-	995 749	59 846	1 055 595
Municipality, PSE	64 650	-	-	-	64 650
Not rated	349 543	23 760	-	239	373 542
Total gross carrying amount	10 472 500	1 417 827	995 749	63 954	12 950 030
Loss allowance	(101 748)	(173 675)	(692 419)	(34 196)	(1 002 038)
Carrying amount	10 370 752	1 244 152	303 330	29 758	11 947 992

31-Dec-2019

	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	Lifetime ECL	
<i>In thousands of BGN</i>					
Grades 1-3: Low risk	4 689 780	60 237	1 277	377	4 751 671
Grades 4-6: Moderate risk	4 144 053	60 159	2 103	511	4 206 826
Grades 7-8: Increased risk	1 214 032	218 209	7 524	1 066	1 440 831
Grade 9: High risk	77 474	199 984	15 622	1 230	294 310
Grade 10: Default	-	-	897 553	20 103	917 656
Municipality, PSE	49 207	-	865	-	50 072
Not rated	932 190	14 008	55 997	28 112	1 030 307
Total gross carrying amount	11 106 736	552 597	980 941	51 399	12 691 673
Loss allowance	(117 096)	(48 254)	(676 161)	(22 221)	(863 732)
Carrying amount	10 989 640	504 343	304 780	29 178	11 827 941

Receivables under factoring agreements

	31-Dec-2020			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
<i>In thousands of BGN</i>				
Grades 1-3: Low risk	4 199	7 878	-	12 077
Grades 4-6: Moderate risk	6 578	26 080	-	32 658
Grades 7-8: Substandard	170	132	-	302
Grade 9: Doubtful	-	-	-	-
Grade 10: Default	-	-	1 125	1 125
Not rated	120 761	31 585	-	152 346
Total gross carrying amount	131 708	65 675	1 125	198 508
Loss allowance	(1 866)	(16 841)	(702)	(19 409)
Carrying amount	129 842	48 834	423	179 099

	31-Dec-2019				Total
	Stage 1	Stage 2	Stage 3	POCI	
	12-month ECL	Lifetime ECL	Lifetime ECL	Lifetime ECL	
<i>In thousands of BGN</i>					
Grades 1-3: Low risk	157 548	-	-	-	157 548
Grades 4-6: Moderate risk	8 606	37	-	-	8 643
Grades 7-8: Substandard	57 481	-	-	-	57 481
Grade 9: Doubtful	-	171	-	-	171
Grade 10: Default	-	-	13	48	61
Not_Rated	263	-	-	-	263
Total gross carrying amount	223 898	208	13	48	224 167
Loss allowance	(1 571)	(5)	(13)	-	(1 589)
Carrying amount	222 327	203	-	48	222 578

Finance lease receivables

	31-Dec-2020				
	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	Lifetime ECL	
<i>In thousands of BGN</i>					
Grades 1-3: Low risk	698 218	83 892	-	-	782 110
Grades 4-6: Moderate risk	165 095	32 036	1 835	-	198 966
Grade 10: Default	-	-	31 077	7 747	38 824
Total gross carrying amount	863 313	115 928	32 912	7 747	1 019 900
Loss allowance	(6 132)	(9 395)	(11 345)	(2 989)	(29 861)
Carrying amount	857 181	106 533	21 567	4 758	990 039

	31-Dec-2019				
	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	Lifetime ECL	
<i>In thousands of BGN</i>					
Grades 1-3: Low risk	781 256	39 025	-	-	820 281
Grades 4-6: Moderate risk	158 958	39 869	1 854	-	200 681
Grade 10: Default	-	-	25 371	11 391	36 762
Total gross carrying amount	940 214	78 894	27 225	11 391	1 057 724
Loss allowance	(2 255)	(786)	(3 609)	(271)	(6 921)
Carrying amount	937 959	78 108	23 616	11 120	1 050 803

Investments in securities

	31-Dec-2020			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
<i>In thousands of BGN</i>				
<i>Investments in instruments measured at fair value through other comprehensive income</i>				
Grades 1-3: Low risk	2 002 223	-	-	2 002 223
<i>Investments in instruments mandatory measured at fair value through profit or loss</i>				
Grades 1-3: Low risk	172 193	-	-	172 193
<i>Investments in instruments measured at amortized cost</i>				
Grades 1-3: Low risk	578 095	-	-	578 095
Total carrying amount	2 752 511	-	-	2 752 511
Loss allowance	(4 711)	-	-	(4 711)

	31-Dec-2019			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
<i>In thousands of BGN</i>				
<i>Investments in instruments measured at fair value through other comprehensive income</i>				
Grades 1-3: Low risk	1 646 030	-	-	1 646 030
<i>Investments in instruments mandatory measured at fair value through profit or loss</i>				
Grades 1-3: Low risk	186 463	-	-	186 463
Total carrying amount	1 832 493	-	-	1 832 493
Loss allowance	(859)	-	-	(859)

Loan commitments and financial guarantee contracts

31-Dec-2020

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
<i>In thousands of BGN</i>				
Grades 1-3: Low risk	1 387 486	18 720	-	1 406 206
Grades 4-6: Moderate risk	1 248 662	35 604	-	1 284 266
Grades 7-8: Increased risk	119 432	9 754	-	129 186
Grade 9: High risk	1 457	3 722	-	5 179
Grade 10: Default	-	-	8 579	8 579
Municipality, PSE	15 636	-	-	15 636
Not rated	237 377	814	-	238 191
Total amount committed	3 010 050	68 614	8 579	3 087 243
Loss allowance	(24 263)	(2 746)	(3 639)	(30 648)

31-Dec-2019

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
<i>In thousands of BGN</i>				
Grades 1-3: Low risk	1 141 281	10 882	74	1 152 237
Grades 4-6: Moderate risk	858 212	3 639	131	861 982
Grades 7-8: Increased risk	147 299	6 641	95	154 035
Grade 9: High risk	3 310	8 330	40	11 680
Grade 10: Default	-	-	9 369	9 369
Municipality, PSE	15 206	-	-	15 206
Not rated	338 261	1 439	22 166	361 866
Total amount committed	2 503 569	30 931	31 875	2 566 375
Loss allowance	(26 585)	(2 222)	(12 696)	(41 503)

Factoring agreement commitments

31-Dec-2020

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
<i>In thousands of BGN</i>				
Grades 1-3: Low risk	23 558	2 385	-	25 943
Grades 4-6: Moderate risk	12 431	3 867	-	16 298
Grades 7-8: Increased risk	1 854	533	-	2 387
Grade 9: High risk	-	-	-	-
Grade 10: Default	-	-	926	926
Not rated	295 425	13 860	-	309 285
Total amount committed	333 268	20 645	926	354 839
Loss allowance	(3 428)	(2 686)	(401)	(6 515)

31-Dec-2019

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
<i>In thousands of BGN</i>				
Grades 1-3: Low risk	35 986	150	-	36 136
Grades 4-6: Moderate risk	18 543	13	-	18 556
Grades 7-8: Increased risk	173 635	-	-	173 635
Grade 9: High risk	-	129	-	129
Grade 10: Default	-	-	225	225
Not rated	4 855	-	-	4 855
Total amount committed	233 019	292	225	233 536
Loss allowance	(3 499)	(5)	(53)	(3 557)

The next table summarises the loss allowance as of the year end of financial assets, as well as the provisions for guarantees and contracted unused loan commitments by type of exposure.

Loss allowance or provision by type of exposure

	31-Dec-2020	31-Dec-2019
<i>In thousands of BGN</i>		
Loans and advances to banks at amortised cost	(5 969)	(972)
Loans and advances to customers at amortised cost	(1 002 038)	(863 732)
Receivables under factoring agreements	(19 409)	(1 589)
Receivables from finance lease	(29 861)	(6 921)
Investments in securities	(4 711)	(859)
Loan commitments and financial guarantee contracts	(37 163)	(45 060)
Total	(1 099 151)	(919 133)

Loss allowance - Loans and advances to banks at amortised cost

	31-Dec-2020			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
<i>In thousands of BGN</i>				
Loss allowance as at 31 December 2019	(456)	-	-	(456)
Changes in the loss allowance				
New financial assets originated or purchased	(5 969)	-	-	(5 969)
Financial assets that have been derecognised	456	-	-	456
Loss allowance as at 31 December 2020	(5 969)	-	-	(5 969)

	31-Dec-2019			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
<i>In thousands of BGN</i>				
Loss allowance as at 31 December 2018	(397)	-	-	(397)
Changes in the loss allowance	-	-	-	-
New financial assets originated or purchased	(972)	-	-	(972)
Financial assets that have been derecognised	397	-	-	397
Loss allowance as at 31 December 2019	(972)	-	-	(972)

Loss allowance - Loans and advances to customers at amortised cost

31-Dec-2020

	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month	Lifetime	Lifetime	Lifetime	
	ECL	ECL	ECL	ECL	
<i>In thousands of BGN</i>					
Loss allowance as at 31 December 2019	(117 096)	(48 254)	(676 161)	(22 221)	(863 732)
Changes in the loss allowance					
Transfer to stage 1	(11 863)	8 168	3 695	-	-
Transfer to stage 2	8 822	(19 481)	10 659	-	-
Transfer to stage 3	1 014	9 890	(10 904)	-	-
Increases due to change in credit risk	(12 480)	(92 803)	(213 719)	(25 059)	(344 061)
Decreases due to change in credit risk	32 999	8 238	68 979	-	110 216
Write-offs	-	-	124 046	13 084	137 130
New financial assets originated or purchased	(22 639)	(46 154)	(47 671)	-	(116 464)
Financial assets that have been derecognised	19 495	6 721	48 657	-	74 873
Loss allowance as at 31 December 2020	(101 748)	(173 675)	(692 419)	(34 196)	(1 002 038)

31-Dec-2019

	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month	Lifetime	Lifetime	Lifetime	
	ECL	ECL	ECL	ECL	
<i>In thousands of BGN</i>					
Loss allowance as at 31 December 2018	(101 638)	(41 381)	(619 037)	-	(762 056)
Changes in the loss allowance					
Transfer to stage 1	(9 515)	6 612	2 903	-	-
Transfer to stage 2	9 659	(25 796)	16 137	-	-
Transfer to stage 3	30 548	9 295	(39 843)	-	-
Increases due to change in credit risk	(28 747)	(15 865)	(125 609)	-	(170 221)
Decreases due to change in credit risk	41 226	21 625	75 308	-	138 159
Write-offs	-	-	36 273	-	36 273
New financial assets originated or purchased	(79 804)	(9 441)	(93 142)	(22 221)	(204 608)
Financial assets that have been derecognised	21 175	6 697	70 849	-	98 721
Loss allowance as at 31 December 2019	(117 096)	(48 254)	(676 161)	(22 221)	(863 732)

Loss Allowance - Receivables under factoring agreements

	31-Dec-2020			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
<i>In thousands of BGN</i>				
Loss allowance as at 31 December 2019	(1 571)	(5)	(13)	(1 589)
Changes in the loss allowance	-	-	-	-
Transfer to stage 1	(13)	-	13	-
Transfer to stage 2	52	(52)	-	-
Transfer to stage 3	21	-	(21)	-
Increases due to change in credit risk	(352)	(3)	(1 334)	(1 689)
Decreases due to change in credit risk	1 035	17	3	1 055
New financial assets purchased or originated	(1 102)	(16 803)	(113)	(18 018)
Financial assets that have been derecognised	64	5	763	832
Loss allowance as at 31 December 2020	(1 866)	(16 841)	(702)	(19 409)

	31-Dec-2019			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
<i>In thousands of BGN</i>				
Loss allowance as at 31 December 2018	(346)	(1)	-	(347)
Changes in the loss allowance	-	-	-	-
Transfer to stage 1	(1)	1	-	-
Transfer to stage 2	2	(2)	-	-
Transfer to stage 3	13	-	(13)	-
Increases due to change in credit risk	(423)	(3)	-	(426)
Decreases due to change in credit risk	59	-	-	59
New financial assets purchased or originated	(995)	-	-	(995)
Financial assets that have been derecognised	120	-	-	120
Loss allowance as at 31 December 2019	(1 571)	(5)	(13)	(1 589)

Loss allowance – Finance lease receivables

	31-Dec-2020				Total
	Stage 1	Stage 2	Stage 3	POCI	
	12-month ECL	Lifetime ECL	Lifetime ECL	Lifetime ECL	
<i>In thousands of BGN</i>					
Loss allowance as at 31 December 2019	(2 255)	(786)	(3 609)	(271)	(6 921)
Changes in the loss allowance	-	-	-	-	-
Transfer to stage 1	(380)	389	(9)	-	-
Transfer to stage 2	243	(471)	228	-	-
Transfer to stage 3	34	405	(439)	-	-
Increases due to change in credit risk	(1 690)	(6 970)	(5 554)	(2 535)	(16 749)
Decreases due to change in credit risk	(23)	(67)	(127)	-	(217)
New financial assets originated or purchased	(2 092)	(2 084)	(2 020)	-	(6 196)
Financial assets that have been derecognised	31	189	185	(183)	222
Loss allowance as at 31 December 2020	(6 132)	(9 395)	(11 345)	(2 989)	(29 861)

	31-Dec-2019				Total
	Stage 1	Stage 2	Stage 3	POCI	
	12-month ECL	Lifetime ECL	Lifetime ECL	Lifetime ECL	
<i>In thousands of BGN</i>					
Loss allowance as at 31 December 2018	(1 022)	(267)	(831)	-	(2 120)
Changes in the loss allowance	-	-	-	-	-
Transfer to stage 1	(73)	11	61	1	-
Transfer to stage 2	1 324	(1 325)	-	1	-
Transfer to stage 3	2 476	52	(2 528)	-	-
Increases due to change in credit risk	(5 633)	(4)	(97)	(325)	(6 059)
Decreases due to change in credit risk	740	911	170	-	1 821
New financial assets originated or purchased	(212)	(319)	(625)	-	(1 156)
Financial assets that have been derecognised	145	155	241	52	593
Loss allowance as at 31 December 2019	(2 255)	(786)	(3 609)	(271)	(6 921)

Loss allowance – Debt securities at fair value through other comprehensive income

31-Dec-2020

	Stage 1	Stage 2	Stage 3	Total
	12-month	Lifetime	Lifetime	
	ECL	ECL	ECL	

In thousands of BGN

Loss allowance as at 31 December 2019	(859)	-	-	(859)
Changes in the loss allowance				
Increases due to change in credit risk	(3 658)	-	-	(3 658)
Decreases due to change in credit risk	2 062	-	-	2 062
New financial assets originated or purchased	(2 438)	-	-	(2 438)
Financial assets that have been derecognised	182	-	-	182
Loss allowance as at 31 December 2020	(4 711)	-	-	(4 711)

31-Dec-2019

	Stage 1	Stage 2	Stage 3	Total
	12-month	Lifetime	Lifetime	
	ECL	ECL	ECL	

In thousands of BGN

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)

Loss allowance - Loan commitments and financial guarantee contracts

	31-Dec-2020			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
<i>In thousands of BGN</i>				
Loss allowance as at 31 December 2019	(26 585)	(2 222)	(12 696)	(41 503)
Acquisition of subsidiaries	-	-	-	-
Changes in the loss allowance				
Transfer to stage 1	(1 118)	967	151	-
Transfer to stage 2	652	(718)	66	-
Transfer to stage 3	39	41	(80)	-
Increases due to change in credit risk	(455)	(392)	(1 075)	(1 922)
Decreases due to change in credit risk	6 338	59	55	6 452
Write-offs	-	-	-	-
New loan commitments originated or purchased	(6 763)	(755)	8 627	1 109
Financial assets that have been derecognised	3 629	274	1 313	5 216
Loss allowance as at 31 December 2020	(24 263)	(2 746)	(3 639)	(30 648)

	31-Dec-2019			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
<i>In thousands of BGN</i>				
Loss allowance as at 31 December 2018	(11 601)	(354)	(2 573)	(14 528)
Acquisition of subsidiaries	(4 514)	(309)	(5 344)	(10 167)
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	(9 744)	(1 072)	(8 067)	(18 883)
Decreases due to change in credit risk	3 366	106	1 003	4 475
Write-offs	2 971	89	2 324	5 384
New loan commitments originated or purchased	(10 020)	(731)	(389)	(11 140)
Financial assets that have been derecognised	3 023	108	225	3 356
Loss allowance as at 31 December 2019	(26 585)	(2 222)	(12 696)	(41 503)

Loss allowance - Factoring agreement commitments

	31-Dec-2020			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
<i>In thousands of BGN</i>				
Loss allowance as at 31 December 2019	(3 499)	(5)	(53)	(3 557)
Changes in the loss allowance				
Transfer to stage 1	(3)	3	-	-
Transfer to stage 2	31	(31)	-	-
Transfer to stage 3	22	-	(22)	-
Increases due to change in credit risk	(294)	(1)	(214)	(509)
Decreases due to change in credit risk	874	5	-	879
New loan commitments originated or purchased	(739)	(2 659)	(112)	(3 510)
Financial assets that have been derecognised	180	2	-	182
Loss allowance as at 31 December 2020	(3 428)	(2 686)	(401)	(6 515)

	31-Dec-2019			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
<i>In thousands of BGN</i>				
Loss allowance as at 31 December 2018	(472)	(2)	(7)	(481)
Changes in the loss allowance				
Increases due to change in credit risk	(1 025)	(3)	(46)	(1 074)
Decreases due to change in credit risk	50	-	-	50
New loan commitments originated or purchased	(2 126)	-	-	(2 126)
Financial assets that have been derecognised	74	-	-	74
Loss allowance as at 31 December 2019	(3 499)	(5)	(53)	(3 557)

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-2020			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
<i>In thousands of BGN</i>				
Gross carrying amount as at 31 December 2019	5 019 610	-	-	5 019 610
Changes in the gross carrying amount				
Increases due to change in credit risk	1 888 509	-	-	1 888 509
Decreases due to change in credit risk	(4 489)	-	-	(4 489)
New financial assets originated or purchased	3 410 256	-	-	3 410 256
Financial assets that have been derecognised	(4 847 775)	-	-	(4 847 775)
Gross carrying amount as at 31 December 2020	5 466 111	-	-	5 466 111
Loss allowance as at 31 December 2020	(5 969)	-	-	(5 969)

	31-Dec-2019			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
<i>In thousands of BGN</i>				
Gross carrying amount as at 31 December 2018	4 668 045	-	-	4 668 045
Changes in the gross carrying amount				
Acquisition of subsidiaries	683 448	-	-	683 448
Increases due to change in credit risk	22 813	-	-	22 813
Decreases due to change in credit risk	(1 585 721)	-	-	(1 585 721)
New financial assets originated or purchased	3 836 630	-	-	3 836 630
Financial assets that have been derecognised	(2 605 605)	-	-	(2 605 605)
Gross carrying amount as at 31 December 2019	5 019 610	-	-	5 019 610
Loss allowance as at 31 December 2019	(972)	-	-	(972)

Loans and advances to customers at amortised cost

	31-Dec-2020				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	Total
<i>In thousands of BGN</i>					
Gross carrying amount as at 31 December 2019	11 106 736	552 597	980 941	51 399	12 691 673
Changes in the gross carrying amount					
Transfer to stage 1	125 810	(117 013)	(8 797)	-	-
Transfer to stage 2	(770 171)	797 648	(27 477)	-	-
Transfer to stage 3	(88 474)	(88 124)	176 598	-	-
Increases due to change in credit risk	1 171 144	36 151	22 252	13 401	1 242 948
Decreases due to change in credit risk	(936 955)	(73 495)	(28 475)	-	(1 038 925)
Write-offs	-	-	(124 046)	(13 084)	(137 130)
New financial assets purchased or originated	1 526 726	377 043	97 336	13 088	2 014 193
Financial assets that have been derecognised	(1 662 316)	(66 980)	(92 583)	(850)	(1 822 729)
Gross carrying amount as at 31 December 2020	10 472 500	1 417 827	995 749	63 954	12 950 030
Loss allowance as at 31 December 2020	(101 748)	(173 675)	(692 419)	(34 196)	(1 002 038)
	31-Dec-2019				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	Total
<i>In thousands of BGN</i>					
Gross carrying amount as at 31 December 2018	6 808 412	465 393	946 645	-	8 220 450
Changes in the gross carrying amount					
Acquisition of subsidiaries	3 766 980	-	-	82 634	3 849 614
Transfer to stage 1	142 108	(133 819)	(8 289)	-	-
Transfer to stage 2	(218 425)	261 492	(43 067)	-	-
Transfer to stage 3	(100 538)	(65 035)	165 573	-	-
Increases due to change in credit risk	436 700	55 926	24 338	28 246	545 210
Decreases due to change in credit risk	(1 095 607)	(56 619)	(73 618)	-	(1 225 844)
Write-offs	-	-	(36 273)	-	(36 273)
New financial assets purchased or originated	3 884 152	81 188	140 426	-	4 105 766
Financial assets that have been derecognised	(2 517 046)	(55 929)	(134 794)	(59 481)	(2 767 250)
Gross carrying amount as at 31 December 2019	11 106 736	552 597	980 941	51 399	12 691 673
Loss allowance as at 31 December 2019	(117 096)	(48 254)	(676 161)	(22 221)	(863 732)

Receivables under factoring agreements

	31-Dec-2020				Total
	Stage 1	Stage 2	Stage 3	POCI	
	12-month ECL	Lifetime ECL	Lifetime ECL	Lifetime ECL	
<i>In thousands of BGN</i>					
Gross carrying amount as at 31 December 2019	223 898	208	13	48	224 167
Changes in the gross carrying amount					
Transfer to stage 1	20	-	(20)		-
Transfer to stage 2	(2 341)	2 341	-		-
Transfer to stage 3	(1 133)	-	1 133		-
Increases due to change in credit risk	91 701	605	471	-	92 777
Decreases due to change in credit risk	(110 290)	(463)	(623)	-	(111 376)
New financial assets originated or purchased	33 495	18	32	-	33 545
Financial assets that have been derecognised	(103 642)	62 966	119	(48)	(40 605)
Gross carrying amount as at 31 December 2020	131 708	65 675	1 125	-	198 508
Loss allowance as at 31 December 2020	(1 866)	(16 841)	(702)	-	(19 409)

	31-Dec-2019				Total
	Stage 1	Stage 2	Stage 3	POCI	
	12-month ECL	Lifetime ECL	Lifetime ECL	Lifetime ECL	
<i>In thousands of BGN</i>					
Gross carrying amount as at 31 December 2018	38 407	108	-	-	38 515
Changes in the gross carrying amount					
Acquisition of subsidiaries	149 034	-	-	48	149 082
Transfer to stage 1	68	(68)	-	-	-
Transfer to stage 2	(231)	231	-	-	-
Transfer to stage 3	(33)	-	33	-	-
Increases due to change in credit risk	10 448	3	-	-	10 451
Decreases due to change in credit risk	(9 850)	(66)	(20)	-	(9 936)
New financial assets originated or purchased	65 918	-	-	-	65 918
Financial assets that have been derecognised	(29 863)	-	-	-	(29 863)
Gross carrying amount as at 31 December 2019	223 898	208	13	48	224 167
Loss allowance as at 31 December 2019	(1 571)	(5)	(13)	-	(1 589)

Lease receivables

	31-Dec-2020				Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	
<i>In thousands of BGN</i>					
Gross carrying amount as at 31 December 2019	940 214	78 894	27 225	11 391	1 057 724
Changes in the gross carrying amount					
Transfer to stage 1	14 333	(14 930)	597	-	-
Transfer to stage 2	(65 499)	71 678	(6 179)	-	-
Transfer to stage 3	(9 900)	(11 114)	21 014	-	-
Decreases due to change in credit risk	(131 920)	(24 491)	(6 747)	(3 387)	(166 545)
New financial assets originated or purchased	251 981	25 330	5 303	-	282 614
Financial assets that have been derecognised	(135 896)	(9 439)	(8 301)	(257)	(153 893)
Gross carrying amount as at 31 December 2020	863 313	115 928	32 912	7 747	1 019 900
Loss allowance as at 31 December 2020	(6 132)	(9 395)	(11 345)	(2 989)	(29 861)

	31-Dec-2019				Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	
<i>In thousands of BGN</i>					
Gross carrying amount as at 31 December 2018	147 765	3 745	6 298	-	157 808
Changes in the gross carrying amount					
Acquisition of subsidiaries	768 258	-	-	37 101	805 359
Transfer to stage 1	2 400	(2 055)	(345)	-	-
Transfer to stage 2	(100 651)	100 662	(11)	-	-
Transfer to stage 3	(15 348)	(5 755)	21 103	-	-
Increases due to change in credit risk	8 365	-	549	-	8 914
Decreases due to change in credit risk	(37 553)	(19 342)	(2 811)	(19 873)	(79 579)
New financial assets originated or purchased	241 935	4 308	5 416	-	251 659
Financial assets that have been derecognised	(74 957)	(2 669)	(2 974)	(5 837)	(86 437)
Gross carrying amount as at 31 December 2019	940 214	78 894	27 225	11 391	1 057 724
Loss allowance as at 31 December 2019	(2 255)	(786)	(3 609)	(271)	(6 921)

Investments in securities

	31-Dec-2020			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
<i>In thousands of BGN</i>				
Carrying amount as at 31 December 2019	1 646 030	-	-	1 646 030
Changes in the carrying amount				
Fair value net change	(32 530)	-	-	(32 530)
New financial assets originated or purchased	1 317 452	-	-	1 317 452
Financial assets that have been derecognised	(350 634)	-	-	(350 634)
Carrying amount as at 31 December 2020	2 580 318	-	-	2 580 318
Loss allowance as at 31 December 2020	(4 711)	-	-	(4 711)

	31-Dec-2019			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
<i>In thousands of BGN</i>				
Carrying amount as at 31 December 2018	1 086 997	-	-	1 086 997
Changes in the carrying amount				
Acquisition of subsidiaries	706 943	-	-	706 943
Increases due to change in credit risk	46 092	-	-	46 092
Decreases due to change in credit risk	(21 956)	-	-	(21 956)
New financial assets originated or purchased	22 364	-	-	22 364
Financial assets that have been derecognised	(194 410)	-	-	(194 410)
Carrying amount as at 31 December 2019	1 646 030	-	-	1 646 030
Loss allowance as at 31 December 2019	(859)	-	-	(859)

Loan commitments and financial guarantee contracts

	31-Dec-2020			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
<i>In thousands of BGN</i>				
Total amount committed as at 31 December 2019	2 503 569	30 931	31 875	2 566 375
Changes in the amount committed				
Transfer to stage 1	16 227	(15 721)	(506)	-
Transfer to stage 2	(82 249)	82 427	(178)	-
Transfer to stage 3	(4 705)	(7 732)	12 437	-
Increases due to change in credit risk	81 702	855	543	83 100
Decreases due to change in credit risk	(38 874)	(47 165)	(7 598)	(93 637)
New loan commitments originated or purchased	854 209	35 590	(7 150)	882 649
Financial assets that have been derecognised	(319 829)	(10 571)	(20 844)	(351 244)
Total amount committed as at 31 December 2020	3 010 050	68 614	8 579	3 087 243
Loss allowance as at 31 December 2020	(24 263)	(2 746)	(3 639)	(30 648)

	31-Dec-2019			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
<i>In thousands of BGN</i>				
Total amount committed as at 31 December 2018	1 497 296	16 931	9 173	1 523 400
Changes in the amount committed				
Acquisition of subsidiaries	1 375 894	6 104	24 905	1 406 903
Transfer to stage 1	4 862	(4 324)	(538)	-
Transfer to stage 2	(9 539)	9 576	(37)	-
Transfer to stage 3	(1 294)	(207)	1 501	-
Increases due to change in credit risk	188 196	9 837	3 608	201 641
Decreases due to change in credit risk	(701 147)	(7 181)	(6 247)	(714 575)
New loan commitments originated or purchased	502 613	5 919	308	508 840
Financial assets that have been derecognised	(353 312)	(5 724)	(798)	(359 834)
Total amount committed as at 31 December 2019	2 503 569	30 931	31 875	2 566 375
Loss allowance as at 31 December 2019	(26 585)	(2 222)	(12 696)	(41 503)

Factoring agreement commitments

	31-Dec-2020			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
<i>In thousands of BGN</i>				
Total amount committed as at 31 December 2019	233 019	292	225	233 536
Transfer to stage 1	150	(150)	-	-
Transfer to stage 2	(1 876)	1 876	-	-
Transfer to stage 3	(1 291)	-	1 291	-
Increases due to change in credit risk	31 814	-	-	31 814
Decreases due to change in credit risk	(150)	(721)	(824)	(1 695)
New loan commitments originated or purchased	82 362	19 490	234	102 086
Financial assets that have been derecognised	(10 760)	(142)	-	(10 902)
Total amount committed as at 31 December 2020	333 268	20 645	926	354 839
Loss allowance as at 31 December 2020	(3 428)	(2 686)	(401)	(6 515)

	31-Dec-2019			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
<i>In thousands of BGN</i>				
Total amount committed as at 31 December 2018	70 103	232	98	70 433
Changes in the amount committed				
Acquisition of subsidiaries	23 407	-	-	23 407
Transfer to stage 1	72	(72)	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	(3)	-	3	-
Increases due to change in credit risk	35 149	135	26	35 310
Decreases due to change in credit risk	(11 593)	(3)	-	(11 596)
New loan commitments originated or purchased	127 177	-	98	127 275
Financial assets that have been derecognised	(11 293)	-	-	(11 293)
Total amount committed as at 31 December 2019	233 019	292	225	233 536
Loss allowance as at 31 December 2019	(3 499)	(5)	(53)	(3 557)

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-2020		31-Dec-2019	
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
<i>In thousands of BGN</i>				
0-30 days	12 031 172	(362 517)	11 807 054	(247 491)
31-60 days	108 499	(31 584)	98 340	(25 382)
61-90 days	93 658	(37 328)	65 695	(21 404)
91-180 days	77 876	(37 750)	85 537	(48 335)
More than 181 days	638 825	(532 859)	635 047	(521 120)
Total	12 950 030	(1 002 038)	12 691 673	(863 732)

Receivables under factoring agreements

	31-Dec-2020		31-Dec-2019	
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
<i>In thousands of BGN</i>				
0-30 days	151 626	(4 361)	224 036	(1 575)
31-60 days	46 827	(15 014)	70	(1)
91-180 days	55	(34)	-	-
More than 181 days	-	-	61	(13)
Total	198 508	(19 409)	224 167	(1 589)

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

The carrying amount of the modified loans as of 31 December 2020 and 2019 is BGN 166 010 thousand and BGN 71 970 thousand, respectively.

Mortgage lending

The Group holds residential properties as collateral for the mortgage loans it grants to its customers. The Group 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.

	31-Dec-2020		31-Dec-2019	
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
<i>In thousands of BGN</i>				
LTV ratio				
Less than 50%	615 072	(5 587)	724 422	(3 784)
51-70%	893 383	(8 672)	1 035 648	(5 482)
71-90%	1 274 269	(12 794)	1 254 061	(6 375)
91-100%	462 984	(4 273)	53 322	(500)
More than 100%	213 586	(4 639)	59 070	(1 823)
Total	3 459 294	(35 965)	3 126 523	(17 964)

Credit impaired - mortgage lending

	31-Dec-2020		31-Dec-2019	
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
<i>In thousands of BGN</i>				
LTV ratio				
Less than 50%	41 152	(18 932)	44 912	(14 971)
51-70%	53 253	(23 528)	42 896	(16 564)
71-90%	53 230	(27 292)	37 795	(16 797)
91-100%	18 970	(12 035)	12 338	(6 676)
More than 100%	120 339	(106 266)	179 682	(162 193)
Total	286 944	(188 053)	317 623	(217 201)

Loan commitments - Mortgage lending

<i>In thousands of BGN</i>	31-Dec-2020		31-Dec-2019	
	Amount committed	Loss allowance	Amount committed	Loss allowance
LTV ratio				
Less than 50%	15 164	95	2 697	10
51-70%	3 276	21	8 648	28
71-90%	4 019	33	6 203	19
91-100%	2 401	4	1 773	5
More than 100%	47 044	353	38 011	251
Total	71 904	506	57 332	313

Assets obtained by taking possession of collateral

In 2020 the Group acquired real estate representing collateral for loans amounting to BGN 1 657 thousand (2019: BGN 1 523 thousand). The Group'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 the Group 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

<i>In thousands of BGN</i>	31-Dec-2020	31-Dec-2019
Secured by mortgages	4 474 578	4 848 597
Cash collateral	36 111	27 855
Government securities	29 011	2 617 013
Other types of collateral*	4 757 411	4 726 780
Without collateral	9 119 030	5 491 038
Total	18 416 141	17 711 283

* Other types of collateral comprise tangible collateral, guaranties from credit institutions pledge over receivable and personal guaranties 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-2020		31-Dec-2019	
	Carrying amount	Collateral	Carrying amount	Collateral
<i>In thousands of BGN</i>				
Advances to banks	29 011	29 323	2 635 734	2 745 178
Total	29 011	29 323	2 635 734	2 745 178

(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 Group 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 of DSK Bank. The meetings are held quarterly, discussing 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 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.

The Group has a special system to manage operational risk, by gathering data for the operational events. The management of the Group 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 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 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 Group's units, these risks shall be classified on the basis of the standardized taxonomy of operational risks annually.

Prior to the implementation of a new process, new system or new activity, the latter shall be analyzed and evaluated from the operational risk's viewpoint. This evaluation shall be prepared by the unit involved in the implementation, and shall be forwarded to the Operational 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 Group 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 the Group 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 the Group risk exposure to operational risk is monitored both by type of the risk events and by different business lines.

The Group 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 Group needs.

The operational risk management is subject to regular inspections by the "Bank Supervision" Department of Bulgarian National Bank, "Internal control and audit" Directorate of DSK Bank and specialized audits initiated and conducted by a program of OTP Bank.

The National Bank of Hungary and Bulgarian National Bank Joint Decision which approved the Group 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 2020 there have been no registered events, which could potentially threaten the Group activity.

During the COVID-19 crisis the Bank has monitored carefully its additional expenses with respect to the management of the coronavirus impacts on processes, people and systems. The Bank incurred close to BGN 6 million, mainly on lap tops, disinfection, employee testing, licences, marketing of protection measures, etc.

(e) Capital Management

The Bank Group's regulatory capital requirements are based on CRD IV.

(1) Regulatory capital

The Group'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 goodwill, intangible assets and other regulatory adjustments relating to items that are included in equity or assets but are treated differently for capital adequacy purposes;

CRD IV defines the scope of consolidation for regulatory purposes.

- Fully consolidated the following subsidiaries: DSK Leasing Group, OTP Leasing EOOD, DSK Asset Management AD, DSK Rodina Pension Company AD, DSK Mobile EAD, DSK Dom EAD, OTP Factoring Bulgaria EAD, Regional Urban Development Fund AD, DSK Tours EOOD and its subsidiary DSK Trans Security EAD which provides services auxiliary to the main banking activities as per the Credit Institutions Act.
- Equity consolidation is applied to the following associates: Cash Services Company AD.

The Group 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 11.50%, buffers including. The total capital adequacy ratio should be higher than 12.50%, buffers including.

(2) *Capital ratios*

Total own funds for solvency purposes

	Basel III 2020	Basel III 2019
<i>In thousands of BGN</i>		
Tier 1 capital	3 081 559	2 534 014
<i>Common equity Tier 1 capital</i>	3 081 559	2 534 014
<i>Additional Tier 1 capital (AT1)</i>	-	-
Tier 2 capital	-	-
Own funds	3 081 559	2 534 014
Credit risk capital requirement	1 040 841	944 881
Market risk capital requirement	3 598	6 751
Operational risk capital requirement	54 167	92 699
Total requirement regulatory capital	1 098 606	1 044 331
Surplus of total capital	1 982 953	1 487 633
CET1 capital ratio (%)	22.44%	19.37%
Capital adequacy ratio (%)	22.44%	19.37%

The policy of the Group 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 Group. The Group 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 Group 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 2020, the buffer is 3% of risk-weighted exposures. The Group 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%. As of 1 April 2020, the level should have been changed to 1.00%. However, BNB decided to keep the level at 0.5% with the aim to maintain the stability of the banking system in a continuously deteriorating economic environment and worsening quality of credit portfolios, increase of impairment losses and a potential pressure on profitability and capital ratios of credit institutions due to the COVID-19 pandemic. The specific for the Group countercyclical capital buffer as of December 31, 2020 is 0.49%. The capital requirements are also increasing by introducing other systemically important institutions buffer, which is calculated at 1.00% of the total risk exposures of the Group for 2020.

According to the joint decision of the Bulgarian National Bank and the Hungarian Central Bank taken after a regulatory review and assessment had been performed, there is no requirement for the Group to keep any additional capital requirement (1.12% for 2019).

(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 Group 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 Group accepts that the fair value is the purchase value.

The Group 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.

	Level 1: Quoted market prices in active markets	Level 2: Valuation techniques - observable inputs	Level 3: Valuation techniques - unobservable inputs	Total
<i>In thousands of BGN</i>				
31-Dec-2020				
Assets				
Trading financial assets	63 111	-	-	63 111
Derivative financial instruments	-	62 769	-	62 769
Investments in securities	2 734 255	263	17 993	2 752 511
Total	2 797 366	63 032	17 993	2 878 391
Liabilities				
Derivative financial instruments	-	86 191	-	86 191
Total	-	86 191	-	86 191
31-Dec-2019				
Assets				
Trading financial assets	208 318	-	-	208 318
Derivative financial instruments	-	31 536	-	31 536
Investments in securities	1 809 481	284	22 728	1 832 493
Total	2 017 799	31 820	22 728	2 072 347
Liabilities				
Derivative financial instruments	-	43 493	-	43 493
Total	-	43 493	-	43 493

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 2020

	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
<i>In thousands of BGN</i>					
Assets					
Cash and current accounts with the Central Bank and other banks	675 203	3 066 329	-	3 741 532	3 741 532
Loans and advances to banks	-	2 393 813	-	2 393 813	2 393 813
Loans and advances to customers	-	-	12 081 950	12 081 950	11 947 992
Receivables under factoring agreements	-	179 099	-	179 099	179 099
Net receivables from finance lease	-	-	995 620	995 620	990 039
Liabilities					
Deposits from banks	-	36 897	-	36 897	36 897
Deposits from customers	-	19 206 929	-	19 206 929	19 206 792
Loans from financial institutions	-	54 220	-	54 220	54 220
Lease liabilities	-	24 393	-	24 393	24 393

As of 31 December 2019

	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
<i>In thousands of BGN</i>					
Assets					
Cash and current accounts with the Central Bank and other banks	639 809	2 067 382	-	2 707 191	2 707 191
Loans and advances to banks	-	2 951 256	-	2 951 256	2 951 256
Loans and advances to customers	-	-	11 916 273	11 916 273	11 827 941
Receivables under factoring agreements	-	222 578	-	222 578	222 578
Net receivables from finance lease	-	-	1 050 803	1 050 803	1 050 803
Liabilities					
Deposits from banks	-	77 557	-	77 557	77 557
Deposits from customers	-	17 880 134	-	17 880 134	17 877 638
Loans from financial institutions	-	285 207	-	285 207	285 207
Lease liabilities	-	65 166	-	65 166	65 166

The fair value of cash and current accounts with banks, 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.

4. Net interest income

	2020	2019
<i>In thousands of BGN</i>		
Interest income		
Loans and advances to banks	8 136	26 842
Loans and advances to customers, incl factoring	591 732	611 591
Investments in securities	30 624	26 002
Deposits from banks	498	720
Deposits from customers	2 655	4 560
Total	633 645	669 715
Interest expense		
Deposits from banks	(6 652)	(11 031)
Deposits from customers	(1 636)	(7 679)
Loans from banks and financial institutions	(2 798)	(4 066)
Lease liabilities	(295)	(650)
Investments in securities (negative interest)	(197)	(34)
Loans and advances to banks (negative interest)	(2 989)	(2 555)
Loans and advances to customers (negative interest)	(305)	(105)
Total	(14 872)	(26 120)
Net interest income	618 773	643 595

5. Net fee and commission income

	2020	2019
<i>In thousands of BGN</i>		
Fee and commission income		
<i>In Bulgarian Leva</i>		
Payment and settlement transactions	75 382	65 600
Credit related deals	25 315	30 671
Deposit related deals	75 446	88 696
Mutual and pension funds management	32 708	29 342
Other	43 759	30 287
	252 610	244 596
<i>In foreign currencies</i>		
Payment and settlement transactions	22 975	33 592
Credit related deals	9 009	6 762
Deposit related deals	5 205	12 902
Other	5 990	6 899
	43 179	60 155
Total	295 789	304 751
Fee and commission expense		
In Bulgarian Leva	(33 730)	(40 411)
In foreign currencies	(5 471)	(7 994)
Total	(39 201)	(48 405)
Net fee and commission income	256 588	256 346

6. Net trading income

	2020	2019
<i>In thousands of BGN</i>		
Net interest income from trading	(4 380)	(6 259)
Net income on FX derivatives revaluation	71 425	1 624
Net income on non FX derivatives revaluation	62 074	325
Securities trading and revaluation	(2 701)	996
Foreign exchange trading	64 987	29 802
Ineffective hedge net gain	(317)	273
Total	191 088	26 761

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

	2020	2019
<i>In thousands of BGN</i>		
Gains/(Losses) on hedged assets	11 673	14 683
Gains/(Losses) on the hedging instruments	<u>(11 990)</u>	<u>(14 410)</u>
Hedge ineffectiveness recognised immediately in the income statement	<u>(317)</u>	<u>273</u>

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.

7. Net income from other financial instruments at FVTPL

	2020	2019 restated
<i>In thousands of BGN</i>		
Debt instruments	(3 507)	9 115
Equity instruments	<u>1 571</u>	<u>(97)</u>
Total	<u>(1 936)</u>	<u>9 018</u>

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

	2020	2019
<i>In thousands of BGN</i>		
Write-off of financial assets	1 550	3 014
Sale of financial assets	<u>8 665</u>	<u>3 977</u>
Total	<u>10 215</u>	<u>6 991</u>

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

9. Other operating income, net

	2020	2019
<i>In thousands of BGN</i>		
Net income from government bonds measured at fair value through other comprehensive income	(416)	127
Dividends	518	59
Rental fees	1 998	4 589
Income from security and cash collection	1 320	1 792
Income from tourist services	-	709
Operating lease	4 054	4 030
Card operators	2 249	1 481
Net gain from non financial assets disposal	502	(624)
Other services	1 945	2 191
Other	17 073	3 518
Total	<u>29 243</u>	<u>17 872</u>

10. Impairment losses on financial assets, net

	2020	2019
<i>In thousands of BGN</i>		
Impairment (loss)/gain on bank deposits or loans, net	(4 967)	(692)
Impairment (losses) on loans, factoring agreements and finance lease, net	(310 880)	(88 497)
Impairment gain on POCI	38 864	-
Impairment (losses) on other assets, net	(285)	(4 326)
Impairment (loss)/gain on financial assets at FVTOCI, net	(3 852)	277
Total	<u>(281 120)</u>	<u>(93 238)</u>

11. Impairment losses on non-financial assets, net

	2020	2019
<i>In thousands of BGN</i>		
Impairment losses on tangible assets	-	(488)
Impairment losses on intangible assets	546	(4 034)
Impairment losses on inventory	(2)	-
Impairment losses on collaterals acquired	(1 456)	(4 081)
Total	<u>(912)</u>	<u>(8 603)</u>

12. Personnel expenses

	2020	2019
<i>In thousands of BGN</i>		
Wages and salaries	158 685	149 220
Social payments	35 451	36 567
Other	3 644	6 646
Total	197 780	192 433

The average number of staff in the Group is 5 863 and 6 777 for 2020 and 2019, respectively.

13. Depreciation and amortisation

		2020	2019
<i>In thousands of BGN</i>			
	Note		
Investment property	25	443	443
Right-of-use assets	26	11 407	15 810
Property, plant and equipment	27	32 075	31 806
Intangible assets	28	36 788	43 780
Total		80 713	91 839

14. Other expenses

	2020	2019
<i>In thousands of BGN</i>		
Services expense	112 219	103 349
Guarantee Funds instalments	56 952	59 823
Materials	17 345	23 161
Operating lease expenses	591	997
Expenses related to short-term leases	4 907	5 569
Expense relating to leases of low value assets	138	206
Other expenses	9 404	12 780
Total	201 556	205 885

The fees accrued for the services provided by the independent financial auditors' of the Group for 2020 include statutory audit fees to the amount of BGN 1 795 thousand and fees for other non-audit related services to the amount of BGN 215 thousand. (2019: BGN 1 668 thousand and BGN 100 thousand, respectively).

15. Income tax expense

	2020	2019
<i>In thousands of BGN</i>		
Current tax expense	(20 333)	(40 636)
Deferred tax benefit related to origination and reversal of temporary tax differences	1 930	8 290
Total	<u>(18 403)</u>	<u>(32 346)</u>
	2020	2019
<i>In thousands of BGN</i>		
Accounting profit	193 924	344 317
Income tax using the statutory corporate tax rate	(19 392)	(34 432)
Allowance for tax paid in foreign tax jurisdictions	77	-
Tax on permanent tax differences	912	2 086
Income tax expense	<u>(18 403)</u>	<u>(32 346)</u>
Effective tax rate	9.49%	9.39%

Current taxes are calculated using a tax rate of 10% for 2020 and 2019.

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

	31-Dec-2020	31-Dec-2019
<i>In thousands of BGN</i>		
Cash on hand		
In Bulgarian Leva	567 261	564 021
In foreign currencies	107 942	75 788
Current accounts with the Central Bank and other banks		
In Bulgarian Leva	2 945 027	1 923 863
In foreign currencies	121 302	143 519
Total	3 741 532	2 707 191

Included in cash on hand are cash in transfer and cash at ATMs.

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 Group'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 1 596 998 thousand and BGN 935 565 thousand as of 31 December 2020 and 2019, respectively. Minimum reserves are non-interest bearing and are regulated on a monthly basis. Daily fluctuations are allowed. Shortages or excess reserve funds on monthly basis bear penalty interest.

The Group has nostro accounts with OTP Bank denominated in EUR, SEK, USD, GBP, CHF and HUF with total balance as of December 31, 2020 to the amount of BGN 5 458 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, 2020 to the amount of BGN 2 420 thousand.

The nostro accounts with OTP Bank denominated in EUR, SEK, USD, GBP, CHF and HUF have a total balance of BGN 21 302 thousand as of December 31, 2019. The nostro accounts with other OTP Bank Group members denominated in RON, RUB and RSD have a total balance of BGN 2 504 thousand as of December 31, 2019.

17. Financial assets held for trading and derivative financial instruments

	31-Dec-2020	31-Dec-2019
<i>In thousands of BGN</i>		
Government securities – Republic of Bulgaria denominated in Bulgarian Leva	32	13 255
Government securities – Republic of Bulgaria denominated in foreign currencies	11 444	164 686
Foreign issuers debt securities denominated in foreign currencies	51 635	30 377
Total	63 111	208 318

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, 2020 between 4.00% and 5.00% (2019: between 0.30% and 5.00%) and government securities denominated in EUR earn interest between 1.875% and 2.00% (2019: 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, 2020 at 3.875% (2019: between 1.00% and 3.875%) and government securities denominated in USD earn interest between 5.50% and 6.375% (2019: between 4.375% and 6.625%) .

Derivative financial instruments as of 31 December 2020

Type of restructuring	Carrying value		Notional amount
	Assets	Liabilities	
<i>In thousands of BGN</i>			
Derivatives held for trading			
Interest rate swaps	20 543	18 643	1 111 392
Foreign exchange contracts	13 974	12 849	2 071 272
Commodity swaps	28 252	26 499	236 435
Total	62 769	57 991	3 419 099
Derivatives used as fair value hedges			
Interest rate swaps	-	28 200	907 652
Total	-	28 200	907 652
Total derivative financial instruments	62 769	86 191	4 326 751

Derivative financial instruments as of 31 December 2019

Type of restructuring	Carrying value		Notional amount
	Assets	Liabilities	
<i>In thousands of BGN</i>			
Derivatives held for trading			
Interest rate swaps	18 635	15 679	1 177 316
Foreign exchange contracts	5 799	6 912	1 719 113
Total	24 434	22 591	2 896 429
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	31 536	43 493	4 875 007

As of 31 December 2020 DSK Bank has the following intragroup deals:

- Interest rate swaps with OTP Bank Group members – assets BGN 1 881 thousand, liabilities BGN 9 743 thousand, notional amount BGN 490 155 thousand;
- Derivative deals for foreign exchange with OTP Bank Group members - assets BGN 2 597 thousand, liabilities BGN 659 thousand, notional amount BGN 645 416 thousand;
- Commodity swap deals with OTP Bank Group members - assets BGN 24 940 thousand, liabilities BGN 26 340 thousand, notional amount BGN 202 581 thousand.

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 9 027 thousand, liabilities BGN 9 799 thousand, notional amount BGN 2 302 012 thousand;
- Derivative deals for fair value hedge are with OTP Bank. Derivatives are hedging fair value of FVOCI securities.

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 2020		Changes in fair value used for calculating hedge ineffectiveness for the year
				Assets	Liabilities	2020
<i>In thousands of BGN</i>						
Fair value hedge	Interest rate swap	Interest rate risk	907 652	-	(25 772)	(11 990)

Type of hedge	Type of risk	Carrying amount of the hedging instrument as at 31 December 2020		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item as at 31 December 2020		Type of hedged item
		Assets	Liabilities	Assets	Liabilities	
<i>In thousands of BGN</i>						
Fair value hedge	Interest rate risk	982 425	-	25 633	-	Bond

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 2019
				Assets	Liabilities	
<i>In thousands of BGN</i>						
Fair value hedge	Interest rate swap	Interest rate risk	397 860	-	(14 918)	(14 410)
Fair value hedge	Cross-currency swap	FX risk	2 151 413	1 118	-	10 703

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	
<i>In thousands of BGN</i>						
Fair value hedge	Interest rate risk	435 390	-	13 960	-	Bond
Fair value hedge	FX risk	1 559 539	-	-	(6 595)	Repo

18. Loans and advances to banks

(a) Analysis by type

	31-Dec-2020	31.12.2019 restated
<i>In thousands of BGN</i>		
Deposits with domestic and foreign banks		
In Bulgarian Leva	-	908
In foreign currencies	2 362 872	313 872
Encumbered assets with foreign banks	7 899	1 710
Loans granted	-	4
Loans under repurchase agreements	29 011	2 635 734
Less impairment loss allowances	(5 969)	(972)
Total	<u>2 393 813</u>	<u>2 951 256</u>

(b) Geographical analysis

	31-Dec-2020	31-Dec-2019
<i>In thousands of BGN</i>		
Domestic banks	78 161	608
Foreign banks	<u>2 315 652</u>	<u>2 950 648</u>
Total	<u>2 393 813</u>	<u>2 951 256</u>

The Group 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 2020 the Group has the following intragroup balances:

- Deposits blocked in connection with derivative deals with OTP Bank denominated in EUR and USD amounting to BGN 580 thousand.
- Deposit accounts with OTP BANKA SRBIJA AD BEOGRAD denominated in EUR amounting to BGN 528 186 thousand with maturity of up to 1 year and maturity dates between 31 March 2021 and 31 August 2021. The interest rates vary between 0.21% and 0.71%.
- Deposit accounts with VOJVODJANSKA BANKA AD denominated in EUR amounting to BGN 255 708 thousand with maturity of up to 1 year and maturity dates between 18 January 2021 and 11 August 2021. The interest rates vary between 0.15% and 0.53%.

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

- Repurchase agreements with OTP Bank are denominated in HUF, USD and EUR and amount to BGN 2 615 078 thousand. Interest rates vary from (-0.45)% to 2.74%. The deals are collateralised with 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)%.
- Overnight deposits with OTP Bank denominated in USD, GBP, CAD and CHF amounting to BGN 108 622 thousand. Interest rates vary from (-0.89)% to 1.67%.

19. Loans and advances to customers

	31-Dec-2020	31-Dec-2019
<i>In thousands of BGN</i>		
Individuals		
In Bulgarian Leva		
Consumer loans	4 190 780	4 072 050
Housing and mortgage loans	3 388 802	3 008 471
In foreign currencies		
Consumer loans	63 442	94 970
Housing and mortgage loans	357 436	435 675
Companies		
In Bulgarian Leva		
Working capital loans	1 362 656	1 561 759
Investment loans	1 151 310	1 173 827
In foreign currencies		
Working capital loans	958 719	919 366
Investment loans	1 422 205	1 383 997
State Budget		
In Bulgarian Leva	46 747	32 436
In foreign currencies	7 933	9 122
Less impairment loss allowances	(1 002 038)	(863 732)
Total loans and advances to customers	11 947 992	11 827 941

Impairment allowances of loans and advances to customers

Impairment allowances of loans and advances to other customers

	31-Dec-2020	31-Dec-2019
<i>In thousands of BGN</i>		
Balance at 1 January	863 732	762 056
Net change for the year through profit or loss	275 436	137 949
Decrease	<u>(137 130)</u>	<u>(36 273)</u>
Balance at 31 December	<u>1 002 038</u>	<u>863 732</u>

The interest rates on loans as at 31 December 2020 are ranged as follows: receivables from individuals from 0.13% to 40.35%; receivables from companies from 0.18% to 18.00%; receivables from the State Budget from 0.14% to 10.00%.

The interest rates on receivables from loans as at 31 December 2019 are ranged as follows: receivables from individuals from 1.25% to 40.35%; receivables from companies from 0.75% to 21.00%; receivables from State Budget from 0.33% to 4.50%.

In accordance with the policy for sale of bad debts, the bad debts to sold to unrelated parties have a gross carrying amount of BGN 53 681 thousand and BGN 9 186 thousand for 2020 and 2019, respectively. The impairment allowance on sold bad debts amounts to BGN 48 659 thousand and BGN 9 186 thousand for 2020 and 2019, respectively.

The loans derecognized on account of accumulated impairment, including sales to third parties, amount to BGN 101 052 thousand for 2020, including BGN 38 847 thousand of loans written off partially. The loans derecognized on account of accumulated impairment, including sales to third parties, amount to BGN 32 567 thousand for 2019, of which BGN 14 416 thousand have been partially written off.

20. Receivables under factoring agreements

	31-Dec-2020	31-Dec-2019
<i>In thousands of BGN</i>		
Advances to clients under local and international factoring	198 508	224 167
Impairment	<u>(19 409)</u>	<u>(1 589)</u>
Total receivables under factoring agreements	<u>179 099</u>	<u>222 578</u>

21. Net receivables from finance lease

	31-Dec-2020	31-Dec-2019
<i>In thousands of BGN</i>		
Gross receivables from finance lease	1 065 229	1 114 403
Unrealized financial income	(45 329)	(56 679)
Net minimum lease payments	1 019 900	1 057 724
Impairment	(29 861)	(6 921)
Net receivables from finance lease	990 039	1 050 803

Net receivables from finance leases are allocated as follows:

	31-Dec-2020	31-Dec-2019
<i>In thousands of BGN</i>		
With maturity of up to 1 year	359 373	366 957
With maturity from 1 to 5 years	640 803	685 659
With maturity over 5 years	19 724	5 108
Impairment	(29 861)	(6 921)
Net receivables from finance lease	990 039	1 050 803

22. Investments in securities

	31-Dec-2020	31.12.2019 restated
<i>In thousands of BGN</i>		
<i>Investments in instruments measured at fair value through other comprehensive income</i>		
Equity instruments	18 614	12 596
Government debt securities	1 987 184	1 634 293
Less impairment loss allowances	<u>(3 575)</u>	<u>(859)</u>
Total investments in instruments measured at fair value through other comprehensive income	<u>2 002 223</u>	<u>1 646 030</u>
<i>Investments in instruments mandatory measured at fair value through profit or loss</i>		
Equity instruments	565	12 299
Corporate debt securities	<u>171 628</u>	<u>174 164</u>
Total investments in instruments mandatory measured at fair value through profit or loss	<u>172 193</u>	<u>186 463</u>
<i>Investments in instruments measured at amortized cost</i>		
Government debt securities	579 231	-
Less impairment loss allowances	<u>(1 136)</u>	<u>-</u>
Total investments in instruments measured at amortized cost	<u>578 095</u>	<u>-</u>
Total	<u>2 752 511</u>	<u>1 832 493</u>

The assets of the Group in its investment portfolio consist of investments mandatory measured at fair value through profit and loss (FVTPL), investments measured at fair value through other comprehensive income (FVTOCI) and investments carried at amortized cost.

As of 31 December 2020 and 2019 DSK Bank reports in its mandatory FVTPL portfolio a perpetual bond issued in EUR by OTP Bank (ISIN XS0274147296) with nominal value BGN 188 626 thousand and a carrying amount of BGN 166 238 and BGN 174 164 thousand, respectively. The bond is with a variable interest rate, which is 2.48% and 2.61% as of 31 December 2020 and 2019, respectively

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 0.01% and 5.00% (2019: 0.30% and 5.00%) and denominated in EUR with an interest rate ranging between 1.875% and 5.75% (2019: 1.875% and 5.75%;).

Foreign issuers' debt securities represent government bonds denominated in EUR earning interest from 0.875% to 4.00% (2019: 1.30% to 4.625%) and government bonds denominated in USD earning interest in the range from 1.625% to 6.75% (2019: 3.25% to 6.75%).

As of 31 December 2020, the securities pledged as collateral and blocked in favour of the Ministry of Finance on deposits from the State Budget amount to BGN 317 375 thousand (2019: BGN 277 544 thousand).

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

23. Goodwill

The Group's goodwill has arisen on acquisition of the following entities

	31-Dec-2020	31-Dec-2019
<i>In thousands of BGN</i>		
Expressbank AD	77 372	77 372
DSK Rodina Pension Company AD	1 175	1 175
Total	78 547	78 547

The goodwill to the amount of BGN 77 372 thousand arose on acquisition of Expressbank on 15 January 2019. Initially it was entirely allocated to the acquired bank as a cash-generating unit in the consolidated financial statements of DSK Bank for 2019. After the merger of Expressbank AD into DSK Bank on 30 April 2020, the combined bank is regarded as the new cash generating unit, to which the goodwill is allocated.

The goodwill to the amount of BGN 1 175 thousand arose on acquisition of DSK Rodina pension Company and is allocated to this entity as a cash-generating unit.

As of 31 December 2020 the Group performed a test for impairment of goodwill allocated to the combined bank using a model whose key inputs are the cash flows of the combined bank for a three-year period. Based on the actual financial performance for the 11 months to November 2020 and the financial preliminary estimations for December 2020, the Group prepared a medium-term cash flow forecasts for the period 2021-2023). In preparing the calculations, the Group considered the actual worldwide economic situation, the expected economic growth for the following years, their possible effects on the financial sector, the plans for growing, which result from these, and the expected changes of the mentioned factors.

The calculations were performed under two methods, which have produced similar results, namely the free cash flow (FCF) method and the economic value-added (EVA) method.

Present value calculation with the FCF method

The FCF method calculates the value of a company by discounting their expected cash flows, which are determined by the Group on the basis of expected profits after tax. The method employs assumptions, such as discount rate, risk premium, long-term growth. For calculating the discount factor, the Group has used the risk-free rates of ten-year local government bonds. The risk premium is the one specific for Bulgaria, as published on damodaran.com. The growth rate used for calculation of the terminal value reflects the long-term economic expectations for Bulgaria. The company value is then calculated as the sum of the discounted cash flows of the explicit period, the present value of the terminal values and the initial free capital assuming an effective capital structure.

Present value calculation with the EVA method

The EVA method estimates the value of a company from the initial invested capital and the present value of the economic profit that the companies are expected to generate in the future. The Group creates positive economic profit/value if the profitability of the invested capital is higher than the normal profit – the profit that can be usually generated in the Grouping sector –, which means that the company's profitability exceeds the expected yield. The value of the Group was then calculated by deducting the cost of invested capital from the net profit for the year. The applied discount factor and the long term growth rate are the same that are used in the FCF method.

A summary of key assumptions used in the model, is presented below:

	2021	2022	2023
Discount rate	0.3%	0.3%	0.3%
Risk premium	6.0%	6.0%	6.0%

Calculation of terminal value:

Long-term discount rate	0.3%
Long-term risk premium	6.0%
Long-term risk growth rate	3.0%

The Group performed a sensitivity analysis of the results of the test if the discount rate and the long-term growth rate changed from -0.2%/+0.2% to -0.5%/+0.5%. The calculations are not highly sensitive to changes within these ranges.

The calculated recoverable amount under both methods exceeds the carrying amount of net assets of DSK Group, being the cash-generating unit for the purposes of the test, by approximately 20%. Therefore, management has concluded that the developments during 2020, including the spread of COVID-19, have not led to impairment of goodwill as of 31 December 2020.

24. Investment property

	31-Dec-2020	31-Dec-2019
<i>In thousands of BGN</i>		
Revalued amount		
Balance as of 01 January	<u>22 512</u>	<u>22 512</u>
Balance as of 31 December	<u>22 512</u>	<u>22 512</u>
Depreciation		
Balance as of 01 January	2 215	1 772
Charge for the period	<u>443</u>	<u>443</u>
Balance as of 31 December	<u>2 658</u>	<u>2 215</u>
Net book value	<u><u>19 854</u></u>	<u><u>20 297</u></u>

The fair value of the investment property determined by independent external valuers is BGN 19 759 thousand as of 31 December 2020.

The fair value determined corresponds to Level 3 of the Fair Value Hierarchy adopted with IFRS 13 for all financial and non-financial assets and liabilities that fall under IFRS 13. Fair value is determined on the basis of estimates by external valuers by weighing different valuation methods, based on the comparative sales method and the revenue approach.

25. Right-of-use assets

Movement of right-of-use assets during the year 2020

	Land, buildings and equipment	Vehicles	Total
<i>In thousands of BGN</i>			
Cost or revalued amount			
Balance as of 31 December 2019	78 552	4 547	83 099
Additions due to new contracts	1 831	17	1 848
Derecognition due to expired contracts	(4 855)	(151)	(5 006)
Changes from reassessment and modification	(37 579)	(235)	(37 814)
Cost or revalued amount as of 31 December 2020	37 949	4 178	42 127
Depreciation			
Balance as of 31 December 2019	14 389	1 304	15 693
Depreciation for the period	10 680	727	11 407
Derecognition due to expired contracts	(4 855)	(151)	(5 006)
Changes from reassessment and modification	(6 226)	(80)	(6 306)
Depreciation as of 31 December 2020	13 988	1 800	15 788
Net book value 31 December 2020	23 961	2 378	26 339
Net book value 31 December 2019	64 163	3 243	67 406

Movement of right-of-use assets during the year 2019

	Land, buildings and equipment	Vehicles	Total
<i>In thousands of BGN</i>			
Cost or revalued amount			
Balance as of 31 December 2018	-	-	-
Changes on initial application of IFRS 16	40 300	1 057	41 357
Balance as of 1 January 2019	40 300	1 057	41 357
Acquisition of subsidiaries	27 465	1 935	29 400
Additions due to new contracts	11 957	1 572	13 529
Changes from reassessment and modification	(1 170)	(17)	(1 187)
Cost or revalued amount as of 31 December 2019	78 552	4 547	83 099
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	14 568	1 242	15 810
Changes from reassessment and modification	(179)	(1)	(180)
Depreciation as of 31 December 2019	14 389	1 304	15 693
Net book value 31 December 2019	64 163	3 243	67 406

26. Property, plant and equipment

Movement of property, plant and equipment during the year 2020

	Land and buildings	IT equipment	Office equipment	Other equipment	Assets under operative leasing	Total
<i>In thousands of BGN</i>						
Cost or revalued amount						
Balance as of 31 December 2019	504 901	92 030	95 394	23 060	23 533	738 918
Additions	21	438	256	16 387	3 038	20 140
Disposals	(888)	(2 456)	(1 487)	(3 530)	(7 803)	(16 164)
Transfers	2 732	12 774	2 097	(17 603)	-	-
Cost or revalued amount as of 31 December 2020	506 766	102 786	96 260	18 314	18 768	742 894
Depreciation						
Balance as of 31 December 2019	136 148	69 376	74 220	9 749	8 616	298 109
Charge for the period	10 118	11 591	6 586	327	3 453	32 075
Disposals	(569)	(2 175)	(1 166)	(1 703)	(4 291)	(9 904)
Depreciation as of 31 December 2020	145 697	78 792	79 640	8 373	7 778	320 280
Net book value 31 December 2020	361 069	23 994	16 620	9 941	10 990	422 614
Net book value 31 December 2019	368 753	22 654	21 174	13 311	14 917	440 809

Movement of property, plant and equipment during the year 2019

	Land and buildings	IT equipment	Office equipment	Other equipment	Assets under operative leasing	Total
<i>In thousands of BGN</i>						
Cost or revalued amount						
Balance as of 31 December 2018	403 810	81 182	91 529	19 679	24 960	621 160
Changes on initial application of IFRS 16	-	-	-	(1 027)	-	(1 027)
Balance as of 1 January 2019	403 810	81 182	91 529	18 652	24 960	620 133
Acquisition of subsidiaries	98 182	7 165	7 563	2 667	415	115 992
Additions	48	111	46	29 479	4 100	33 784
Disposals	(1 821)	(8 621)	(7 987)	(5 439)	(5 942)	(29 810)
Transfers	4 682	12 193	4 243	(22 299)	-	(1 181)
Cost or revalued amount as of 31 December 2019	504 901	92 030	95 394	23 060	23 533	738 918
Depreciation						
Balance as of 31 December 2018	126 408	65 022	71 717	9 202	8 276	280 625
Changes on initial application of IFRS 16	-	-	-	(63)	-	(63)
Balance as of 1 January 2019	126 408	65 022	71 717	9 139	8 276	280 562
Charge for the period	10 779	8 867	7 258	704	4 198	31 806
Disposals	(1 039)	(4 513)	(4 755)	(606)	(3 858)	(14 771)
Impairment	-	-	-	512	-	512
Depreciation as of 31 December 2019	136 148	69 376	74 220	9 749	8 616	298 109
Net book value 31 December 2019	368 753	22 654	21 174	13 311	14 917	440 809
Net book value 31 December 2018	277 402	16 160	19 812	10 477	16 684	340 535

“Land and buildings” includes leasehold improvements to the amount of BGN 3 441 thousand and BGN 3 264 thousand as of 31 December 2020 and 2019, respectively.

In “Other equipment” are included property, plant and equipment under construction and acquisition of property plant and equipment to the amount of BGN 8 658 thousand and BGN 11 858 thousand as of 31 December 2020 and 2019, respectively.

As of 31 December 2020, the gross carrying amount of fully depreciated property, plant and equipment that are still in use in the course of the Group’s activities is as follows: buildings: to the amount of BGN 8 741 thousand, IT equipment: to the amount of BGN 53 333 thousand, office equipment: to the amount of BGN 52 694 thousand, other equipment: to the amount of BGN 10 649 thousand.

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 Group's activities is as follows: buildings: to the amount of BGN 6 932 thousand, IT equipment: to the amount of BGN 49 582 thousand, office equipment: to the amount of BGN 46 005 thousand, other equipment: to the amount of BGN 7 449 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. The appraisal was performed as of 31 December 2018. As at 31 December 2020 and 2019 the fair value of land and buildings is not significantly different than their book value as at the same dates. The fair value of land and buildings is categorized as Level 3 based on the inputs of the valuation technique used. For the purpose of detecting any significant change in the fair value of land and buildings, including change resulting from COVID-19, the Group engaged an independent external appraiser to perform a market analysis as of 31 December 2020. The conclusion of the analysis is that there have been no significant changes in the market prices of real estate owned by the Group, as such prices are within the price ranges by region, and the real estate market prices have not been responsive to the pandemic as of 31 December 2020.

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
<p><i>Depreciated replacement method</i></p> <p>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.</p>	<ol style="list-style-type: none"> 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. 	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> • the percentage of administering costs is decreased (increased); • the rates of return are decreased (increased); • the adjusting factors are increased (decreased).
<p><i>Capitalisation of income method</i></p> <p>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.</p>		
<p><i>Comparative value method</i></p> <p>The depreciated recoverable amount is determined using market adjustments by</p>		

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.

27. Intangible assets

Movement of intangible assets during 2020

	Intangible assets	Assets recognized in business combinations	Assets in the process of acquisition	Total
<i>In thousands of BGN</i>				
Cost				
Balance as of 31 December 2019	165 508	86 588	21 712	273 808
Additions	204	-	16 770	16 974
Disposals	(5 010)	-	(10 354)	(15 364)
Transfers	19 717	-	(19 717)	-
Cost as of 31 December 2020	180 419	86 588	8 411	275 418
Amortization and impairment losses				
Balance as of 31 December 2019	126 483	26 537	46	153 066
Charge for the period	18 807	17 981	-	36 788
Disposals	(5 491)	-	(46)	(5 537)
Depreciation as of 31 December 2020	139 799	44 518	-	184 317
Net book value 31 December 2020	40 620	42 070	8 411	91 101
Net book value 31 December 2019	39 025	60 051	21 666	120 742

Movement of intangible assets during 2019

	Intangible assets	Assets recognized in business combinations	Assets in the process of acquisition	Total
<i>In thousands of BGN</i>				
Cost				
Balance as of 31 December 2018	147 660	-	17 294	164 954
Acquisition of subsidiaries	7 552	86 588	1 546	95 686
Additions	45	-	24 175	24 220
Disposals	(9 799)	-	(1 253)	(11 052)
Transfers	20 050	-	(20 050)	-
Cost as of 31 December 2019	165 508	86 588	21 712	273 808
Amortization / impairment losses				
Balance as of 31 December 2018	115 268	-	-	115 268
Charge for the period	17 243	26 537	-	43 780
Disposals	(9 661)	-	-	(9 661)
Impairment	3 633	-	46	3 679
Depreciation as of 31 December 2019	126 483	26 537	46	153 066
Net book value 31 December 2019	39 025	60 051	21 666	120 742
Net book value 31 December 2018	32 392	-	17 294	49 686

As of 31 December 2020 and 2019, the gross carrying amount of fully amortized intangible assets (licenses and software) that are still in use in the course of the Group's activities is to the amount of BGN 106 510 thousand and BGN 83 908 thousand, respectively.

28. Other assets

	31-Dec-2020	31-Dec-2019 restated
<i>In thousands of BGN</i>		
Temporary settlements with clients	26 132	9 273
Acquired collaterals	19 661	20 815
Deferred expenses	19 162	17 807
Advances to suppliers	13 725	11 672
Clearing and bank settlement assets	9 350	7 644
Tax receivables	7 646	6 133
Materials, spare parts	5 378	6 026
Receivables from insurers	4 283	-
Deficiencies in assets	3 592	726
Depository accounts	3 558	3 540
Receivables in litigation	1 835	9 423
Other assets	8 990	18 549
Impairment	(28 755)	(37 203)
Total	94 557	74 405

At 31 December 2020 and 2019 the amount of impairment of assets acquired against non-collectable loans is BGN 12 700 thousand and BGN 11 244 thousand, respectively.

Depository accounts represent temporary balances to secure transactions with securities.

29. Deposits from banks and loans from banks and financial institutions

	31-Dec-2020	31-Dec-2019 restated
<i>In thousands of BGN</i>		
Deposits from banks		
Current accounts	21 786	34 590
Deposits	15 111	42 967
Total deposits from banks	36 897	77 557
Loans from financial institutions		
Short term loans	-	56 758
Long term loans	54 220	228 449
Total loans from banks and financial institutions	54 220	285 207

The Group has received a long-term loan from the European Investment Fund under the programme “JEREMIE” for the purpose of granting preferential interest loans to SME’s. As of December 31, 2020 the BGN equivalent of the outstanding balance of the loan is BGN 12 521 thousand. The interest rate on BGN 5 737 thousand of the balance is 0.256% and the interest rate on the remaining amount of BGN 6 784 thousand is 0.056%. The interest rate on the outstanding amount is 0.338%, as of December 31, 2019.

In July 2016 OTP Leasing Bulgaria EOOD received a loan from a Bulgarian bank to the amount of EUR 20 000 thousand with a variable interest, which is 1.00% as at 31 December 2020 and 2019. The repayment date of the loan is in June 2021. As of December 31, 2020 and 2019 the loan is fully utilised.

The Group has received financing from the Fund Manager of Financial Instruments in Bulgaria (FMFIB) under operating agreements with the purpose of providing finance to ultimate beneficiaries for urban development projects. The Group is entitled to receive a fee for managing the funds, which is determined on the basis of extended, and repaid, funds to, and from, the ultimate recipients of those funds. As of 31 December 2020, the Group’s liability under the financing agreements is BGN 37 100 thousand, including BGN 22 355 thousand due for repayment in June 2035 and BGN 14 745 thousand with a term of repayment equal to the longest term contracted with an ultimate beneficiary plus three months. The financing is non-interest bearing for the Group.

As of 31 December 2019 the Group has received loans from entities under common control to the amount of BGN 78 249 thousand (see Note 40), which have been fully repaid in the current year.

OTP Bank Group members have loro accounts with DSK Bank denominated in BGN and EUR with total balance as of December 31, 2020 and 2019 to the amount of BGN 3 993 thousand and BGN 2 253 thousand, respectively.

The Group has not had any defaults of principal or interest or other breaches with respect to its liabilities during the years 2020 and 2019.

30. Deposits from customers

	31-Dec-2020	31-Dec-2019 restated
<i>In thousands of BGN</i>		
Individuals		
In Bulgarian Leva		
Term deposits	2 738 696	2 860 130
Demand deposits	7 646 322	6 719 422
In foreign currencies		
Term deposits	2 176 602	1 929 904
Demand deposits	2 544 012	2 202 081
Companies		
In Bulgarian Leva		
Term deposits	117 171	137 372
Demand deposits	2 153 247	2 256 036
In foreign currencies		
Term deposits	157 858	147 771
Demand deposits	1 093 373	987 452
State Budget		
In Bulgarian Leva		
Term deposits	43 584	1 037
Demand deposits	171 160	186 914
In foreign currencies		
Term deposits	5 077	678
Demand deposits	71 932	70 945
Financial institutions		
In Bulgarian Leva		
Term deposits	3 128	28 113
Demand deposits	162 579	220 933
In foreign currencies		
Term deposits	787	5 748
Demand deposits	121 264	123 102
Total	19 206 792	17 877 638

The interest rates on deposits as at 31 December 2020 are ranged as follows: deposits from individuals from 0% to 8.50%; deposits from companies from 0% to 2.00%; deposits from State Budget from 0% to 2.00%; deposits from financial institutions from -0.04% to 0.20%.

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 2.79%; deposits from State Budget from 0% to 2%; deposits from financial institutions from -1.10% to 0.25%.

31. Lease liabilities

	31-Dec-2020	31-Dec-2019
<i>In thousands of BGN</i>		
With maturity of up to 1 year	7 399	15 914
With maturity from 1 to 5 years	14 659	41 378
With maturity over 5 years	2 335	7 874
Total lease liabilities	24 393	65 166

32. Provisions

Movement in provisions during 2020

	Pension employment defined benefit obligations	Provisions for litigation and others	Provisions for guarantees, letters of credit, loan commitments and factoring	Provisions for restructuring	Total
<i>In thousands of BGN</i>					
Opening balance as of 31 December 2019	14 582	36 004	45 060	5 842	101 488
Additions during the year	1 864	4 358	85 386	-	91 608
Reversal during the year	-	(4 072)	(93 301)	(5 100)	(102 473)
Amounts paid	(1 368)	(199)	-	-	(1 567)
Other movements	(2 189)	-	18	-	(2 171)
Total	12 889	36 091	37 163	742	86 885

Movement in provisions during 2019

	Pension employment defined benefit obligations	Provisions for for litigation and others	Provisions for guarantees, letters of credit, loan commitments and factoring	Provisions for restructuring	Total
<i>In thousands of BGN</i>					
Opening balance as of 31 December 2018	8 701	38 150	15 009	-	61 860
Acquisition of subsidiaries	5 367	2 835	10 167	-	18 369
Additions during the year	2 023	2 917	54 730	5 842	65 512
Reversal during the year	(2 056)	(7 317)	(34 845)	-	(44 218)
Amounts paid	(799)	(581)	1	-	(1 379)
Other movements	1 346	-	(2)	-	1 344
Total	14 582	36 004	45 060	5 842	101 488

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).

	2020	2019
<i>In thousands of BGN</i>		
Defined benefit obligations at 1 January	14 170	8 701
Acquisition of subsidiaries	-	5 202
Benefits paid by the plan	(1 368)	(772)
Current service costs	1 558	1 240
Past service costs	277	(1 904)
Interest cost	90	187
Remeasurements:		
Experience adjustments	(1 750)	1 624
Actuarial (gains) losses from changes in demographic assumptions	(58)	(355)
Actuarial (gains) losses from changes in financial assumptions	(32)	248
	12 887	14 171
Defined benefit obligations at 31 December	12 887	14 171

Expense recognised in profit or loss

	2020	2019
<i>In thousands of BGN</i>		
Current service costs	1 558	1 240
Interest on obligation	90	187
Past service costs	277	(1 904)
Actuarial (gains) losses	(61)	171
Total	1 864	(306)

Actuarial assumptions

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

	2020	2019
Discount rate at 31 December	0.50%	0.60%
Future salary increases	3.25%	3.00%

33. Deferred tax liabilities

Deferred income taxes for 2020 and 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	
	2020	2019	2020	2019	2020	2019
<i>In thousands of BGN</i>						
Retirement benefit obligations under the Labour Code and other personnel liabilities	(3 299)	(2 300)	-	-	(3 299)	(2 300)
Business reorganisation	-	-	443	443	443	443
Impairment of equity shares	-	(602)	-	-	-	(602)
Financial assets	(9)	(105)	-	496	(9)	391
Fixed assets	(76)	(85)	22 255	23 339	22 179	23 254
Provisions for litigation and others	(3 545)	(3 845)	-	-	(3 545)	(3 845)
Unused annual leave and other	-	(2 111)	1	470	(1 999)	(1 641)
Net deferred tax (assets)/liabilities	(6 929)	(9 048)	22 699	24 748	13 770	15 700

Movement in deferred taxes during 2020

	Balance as of 31 December	Recognised in the statement of profit or loss	Balance as of 31 December
	2019	2020	2020
<i>In thousands of BGN</i>			
Retirement benefit obligations under the Labour Code and other personnel liabilities	(2 300)	(999)	(3 299)
Business reorganisation	443	-	443
Impairment of equity shares	(602)	602	-
Financial assets	391	(400)	(9)
Fixed assets	23 254	(1 075)	22 179
Provisions for litigation and other liabilities	(3 845)	300	(3 545)
Unused annual leave and other	(1 641)	(358)	(1 999)
Total	15 700	(1 930)	13 770

Movement in deferred taxes during 2019

	Balance as of 31 December	Acquisition of subsidiaries	Recognised in the statement of profit or loss	Recognised in equity	Balance as of 31 December
	2018	2019	2019	2019	2019
<i>In thousands of BGN</i>					
Retirement benefit obligations under the Labour Code and other personnel liabilities	(1 547)	(578)	(175)	-	(2 300)
Business reorganisation	443	-	-	-	443
Impairment of equity shares	(589)	-	(13)	-	(602)
Financial assets	(12)	(91)	494	-	391
Fixed assets	11 470	20 783	(8 996)	(3)	23 254
Contingent liabilities	(3 806)	(428)	387	-	(3 847)
Unused annual leave and other	(1 135)	(517)	13	-	(1 639)
Total	4 824	19 169	(8 290)	(3)	15 700

34. Other liabilities

	31-Dec-2020	31-Dec-2019 restated
<i>In thousands of BGN</i>		
Liabilities to personnel and management	29 275	18 223
Money transfers for execution	26 064	21 420
Obligations under unilaterally terminated contracts	19 638	4 830
Liabilities to suppliers	9 776	12 147
Liabilities for centralisation of State Budget with BNB	9 213	334
Liabilities to insurers	6 238	1 392
Deferred income	5 582	6 317
Initial installments received under finance leases	2 279	4 989
Dividend payment obligations	125	124
Liabilities under condition for financial asset refunding	67	55
Obligations under factoring contracts without recourse	-	15 322
Other	9 756	23 231
Total	<u>118 013</u>	<u>108 384</u>

35. Share capital and reserves

(a) Face value of registered shares

	31-Dec-2020	31-Dec-2019
<i>In thousands of BGN</i>		
Ordinary registered voting shares	<u>1 328 660</u>	<u>1 327 482</u>

OTP Bank, incorporated in Hungary, is the owner of 99.91% and 100% of the share capital of DSK Bank as of 31 December 2020 and 2019, respectively.

In 2020 the share capital of the Bank was increased by BGN 1 178 thousand following the Contract for Restructuring through Merger of Expressbank into DSK bank. The newly issued 117 792 shares with par value of BGN 10 each, were subscribed to shareholders of Expressbank.

As of 31 December 2020 the share capital consists of 132 865 992 ordinary dematerialized registered voting shares with par value of BGN 10 each.

The ultimate shareholders with over 5% stake of OTP Bank as of the date of these financial statements are as follows:

Name	Number of shares	Ownership	Voting rights
Hungarian Oil and Gas Company (MOL)	24 000 000	8.57%	8.71%
KAFIJAT Group	19 835 748	7.08%	7.20%
OPUS Securities SA	14 496 476	5.18%	5.22%
Groupama Group	14 333 914	5.12%	5.20%

(b) Legal and other reserve

Legal and other reserve includes statutory reserve according to local regulation and profits transferred reserves according to decisions of the General Meeting of Shareholders.

36. Contingent liabilities and commitments

(a) Off balance sheet liabilities and commitments

	31-Dec-2020	31-Dec-2019
<i>In thousands of BGN</i>		
Litigation against the Group and other contingent liabilities	40 593	41 460
Bank guarantees and letters of credit		
In Bulgarian Leva	379 187	416 391
In foreign currencies	143 207	162 845
	522 394	579 236
Factoring agreement commitments		
In Bulgarian Leva	142 408	97 566
In foreign currencies	212 431	135 970
	354 839	233 536
Commitments for undrawn credit facilities		
In Bulgarian Leva	1 544 016	1 291 387
In foreign currencies	1 020 833	695 752
	2 564 849	1 987 139
Forward and spot deals - sell		
In Bulgarian Leva	853 695	1 231 659
In foreign currencies	7 521 124	8 411 345
	8 374 819	9 643 004
Other	4 573	2 596
Total	11 862 067	12 486 971

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

As of 31 December 2020 DSK Bank has commitments to related parties on derivative transactions to the amount of BGN 2 243 225 thousand.

An overdraft of BGN 1 600 thousand has granted on a current account of OTP Bank. As of 31 December 2020 and 2019 the overdraft is not utilised.

(b) Contingent liabilities on guarantees and letters of credit

The Group 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 32).

(c) **Legal claims and other contingent liabilities connected with claims against the Group**

The Legal claims against the Group and other commitment liabilities connected with legal proceedings amount to BGN 40 593 thousand and BGN 41 460 thousand (principal and accrued interest) as of December 31, 2020 and 2019, respectively. For part of these legal claims the Group's management believes that there is a probability of unfavourable outcome. The Group considers probability of future cash outflows on other contingent liabilities as well as probability for increase of customers' claims against the Group connected with payments on contracts for products and services provided by the Group. Based on these assessments provisions at the total amount of BGN 36 091 thousand and BGN 36 004 thousand (Note 32) are allocated as at the end of 2020 and 2019, respectively.

(d) **Assets pledged as collateral**

As of 31 December 2020 and 2019 the Group has pledged government bonds to the amount of BGN 317 375 thousand and BGN 246 476 thousand, respectively, as collaterals for funds due to the State Budget. The pledge is registered in the Central Bank in favour of Ministry of Finance under the Public Finance Act.

As of 31 December 2020 the Group has pledged deposits collateralising derivative deals with OTP Bank amounting to BGN 580 thousand (2019: BGN 391 thousand) and with other foreign banks amounting to BGN 7 319 thousand (2019: BGN 1 623 thousand).

37. Cash and cash equivalents

	31-Dec-2020	31-Dec-2019 restated
<i>In thousands of BGN</i>		
Cash on hand	675 203	639 809
Balances with Central Bank	2 970 049	1 938 099
Receivables from banks with maturity up to 3 months	393 509	247 856
Total	4 038 761	2 825 764

38. Associates

As of 31 December 2020 and 2019 the Group exercises significant influence over Company for Cash Services AD, in which it holds 25% of the share capital.

The net assets of the associate are as follows:

	31-Dec-2020	31-Dec-2019
<i>In thousands of BGN</i>		
Cash Services Company AD	14 505	15 090

The table below shows the carrying amount of the associate and the share in its profit for the years ending 31 December 2020 and 2019:

	31-Dec-2020	31-Dec-2019
<i>In thousands of BGN</i>		
Carrying amount of interests in associates	3 626	3 773
Share of:		
Profit from continuing operations	331	541

39. Business combinations and mergers

Acquisitions and mergers of subsidiaries

On January 15, 2019 DSK Bank finalized the transaction for acquisition of 99.74% of the capital of Expressbank AD and indirect control over its subsidiaries Express Factoring EOOD, OTP Leasing EOOD and Regional Fund for Urban Development AD from the French banking group Société Générale.

General information

Percentage of shares bought	99.74%
Deal date	January 2019
Financial results recognised in the group result as from:	1 January 2019

Fair value of assets or liabilities recognised

In thousands of BGN

Cash and current accounts with the Central Bank and other banks	723 910
Financial assets at fair value through profit or loss	92 449
Derivative financial assets	29 286
Loans and advances to banks	683 448
Loans and advances to customers	4 804 055
Financial assets at fair value through other comprehensive income	706 943
Current tax assets	6 560
Investments in associates	4 858
Right-of-use assets	29 284
Property, plant and equipment	116 089
Intangible assets	95 601
Other assets	25 728
Deposits from banks	228 381
Derivative financial liabilities	21 167
Loans from banks	617 589
Deposits from customers	5 296 116
Provisions	18 564
Lease liabilities	29 284
Deferred tax liabilities	19 166
Other liabilities	63 749
Subordinated debt	23 470
Net assets acquired	1 000 725
Goodwill	77 372
Non-controlling interest	2 795
Purchase price	1 075 302
Cash consideration	1 075 302
Less: cash and cash equivalent balances acquired	(763 903)
Net cash outflow arising on acquisition:	311 399

On 14 November 2019 DSK Bank and Expressbank enter into a reorganisation agreement within the meaning of Chapter Sixteen of the Commercial Act by the merger of Expressbank (as an acquiree Bank) into DSK (as an acquiring Bank) in 2020. The merger was registered in the Commercial Register on 30 April 2020, which is also the date assumed as the reporting date of the transaction. As a result of the merger, the non-controlling shareholders of Expressbank AD become non-controlling shareholders of DSK Bank, and non-controlling interest to the amount of BGN 2 714 thousand has been transferred to the equity attributable to the owners of the parent company in the consolidated statement of changes in equity. The merger has no other effects on the consolidated financial statements of the Group for 2020.

The carrying amounts of the assets and liabilities of Expressbank AD and Express Factoring EOOD as at the respective merge dates are as follows:

In thousands of BGN

	30-April-2020	30-September-2020
Assets		
Cash and current accounts with the Central Bank and other banks	911 775	1 398
Derivative financial instruments	10 716	-
Loans and advances to banks	651 283	-
Loans and advances to customers	4 453 904	-
Receivables under factoring agreements	-	138 153
Investments	4 592	-
Current tax assets	4 234	-
Investments in subsidiaries and associates	56 926	-
Right-of-use assets	22 201	10
Property, plant and equipment	97 908	2
Intangible assets	42 331	1
Goodwill recognized on acquisition of Expressbank in 2019	77 372	-
Deferred tax assets	-	99
Other assets	1 550	39
Total assets	6 334 792	139 702
Liabilities		
Deposits from banks	31 649	-
Derivative financial instruments	10 100	-
Deposits from customers	5 053 461	49 171
Loans from banks and financial institutions	32 181	78 255
Lease liabilities	-	171
Lease liabilities	22 175	10
Provisions	24 827	-
Deferred tax liabilities	7 218	-
Other liabilities	28 709	2 847
Total liabilities	5 210 320	130 454
Net assets at the merger date	1 124 472	9 248

Subsidiaries acquired with a view for resale

On 15 January 2019 the Bank also finalized the transaction for the acquisition of Express Life Insurance AD through the indirect acquisition of 41.55% of the share capital of this entity, 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 subsidiary with a view for resale at acquisition date and subsequently sold in the same year to a third party.

Express Life Insurance AD is a joint-stock company with main activity of insurance in the following types of insurance: life insurance; investment-related life insurance; accident insurance.

General information

Percentage of shares bought	58.45%
Purchase price	6 700
Indirect share acquired	41.55%
Purchase date	January 2019
Sale date	October 2019

In thousands of BGN

Cash and cash equivalents	4 505
Advances to banks	11 090
Financial assets at fair value through profit or loss	133
Financial assets at fair value through other comprehensive income	7 520
Financial assets in investment funds	5 695
Insurance and re-insurance assets	1 521
Property, plant and equipment	49
Intangible assets	603
Other assets	123
Insurance and re-insurance liabilities	16 327
Provisions	181
Other liabilities	3 099
Net assets acquired	11 632

Acquisition of ownership interest in controlled entities without previous equity participation

On April 3, 2019 DSK Bank, via a share purchase agreement, acquires 100 % of the share capital of OTP Factoring Bulgaria EAD, thereby becoming the sole owner of the capital of the company and its wholly owned non-operational subsidiaries. Before the acquisition the acquiree was consolidated line by line by the Bank on the basis of control with no equity participation. The effect of the acquisition is presented in the consolidated financial statements as a combination of entities with common control and presented as a movement in the consolidated statement of equity.

Disposal of subsidiaries through a sale transaction

On 16 November 2020 the Group sold its ownership interest in Project Company Complex Banya EOOD representing 100% of the registered share capital of this entity for a selling price of EUR 1 600 thousand.

The net assets at the date of disposal are the following:

	31-October-2020
<i>In thousands of BGN</i>	
Cash at banks	18
Other assets	13
Property, plant and equipment	4
Other liabilities	(4)
Net assets	31
Gain on disposal	3 098
Total consideration	3 129
Net cash inflow arising on disposal:	
Consideration received	3 129
<i>less:</i>	
Cash disposed of	(18)
	3 111

40. Related party transactions

The Group has a controlling related party relationship with its parent company OTP Bank.

The Group has a related party relationship with its subsidiaries and associates and with its directors and executive officers and other companies within OTP Bank Group.

The related party transactions and balances as of and for the years ended 31 December 2020 and 2019 are as follows:

Related party	Type of transaction	2020	2019
Directors and executive officers	Loans granted	15 332	12 806
OTP Bank	Current and deposit accounts in OTP Bank	6 042	2 940 685
OTP Bank	Bond issued by OTP Bank	166 238	174 164
OTP Bank	Current and deposit accounts in DSK Bank	3 990	2 250
OTP Bank	Fair value of derivatives	(35 073)	(19 757)
OTP Bank	Other liabilities	424	6
OTP Bank	Other receivables	220	-
OTP Bank	Interest income	60 527	39 200
OTP Bank	Interest expense	83 048	34 330
OTP Bank	Services income	-	1 100
OTP Bank	Fees paid	215	481
OTP Bank	Fees received	2	2
OTP Bank	Gains (losses) on trading activities	118 290	30 954
OTP Bank	Gains (losses) on bond issued by OTP Bank	(7 864)	819
OTP Bank	Other operating income	880	-
OTP Bank	Liabilities for currency exchange contracts	2 290 094	3 021 961
OTP Bank	Receivables for currency exchange contracts	2 292 553	3 001 641
OTP Bank	Off balance liability on unutilised overdraft	1 600	1 600
Other OTP Group members	Current and deposit accounts in Group members	786 314	2 504
Other OTP Group members	Current and deposit accounts in DSK Bank	3	3
Other OTP Group members	Fair value of derivatives	(453)	3
Other OTP Group members	Loans received	-	78 234
Other OTP Group members	Interest income	1 068	2
Other OTP Group members	Interest expense	104	2 469
Other OTP Group members	Fees received	24	19
Other OTP Group members	Other operating income	15	15
Other OTP Group members	Loans received	-	15
Other OTP Group members	Liabilities for currency exchange contracts	92 787	48 013
Other OTP Group members	Receivables for currency exchange contracts	92 115	47 700
Other OTP Group members	Receivables for financial guarantees	1 956	-

The remuneration of the key management personnel for 2020 includes short-term benefits amounting to BGN 10 681 thousand (2019: BGN 7 989 thousand).

41. Disclosures required by the Law on Credit Institutions

Pursuant to Art. 70, paragraph 6 of the Law on Credit Institutions, The Bank should disclose certain qualitative and quantitative indices.

The Bank has a full license for commercial banking, offering bank products and services.

The Bank operates in the Republic of Bulgaria and does not have registered subsidiaries and branches outside the country.

Below is quantitative data for the Group's operations:

<i>In thousands of BGN</i>	2020	2019
Operating income	941 711	958 851
Pre-tax profit	193 924	346 100
Income tax expense	(18 403)	(32 346)
Equivalent number of full-time employees, average	5 863	6 777
Return on assets (net profit to total assets)	0.77%	1.44%

DSK Bank carries out services in its capacity of an investment intermediary pursuant to the provisions of the Law on Public Offering of Securities (LPOS). As an investment intermediary, the Bank has to follow certain requirements for protection of its clients' interests pursuant to the Markets in Financial Instruments Act (FIMA), Ordinance 38 and Ordinance 58, issued by the Financial Supervision Commission. The Bank has created and has been applying organisation related to signing and execution of contracts with clients, requiring information from clients, keeping record and storing clients' assets pursuant to the provision, and more specifically, to the requirements of Ordinance 38, Art. 28-31 and Ordinance 58, Art. 3-10. The Bank has developed internal control rules and procedures, in order to ensure compliance with the legislative framework described above.

42. Events after the reporting period

The COVID-19 pandemic has continued to impact the global demand and supply after the end of the reporting period. The considerable uncertainty in economic activity remains, and it has a direct negative impact on credit activity and on the quality of the credit portfolio.

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

© 2021 DSK Bank
Sofia1036
19, Moskovska str.
5, G. Benkovski str.
call_center@dskbank.bg
www.dskbank.bg