# DSK Bank AD

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

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

## FOR 2020

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

## 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.

For 2020 DSK Bank reports a profit after tax to the amount of BGN 193.04 m.

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

The Cost-to-Income as of December 2020 is 46.8%, 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 retains its leading positions in this segment.

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

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

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

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

The performance of the administrative functions is strictly monitored (particularly those related to the interaction with external parties). Procurement is ensured for the entire branch network, whereas most of the supplier contracts are centralized and the orders, supplies and the respective expenses are closely monitored by the Head Office. Reports and other obligations toward external authorities and regulatory bodies are prepared and delivered timely and the compliance with all legislative requirements is monitored by Finance and strategy division, Legal directorate and Compliance department. The operational risk is monitored and regular reports are prepared and submitted to the Operational risk management committee measuring the events and the realized losses and the corresponding potential losses, as well as proposing measures for limiting of the operational risk.

In 2020, DSK Bank 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 resut of the issuance of new shares acquired by shareholders other than OTP Bank.

**General information about the Management and the Structure of the Bank**

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

**<u>The changes in the Bank's senior management in 2020 as follows:</u>**

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 have 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.

**<u>In the Supervisory Board, the personal changes in 2020 as follows:</u>**

- As of November 17, 2020 heve 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 during the year was in accordance with management contracts and amounted to BGN 8.7 million.

**Participation of Management and Supervisory Board members in the share capital**

The Members of the Management and Supervisory Board do not participate in the share capital and do not have any rights to acquire shares and bonds of the company.

The participation of the MB members in management and supervisory bodies of other companies in 2020, as representatives of DSK Bank is as follows:

| Name | Company | Position |
|---|---|---|
| Tamas Hak-Kovacs | Without participation | |
| Diana Miteva | DSK Asset Management AD<br>DSK Mobile AD<br>DSK Dom AD | Member of SB<br>Chairperson of SB<br>Chairperson of BD |
| Slaveyko Slaveykov | OTP Factoring Bulgaria EAD | Member of BD |
| Dorothea Nikolova-Ilcheva | DSK Asset Management AD<br>PIC DSK Rodina AD<br>OTP Factoring Bulgaria EAD | Member of MB<br>Chairperson of MB<br>Chairperson of BD |
| Arnaud Leclair | Without participation | |
| Yuriy Genov | DSK Mobile AD | Member of SB |
| Mihail Komitsky | DSK Leasing AD<br>OTP Leasing EOOD<br>DSK AUTO LEASING EOOD<br>DSK Operational Leasing EOOD | Chairperson of MB<br>Director<br>Director<br>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.

**Financial result and profitability**

For 2020 DSK Bank reported BGN 205.9 million profit before tax, which decreased by 26% compared to 2019, mainly as a result of higher impairment allowances.

The profit after tax for 2020 was BGN 193.0 million.

The net interest income amounted to BGN 528.8 million and grew by BGN 91.6 million or 21 % compared to 2019, mainly as a result of higher interest income by BGN 91.85 million compared to 2019 (after the merge of DSK Bank and Expressbank) as the interest income on loans increased by BGN 96.3 million and the interest income on loans and advances to banks decreased by BGN 11.96 million. The interest expenses slightly increased year-on-year by BGN 0.2 million.

The net non-interest income for 2020 amounted to BGN 528.8 million (a growth of 64% or BGN 122.9 million compared to 2019), which is mainly a result of the increase of the other operating income (mainly from dividend income). Net income from fees and commissions amounted to BGN 199.4 million and increased by BGN 36.9 million compared to 2019.

The operating expenses (incl. personnel expenses, amortization, hired services, material expenses and other) stood at BGN 395.1 million, and grew by BGN 79.4 million or 25% compared to 2019.

The average headcount of the Bank as of 31 December 2020 was 4 973 (31 December 2019: 4 237).

The assets per employee ratio increased from BGN 3.75 million as of the end of 2019 to BGN 4.59 million as of the end of 2020. The profit per employee ratio decreased from BGN 58.7 thousand for 2019 to BGN 38.8 thousand for 2020.

**Balance sheet indicators**

The total assets of DSK Bank AD as at 31 December 2020 amounted to BGN 22 808.9 million and grew by BGN 6 906.3 million (or 43%) compared to 2019, which was a result of the household and company loans growth after the merge in 2020.

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).

Interest bearing assets comprised 96.5% relative share of the Bank's total assets.

The gross loan portfolio of DSK Bank as of 31 December 2020 was BGN 13 748.1 million, and increased by BGN 4 954.2 million or 56.3% year-on-year.

Loans to individuals (gross value) amounted to BGN 7 856.5 million and grew by BGN 2 162.2 million (38%) compared to the previous year.

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.

Company gross loans amounted to BGN 5 891.6 million and increased significantly by BGN 2 792 million (90.1%) compared to 2019.

Impairment allowance of the loan portfolio amounted to BGN 879.4 million and increased by BGN 314.8 million year-on-year.

Customer deposits amounted to BGN 19 257.2 million and grew by 51.4% or BGN 6 538.6 million compared to 2019.

Household deposits as at the end of 2020 were BGN 15 105.6 million and reported an increase of BGN 5 104.6 million or 51%.

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).

Company deposits amounted to BGN 3 532.2 million as at the end of 2020 and grew by BGN 1 471.8 million compared to 2019.

Deposits from financial institutions amounted to BGN 327.7 million, and decreased by BGN 92 million compared to 2019.

**Card transactions**

The number of the cards issued by DSK Bank as of 31.12.2020 were 2 146.3 thousand. Debit cards amounted to 1 913.1 thousands. Credit cards of Retail Banking were 176.1 thousand, and the credit cards of corporate customers were 57.1 thousand.

As of December 2020 the Bank operated with 1 094 ATM and 14 001 POS devices. During the year the Bank installed 3 201 POS devices. The significant growth of card devices is due to the acquisition of Expressbank devices after the merge.

**Capital adequacy**

The Bank constantly maintains a level of total capital adequacy, sufficient to cover the risks from its activity and to comply with the regulatory requirements. As at 31 December 2020 the total capital adequacy ratio on individual basis was 21.81%. DSK Bank AD provided BGN 948.4 million free capital above the total SREP capital requirement and the combined capital buffer, incl. capital conservation buffer (BGN 348.1 million), systemic risk buffer (BGN 417.7 million), O-SII buffer (BGN 139.2 million) and the specific for the institution countercyclical buffer (BGN 69.6 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 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 coming from the activity of the Bank mainly in retail banking is well diversified by product types, collateral types and risk exposures. The relation between the separate exposures is monitored and according to their quality, corrective measures are taken in order to limit the increase of concentration risk. The introduced sector limits for company loans aim an additional improvement of risk portfolio diversification. The Centralized Commission for Problem Loans monitors on a monthly basis the limits compliance and imposes limitations and recommends measures in case of limit violations or indications for such.

As of the end of 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 bookand 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 currencie groups.
In 2020 DSK Bank 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 chage 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 Bank 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 registertation 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 Bank risk exposure to operational risk is monitored both by type of the risk events and by different business lines.

DSK Bank has an 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 Bank'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 Bank'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 incurance 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 coveres 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 intraconnected 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 ManagementSection. 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.

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 DSK Bank'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.

DSK Bank 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 unforceen 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 decisive 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 Bank.

**Investment program**

The investments of DSK Bank during the year amounted to BGN 27.2 million, including the expenses for the project related to the merge of Expressbank in DSK Bank.

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 were BGN 1.1 million, aiming at optimization and improvements in strategic locations servicing the Head Office.

Investments of BGN 0.3 million were made for transformation of working places, upgrading lighting systems, visual communication and replacing air-conditioning systems.

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

Банка ДСК АД София 10 2115

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| Tamas Hak-Kovacs | Slaveyko Slaveykov |
| *Chief Executive Officer* | *Executive Director* |

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

## PURPOSE

DSK Bank 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 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. Despite the insecure operating environment caused by the rapidly growing COVID-19 pandemic and the resulting social and economic crisis, the Bank 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 volume of 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'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 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 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 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. DKS 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 has well established traditions for measuring the satisfaction of its banking clients. In 2020 DSK Bank 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 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 **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 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. ¾ of the research participants state that they could use the services offered by DSK Bank, 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 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 seeks to expand its innovative activities also through partnership with new, perspective companies. As a **partner of OTP Startup Partner Program**, the bank 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 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 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 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 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 received the biggest award for the largest sponsor during the annual awards "One family". The grounds for this award are the bank's 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 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 Bank 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 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 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 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, 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 – 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 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 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 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 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 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 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 has started also its human campaign **"Everyone looks for employees, we are looking for people"**, and the face of this campaign are the bank 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 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 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 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 stated 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 has implemented a balanced social policy. In 2020 the social costs are 6,93% of the total labour costs.

The internal corporate development of the employees continues to be one the management priorities. In 2020 over 370 employees have developed their internal career in the Bank.

In 2020 1 122 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 35 074 (one employee is counted every time he/ she participates in a training).

**AWARDS**

Last year DSK Bank 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 Expessbank. 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".

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| Tamás Hák-Kovács<br>*Chief Executive Director* | Slaveyko Slaveykov<br>*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 internals 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 renumerations, 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 renumerations
- 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 renumeration 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 renumerations, 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 renumerations.
- 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 pe 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.

Банка ДСК АД
София
10
2115

Tamás Hák-Kovács
*Chief Executive Director*

Slaveyko Slaveykov
*Executive Director*

# INDEPENDENT AUDITORS' REPORT AND
# ANNUAL SEPARATE 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 SEPARATE FINANCIAL STATEMENTS

### Opinion

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

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Company as at December 31, 2020, and its separate financial performance and its separate cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU").

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the separate financial statements section of our report. We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) of the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the separate financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the requirements of IFAA. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter, included in the table below, the description of how this matter has been addressed in our audit has been made in this context.

| *Key audit matter* | *How this key audit matter was addressed in our audit* |
|---|---|
| ***Impairment Loss Allowance for Loans and Advances to Customers***<br><br>***See Notes 4 and 20 to the separate financial statements***<br><br>Loans and advances to customers represent a significant part (56%) of the total assets of the Bank as at December 31, 2020 with aggregate gross carrying amount of BGN 13,748,135 thousand and accumulated loss allowance of BGN 879,391 thousand. The Bank applies impairment model based on expected credit losses ("ECL") in accordance with the requirements of IFRS 9 "Financial Instruments".<br><br>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:<br><br>• identification of significant increase of credit risk (SICR) for staging of loans to customers;<br>• determining the probability of default/ loss (PD/PL), the loss given default or loss (LGD/LGL) and the exposure at default or loss (EAD);<br>• imputing forward looking information (FLI) of macro-economic factors considering multiple scenarios in ECL estimation;<br>• the comprehensiveness and completeness on input data and calculation logic within the applied by the Bank statistical models, with input parameters obtained from internal and external sources.<br>• 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 on their outcomes for timing and amount of cash flows from future collections, including from collateral | *In this area, our audit procedures included, among others:*<br><br>• Inquiries and obtaining an updated understanding of the Bank's process of determining the loss allowances for loans and advances to customers.<br>• Inspection and review of internal policies, and procedures related to the process of determining the loan loss allowances. Inquiries with Bank's credit risk modelling and credit risk management experts.<br>• Review and assessment of the adequacy and the consistency of application of the methodology and models used by the Bank to identify loan losses and calculate allowances for selected significant portfolios.<br>• 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.<br><br>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:<br><br>• 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 Bank's loan portfolio and the availability of internal historical and forward-looking information for parameters development;<br>• Analysis and assessment of the appropriateness of staging classification based on the determined by the Bank classification criteria;<br>• Analysis of the reasonableness of the PD/PL and LGD/LGL calculations by examining supporting information for the key assumptions used;<br>• Independent recalculation, including review of calculation logic, together with our credit experts, of the parameters applied in the loss allowance calculations for significant portfolios; procedures on sample basis on the |

| ***Key audit matter*** | ***How this key audit matter was addressed in our audit*** |
|---|---|
| realization.<br>• 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.<br><br>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 separate financial statements of the Bank, as noted above, we have considered this matter as a key audit matter. | respective inputs to the calculations were performed;<br>• Observation of the expected credit loss calculation performed by the Bank 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 with the Bank's calculation was performed;<br>• 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:<br>  ○ Analysis and assessment of the key assumptions and judgments of Bank's management, including assessment of the adequacy of applied scenarios and their respective weightings, as well as expected cash flow recoveries,<br>  ○ independent analysis of the financial position and results of borrowers;<br>  ○ inspection of evidence supporting the servicing of the exposures by respective borrowers; as well as<br>  ○ analysis and evaluation of collateral valuation reports for the respective exposures;<br>• 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.<br>• Assessment of the relevance and adequacy of the disclosures in the Bank's separate financial statements related to the loss allowances on loans and advances to customers. |

| *Key audit matter* | *How this key audit matter was addressed in our audit* |
|---|---|
| ***Merger into the Bank of subsidiaries acquired in prior year within business combination***<br><br>***See Notes 2 and 38 to the separate financial statements***<br><br>On April 30, 2020, Expressbank AD was transformed through merger into DSK Bank AD (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, the Bank performed a purchase price allocation, 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 2 to the separate financial statements, the legal merger of Expressbank AD into DSK Bank AD that happened subsequently, represents a business combination under IFRS 3. Respectively, the transferred 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). Such carrying amounts represent the fair values of the net assets recognized in the consolidated statements at the date of acquisition of Expressbank AD, adjusted for subsequent depreciation, amortization, any impairment losses and other changes, recognized until the date of the merger.<br><br>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 separate financial statements of the Bank, its assets and liabilities, income and expenses, respectively results from the operations. The accounting and reporting for this transaction is complex, as it requires a level of assumptions and assessments from the Management of the Bank, and a technical migration of large databases from | *In this area, our audit procedures included, among others:*<br><br>• Inquiries and obtaining of understanding of the accounting policy and the reporting for the transformation via merger of Expressbank AD into DSK Bank AD;<br>• Inspection and review of the internal documents and procedures related to the merger process. Inquiries to the Bank's experts, responsible for the management and the organization of the process.<br>• Inquiries and obtaining an understanding of the process of current reporting and migration of data and financial information in the Bank.<br>• Inspection and review of internal documents related to the migration process.<br>• 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.<br><br>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:<br>• 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<br>• 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 the Bank<br>• Selected tests of controls, analytical procedures and tests of details on a sample basis over data for balances and classes of transactions of |

| *Key audit matter* | *How this key audit matter was addressed in our audit* |
|---|---|
| the source systems of the acquired entity into the target systems of the Bank. Specifically, with respect to:<br>• Judgements over the accounting and reporting for the merger transaction within the separate financial statements of the Bank, including its effects;<br>• Classification, mapping and aggregation of balances and transactions within the merger as well as<br>• Assessment, analysis and procedures for confirming the completeness and integrity of the data and financial information transferred within the technical migration.<br><br>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 separate financial statements of the Bank, as noted above, we have considered this matter as a key audit matter. | 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.<br>• Assessment of the relevance and adequacy of the disclosures in the Bank's separate financial statements related to the reporting of the transformation via merger of acquired in prior year subsidiaries. |

**Information other than the separate 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 separate financial statements and our auditors' report thereon.

Our opinion on the separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless it is not specifically stated in our auditors' report and to the extent it is specifically stated.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**Responsibilities of Management and Those Charged with Governance for the separate financial statements**

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with IFRS as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.
Supervisory Board and Audit Committee of the Bank ("Those charged with governance") are responsible for overseeing the Bank's financial reporting process.

**Auditors' responsibilities for the audit of the separate financial statements**

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure 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 separate financial statements and auditors' report thereon", with respect to the annual report on activities, the corporate governance statement and the non-financial declaration, we have also performed the procedures, together with the required under ISA, in accordance with the "Guidelines regarding new extended reports and communication by the auditor" of the Professional Organization of Registered Auditors in Bulgaria - Institute of Certified Public Accountants (ICPA). These procedures include tests over the existence, form and content of the other information in order to assist us in forming an opinion as to whether the other information includes the disclosures and reporting as required by 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 separate financial statements have been prepared, is consistent with the separate financial statements.
- The annual report on the activities has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.
- The information required by Chapter Seven of the Accountancy Act and Art. 100m, 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 separate financial statements have been prepared.
- The non-financial declaration, covering the financial year for which the separate financial statements have been prepared, has been provided and prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

**Additional reporting related to Ordinance 58/2018 of the Financial Supervisory Commission (FSC)**

*Statement in connection with Art. 11 of Ordinance No 58/2018 of FSC outlining the requirements for protection of the customers' financial instruments and cash, for product management and for providing or receiving considerations, commissions, other cash and non-cash benefits*

Based on the performed audit procedures and the acquired knowledge for and understanding of the activity of the Bank ("Investment intermediary") in the context and the course of our audit of its separate financial statements as a whole, the established and applied organization related to the keeping of clients' assets complies with the requirements of Art. 3-10 of Ordinance 58 of FSC and Art. 92-95 of Markets in Financial Instruments Act regarding the Investment intermediary's activity.

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

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

- Deloitte Audit OOD and AFA OOD were appointed as statutory auditors of the separate financial statements of the Bank for the year ended December 31, 2020 by the general meeting of shareholders held on March 27, 2020 for a period of one year.
- The audit of the separate financial statements of the Bank 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 Bank's audit committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- No prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act were provided.
- We hereby confirm that in conducting the audit we have remained independent of the Bank.
- For the period to which our statutory audit refers, Deloitte Bulgaria EOOD has provided to the Bank, the following service which has not been disclosed in Bank's management report or separate 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 Bank and its controlled undertakings, in addition to the statutory audit, the following services which have not been disclosed in Bank's management report or separate 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 Bank, in addition to the statutory audit, the following service which has not been disclosed in Bank's management report or separate financial statements:
    - Training of employees of the Bank for financial statements analysis.
- For the period to which our statutory audit refers, Deloitte Audit OOD and AFA OOD have provided jointly to the Bank and its controlled undertakings, in addition to the statutory audit, the following services which have not been disclosed in Bank's management report or separate 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 | On behalf of AFA OOD |
|---|---|
| Sylvia Peneva | Renny Iordanova |
| Statutory Manager | General Manager |
| Registered Auditor, in charge for the audit | Registered Auditor, in charge for the audit |
| 103, Al. Stambolijski Blvd | 38, Oborishte Street |
| 1303 Sofia, Bulgaria | 1504 Sofia, Bulgaria |

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 015 АФА ООД

March 16, 2021

**Contents:**

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

| *In thousands of BGN* | Note | 2020 | 2019 restated |
|---|---|---|---|
| Interest income | | 541 903 | 450 053 |
| Interest expense | | (13 092) | (12 872) |
| **Net interest income** | 5 | **528 811** | **437 181** |
| Fee and commission income | | 230 743 | 189 846 |
| Fee and commission expense | | (31 310) | (27 329) |
| **Net fee and commission income** | 6 | **199 433** | **162 517** |
| Net trading income | 7 | 186 741 | 10 396 |
| Net income from other financial instruments at FVTPL | 8 | (1 837) | 9 110 |
| Net gains from derecognition of financial assets measured at amortised cost | 9 | 10 300 | 7 575 |
| Net losses from foreign exchange | | (162 239) | (1 721) |
| Loss from subsidiaries acquired with a view for resale | | - | (985) |
| Other operating income, net | 10 | 83 149 | 5 717 |
| **Operating income** | | **844 358** | **629 790** |
| Impairment losses on financial assets, net | 11 | (246 656) | (18 884) |
| Impairment losses on non-financial assets, net | 12 | (1 456) | (9 788) |
| Net income/(expense) for provisions | 31 | 4 730 | (8 902) |
| Personnel expenses | 13 | (163 047) | (123 622) |
| Depreciation and amortisation | 14 | (63 280) | (44 729) |
| Other expenses | 15 | (168 793) | (147 364) |
| **Profit before tax** | | **205 856** | **276 501** |
| Income tax expense | 16 | (12 820) | (27 721) |
| **Profit for the year** | | **193 036** | **248 780** |

The separate statement of profit or loss is to be read together with the notes from 1 to 41 forming an integral part of the separate financial statements.

The separate financial statements are authorised for issue from the Management Board and signed on behalf of DSK Bank 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

ОДИТОРСКО ДРУЖЕСТВО София рег. № 033 ДЕЛОЙТ ОДИТ ООД

ОДИТОРСКО ДРУЖЕСТВО София рег. № 015 АФА ООД

**Separate statement of comprehensive income**
**For the year ended 31 December 2020**

| *In thousands of BGN* | **2020** | **2019 restated** |
|---|---|---|
| **Profit for the year** | **193 036** | **248 780** |
| *Items that may be reclassified subsequently to profit or loss* | | |
| Cost of hedging for forward element of a forward and currency basis spread when excluded from designation in a hedge relationship | (9 613) | (14 811) |
| Movement in the investment revaluation reserve for debt instruments measured at fair value through other comprehensive income | 22 766 | 25 655 |
| Income tax related to OCI items that may be reclassified subsequently to profit or loss | (1 442) | (2 593) |
| | 11 711 | 8 251 |
| *Items that will not be reclassified subsequently to profit or loss* | | |
| Movement in revaluation reserve for equity instruments designated at fair value through other comprehensive income | 239 | 3 |
| Gains and losses on land and buildings revaluation | - | (28) |
| Remeasurements of net defined benefit liability | 1 785 | (1 445) |
| Income tax related to OCI items that will not be reclassified subsequently to profit or loss | (51) | (3) |
| | 1 973 | (1 473) |
| **Other comprehensive income for the year, net of tax** | **13 684** | **6 778** |
| **Total comprehensive income** | **206 720** | **255 558** |

The separate statement of comprehensive income is to be read together with the notes from 1 to 41 forming an integral part of the separate financial statements.

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

Tamás Hák-Kovács
*Chief Executive Director*

Slaveyko Slaveykov
*Executive Director*

Банка ДСК АД София 10 2115

Signed according to auditor's report:

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

Одиторско дружество София Рег. № 033 Делойт Одит ООД

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

Одиторско дружество София Рег. № 015 АФА ООД

## Separate statement of financial position

| *In thousands of BGN* | Note | 31-December-2020 | 31-December-2019 restated |
|---|---|---|---|
| **Assets** | | | |
| Cash and current accounts with the Central Bank and other banks | 17 | 3 726 939 | 1 769 073 |
| Financial assets held for trading | 18 | 25 635 | 183 413 |
| Derivative financial instruments | 18 | 62 769 | 20 111 |
| Loans and advances to banks | 19 | 2 393 813 | 2 198 903 |
| Loans and advances to customers | 20 | 12 868 744 | 8 229 337 |
| Receivables under factoring agreements | 21 | 183 451 | 69 196 |
| Investments in securities | 22 | 2 752 209 | 1 826 018 |
| Current tax assets | | 14 478 | 1 410 |
| Investments in subsidaries and associates | 37 | 125 589 | 1 150 957 |
| Goodwill | 23 | 77 372 | - |
| Right-of-use assets | 24 | 23 936 | 41 344 |
| Property, plant and equipment | 25 | 406 567 | 319 691 |
| Intangible assets | 26 | 77 000 | 56 833 |
| Other assets | 27 | 70 366 | 36 279 |
| **Total assets** | | **22 808 868** | **15 902 565** |
| **Liabilities** | | | |
| Deposits from banks | 28 | 36 897 | 18 573 |
| Derivative financial instruments | 18 | 86 191 | 32 891 |
| Deposits from customers | 29 | 19 257 235 | 12 718 637 |
| Loans from banks and financial institutions | 28 | 12 521 | 38 793 |
| Lease liabilities | 30 | 23 901 | 41 512 |
| Provisions | 31 | 86 620 | 70 767 |
| Deferred tax liabilities | 32 | 13 210 | 5 534 |
| Other liabilities | 33 | 109 396 | 51 818 |
| **Total liabilities** | | **19 625 971** | **12 978 525** |
| **Shareholder's equity** | | | |
| Share capital | 34 | 1 328 660 | 1 327 482 |
| Reserves | 34 | 1 641 056 | 1 334 906 |
| Retained earnings | | 213 181 | 261 652 |
| **Total shareholder's equity** | | **3 182 897** | **2 924 040** |
| **Total liabilities and shareholder's equity** | | **22 808 868** | **15 902 565** |

The separate statement of financial position is to be read together with the notes from 1 to 41 forming an integral part of the separate financial statements.

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

Банка ДСК АД София 10 2145

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

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

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

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 015 АФА ООД

**Separate statement of cash flows**

**For the year ended 31 December 2020**

| *In thousands of BGN* | **Note** | **2020** | **2019 restated** |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Profit before tax | | 205 856 | 276 501 |
| *Adjustments for:* | | | |
| Impairment losses on financial assets, net | 11 | 246 656 | 18 884 |
| Impairment losses on non-financial assets, net | 12 | 1 456 | 9 788 |
| Depreciation and amortization | 14 | 63 280 | 44 729 |
| Net gains from operations with investments | | (184 904) | (19 864) |
| Net losses from foreign exchange rate revaluation | | 162 239 | 1 721 |
| Net interest income | 5 | (528 811) | (437 181) |
| Dividend income | 10 | (74 712) | (59) |
| Loss on disposal of subsidiaries, acquired with a view of resale | | - | 985 |
| (Decrease)/ increase in provisions | 31 | (4 730) | 8 902 |
| Other non cash changes | | 11 008 | 14 470 |
| **Net cash flow used in operating activities before movements in operating assets and liabilities** | | **(102 662)** | **(81 124)** |
| **Movements in operating assets** | | | |
| Decrease/ (increase) in securities held for trading | | 151 245 | (142 485) |
| Decrease/ (increase) in loans and advances to banks | | 85 745 | (319 668) |
| Increase in loans and advances to customers | | (444 751) | (814 053) |
| Decrease/ (increase) of factoring receivables | | 6 379 | (30 681) |
| Decrease in other assets | | 1 052 | 72 119 |
| **Movements in operating liabilities** | | | |
| Increase in deposits from banks | | 307 961 | 1 387 |
| Increase in loans from banks and financial institutions | | 83 769 | 27 723 |
| Increase in deposits from customers | | 1 594 428 | 1 104 431 |
| Increase/(decrease) in other liabilities | | 22 430 | (14 867) |
| **Cash generated from operations** | | **1 705 596** | **(197 218)** |
| Interest received | | 518 282 | 453 730 |
| Interest paid | | (7 271) | (8 820) |
| Tax paid | | (22 761) | (32 100) |
| **Net cash flow from operating activities** | | **2 193 846** | **215 592** |
| **Cash flow from investing activities** | | | |
| Acquisition of property, plant and equipment, and intangible assets net | | (30 615) | (49 998) |
| (Acquisition)/proceeds from/of investments in securities, net | | (862 388) | (475 010) |
| Dividends received | | 74 712 | 59 |
| Acquisition of subsidiaries | | - | (1 082 002) |
| Acquisition of associates | | - | (475) |
| Acquisition of shares in controlled company | | - | (37 620) |
| Disposal of subsidiaries acquired with a view for sale | | - | 5 715 |
| **Net cash flow used in investing activities** | | **(818 291)** | **(1 639 331)** |

**Separate statement of cash flows**

**For the year ended 31 December 2020**
*(continued)*

| *In thousands of BGN* | Note | 2020 | 2019 restated |
|---|---|---|---|
| **Cash flow from financing activities** | | | |
| Repayment of the lease liabilities | | (9 658) | (10 472) |
| **Net cash flow used in financing activities** | | **(9 658)** | **(10 472)** |
| **Net increase/ (decrease) in cash and cash equivalents** | | **1 365 897** | **(1 434 211)** |
| Effect of foreign exchange rate changes | | (2 739) | 768 |
| Cash and cash equivalents acquired on merger of subsidiaries | | 884 114 | - |
| **Cash and cash equivalents at the beginning of the year** | 36 | **1 776 896** | **3 210 339** |
| **Cash and cash equivalents at the end of the year** | 36 | **4 024 168** | **1 776 896** |

The separate statement of cash flows is to be read together with the notes from 1 to 41 forming an integral part of the separate financial statements.

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

Банка ДСК АД
София
10
2115

Tamás Hak-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

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 033
ДЕЛОЙТ ОДИТ ООД

Renny Iordanova
Registered auditor responsible for the audit

AFA OOD

Date: March 16, 2021

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 015
АФА ООД

**Separate 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 | Revaluation reserve from financial assets | Cost of hedging | Defined Benefit Pension | Retained earnings | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance as of 1 January 2019, restated (Note 1(g))** | **1 327 482** | **982 208** | **114 008** | **18 835** | **(1 209)** | **(3 252)** | **230 410** | **2 668 482** |
| ***Total comprehensive income*** | - | - | - | - | - | - | - | - |
| Net profit for the year | - | - | - | - | - | - | 248 780 | 248 780 |
| Other comprehensive income | - | - | (26) | 23 060 | (14 811) | (1 445) | - | 6 778 |
| **Total comprehensive income** | - | - | **(26)** | **23 060** | **(14 811)** | **(1 445)** | **248 780** | **255 558** |
| Transfer of revaluation reserve from land and buildings, net of tax | - | - | (308) | - | - | - | 308 | - |
| Distribution of profit for reserves | - | 217 846 | - | - | - | - | (217 846) | - |
| **Balance as of 31 December 2019, restated (Note 1(g))** | **1 327 482** | **1 200 054** | **113 674** | **41 895** | **(16 020)** | **(4 697)** | **261 652** | **2 924 040** |
| ***Total comprehensive income*** | - | - | - | - | - | - | - | - |
| Net profit for the year | - | - | - | - | - | - | 193 036 | 193 036 |
| Other comprehensive income | - | - | - | 21 512 | (9 613) | 1 785 | - | 13 684 |
| **Total comprehensive income** | - | - | - | **21 512** | **(9 613)** | **1 785** | **193 036** | **206 720** |
| Equity changes as a result of merger of subsidiaries (Note 38) | 1 178 | 25 939 | - | 11 057 | - | - | 13 963 | 52 137 |
| Transfer of revaluation reserve from land and buildings, net of tax | - | - | (300) | - | - | - | 300 | - |
| Distribution of profit for reserves | - | 255 770 | - | - | - | - | (255 770) | - |
| **Balance as of 31 December 2020** | **1 328 660** | **1 481 763** | **113 374** | **74 464** | **(25 633)** | **(2 912)** | **213 181** | **3 182 897** |

The separate statement of changes in equity is to be read together with the notes from 1 to 41 forming an integral part of the separate financial statements.

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

Банка ДСК АД София 10 2115

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

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

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

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 015 АФА ООД

## 1. Basis of preparation and legal status and governance

### (a) Legal status and governance

DSK Bank AD (The "Bank" or “DSK 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, 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 Nyrt., 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. More details of the mergers are provided in Note 38.

On 30 April 2020 DSK Bank issued new shares in favour of the non-controlling shareholders of the transforming bank Expressbank AD (see also Note 34). 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 by, 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.

**(b) Going concern**

The management has made an assessment of the ability of the Bank to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Bank's ability to continue as a going concern. Despite the spread of COVID-19 throughout the year and as of the date of approval of these financial statements, the Bank 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 workd, 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 financial statements, estimates, judgements and risk management policies are disclosed in notes 1(h), 4(b), 4(c), 4(d) and 25.

**(d) Statement of compliance and representation**

These separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) effective from January 1, 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 Suplementary provisions of Accounting Act under the name International Accounting Standards (IAS).

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

These financial statements have been prepared on unconsolidated basis according to Accountancy Act and IFRS. The separate financial statements have been approved by the Management Board together with the consolidated financial statements of DSK Bank Group and should be treated as an integral part thereof.

**(e) Basis of measurement**

These separate financial statements of the Bank have been prepared on a historical cost basis except for the derivative financial instruments, the financial assets and financial liabilities held for trading, and the financial assets measured at fair value through other comprehensive income, which are carried at fair value; the land and buildings that are reported at revalued amounts; and the assets and liabilities acquired from merger of subsidiaries, which are recognized at their carrying amounts from the consolidated financial statements as at the respective merge dates (see also Note 2).

**(f) Functional and presentation currency**

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

**(g) Comparative information**

In these financial statements, the Bank presents comparative information for the previous year.

Whenever necessary, comparative data is 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 Bank revised the classification of one issuer's preference shares previously reported as equity instruments measured at fair value through other comprehensive income (FVTOCI). The Bank 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 Bank 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 separate statement of financial position. As of 31 December 2019 and 1 January 2019 the reserves have decreased, and retained earnings increased, with the 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 separate statement of profit or loss and the statement of comprehensive income as of, and for the year ending, 31 December 2019:

| **Separate statement of profit or loss** | | |
|---|---|---|
| *In thousands of BGN* | **2019 before restatement** | **2019 restated** |
| Net income from other financial instruments at FVTPL | 5 906 | 9 110 |
| Income tax expense | (27 422) | (27 721) |
| **Separate 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 at FVTPL.

Additionally, the Bank has revised the presentation in the separate 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 Bank 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 separate statement of financial position as of 31 December 2019:

| **Separate statement of financial position**<br>*In thousands of BGN* | **31-December-2019 before restatement** | **31-December-2019 restated** |
|---|---|---|
| **Assets** | | |
| Loans and advances to banks (collateral on derivative transactions only) | 2 197 280 | 2 198 903 |
| Other assets (collateral on derivative transactions only) | 37 902 | 36 279 |
| **Total assets** | **2 235 182** | **2 235 182** |
| **Liabilities** | | |
| Deposits from banks (collateral on derivative transactions only) | 10 159 | 18 573 |
| Deposits from customers (collateral on loans granted only) | 12 673 063 | 12 718 637 |
| Other liabilities (collateral on loans granted and derivative transactions) | 105 806 | 51 818 |
| **Total liabiities** | **12 789 028** | **12 789 028** |
| **Shareholder's equity** | | |
| Reserves | 1 340 788 | 1 334 906 |
| Retained earnings | 255 770 | 261 652 |
| **Total shareholder's equity** | **1 596 558** | **1 596 558** |

Further, after the merge of Express Factoring EOOD which was effected in the current period (year 2020), the Bank has reported separately in the separate statement of financial position the receivables under factoring agreements, and reclassified comparatives in order to achieve comparability.

The Bank 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 separate statement of financial position as of the beginning of the previous year. Consequently, the Bank 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 separate statement of cash flows by adjusting the items concerned. In addition, the Bank 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 Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates.

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

*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 under the baseline scenario (if applied with 100% probability), the total impairment 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.

*Expected credit losses from financial assets*

The Bank regularly assesses its financial instruments for impairment. Management determines the adequacy of the allowances based upon reviews of individual loans and placements, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors. The use of three stage model is implemented for IFRS purposes. The impairment methodology is used to classify financial instruments in order to determine whether credit risk has significantly increased since initial recognition and able to identify credit-impaired assets. For instruments with credit-impairment or significant increase of credit risk lifetime expected losses will be recognized.

*Fair value of financial instruments, not traded on active markets*

In case when fair values of financial assets and liabilities in the statement of financial position cannot be obtained from active markets, these are defined through different measurement techniques using models. The basic data for these models is extracted from indicators observed where possible on financial markets; otherwise assumptions are made for establishing of fair values. These assumptions take in consideration factors related to liquidity, volatility for long – term derivatives and discount rates, pre – term repayments and probabilities of default for asset – backed securities (Note 4 (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 Bank 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 Bank`s land and buildings has been performed. The Bank 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 Bank has concluded that the real estate market prices have not been impacted significantly by the spread of the COVID-19 pandemic during the year. The last revaluation of these assets has been 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 25).

*Provisions for litigation settlements*

For all open cases against the Bank, the management assesses the probability and the risks of negative outcome and charges provisions in cases when a higher than 50% probability of unfavorable outcome for the bank is distinguished or in case of potential risks of increase in claims from bank`s customers concerning contract payments for products and services (Note 31).

*Impairment of goodwill and intangible assets (customer base)*

In order to determine the recoverable amount of goodwill and the customer base recognized in a business combination, the Bank 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 furure cash flows, the Bank 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.

## 2. Merger of acquired subsidiaries

In accordance with IFRS 3 “Business Combinations”, a legal merger of an entity into an acquirer represents in substance a business combination from the position of the acquirer and for the purposes of the acquirer’s separate financial statements. For this reason the Bank has accounted for the legal mergers of subsidiaries previously acquired, by applying the acquisition method in its separate financial statements for 2020. The merged identifiable net assets are recognized at their carrying amounts reported in the consolidated financial statements of the Bank as at the date of the merger. Such carrying amounts represent the fair values of the net assets recognized in the consolidated balance sheet at the date of acquisition of the respective subsidiary, adjusted for subsequent depreciation, amortization, any impairment losses and other changes, recognized until the date of the merger. The assets recognized at the merge date also include the goodwill and any identifiable intangible assets recognized on acquisition of the subsidiary.

The difference between the assets and liabilities recognized in the separate financial statements after the legal merger and the carrying amount of the investment in the merged subsidiary before the legal merger, is recognized directly in equity.

Changes in the non-controlling interest are accounted for as transactions with owners and accordingly, reported in the statement of changes in equity.

The intragroup balances at the merge date, as well as the intragroup transactions for the period with the merged subsidiary, are eliminated.

## 3. Significant accounting policies

### (a) Interest income and expenses recognition

Interest income and expenses reported in the Statement of Profit or Loss include:

- interest on financial assets and liabilities at amortised cost calculated on an effective interest basis;
- interest on securities at fair value through other comprehensive income calculated on an effective interest basis.

Interest income and expenses are recognised in the statement of profit or loss using the effective interest rate method. The effective interest rate (EIR) is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes all fees paid or received as well as discounts and premiums which are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest revenue on receivables with risk Stage 3 and purchased credit-impaired receivables including with delays in payments over 90 days on a collective assessment basis.

For these financial assets, the Bank recognizes interest on the basis of the net amortized cost of the receivables. For this purpose, a corrective adjustment is calculated for the difference between the contractually accrued interest on the basis of EIR on the gross value of the financial asset and the calculated interest on the EIR basis of the amortized cost of the asset less the loss allowance for expected credit losses.

Interest revenue on receivables with risk Stage 3 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 Bank recognizes interest on the basis of the discounted unwinding cash flows by accruing an adjustment for the difference between the contractually accrued interest on the basis of EIR on the gross value of the financial asset and the difference between the present values of the unwinding cash flows in the separate reporting periods discounted with the EIR.

**(b) Foreign currency transactions**

Upon initial recognition, each foreign currency transaction is reported in the functional currency (Bulgarian Lev) by applying the exchange rate at the date of the transaction to the amount of the foreign currency.Monetary assets and liabilities denominated in foreign currencies and stated at historical cost, are translated at the foreign exchange rate ruling at that date. Foreign exchange rate differences arising on translation are recognized in the statement of profit or loss. Non-monetary assets and liabilities initially denominated in a foreign currency are reported in the functional currency using the historical exchange rate at the date of the transaction.

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

**(c) Fees and commission**

Fees and commission income, including account servicing fees, investment management fees, sales commission, guarantees, and letter of credit fees are recognised as the related services are performed.

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

**Performance obligations and revenue recognition policies**

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

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

## (d) Net trading income

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

## (e) Financial instruments

*(1) Classification*

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

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

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

*Business model for financial assets management*

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

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

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

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

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

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

*(2)* *Recognition*

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

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

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

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

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

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

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

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

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

*(3)* *Initial measurement*

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

The fair value of a financial instrument at initial recognition is normally the transaction price (i.e. the fair value of the consideration given or received).

*(4)* *Subsequent measurement*

***Amortised cost measurement***

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

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

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

***Fair value measurement***

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

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

Level 2: Valuation techniques for financial instruments based on market data either direct (i.e. such as quoted prices) or indirect (i.e. inputs from the prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data. The Bank measures the fair values using the valuation technique based on the net present value. The calculation of NPV is based on market yield curves and credit spreads where it is required for the corresponding instrument. The aim of the measurement methods is to define the fair value which reflects the value of the financial instrument as of the reporting date, which would have been defined by direct market players.

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

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

The best evidence of the fair value at the initial recognition is the transaction price (i.e. the fair value of the consideration given or received). If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure.

***Fair value measurement through other comprehensive income***

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

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

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

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

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

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

***Fair value measurement through profit or loss***

A gain or loss on a financial asset or financial liability that is measured at fair value shall be recognised in the statement of profit or loss unless: it is part of a hedging; it is an investment in an equity instrument the profits and losses from which are recognized in accordance with IFRS 9 paragraph 5.7.5; it is a financial liability designated as at fair value through profit or loss and the Bank should present changes in fair value resulting from a change in its own credit risk in other comprehensive income; or it is a financial asset measured at fair value through other comprehensive income.

*(5) Derecognition*

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

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

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

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

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

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

*(6) Offsetting*

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

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

*(7) Impairment of financial assets*

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

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

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

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

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event,ie when the counterparty has not made a payment that has become payable by contract (over 90 days);
- the Bank, for economic or contractual reasons relating to the borrower’s financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

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

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

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

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

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

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

*(8) Reclassification*

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

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

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

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

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

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

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

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

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

*(9) Modification*

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

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

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

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

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

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

*(10) Purchased credit-impaired financial assets*

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

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

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

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

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

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

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

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

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

## (f) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand and cash deposited with the Central Bank, nostro accounts, and short term highly liquid receivables from banks with initial maturity of up to three months.

## (g) Financial assets and liabilities held for trading

Trading assets and liabilities that are measured at fair value through profit or loss in accordance with the business model within which they are managed.

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

**(h) 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) Investments in subsidiaries and associates**

Subsidiaries are those enterprises controlled by the Bank. Associates are the enterprises where the Bank has significant influence, but not control over the financial and operating policies.

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

The Bank's investments in subsidiaries and associates are reviewed for impairment at each statement date. When there is an evidence for impairment it is recognised in the profit or loss as net loss from nonfinancial assets

**(j) Derivatives**

The Bank uses derivatives as forward, futures, swap and option deals to manage an exposure to market risk or for trading. All derivatives are recognised as financial assets for trading 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 Bank's risk management activities that use financial instruments to manage exposures arising from particular risks that could affect profit or loss (or other comprehensive income, in the case of investments in equity instruments for which the Bank has elected to present changes in fair value in other comprehensive income).

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

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

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

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

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

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

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

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

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

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 Bank to respond to changes in the relationship between the hedging instrument and the hedged item that arise from their underlyings or risk variables.

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

### (k) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near future term. They include loans and advances to banks and loans and advances to customers.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo"), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the statement of financial position.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured in accordance with the business model.

### (l) 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 Bank 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.

**(m) Goodwill**

Goodwill is measured as the excess of the sum of the consideration transferred over the participation of the acquiree in the fair value of the identifiable assets acquired and the contingent liabilities assumed. If the cost of an acquisition exceeds the value of the acquiree's identifiable assets, liabilities and contingent liabilities, the excess is recognised immediately in profit or loss as a gain on bargain purchase.

Goodwill is not amortised but is tested for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Bank'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. 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.

**(n) Property, plant and equipment**

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

Items of land and buildings are stated at fair value determined periodically by a professional registered valuer. The revaluation of assets is carried asset by asset based on proportional calculation of the book value of the asset and the accumulated for it depreciation as of the date of revaluation. When the carrying amount of assets is increased as a result of revaluation, the increase is credited directly as revaluation reserve. When the carrying amount of assets is decreased as a result of revaluation, the decrease is recognized as a decrease of previous revaluation reserve and any excess is recognized as an expense in the statement of profit or loss.

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

Depreciation is provided on a straight-line basis at designed to write down the cost of property, plant, and equipment over their expected useful life.

The approximations of the annual rates of depreciation used from the Bank are as follow:

| | **%** |
|---|---|
| • Buildings | 1 - 9 |
| • Machines and equipment | 8 - 30 |
| • Motor cars | 25 |
| • Vehicles (without motor cars) | 10 |
| • Computers, according to their class and useful life | 20 – 33,33 |
| • Fixtures and fitting and other depreciable fixed assets | 15 - 50 |

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 furure 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.

**(o) Intangible assets**

Intangible assets, which are acquired by DSK Bank AD, are stated at cost less accumulated amortization and any impairment losses.

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

The annual rates of amortization are as follows:

| | % |
|---|---|
| • Computer software and licenses, according to class and useful life | 10 – 50 |
| • Customer base recognized in a business combination | 35 |

An intangible asset is derecognized from the statement of financial position when it is permanently retired from active use and no furure 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..

**(p) Impairment of non-financial assets**

At each reporting date, the Bank 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.

For impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss statement. They are allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**(q) 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 Bank determines whether a contract is a lease or contains a lease component. A contract is a lease or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The effects of lease contracts of the Bank as lessee are disclosed in notes 5, 14, 15, 24 and 30.

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

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

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

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

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

*Minimum lease payments*

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

*Initial and subsequent measurement*

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

### (r) Assets acquired from collaterals

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

### (s) Inventories

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

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

Inventories are presented in the statement of financial position at the lower of the carrying amount and net realizable value. For this reason, annually, at the date of financial statement of the Bank, these assets are estimated of the net realizable value on the most reliable existing data at the valuation date.

**(t) Provisions**

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

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

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

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

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

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

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

**(u) Deposits**

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

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

When the Bank sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (“repo”), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Bank’s financial statements.

**(v) Contingent liabilities**

Contingent liabilities are:

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

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

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

**(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 Bank’s contributions to the defined contribution pension plan are recognised as an employee benefit expense in statement of profit or loss in the periods during which services are rendered by employees.

(2) *Defined benefit plans*

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Bank’s net obligation with respect to defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, that benefit is discounted to determine its present value.

The Bank has obligation to pay certain amounts to each employee who retires with the Bank in accordance with Art.222, § 3 of the Labour Code in Bulgaria. According to these regulations in the LC, when a labour contract of a company’s employee, who has acquired a pension right, is ended, the Bank is obliged to pay compensations amounted to two gross monthly salaries. In case the employee’s length of service in the company 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 the Bank for certain period the Collective Labour Contract adopts the next compensations: five years – the severance payment is two gross monthly salaries; from five to ten years – the severance payment is three gross monthly salaries; from ten to fifteen years – the severance payment is seven gross monthly salaries; more than fifteen years – the severance payment is eight gross monthly salaries. The Management of the Bank estimates the approximate amount of the potential expenditures for every employee based on a calculation performed by a qualified actuary using the projected unit credit method as at the statement date. The estimated amount of the current year obligation and the main assumptions, on the base of which the estimation of the obligation has been made, is disclosed to the financial statements in note 31.

The Bank recognises actuarial gain or loss, arising from defined benefit plans in the statement of comprehensive income.

*(3) Termination benefits*

Termination benefits are recognised as an expense when the Bank is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Bank has made an offer of voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

*(4) Short-term employee benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably. The Bank recognises as a liability the undiscounted amount of the estimated costs related to 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 Bank’s separate financial statements.

**Amendments to the existing Standards issued by IASB and adopted by the EU but not yet effective**

At the date of authorisation of these separate financial statements, the following amendments to the existing standards were issued by IASB and adopted by the EU and which 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 the separate 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 Bank anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the separate financial statements of the Bank in the period of initial application.

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

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

## 4. Risk management disclosures

***Structure and functions of the Risk Management Unit***

The credit risk management of the Bank is the responsibility of a unit which is independent from the business units and is managed by an Executive Director. The various 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 automatical checks;
- Collateral Validation Department having functions related to approval of valuation and revaluation of real estate;
- General Policy and Risk Management Directorate having functions related to management of the counterparty, market and operational risk through adequate controls and methodologies, delivery of the regulatory reporting regarding the assumed risk and improvement of the risk management and risk reporting practices;
- 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 presented the various risks on which DSK Bank AD is exposed to as well as the approaches taken to manage those risks.

**(a) Liquidity risk**

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

DSK Bank maintains active trading positions in a limited number of derivative and non-derivative financial instruments. Most of DSK Bank's derivative trading activities are aimed at offering products to corporate clients at competitive prices and liquidity management.

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

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

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

The following table presents the liabilities of DSK Bank distributed by their remaining term to maturity into relevant maturity zones based on undiscounted cash outflows.

**Residual contractual maturities of financial liabilities as of 31 December 2020**

| *In thousands of BGN* | **Carrying amount** | **Gross nominal flow** | **Up to 1 month** | **From 1 to 3 months** | **From 3 months to 1 year** | **From 1 to 5 years** | **Over 5 years** |
|---|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | | |
| Deposits from banks | **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 | **19 257 235** | **19 258 157** | 16 642 374 | 835 692 | 1 671 446 | 58 060 | 50 585 |
| Loans from banks and financial institutions | **12 521** | **12 521** | - | - | - | 12 521 | - |
| Lease liabilities | **23 901** | **24 366** | 2 173 | 5 105 | 14 707 | 2 381 | - |
| Provisions | **86 620** | **86 620** | 743 | 2 682 | 42 | 78 909 | 4 244 |
| Deferred tax liabilities | **13 210** | **13 210** | - | - | - | 13 210 | - |
| Other liabilities | **109 396** | **109 396** | 27 124 | 125 | 5 029 | 35 894 | 41 224 |
| **Total liabilities** | **19 625 971** | **19 627 358** | **16 719 071** | **864 250** | **1 745 557** | **200 982** | **97 498** |
| Unused loan commitments | - | 2 615 916 | 120 906 | 312 161 | 1 284 789 | 493 421 | 404 639 |
| **Total liabilities and commitments** | **19 625 971** | **22 243 274** | **16 839 977** | **1 176 411** | **3 030 346** | **694 403** | **502 137** |

**Residual contractual maturities of financial liabilities as of 31 December 2019**

| *In thousands of BGN* | Carrying amount | Gross nominal flow | Up to 1 month | From 1 to 3 months | From 3 months to 1 year | From 1 to 5 years | Over 5 years |
|---|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | | |
| Deposits from banks | **18 573** | **18 573** | 18 573 | - | - | - | - |
| Derivative financial instruments | **32 891** | **32 891** | 6 083 | 5 760 | 15 035 | 6 013 | - |
| Deposits from customers | **12 718 637** | **12 719 254** | 10 546 721 | 704 382 | 1 431 600 | 27 309 | 9 242 |
| Loans from banks and financial institutions | **38 793** | **38 765** | - | 31 057 | - | 7 708 | - |
| Lease liabilities | **41 512** | **42 357** | 25 | 2 945 | 8 299 | 26 161 | 4 927 |
| Provisions | **70 767** | **70 767** | 14 699 | 956 | 8 837 | 46 182 | 93 |
| Deferred tax liabilities | **5 534** | **5 534** | - | - | - | 5 534 | - |
| Other liabilities | **51 818** | **51 818** | 14 008 | 2 631 | 12 461 | 16 555 | 6 163 |
| **Total liabilities** | **12 978 525** | **12 979 959** | **10 600 109** | **747 731** | **1 476 232** | **135 462** | **20 425** |
| Unused loan commitments | - | 1 321 080 | 75 332 | 80 905 | 562 923 | 393 721 | 208 199 |
| **Total liabilities and commitments** | **12 978 525** | **14 301 039** | **10 675 441** | **828 636** | **2 039 155** | **529 183** | **228 624** |

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

## Maturity table of assets and liabilities as of 31 December 2020

| *In thousands of BGN* | Carrying amount | Up to 1 month | From 1 to 3 months | From 3 months to 1 year | From 1 to 5 years | Over 5 years | Without maturity |
|---|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | | |
| Deposits from banks | **36 897** | 36 897 | - | - | - | - | - |
| Derivative financial instruments | **86 191** | 9 760 | 20 646 | 54 333 | 7 | 1 445 | - |
| Deposits from customers | **19 257 235** | 16 642 071 | 835 553 | 1 671 160 | 57 866 | 50 585 | - |
| Loans from banks and financial institutions | **12 521** | - | - | - | 12 521 | - | - |
| Lease liabilities | **23 901** | 2 173 | 5 105 | 14 707 | 1 916 | - | - |
| Provisions | **86 620** | 743 | 2 682 | 42 | 78 909 | 4 244 | - |
| Deferred tax liabilities | **13 210** | - | - | - | 13 210 | - | - |
| Other liabilities | **109 396** | 27 124 | 125 | 5 029 | 35 894 | 41 224 | - |
| **Total liabilities** | **19 625 971** | **16 718 768** | **864 111** | **1 745 271** | **200 323** | **97 498** | **-** |
| Unused loan commitments | - | 120 906 | 312 161 | 1 284 789 | 493 421 | 404 639 | - |
| **Total liabilities and commitments** | **19 625 971** | **16 839 674** | **1 176 272** | **3 030 060** | **693 744** | **502 137** | **-** |
| **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 | **3 726 939** | 3 726 939 | - | - | - | - | - |
| Trading financial assets | **25 635** | 1 | 10 800 | 102 | 14 732 | - | - |
| Derivative financial instruments | **62 769** | 8 353 | 17 447 | 35 240 | 24 | 1 705 | - |
| Loans and advances to banks | **2 393 813** | 297 114 | 676 038 | 1 412 762 | - | 7 899 | - |
| Loans and advances to customers | **12 868 744** | 385 397 | 517 312 | 2 533 892 | 4 809 931 | 4 622 212 | - |
| Receivables under factoring agreements | **183 451** | 36 495 | 10 430 | 52 324 | 84 202 | - | - |
| Investments in securities | **2 752 209** | 5 077 | 379 240 | 94 312 | 1 425 212 | 824 101 | 24 267 |
| Current tax assets | **14 478** | 14 478 | - | - | - | - | - |
| Investments in subsidaries and associates | **125 589** | - | - | - | - | - | 125 589 |
| Goodwill | **77 372** | - | - | - | - | - | 77 372 |
| Right-of-use assets | **23 936** | - | - | - | - | - | 23 936 |
| Property, plant and equipment | **406 567** | - | - | - | - | - | 406 567 |
| Intangible assets | **77 000** | - | - | - | - | - | 77 000 |
| Other assets | **70 366** | 17 165 | 1 696 | 6 973 | 25 773 | 18 759 | - |
| **Total assets** | **22 808 868** | **4 491 019** | **1 612 963** | **4 135 605** | **6 359 874** | **5 474 676** | **734 731** |
| **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

| *In thousands of BGN* | Carrying amount | Up to 1 month | From 1 to 3 months | From 3 months to 1 year | From 1 to 5 years | Over 5 years | Without maturity |
|---|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | | |
| Deposits from banks | **18 573** | 18 573 | - | - | - | - | - |
| Derivative financial instruments | **32 891** | 6 083 | 5 760 | 15 035 | 6 013 | - | - |
| Deposits from customers | **12 718 637** | 10 546 608 | 704 243 | 1 431 275 | 27 269 | 9 242 | - |
| Loans from banks and financial institutions | **38 793** | - | - | 31 085 | - | 7 708 | - |
| Lease liabilities | **41 512** | - | 2 898 | 8 104 | 25 615 | 4 895 | - |
| Provisions | **70 767** | 14 699 | 956 | 8 837 | 46 182 | 93 | - |
| Deferred tax liabilities | **5 534** | - | - | - | 5 534 | - | - |
| Other liabilities | **51 818** | 14 008 | 2 631 | 12 461 | 16 555 | 6 163 | - |
| **Total liabilities** | **12 978 525** | **10 599 971** | **716 488** | **1 506 797** | **127 168** | **28 101** | **-** |
| Unused loan commitments | - | 75 332 | 80 905 | 562 923 | 393 721 | 208 199 | - |
| **Total liabilities and commitments** | **12 978 525** | **10 675 303** | **797 393** | **2 069 720** | **520 889** | **236 300** | **-** |
| **Derivatives liabilities** | | | | | | | |
| Trading: | 11 989 | | | | | | |
| Outflow | | (375 929) | (102 723) | (126 207) | (11 198) | (6 918) | - |
| Inflow | | 373 983 | 101 878 | 127 244 | 2 994 | - | - |
| Hedge accounting: | 20 902 | | | | | | |
| Outflow | | - | - | - | (1 000 760) | (24 620) | - |
| Inflow | | - | - | - | 977 915 | - | - |
| **Total derivatives** | **32 891** | **(1 946)** | **(845)** | **1 037** | **(31 049)** | **(31 538)** | **-** |
| **Assets** | | | | | | | |
| Cash and current accounts with the Central Bank and other banks | **1 769 073** | 1 769 073 | - | - | - | - | - |
| Trading financial assets | **183 413** | 20 867 | 1 867 | 6 186 | 145 941 | 8 552 | - |
| Derivative financial instruments | **20 111** | 5 996 | 4 225 | 1 401 | 7 143 | 1 346 | - |
| Loans and advances to banks | **2 198 903** | 9 445 | - | 20 659 | 2 145 054 | 23 745 | - |
| Loans and advances to customers | **8 229 337** | 196 756 | 298 571 | 1 655 122 | 2 665 377 | 3 413 511 | - |
| Receivables under factoring agreements | **69 196** | 103 | 522 | 41 028 | 27 338 | 205 | - |
| Investments in securities | **1 826 018** | 159 572 | 98 944 | 108 139 | 730 382 | 710 561 | 18 420 |
| Current tax assets | **1 410** | 1 410 | - | - | - | - | - |
| Investments in subsidaries and associates | **1 150 957** | - | - | - | - | - | 1 150 957 |
| Goodwill | - | - | - | - | - | - | - |
| Right-of-use assets | **41 344** | - | - | - | - | - | 41 344 |
| Property, plant and equipment | **319 691** | - | - | - | - | - | 319 691 |
| Intangible assets | **56 833** | - | - | - | - | - | 56 833 |
| Other assets | **36 279** | 2 016 | 2 886 | 6 845 | 5 642 | 18 599 | 291 |
| **Total assets** | **15 902 565** | **2 165 238** | **407 015** | **1 839 380** | **5 726 877** | **4 176 519** | **1 587 536** |
| **Derivatives assets** | | | | | | | |
| Trading: | 13 009 | | | | | | |
| Outflow | | (337 072) | (219 252) | (210 455) | (218 312) | (393 309) | - |
| Inflow | | 338 341 | 219 404 | 209 679 | 220 175 | 395 491 | - |
| Hedge accounting: | 7 102 | | | | | | |
| Outflow | | - | - | - | (585 611) | - | - |
| Inflow | | - | - | - | 586 749 | - | - |
| **Total derivatives** | **20 111** | **1 269** | **152** | **(776)** | **3 001** | **2 182** | **-** |

In addition to monitoring the liquidity position, the Bank also analyses the stability of the funds attracted from various sources in order to define the expected cash outflows. The analysis is prepared on a regular basis and the information about the changes of depositors' behaviour is reported to the management of the Bank.

The Bank's expected cash flows on some financial assets and financial liabilities vary significantly from the contractual cash flows. The principal differences are as follows:

- demand deposits from customers are expected to remain stable or increase;
- Residential and non-residential mortgage loans to individuals have average original contractual maturity of 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.

**(b) Market risk**

Market risk is the risk that changes in market prices – such as interest rates, equity prices, foreign exchange rates – will affect the Bank's income or the value of its holdings of financial instruments.

Exposure to market risk is managed in accordance with risk limits set by senior management.

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 Bank 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:

| *In thousands of BGN* | **31-Dec-2020** | **31-Dec-2019** |
|---|---|---|
| Government bonds | | |
| Rated Baa1 | 11 476 | - |
| Rated Baa2 | - | 153 036 |
| Rated Baa3 | - | 10 090 |
| Rated Ba1 | 14 159 | - |
| Rated Ba2 | - | 20 287 |
| **Total** | **25 635** | **183 413** |

*(1) Interest rate risk*

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

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, DSK Bank is exposed to a risk of adverse changes in the market interest curves.

Interest rate risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes. The actual effect will depend on a number of factors, including the degree to which repayments are made earlier or later than the contracted dates as well as variations in the interest rate, caused by the sensitivity to different periods and currencies.

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

The Bank analyses the interest risk of the bank book, by classifying its financial assets and liabilities in time areas according to their sensitivity to the changes of interest rates in different currencies.

## Exposure to interest rate risk as of 31 December 2020

| *In thousands of BGN* | Up to 1 month | From 1 to 3 months | From 3 to 12 months | From 1 to 2 years | Over 2 years | Non-interest-bearing | Total |
|---|---|---|---|---|---|---|---|
| **Cash and current accounts with the Central Bank and other banks** | **111 321** | **-** | **-** | **-** | **-** | **3 615 618** | **3 726 939** |
| Floating rate | 111 321 | - | - | - | - | - | 111 321 |
| Non-interest bearing | - | - | - | - | - | 3 615 618 | 3 615 618 |
| **Trading financial assets** | **-** | **10 632** | **32** | **13 369** | **1 602** | **-** | **25 635** |
| Fixed rate | - | 10 632 | 32 | 13 369 | 1 602 | - | 25 635 |
| **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** | **11 725 265** | **37 338** | **180 865** | **163 505** | **739 714** | **22 057** | **12 868 744** |
| Fixed rate | 32 460 | 37 338 | 180 865 | 163 505 | 739 714 | - | 1 153 882 |
| Floating rate | 11 692 805 | - | - | - | - | - | 11 692 805 |
| Non-interest bearing | - | - | - | - | - | 22 057 | 22 057 |
| **Receivables under factoring agreements** | **183 451** | **-** | **-** | **-** | **-** | **-** | **183 451** |
| Floating rate | 183 451 | - | - | - | - | - | 183 451 |
| **Investments in securities** | **-** | **531 692** | **89 432** | **484 734** | **1 622 084** | **24 267** | **2 752 209** |
| Fixed rate | - | 365 455 | 89 432 | 484 734 | 1 622 084 | - | 2 561 705 |
| Floating rate | - | 166 237 | - | - | - | - | 166 237 |
| . Non-interest bearing | - | - | - | - | - | 24 267 | 24 267 |
| **Total interest sensitive assets** | **12 330 220** | **1 230 305** | **1 722 153** | **661 608** | **2 365 106** | **3 704 168** | **22 013 560** |
| Fixed rate | 329 574 | 1 050 401 | 1 722 153 | 661 608 | 2 363 400 | - | 6 127 136 |
| Floating rate | 12 000 646 | 179 904 | - | - | 1 706 | - | 12 182 256 |
| Non-interest bearing | - | - | - | - | - | 3 704 168 | 3 704 168 |
| **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** | **19 195 943** | **19 811** | **29 365** | **-** | **-** | **12 116** | **19 257 235** |
| Fixed rate | 9 244 | 19 811 | 29 365 | - | - | - | 58 420 |
| Floating rate | 19 186 699 | - | - | - | - | - | 19 186 699 |
| Non-interest bearing | - | - | - | - | - | 12 116 | 12 116 |
| **Loans from banks and financial institutions** | **-** | **12 521** | **-** | **-** | **-** | **-** | **12 521** |
| Floating rate | - | 12 521 | - | - | - | - | 12 521 |
| **Lease liabilities** | **832** | **1 305** | **4 977** | **5 408** | **11 379** | **-** | **23 901** |
| Fixed rate | 832 | 1 305 | 4 977 | 5 408 | 11 379 | - | 23 901 |
| **Total interest sensitive liabilities** | **19 223 741** | **51 509** | **51 223** | **5 415** | **12 824** | **72 033** | **19 416 745** |
| Fixed rate | 11 228 | 21 116 | 34 342 | 5 408 | 11 379 | - | 83 473 |
| Floating rate | 19 212 513 | 30 393 | 16 881 | 7 | 1 445 | - | 19 261 239 |
| Non-interest bearing | - | - | - | - | - | 72 033 | 72 033 |

### Exposure to interest rate risk as of 31 December 2019

| *In thousands of BGN* | Up to 1 month | From 1 to 3 months | From 3 to 12 months | From 1 to 2 years | Over 2 years | Non-interest-bearing | Total |
|---|---|---|---|---|---|---|---|
| **Cash and current accounts with the Central Bank and other banks** | **42 189** | **-** | **-** | **-** | **-** | **1 726 884** | **1 769 073** |
| Floating rate | 42 189 | - | - | - | - | - | 42 189 |
| Non-interest bearing | - | - | - | - | - | 1 726 884 | 1 726 884 |
| **Trading financial assets** | **20 719** | **-** | **6 215** | **66 179** | **90 300** | **-** | **183 413** |
| Fixed rate | 20 719 | - | 6 215 | 66 179 | 90 300 | - | 183 413 |
| **Derivative financial instruments** | **4 460** | **2 597** | **2 921** | **-** | **-** | **10 133** | **20 111** |
| Floating rate | 4 460 | 2 597 | 2 921 | - | - | - | 9 978 |
| Non-interest bearing | - | - | - | - | - | 10 133 | 10 133 |
| **Loans and advances to banks** | **9 836** | **-** | **44 013** | **2 145 054** | **-** | **-** | **2 198 903** |
| Fixed rate | 7 822 | - | 20 659 | 2 145 054 | - | - | 2 173 535 |
| Floating rate | 2 014 | - | 23 354 | - | - | - | 25 368 |
| **Loans and advances to customers** | **8 122 579** | **6 159** | **22 495** | **11 676** | **66 428** | **-** | **8 229 337** |
| Fixed rate | 3 636 | 6 159 | 22 495 | 11 676 | 66 428 | - | 110 394 |
| Floating rate | 8 118 943 | - | - | - | - | - | 8 118 943 |
| **Receivables under factoring agreements** | **69 196** | **-** | **-** | **-** | **-** | **-** | **69 196** |
| Floating rate | 69 196 | - | - | - | - | - | 69 196 |
| **Investments in securities** | **155 243** | **263 318** | **106 236** | **90 591** | **1 192 210** | **18 420** | **1 826 018** |
| Fixed rate | 155 243 | 89 154 | 106 236 | 90 591 | 1 192 210 | - | 1 633 434 |
| Floating rate | - | 174 164 | - | - | - | - | 174 164 |
| . Non-interest bearing | - | - | - | - | - | 18 420 | 18 420 |
| **Total interest sensitive assets** | **8 424 222** | **272 074** | **181 880** | **2 313 500** | **1 348 938** | **1 755 437** | **14 296 051** |
| Fixed rate | 187 420 | 95 313 | 155 605 | 2 313 500 | 1 348 938 | - | 4 100 776 |
| Floating rate | 8 236 802 | 176 761 | 26 275 | - | - | - | 8 439 838 |
| Non-interest bearing | - | - | - | - | - | 1 755 437 | 1 755 437 |
| **Deposits from banks** | **14 126** | **-** | **-** | **-** | **-** | **4 447** | **18 573** |
| Fixed rate | 35 | - | - | - | - | - | 35 |
| Floating rate | 14 091 | - | - | - | - | - | 14 091 |
| Non-interest bearing | - | - | - | - | - | 4 447 | 4 447 |
| **Derivative financial instruments** | **3 946** | **9 945** | **8 781** | **-** | **-** | **10 219** | **32 891** |
| Floating rate | 3 946 | 9 945 | 8 781 | - | - | - | 22 672 |
| Non-interest bearing | - | - | - | - | - | 10 219 | 10 219 |
| **Deposits from customers** | **12 664 801** | **20 076** | **25 371** | **-** | **-** | **8 389** | **12 718 637** |
| Fixed rate | 47 628 | 20 076 | 25 371 | - | - | - | 93 075 |
| Floating rate | 12 617 173 | - | - | - | - | - | 12 617 173 |
| Non-interest bearing | - | - | - | - | - | 8 389 | 8 389 |
| **Loans from financial institutions** | **-** | **-** | **38 793** | **-** | **-** | **-** | **38 793** |
| Fixed rate | - | - | 31 085 | - | - | - | 31 085 |
| Floating rate | - | - | 7 708 | - | - | - | 7 708 |
| **Lease liabilities** | **924** | **1 974** | **8 104** | **9 129** | **21 381** | **-** | **41 512** |
| Fixed rate | 311 | 622 | 2 672 | 2 405 | 1 077 | - | 7 087 |
| Floating rate | 613 | 1 352 | 5 432 | 6 724 | 20 304 | - | 34 425 |
| **Total interest sensitive liabilities** | **12 683 797** | **31 995** | **81 049** | **9 129** | **21 381** | **23 055** | **12 850 406** |
| Fixed rate | 47 974 | 20 698 | 59 128 | 2 405 | 1 077 | - | 131 282 |
| Floating rate | 12 635 823 | 11 297 | 21 921 | 6 724 | 20 304 | - | 12 696 069 |
| Non-interest bearing | - | - | - | - | - | 23 055 | 23 055 |

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

In 2020 DSK Bank 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** |
| *Effect in thousands of BGN* | | | | |
| **31 December 2020** | | | | |
| As at 31 December | (3 342) | (1 979) | 55 883 | 1 374 |
| **31 December 2019** | | | | |
| As at 31 December | (28 640) | (8 092) | 8 697 | 14 819 |

*(2) Exchange rate risk*

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

As a result of the implementation of Currency Board in Bulgaria, the Bulgarian currency rate to the euro is fixed at 1.95583. The national reporting currency is the Bulgarian lev therefore the Bank's financial results are affected by fluctuations in the exchange rates between the Bulgarian lev and currencies outside the Euro-zone.

The risk management policy is aimed at limiting the possible losses from negative fluctuations of foreign currencies rates different from euro. The Bank senior management sets limits on maximum open positions – total and by currency, stop-loss and VaR (Value at Risk) to manage the Bank's exchange rate risk. Bank's strategy is to minimize the impact from the changes of exchange rates on financial results. The net open currency positions are reported to management on a daily basis. The limits for restricting the exchange rate risk are periodically renewed based on analysis of market information and the inner needs of the Bank.

The Bank applies VaR methodology to measure the exchange rate risk. Basic characteristics of this model are: historical with 99% level of confidence and 1 day. To bring out a correlation matrix the Bank uses historical observations for currency exchange changes for 250 working days.

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

| *In thousands of BGN* | 2020 | 2019 |
|---|---|---|
| At 31 December | 14 | 5 |
| Average for the period | 21 | 28 |
| Maximum for the period | 122 | 67 |
| 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 signficant changes of the currency rates.

For monetary assets and liabilities denominated in foreign currencies that are not hedged, DSK Bank manages net exposure by buying and selling foreign currencies at spot rates when considered appropriate, within the approved limits for open currency position.

## (c) Credit risk

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

**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 13$^{th}$ 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.

**Significant increase in credit risk**

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

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**

DSK Bank 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 Bank 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 Bank. 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 Bank uses statistical and/or expert models to assess the credibility of the client, thus providing a common standard for credit risk assessment. Based on the result from the application of such models, the client or the deal is classified in a certain risk pool.

The credit risk assessment models are developed taking into account the specifics of each customer segment, based mainly on the application of statistical approaches. For client segments, where historical data and/or volumes are insufficient, the Bank uses expert models for credit risk assessment. The responsibility for the modelling is with the Risk Management Division, which is independent from the business divisions. These models are not used for estimation of expected credit loss in view of impairment/provision calculations.

Currently the models developed and used in the risk management process of the Bank are three major types:

- Application PD 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 Bank and servicing its debt obligations.

Based on the calculated PD result, which represents the probability of default during the 12 month- period following the calculation, the credits are distributed into pre-defined pools. The probability is expressed as a percentage from 0% to 100%.

The behaviour models have to be used as an analytical tool helping to assess the PD at a portfolio level. It can also be used to identify early warning signals.

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

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

- 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 weight and cut-off levels. Finally a matrix is determined, which provides the basis for pooling the customers into risk groups. The Bank uses expert models, when it is impossible to develop a statistical model due to insufficient transactions and/or defaults as well as when brand new products are created or a new segment becomes a target, when it is not possible an available statistical model to be applied.

The Bank has 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's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortisation profiles, early repayment or overpayment, changes in utilisation of undrawn commitments and credit mitigation actions taken before default or loss. The Bank uses EAD models that reflect the characteristics of the portfolios.

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

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

Expected credit losses are measured in a way that reflects:

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

**Individual and collective assessment of expected credit losses**

The following exposures are subject to collective valuation methods:

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

**Groupings based on shared risk characteristics**

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

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

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

**Credit quality**

The Bank monitors credit risk per class of financial instrument.

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

**Loans and advances to banks at amortised cost**

| *In thousands of BGN* | **31-Dec-2020** | **31-Dec-2019** |
|---|---|---|
| **Concentration by sector** | | |
| Central banks | 2 970 049 | 1 154 794 |
| Other banks | 2 475 509 | 2 226 852 |
| **Total** | **5 445 558** | **3 381 646** |
| | | |
| **Concentration by region** | | |
| Europe | 5 405 304 | 3 372 576 |
| America | 39 511 | 8 149 |
| Asia | 240 | 906 |
| Australia | 503 | 15 |
| **Total** | **5 445 558** | **3 381 646** |

**Loans and advances to customers at amortised cost**

| *In thousands of BGN* | 31-Dec-2020 | 31-Dec-2019 |
|---|---|---|
| **Concentration by sector** | | |
| **Retail:** | | |
| Mortgages | 3 522 168 | 2 412 331 |
| Other retail loans | 3 723 103 | 2 875 782 |
| **Corporate:** | | |
| Agriculture and forestry | 335 069 | 232 157 |
| Construction | 199 909 | 163 629 |
| Financial and insurance activities | 1 014 455 | 45 016 |
| Hotels and catering | 360 345 | 296 720 |
| Manufacturing | 1 811 531 | 890 110 |
| Real estate activities | 472 731 | 375 329 |
| State Budget | 39 211 | 2 936 |
| Trade and services | 962 699 | 659 137 |
| Transport and communications | 115 158 | 78 471 |
| Other industry sectors | 312 365 | 197 719 |
| **Total** | **12 868 744** | **8 229 337** |
| **Concentration by region** | | |
| Europe | 12 855 124 | 8 217 280 |
| North America | 5 595 | 5 958 |
| Asia | 6 503 | 5 040 |
| Africa | 1 108 | 643 |
| Australia | 315 | 341 |
| South America | 99 | 75 |
| **Total** | **12 868 744** | **8 229 337** |

**Receivables under factoring agreements**

| *In thousands of BGN* | 31-Dec-2020 | 31-Dec-2019 |
|---|---|---|
| **Corporate:** | | |
| Agriculture and forestry | 1 166 | 626 |
| Construction | 3 134 | 1 936 |
| Financial and insurance activities | 4 929 | 257 |
| Hotels and catering | - | 3 |
| Manufacturing | 63 376 | 44 211 |
| Trade and services | 83 219 | 15 618 |
| Transport and communications | 7 888 | 1 903 |
| Other industry sectors | 19 739 | 4 642 |
| **Total** | **183 451** | **69 196** |
| **Concentration by region** | | |
| Europe | 181 680 | 66 998 |
| North America | 543 | - |
| Asia | 1 219 | - |
| Africa | - | 2 198 |
| Oceania | 9 | - |
| **Total** | **183 451** | **69 196** |

**Investments in securities**

| *In thousands of BGN* | **31-Dec-2020** | **31-Dec-2019** |
|---|---|---|
| **Concentration by sector** | | |
| *Investments in instruments measured at fair value through other comprehensive income* | | |
| Government debt securities | 1 983 609 | 1 633 434 |
| Equity instruments | 18 614 | 8 004 |
| *Investments in instruments mandatory measured at fair value through profit or loss* | | |
| Equity instruments | 263 | 284 |
| Corporate debt securities | 171 628 | 184 296 |
| *Investments in instruments measured at amortized cost* | | |
| Government debt securities | 578 095 | - |
| **Total** | **2 752 209** | **1 826 018** |
| **Concentration by region** | | |
| Europe | 2 571 493 | 1 666 815 |
| North America | 122 117 | 159 203 |
| Asia | 58 599 | - |
| | **2 752 209** | **1 826 018** |

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

DSK Bank AD diversifies the undertaken credit risks through the application of sector risk limits. The sector risk limits system is based on a methodology, which takes into account the historical data related to the development of the respective industries. Despite this the methodology for determining of sector limits provides top limit of the maximum share of the total business portfolio which could be allowed as risk in certain industry sector. This limits the concentration risk. Reaching the maximum share leads to application of more restrictive requirements during the process of risk taking (including higher level of approval) or to a decrease of credits in certain industry sector.

**Loan commitments and financial guarantee contracts**

| *In thousands of BGN* | **31-Dec-2020** | **31-Dec-2019** |
|---|---|---|
| **Concentration by sector** | | |
| **Retail:** | | |
| Mortgages | 71 904 | 52 301 |
| Other retail loans | 319 255 | 251 297 |
| **Corporate:** | | |
| Agriculture and forestry | 120 557 | 65 784 |
| Construction | 280 192 | 180 467 |
| Financial and insurance activities | 142 148 | 66 284 |
| Hotels and catering | 17 575 | 44 516 |
| Manufacturing | 1 048 110 | 392 313 |
| Real estate activities | 98 596 | 36 698 |
| State Budget | 7 886 | 344 |
| Trade and services | 705 351 | 365 584 |
| Transport and communications | 198 966 | 33 314 |
| Other industry sectors | 130 596 | 86 047 |
| **Total** | **3 141 136** | **1 574 949** |
| | | |
| **Concentration by region** | | |
| Europe | 3 140 815 | 1 574 251 |
| North America | 29 | 56 |
| Asia | 188 | 204 |
| Africa | 78 | 407 |
| Oceania | 23 | 24 |
| South America | 3 | 7 |
| **Total** | **3 141 136** | **1 574 949** |

**Factoring agreement commitments**

| *In thousands of BGN* | 31-Dec-2020 | 31-Dec-2019 |
|---|---|---|
| **Concentration by sector** | | |
| **Corporate:** | | |
| Agriculture and forestry | 3 793 | 1 920 |
| Construction | 11 689 | 6 563 |
| Financial and insurance activities | 5 806 | 237 |
| Hotels and catering | - | 1 625 |
| Manufacturing | 205 149 | 139 362 |
| Real estate activities | 100 | - |
| State Budget | 4 500 | 4 500 |
| Trade and services | 95 202 | 48 004 |
| Transport and communications | 18 251 | 2 690 |
| Other industry sectors | 15 953 | 4 761 |
| **Total** | **360 443** | **209 662** |
| | | |
| **Concentration by region** | | |
| Europe | 351 438 | 205 673 |
| North America | 2 424 | 1 760 |
| Asia | 2 759 | 1 037 |
| Africa | 3 440 | 1 192 |
| Oceania | 382 | - |
| **Total** | **360 443** | **209 662** |

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

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

The allocation by stage below is prepared in accordance with 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 Bank as adequate for the purpose of estimation of increased credit risk from initial recognition.

**Loans and advances to banks at amortised cost**

*In thousands of BGN*

| | 31-Dec-2020 | | | |
|---|---|---|---|---|
| | **Stage 1 12-month ECL** | **Stage 2 Lifetime ECL** | **Stage 3 Lifetime ECL** | **Total** |
| Grades 1-3: Low risk | 5 451 527 | - | - | 5 451 527 |
| **Total gross carrying amount** | **5 451 527** | **-** | **-** | **5 451 527** |
| Loss allowance | (5 969) | - | - | (5 969) |
| **Carrying amount** | **5 445 558** | **-** | **-** | **5 445 558** |

*In thousands of BGN*

| | 31-Dec-2019 | | | |
|---|---|---|---|---|
| | **Stage 1 12-month ECL** | **Stage 2 Lifetime ECL** | **Stage 3 Lifetime ECL** | **Total** |
| Grades 1-3: Low risk | 3 382 102 | - | - | 3 382 102 |
| **Total gross carrying amount** | **3 382 102** | **-** | **-** | **3 382 102** |
| Loss allowance | (456) | - | - | (456) |
| **Carrying amount** | **3 381 646** | **-** | **-** | **3 381 646** |

**Loans and advances to customers at amortised cost**

| | 31-Dec-2020 | | | | |
|---|---|---|---|---|---|
| *In thousands of BGN* | **Stage 1 12-month ECL** | **Stage 2 Lifetime ECL** | **Stage 3 Lifetime ECL** | **POCI Lifetime ECL** | **Total** |
| Grades 1-3: Low risk | 5 152 794 | 167 065 | - | 332 | 5 320 191 |
| 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 | - | - | 851 788 | 59 383 | 911 171 |
| Municipality, PSE | 46 132 | - | - | - | 46 132 |
| Not rated | 1 327 118 | 23 760 | - | 239 | 1 351 117 |
| **Total gross carrying amount** | **11 415 029** | **1 417 827** | **851 788** | **63 491** | **13 748 135** |
| Loss allowance | (115 459) | (173 675) | (556 079) | (34 178) | (879 391) |
| **Carrying amount** | **11 299 570** | **1 244 152** | **295 709** | **29 313** | **12 868 744** |

| | 31-Dec-2019 | | | |
|---|---|---|---|---|
| *In thousands of BGN* | **Stage 1 12-month ECL** | **Stage 2 Lifetime ECL** | **Stage 3 Lifetime ECL** | **Total** |
| Grades 1-3: Low risk | 3 556 561 | 55 758 | - | 3 612 319 |
| Grades 4-6: Moderate risk | 2 987 076 | 37 405 | - | 3 024 481 |
| Grades 7-8: Increased risk | 807 431 | 169 668 | - | 977 099 |
| Grade 9: High risk | 9 970 | 188 713 | - | 198 683 |
| Grade 10: Default | - | - | 692 803 | 692 803 |
| Municipality, PSE | 7 881 | - | 865 | 8 746 |
| Not rated | 269 841 | 9 974 | - | 279 815 |
| **Total gross carrying amount** | **7 638 760** | **461 518** | **693 668** | **8 793 946** |
| Loss allowance | (89 745) | (39 432) | (435 432) | (564 609) |
| **Carrying amount** | **7 549 015** | **422 086** | **258 236** | **8 229 337** |

**Receivables under factoring agreements**

| | 31-Dec-2020 | | | |
|---|---|---|---|---|
| *In thousands of BGN* | **Stage 1 12-month ECL** | **Stage 2 Lifetime ECL** | **Stage 3 Lifetime ECL** | **Total** |
| Grades 1-3: Low risk | 8 614 | 7 878 | - | 16 492 |
| Grades 4-6: Moderate risk | 6 578 | 26 080 | - | 32 658 |
| Grades 7-8: Substandard | 170 | 132 | - | 302 |
| Grade 10: Default | - | - | 1 125 | 1 125 |
| Not rated | 120 761 | 31 585 | - | 152 346 |
| **Total gross carrying amount** | **136 123** | **65 675** | **1 125** | **202 923** |
| Loss allowance | (1 929) | (16 841) | (702) | (19 472) |
| **Carrying amount** | **134 194** | **48 834** | **423** | **183 451** |

| | 31-Dec-2019 | | | |
|---|---|---|---|---|
| *In thousands of BGN* | **Stage 1 12-month ECL** | **Stage 2 Lifetime ECL** | **Stage 3 Lifetime ECL** | **Total** |
| Grades 1-3: Low risk | 4 227 | - | - | 4 227 |
| Grades 4-6: Moderate risk | 8 606 | 37 | - | 8 643 |
| Grades 7-8: Substandard | 57 481 | - | - | 57 481 |
| Grade 9: Doubtful | - | 171 | - | 171 |
| Not_Rated | 263 | - | - | 263 |
| **Total gross carrying amount** | **70 577** | **208** | **-** | **70 785** |
| Loss allowance | (1 584) | (5) | - | (1 589) |
| **Carrying amount** | **68 993** | **203** | **-** | **69 196** |

**Investments in securities**

| | 31-Dec-2020 | | | |
|---|---|---|---|---|
| | **Stage 1 12-month ECL** | **Stage 2 Lifetime ECL** | **Stage 3 Lifetime ECL** | **Total** |
| *In thousands of BGN* | | | | |
| *Investments in instruments measured at fair value through other comprehensive income* | | | | |
| Grades 1-3: Low risk | 2 002 223 | - | - | 2 002 223 |
| *Investments in instruments mandatory measured at fair value through profit or loss* | | | | |
| Grades 1-3: Low risk | 171 891 | - | - | 171 891 |
| Investments *in instruments measured at amortized cost* | | | | |
| *Grades 1-3: Low risk* | 578 095 | - | - | 578 095 |
| **Total carrying amount** | **2 752 209** | **-** | **-** | **2 752 209** |
| Loss allowance | (4 711) | - | - | (4 711) |

| | 31-Dec-2019 | | | |
|---|---|---|---|---|
| | **Stage 1 12-month ECL** | **Stage 2 Lifetime ECL** | **Stage 3 Lifetime ECL** | **Total** |
| *In thousands of BGN* | | | | |
| *Investments in instruments measured at fair value through other comprehensive income* | | | | |
| Grades 1-3: Low risk | 1 641 438 | - | - | 1 641 438 |
| *Investments in instruments mandatory measured at fair value through profit or loss* | | | | |
| Grades 1-3: Low risk | 184 580 | - | - | 184 580 |
| **Total carrying amount** | **1 826 018** | **-** | **-** | **1 826 018** |
| Loss allowance | (859) | - | - | (859) |

**Loan commitments and financial guarantee contracts**

| | 31-Dec-2020 | | | |
|---|---|---|---|---|
| *In thousands of BGN* | **Stage 1 12-month ECL** | **Stage 2 Lifetime ECL** | **Stage 3 Lifetime ECL** | **Total** |
| Grades 1-3: Low risk | 1 387 108 | 18 720 | - | 1 405 828 |
| Grades 4-6: Moderate risk | 1 248 510 | 35 604 | - | 1 284 114 |
| 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 | 8 018 | - | - | 8 018 |
| Not rated | 299 418 | 814 | - | 300 232 |
| **Total amount committed** | **3 063 943** | **68 614** | **8 579** | **3 141 136** |
| Loss allowance | (24 315) | (2 746) | (3 639) | (30 700) |

| | 31-Dec-2019 | | | |
|---|---|---|---|---|
| *In thousands of BGN* | **Stage 1 12-month ECL** | **Stage 2 Lifetime ECL** | **Stage 3 Lifetime ECL** | **Total** |
| Grades 1-3: Low risk | 708 372 | 10 833 | - | 719 205 |
| Grades 4-6: Moderate risk | 582 953 | 1 920 | - | 584 873 |
| Grades 7-8: Increased risk | 117 560 | 2 086 | - | 119 646 |
| Grade 9: High risk | 3 139 | 8 299 | - | 11 438 |
| Grade 10: Default | - | - | 9 369 | 9 369 |
| Municipality, PSE | 472 | - | - | 472 |
| Not rated | 129 858 | 88 | - | 129 946 |
| **Total amount committed** | **1 542 354** | **23 226** | **9 369** | **1 574 949** |
| Loss allowance | (19 896) | (1 339) | (2 019) | (23 254) |

**Factoring agreement commitments**

| *In thousands of BGN* | 31-Dec-2020<br>**Stage 1**<br>**12-month ECL** | **Stage 2**<br>**Lifetime ECL** | **Stage 3**<br>**Lifetime ECL** | **Total** |
|---|---|---|---|---|
| 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 10: Default | - | - | 926 | 926 |
| Not rated | 301 029 | 13 860 | - | 314 889 |
| **Total amount committed** | **338 872** | **20 645** | **926** | **360 443** |
| Loss allowance | (3 486) | (2 686) | (401) | (6 573) |

| *In thousands of BGN* | 31-Dec-2019<br>**Stage 1**<br>**12-month ECL** | **Stage 2**<br>**Lifetime ECL** | **Stage 3**<br>**Lifetime ECL** | **Total** |
|---|---|---|---|---|
| Grades 1-3: Low risk | 12 112 | 150 | - | 12 262 |
| 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** | **209 145** | **292** | **225** | **209 662** |
| Loss allowance | (3 499) | (5) | (53) | (3 557) |

The next table summarises the loss allowance as of the year end of financial assets and provisions for guarantees and unused loan commitments by type of exposure. The effects from the merger of subsidiaries (Note 38) is reported in the movement of impairment losses and provisions for 2020 within the "New financial assets purchased or originated" line item

**Loss allowance or provision by type of exposure**

| *In thousands of BGN* | **31-Dec-2020** | **31-Dec-2019** |
|---|---|---|
| Loans and advances to banks at amortised cost | (5 969) | (456) |
| Loans and advances to customers at amortised cost | (879 391) | (564 609) |
| Receivables under factoring agreements | (19 472) | (1 589) |
| Investments in securities | (4 711) | (859) |
| Loan commitments and financial guarantee contracts | (30 700) | (23 254) |
| Loan commitments under factoring agreements | (6 573) | (3 557) |
| **Total** | **(946 816)** | **(594 324)** |

**Loss allowance - Loans and advances to banks at amortised cost**

| | **31-Dec-2020** | | | |
|---|---|---|---|---|
| *In thousands of BGN* | **Stage 1 12-month ECL** | **Stage 2 Lifetime ECL** | **Stage 3 Lifetime ECL** | **Total** |
| **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** | | | |
|---|---|---|---|---|
| *In thousands of BGN* | **Stage 1 12-month ECL** | **Stage 2 Lifetime ECL** | **Stage 3 Lifetime ECL** | **Total** |
| **Loss allowance as at 31 December 2018** | (397) | - | - | (397) |
| Changes in the loss allowance | - | | | - |
| New financial assets originated or purchased | (456) | - | - | (456) |
| Financial assets that have been derecognised | 397 | | | 397 |
| **Loss allowance as at 31 December 2019** | **(456)** | **-** | **-** | **(456)** |

**Loss allowance - Loans and advances to customers at amortised cost**

| *In thousands of BGN* | **31-Dec-2020**<br>**Stage 1 12-month ECL** | **Stage 2 Lifetime ECL** | **Stage 3 Lifetime ECL** | **POCI Lifetime ECL** | **Total** |
|---|---|---|---|---|---|
| **Loss allowance as at 31 December 2019** | **(89 745)** | **(39 432)** | **(435 432)** | **-** | **(564 609)** |
| Changes in the loss allowance | | | | | |
| Transfer to stage 1 | (8 892) | 6 714 | 2 178 | - | - |
| Transfer to stage 2 | 8 319 | (18 567) | 10 248 | - | - |
| Transfer to stage 3 | 917 | 7 974 | (8 891) | - | - |
| Increases due to change in credit risk | (3 615) | (84 193) | (180 187) | - | (267 995) |
| Decreases due to change in credit risk | 29 510 | 7 836 | 68 291 | - | 105 637 |
| Write-offs | - | - | 74 264 | - | 74 264 |
| New financial assets originated or purchased | (67 101) | (58 597) | (106 383) | (34 178) | (266 259) |
| Financial assets that have been derecognised | 15 148 | 4 590 | 19 833 | - | 39 571 |
| **Loss allowance as at 31 December 2020** | **(115 459)** | **(173 675)** | **(556 079)** | **(34 178)** | **(879 391)** |

| *In thousands of BGN* | **31-Dec-2019**<br>**Stage 1 12-month ECL** | **Stage 2 Lifetime ECL** | **Stage 3 Lifetime ECL** | **Total** |
|---|---|---|---|---|
| **Loss allowance as at 31 December 2018** | **(101 638)** | **(41 381)** | **(472 425)** | **(615 444)** |
| Changes in the loss allowance | | | | |
| Transfer to stage 1 | (9 515) | 6 612 | 2 903 | - |
| Transfer to stage 2 | 4 435 | (20 572) | 16 137 | - |
| Transfer to stage 3 | 1 236 | 9 295 | (10 531) | - |
| Increases due to change in credit risk | (16 220) | (15 393) | (150 117) | (181 730) |
| Decreases due to change in credit risk | 41 220 | 21 625 | 65 821 | 128 666 |
| Write-offs | - | - | 67 314 | 67 314 |
| New financial assets originated or purchased | (30 438) | (6 315) | (20 669) | (57 422) |
| Financial assets that have been derecognised | 21 175 | 6 697 | 66 135 | 94 007 |
| **Loss allowance as at 31 December 2019** | **(89 745)** | **(39 432)** | **(435 432)** | **(564 609)** |

**Loss Allowance - Receivables under factoring agreements**

| | 31-Dec-2020 | | | |
|---|---|---|---|---|
| *In thousands of BGN* | **Stage 1 12-month ECL** | **Stage 2 Lifetime ECL** | **Stage 3 Lifetime ECL** | **Total** |
| **Loss allowance as at 31 December 2019** | **(1 584)** | **(5)** | **-** | **(1 589)** |
| Changes in the loss allowance | | | | |
| Transfer to stage 2 | 52 | (52) | - | - |
| Transfer to stage 3 | 21 | - | (21) | - |
| Increases due to change in credit risk | (144) | (3) | (569) | (716) |
| Decreases due to change in credit risk | 953 | 17 | 3 | 973 |
| New financial assets purchased or originated | (1 263) | (16 803) | (115) | (18 181) |
| Financial assets that have been derecognised | 36 | 5 | - | 41 |
| **Loss allowance as at 31 December 2020** | **(1 929)** | **(16 841)** | **(702)** | **(19 472)** |

| | 31-Dec-2019 | | | |
|---|---|---|---|---|
| *In thousands of BGN* | **Stage 1 12-month ECL** | **Stage 2 Lifetime ECL** | **Stage 3 Lifetime ECL** | **Total** |
| **Loss allowance as at 31 December 2018** | **(346)** | **(1)** | **-** | **(347)** |
| Changes in the loss allowance | | | | |
| Transfer to stage 1 | (1) | 1 | - | - |
| Transfer to stage 2 | 2 | (2) | - | - |
| Increases due to change in credit risk | (423) | (3) | - | (426) |
| Decreases due to change in credit risk | 57 | - | - | 57 |
| New financial assets purchased or originated | (975) | - | - | (975) |
| Financial assets that have been derecognised | 102 | - | - | 102 |
| **Loss allowance as at 31 December 2019** | **(1 584)** | **(5)** | **-** | **(1 589)** |

**Loss allowance – Investments in securities**

| *In thousands of BGN* | 31-Dec-2020<br>Stage 1<br>12-month ECL | <br>Stage 2<br>Lifetime ECL | <br>Stage 3<br>Lifetime ECL | <br>Total |
|---|---|---|---|---|
| **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)** |

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

**Loss allowance - Loan commitments and financial guarantee contracts**

| *In thousands of BGN* | **31-Dec-2020**<br>**Stage 1**<br>**12-month ECL** | **Stage 2**<br>**Lifetime ECL** | **Stage 3**<br>**Lifetime ECL** | **Total** |
|---|---|---|---|---|
| **Loss allowance as at 31 December 2019** | **(19 896)** | **(1 339)** | **(2 019)** | **(23 254)** |
| Changes in the loss allowance | | | | |
| Transfer to stage 1 | (1 112) | 967 | 145 | - |
| Transfer to stage 2 | 652 | (718) | 66 | - |
| Transfer to stage 3 | 39 | 41 | (80) | - |
| Increases due to change in credit risk | (243) | (388) | (929) | (1 560) |
| Decreases due to change in credit risk | 6 310 | 59 | 36 | 6 405 |
| New loan commitments originated or purchased | (14 135) | (1 642) | (2 171) | (17 948) |
| Financial assets that have been derecognised | 4 070 | 274 | 1 313 | 5 657 |
| **Loss allowance as at 31 December 2020** | **(24 315)** | **(2 746)** | **(3 639)** | **(30 700)** |

| *In thousands of BGN* | **31-Dec-2019**<br>**Stage 1**<br>**12-month ECL** | **Stage 2**<br>**Lifetime ECL** | **Stage 3**<br>**Lifetime ECL** | **Total** |
|---|---|---|---|---|
| **Loss allowance as at 31 December 2018** | **(11 761)** | **(354)** | **(2 573)** | **(14 688)** |
| 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 | (6 495) | (881) | (725) | (8 101) |
| Decreases due to change in credit risk | 3 364 | 106 | 1 003 | 4 473 |
| New loan commitments originated or purchased | (7 961) | (259) | (74) | (8 294) |
| Financial assets that have been derecognised | 3 023 | 108 | 225 | 3 356 |
| **Loss allowance as at 31 December 2019** | **(19 896)** | **(1 339)** | **(2 019)** | **(23 254)** |

**Loss allowance - Factoring agreement commitments**

| | 31-Dec-2020 | | | |
|---|---|---|---|---|
| *In thousands of BGN* | **Stage 1 12-month ECL** | **Stage 2 Lifetime ECL** | **Stage 3 Lifetime ECL** | **Total** |
| **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 | - | - | (214) | (214) |
| Decreases due to change in credit risk | 874 | 5 | - | 879 |
| New loan commitments originated or purchased | (1 091) | (2 660) | (112) | (3 863) |
| Financial assets that have been derecognised | 180 | 2 | - | 182 |
| **Loss allowance as at 31 December 2020** | **(3 486)** | **(2 686)** | **(401)** | **(6 573)** |

| | 31-Dec-2019 | | | |
|---|---|---|---|---|
| *In thousands of BGN* | **Stage 1 12-month ECL** | **Stage 2 Lifetime ECL** | **Stage 3 Lifetime ECL** | **Total** |
| **Loss allowance as at 31 December 2018** | **(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 | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| *In thousands of BGN* | **12-month ECL** | **Lifetime ECL** | **Lifetime ECL** | |
| **Gross carrying amount as at 31 December 2019** | **3 382 102** | **-** | **-** | **3 382 102** |
| Changes in the gross carrying amount | | | | |
| Increases due to change in credit risk | 1 876 724 | - | - | 1 876 724 |
| Decreases due to change in credit risk | (4 489) | - | - | (4 489) |
| New financial assets originated or purchased | 3 407 466 | - | - | 3 407 466 |
| Financial assets that have been derecognised | (3 210 276) | - | - | (3 210 276) |
| **Gross carrying amount as at 31 December 2020** | **5 451 527** | **-** | **-** | **5 451 527** |
| Loss allowance as at 31 December 2020 | (5 969) | - | - | (5 969) |

| | 31-Dec-2019 | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| *In thousands of BGN* | **12-month ECL** | **Lifetime ECL** | **Lifetime ECL** | |
| **Gross carrying amount as at 31 December 2018** | **4 666 928** | **-** | **-** | **4 666 928** |
| Changes in the gross carrying amount | | | | - |
| Increases due to change in credit risk | 22 803 | - | - | 22 803 |
| Decreases due to change in credit risk | (1 585 708) | - | - | (1 585 708) |
| New financial assets originated or purchased | 2 199 131 | - | - | 2 199 131 |
| Financial assets that have been derecognised | (1 921 052) | - | - | (1 921 052) |
| **Gross carrying amount as at 31 December 2019** | **3 382 102** | **-** | **-** | **3 382 102** |
| Loss allowance as at 31 December 2019 | (456) | - | - | (456) |

**Loans and advances to customers at amortised cost**

| | 31-Dec-2020 | | | | |
|---|---|---|---|---|---|
| *In thousands of BGN* | **Stage 1 12-month ECL** | **Stage 2 Lifetime ECL** | **Stage 3 Lifetime ECL** | **POCI Lifetime ECL** | **Total** |
| **Gross carrying amount as at 31 December 2019** | **7 638 760** | **461 518** | **693 668** | **-** | **8 793 946** |
| Changes in the gross carrying amount | | | | | |
| Transfer to stage 1 | 115 189 | (109 264) | (5 925) | - | - |
| Transfer to stage 2 | (708 217) | 735 253 | (27 036) | - | - |
| Transfer to stage 3 | (75 999) | (79 051) | 155 050 | - | - |
| Increases due to change in credit risk | 276 973 | 36 151 | 18 160 | - | 331 284 |
| Decreases due to change in credit risk | (848 482) | (68 085) | (23 216) | - | (939 783) |
| Write-offs | - | - | (74 264) | - | (74 264) |
| New financial assets purchased or originated | 6 173 664 | 496 934 | 176 973 | 63 491 | 6 911 062 |
| Financial assets that have been derecognised | (1 156 859) | (55 629) | (61 622) | - | (1 274 110) |
| **Gross carrying amount as at 31 December 2020** | **11 415 029** | **1 417 827** | **851 788** | **63 491** | **13 748 135** |
| Loss allowance as at 31 December 2020 | (115 459) | (173 675) | (556 079) | (34 178) | (879 391) |

| | 31-Dec-2019 | | | |
|---|---|---|---|---|
| *In thousands of BGN* | **Stage 1 12-month ECL** | **Stage 2 Lifetime ECL** | **Stage 3 Lifetime ECL** | **Total** |
| **Gross carrying amount as at 31 December 2018** | **6 808 412** | **465 393** | **783 616** | **8 057 421** |
| Changes in the gross carrying amount | | | | |
| Transfer to stage 1 | 142 108 | (133 819) | (8 289) | - |
| Transfer to stage 2 | (192 876) | 235 943 | (43 067) | - |
| Transfer to stage 3 | (59 862) | (65 035) | 124 897 | - |
| Increases due to change in credit risk | 307 482 | 4 947 | 21 266 | 333 695 |
| Decreases due to change in credit risk | (745 205) | (56 619) | (32 345) | (834 169) |
| Write-offs | - | - | (67 314) | (67 314) |
| New financial assets purchased or originated | 2 445 650 | 66 581 | 43 327 | 2 555 558 |
| Financial assets that have been derecognised | (1 066 949) | (55 873) | (128 423) | (1 251 245) |
| **Gross carrying amount as at 31 December 2019** | **7 638 760** | **461 518** | **693 668** | **8 793 946** |
| Loss allowance as at 31 December 2019 | (89 745) | (39 432) | (435 432) | (564 609) |

**Receivables under factoring agreements**

| *In thousands of BGN* | 31-Dec-2020 Stage 1 12-month ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Total |
|---|---|---|---|---|
| **Gross carrying amount as at 31 December 2019** | **70 577** | **208** | **-** | **70 785** |
| Changes in the gross carrying amount | | | | |
| Transfer to stage 2 | (2 341) | 2 341 | - | - |
| Transfer to stage 3 | (985) | - | 985 | - |
| Increases due to change in credit risk | 13 597 | 605 | 456 | 14 658 |
| Decreases due to change in credit risk | (32 373) | (463) | (496) | (33 332) |
| New financial assets originated or purchased | 89 280 | 63 192 | 180 | 152 652 |
| Financial assets that have been derecognised | (1 632) | (208) | - | (1 840) |
| **Gross carrying amount as at 31 December 2020** | **136 123** | **65 675** | **1 125** | **202 923** |
| Loss allowance as at 31 December 2020 | (1 929) | (16 841) | (702) | (19 472) |

| *In thousands of BGN* | 31-Dec-2019 Stage 1 12-month ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Total |
|---|---|---|---|---|
| **Gross carrying amount as at 31 December 2018** | **38 407** | **108** | **-** | **38 515** |
| Changes in the gross carrying amount | | | | |
| Transfer to stage 1 | 68 | (68) | - | - |
| Transfer to stage 2 | (231) | 231 | - | - |
| Transfer to stage 3 | (20) | - | 20 | - |
| Increases due to change in credit risk | 10 243 | 3 | - | 10 246 |
| Decreases due to change in credit risk | (9 850) | (66) | (20) | (9 936) |
| New financial assets originated or purchased | 43 562 | - | - | 43 562 |
| Financial assets that have been derecognised | (11 602) | - | - | (11 602) |
| **Gross carrying amount as at 31 December 2019** | **70 577** | **208** | **-** | **70 785** |
| Loss allowance as at 31 December 2019 | (1 584) | (5) | - | (1 589) |

**Debt securities**

| *In thousands of BGN* | **31-Dec-2020** **Stage 1** **12-month ECL** | **Stage 2** **Lifetime ECL** | **Stage 3** **Lifetime ECL** | **Total** |
|---|---|---|---|---|
| **Carrying amount as at 31 December 2019** | **1 641 438** | **-** | **-** | **1 641 438** |
| Changes in the carrying amount | | | | |
| Fair value net change | (32 530) | - | - | (32 530) |
| New financial assets originated or purchased | 1 322 044 | - | - | 1 322 044 |
| 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) |

| *In thousands of BGN* | **31-Dec-2019** **Stage 1** **12-month ECL** | **Stage 2** **Lifetime ECL** | **Stage 3** **Lifetime ECL** | **Total** |
|---|---|---|---|---|
| **Carrying amount as at 31 December 2018** | **1 082 405** | **-** | **-** | **1 082 405** |
| Changes in the carrying amount | | | | |
| Increases due to change in credit risk | 24 399 | - | - | 24 399 |
| Decreases due to change in credit risk | (13 804) | - | - | (13 804) |
| New financial assets originated or purchased | 693 582 | - | - | 693 582 |
| Financial assets that have been derecognised | (145 144) | - | - | (145 144) |
| **Carrying amount as at 31 December 2019** | **1 641 438** | **-** | **-** | **1 641 438** |
| Loss allowance as at 31 December 2019 | (859) | - | - | (859) |

**Loan commitments and financial guarantee contracts**

| *In thousands of BGN* | 31-Dec-2020<br>Stage 1<br>12-month ECL | <br>Stage 2<br>Lifetime ECL | <br>Stage 3<br>Lifetime ECL | <br>Total |
|---|---|---|---|---|
| **Total amount committed as at 31 December 2019** | **1 542 354** | **23 226** | **9 369** | **1 574 949** |
| Changes in the amount committed | | | | |
| Transfer to stage 1 | 15 879 | (15 415) | (464) | - |
| Transfer to stage 2 | (68 585) | 68 752 | (167) | - |
| Transfer to stage 3 | (3 908) | (816) | 4 724 | - |
| Increases due to change in credit risk | 7 348 | 653 | 543 | 8 544 |
| Decreases due to change in credit risk | (38 864) | (41 635) | (1 597) | (82 096) |
| New loan commitments originated or purchased | 1 877 265 | 39 470 | 3 606 | 1 920 341 |
| Financial assets that have been derecognised | (267 546) | (5 621) | (7 435) | (280 602) |
| **Total amount committed as at 31 December 2020** | **3 063 943** | **68 614** | **8 579** | **3 141 136** |
| Loss allowance as at 31 December 2020 | (24 315) | (2 746) | (3 639) | (30 700) |

| *In thousands of BGN* | 31-Dec-2019<br>Stage 1<br>12-month ECL | <br>Stage 2<br>Lifetime ECL | <br>Stage 3<br>Lifetime ECL | <br>Total |
|---|---|---|---|---|
| **Total amount committed as at 31 December 2018** | **1 521 802** | **16 931** | **9 173** | **1 547 906** |
| Changes in the amount committed | | | | |
| 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 | 8 236 | 3 608 | 200 040 |
| Decreases due to change in credit risk | (380 878) | (7 181) | (3 848) | (391 907) |
| New loan commitments originated or purchased | 572 517 | 5 919 | 308 | 578 744 |
| Financial assets that have been derecognised | (353 312) | (5 724) | (798) | (359 834) |
| **Total amount committed as at 31 December 2019** | **1 542 354** | **23 226** | **9 369** | **1 574 949** |
| Loss allowance as at 31 December 2019 | (19 896) | (1 339) | (2 019) | (23 254) |

**Factoring agreement commitments**

| *In thousands of BGN* | 31-Dec-2020<br>Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total |
|---|---|---|---|---|
| **Total amount committed as at 31 December 2019** | **209 145** | **292** | **225** | **209 662** |
| Changes in the amount committed | | | | |
| 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 | 111 840 | 19 490 | 234 | 131 564 |
| Financial assets that have been derecognised | (10 760) | (142) | - | (10 902) |
| **Total amount committed as at 31 December 2020** | **338 872** | **20 645** | **926** | **360 443** |
| Loss allowance as at 31 December 2020 | (3 486) | (2 686) | (401) | (6 573) |

| *In thousands of BGN* | 31-Dec-2019<br>Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total |
|---|---|---|---|---|
| **Total amount committed as at 31 December 2018** | **70 103** | **232** | **98** | **70 433** |
| Changes in the amount committed | | | | |
| Transfer to stage 1 | 72 | (72) | - | - |
| Transfer to stage 3 | (3) | - | 3 | - |
| Increases due to change in credit risk | 34 682 | 135 | 26 | 34 843 |
| 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** | **209 145** | **292** | **225** | **209 662** |
| 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** |
| *In thousands of BGN* | | | | |
| 0-30 days | 12 973 667 | (376 199) | 8 233 847 | (201 441) |
| 31-60 days | 108 499 | (31 584) | 81 559 | (20 863) |
| 61-90 days | 93 658 | (37 328) | 57 978 | (19 154) |
| 91-180 days | 77 870 | (37 744) | 43 834 | (18 511) |
| More than 181 days | 494 441 | (396 536) | 376 728 | (304 640) |
| **Total** | **13 748 135** | **(879 391)** | **8 793 946** | **(564 609)** |

**Receivables under factoring agreements**

| | 31-Dec-2020 | | 31-Dec-2019 | |
|---|---|---|---|---|
| | **Gross carrying amount** | **Loss allowance** | **Gross carrying amount** | **Loss allowance** |
| *In thousands of BGN* | | | | |
| 0-30 days | 156 041 | (4 424) | 70 715 | (1 588) |
| 31-60 days | 46 827 | (15 014) | 70 | (1) |
| 91-180 days | 55 | (34) | - | - |
| **Total** | **202 923** | **(19 472)** | **70 785** | **(1 589)** |

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

The carrying amount of the modified loans as of 31 December 2020 is BGN 166 010 thousand and BGN 62 793 thousand as of 31 December 2019.

**Mortgage lending**

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

| | 31-Dec-2020 | | 31-Dec-2019 | |
|---|---|---|---|---|
| | **Gross carrying amount** | **Loss allowance** | **Gross carrying amount** | **Loss allowance** |
| *In thousands of BGN* | | | | |
| **LTV ratio** | | | | |
| Less than 50% | 615 073 | (5 587) | 556 287 | (3 259) |
| 51-70% | 893 383 | (8 672) | 765 489 | (4 621) |
| 71-90% | 1 274 269 | (12 794) | 918 611 | (5 368) |
| 91-100% | 462 984 | (4 273) | 45 251 | (466) |
| More than 100% | 213 586 | (4 639) | 50 145 | (1 794) |
| **Total** | **3 459 295** | **(35 965)** | **2 335 783** | **(15 508)** |

**Overdue loans - mortgage lending**

| | 31-Dec-2020 | | 31-Dec-2019 | |
|---|---|---|---|---|
| | **Gross carrying amount** | **Loss allowance** | **Gross carrying amount** | **Loss allowance** |
| *In thousands of BGN* | | | | |
| **LTV ratio** | | | | |
| Less than 50% | 41 034 | (18 813) | 40 027 | (14 208) |
| 51-70% | 53 037 | (23 312) | 39 773 | (15 589) |
| 71-90% | 52 459 | (26 521) | 36 156 | (16 482) |
| 91-100% | 18 828 | (11 894) | 12 338 | (6 676) |
| More than 100% | 106 883 | (92 863) | 147 753 | (131 036) |
| **Total** | **272 241** | **(173 403)** | **276 047** | **(183 991)** |

**Loan commitments - Mortgage lending**

| *In thousands of BGN* | 31-Dec-2020 Amount committed | 31-Dec-2020 Loss allowance | 31-Dec-2019 Amount committed | 31-Dec-2019 Loss allowance |
|---|---|---|---|---|
| **LTV ratio** | | | | |
| Less than 50% | 15 164 | 95 | 2 671 | 10 |
| 51-70% | 3 276 | 21 | 8 328 | 27 |
| 71-90% | 4 019 | 33 | 5 090 | 16 |
| 91-100% | 2 401 | 4 | 983 | 3 |
| More than 100% | 47 044 | 353 | 35 229 | 244 |
| **Total** | **71 904** | **506** | **52 301** | **300** |

**Assets obtained by taking possession of collateral**

In 2020 the Bank acquired real estate, collateral for loans amounting to BGN 1 657 thousand (2019: BGN 1 523 thousand). The Bank's policy is to realise collateral on a timely basis.

The table below sets out information about collateral of loans and receivable to banks and other customers both impaired and not impaired, measured at fair value determined in accordance with Bank policy up to the amount of loans extended as well as the amortised cost of loans that have no collateral.

**Loans and advances to banks and customers by type of collateral**

| *In thousands of BGN* | 31-Dec-2020 | 31-Dec-2019 |
|---|---|---|
| Secured by mortgages | 4 456 621 | 3 175 316 |
| Cash collateral | 36 111 | 23 389 |
| Government securities | 29 011 | 1 951 879 |
| Other types of collateral* | 4 644 925 | 3 652 468 |
| Without collateral | 10 032 994 | 3 372 996 |
| **Total** | **19 199 662** | **12 176 048** |

***** Other types of collateral comprise tangible collateral, guaranties from credit institutions pledge over receivable and personal guarantees for loans.

Included in loans and advances and collaterals held are the receivables on repurchase agreements. The table below represents the carrying amount of repurchase agreements and the fair value of collateral held.

**Repurchase agreements**

| | 31-Dec-2020 | | 31-Dec-2019 | |
|---|---|---|---|---|
| | **Carrying amount** | **Collateral** | **Carrying amount** | **Collateral** |
| *In thousands of BGN* | | | | |
| Advances to banks | 29 011 | 29 323 | 1 970 759 | 1 999 701 |
| **Total** | **29 011** | **29 323** | **1 970 759** | **1 999 701** |

**(d) Operational risk**

Operational risk means the risk of loss resulting from inadequate or malfunctioning internal processes, persons and systems or from external events, and includes legal risk.

The management of operational risk at the Bank is coordinated by Operational Risk Management Committee (ORMC), which is a permanent consultative body subordinated to the Management Board (MB) and involves the heads of the major units of Bank Head Office. The meetings are held quarterly, discussing the level of operational risk and the planed measures for mitigation/elimination of operational risks' consequences, identified in the previous quarter. The main focus of ORMC activity is the prevention of operational risks by implementing a comprehensive approach, aiming at limiting preconditions, leading to operational events occurrence.

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

DSK Bank has a special system to manage operational risk, by gathering data for the operational events. The management of the Bank receives periodically information about the level of operational risk. The system is based on the so-called Risk responsible employees on management positions in Head office and branch networ and Bank's subsidiaries, which are responsible for the management of operational risk in their units, following the decentralized approach of operational risk management in OTP Group.

Potential risks shall be reviewed as part of the business processes and for this reason they shall have to be identified in the self-assessment of the Bank's units, these risks shall be classified on the basis of the standardized taxonomy of operational risks annually.

Prior to the implementation of a new process, new system, or new activity, the latter shall be analysed and evaluated from the operational risk's viewpoint. This evaluation shall be prepared by the unit involved in the implementation, and shall be forwarded to the Operational Risk Management Department for further evaluation and analysis. For the preparation of the evaluation, the Risk Self-Assessment Forms shall be used. In cases when IT systems are implemented, the assessment shall be made by the unit(s) which has (have) defined the business requirements of the development.

Additionally, the actual level of operational risk is monitored based on Key Risk Indicator system which covers the main risk factors caused the significant operational risk losses and interruption in the critical business processes.

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

Methodology for stress testing analysing based on Monte Carlo simulations, which helps the assessment of the capital adequacy sufficiency of DSK Bank connected to operational risk is developed and implemented.

The developed rules and procedures for monitoring and evaluation of operational risk are in line with the requirements of EU and Bulgarian legislation, the standards of the OTP Group and best banking practice in operational risk management.

Operational risk management includes activities such as identifying and registering the operational risk events, assessing the operational loss amount, and determining the capital needed to cover the risk of eventual loss. Currently DSK Bank risk exposure to operational risk is monitored both by type of the risk events and by different business lines.

The Bank has a Business Continuity Plan for reaction in the event of unexpected circumstances, which purpose is to guarantee the recovery for the most important business processes to the preliminary defined level based on the Bank needs.

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

The National Bank of Hungary and Bulgarian National Bank Joint Decision which approved DSK Bank to apply the Advanced Measurement Approach for the capital calculation purposes on the individual and also on the consolidated base has been in force since 31 March 2014.

During 2020 there are no registered events, which could potentially threaten the Bank 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's regulatory capital requirements are based on CRD IV.

#### *(1) Regulatory capital*

The Bank's regulatory capital consists of the sum of the following elements:

- Tier I capital (all qualifies as Common Equity Tier 1 (CET 1) capital) which includes ordinary share capital, related share premiums, and reserves and deductions for intangible assets and other regulatory adjustments relating to items that are included in equity or assets but are treated differently for capital adequacy purposes;

The Bank calculates the total capital adequacy (the 'Basel ratio') as a ratio between total own funds for solvency purposes and the total of the risk-weighted assets for credit, market and operational risks. Tier I capital adequacy is the ratio between the Tier I capital and the risk-weighted assets and should be higher than 11.5%, buffers including. The total capital adequacy ratio should be higher than 12.5%, buffers including.

By Decision of the BNB Management Board No. 179 of May 15, 2020, DSK Bank was allowed to apply the mitigation measures from the introduction of IFRS 9 according to Art. 473a of Regulation (EU) 575/2013 during the transitional period. The Bank started implementing them in the second quarter of 2020.

*(2)* *Capital ratios*

**Total own funds for solvency purposes**

| *In thousands of BGN* | **Basel III 2020** | **Basel III 2019** |
|---|---|---|
| Tier 1 capital | 3 036 976 | 2 608 224 |
| *Common equity Tier 1 capital* | 3 036 976 | 2 608 224 |
| *Additional Tier 1 capital (AT1)* | - | - |
| Tier 2 capital | - | - |
| **Own funds** | **3 036 976** | **2 608 224** |
| Credit risk capital requirement | 1 057 787 | 706 486 |
| Market risk capital requirement | 1 969 | 4 008 |
| Operational risk capital requirement | 54 167 | 53 223 |
| **Total requirement regulatory capital** | **1 113 923** | **763 717** |
| **Surplus of total capital** | **1 923 053** | **1 844 507** |
| CET1 capital ratio (%) | 21.81% | 27.32% |
| **Capital adequacy ratio (%)** | **21.81%** | **27.32%** |

The policy of the Bank management and allocation of capital is determined by Management Board. Allocation of capital between different operations and activities aims to optimise the profitability of the allocated capital. The process is managed by ALCO by reviewing the level of credit, market, and operational risks undertaken by the Bank. The Bank together with OTP perform internal analysis of the size, type, and allocation of the required capital and assess the need of increase in regulatory required capital.

In connection with the implementation of the International regulatory framework Basel III for Banks additional capital buffers consistently are introduced. The aim is to provide additional funds for the recovery and restructuring of banks in a crisis, as well as to preserve the accumulated until the moment capital reserves for preventing or reducing the effects of long-term non-cyclical or macroprudential risks that could cause disruptions in the financial system generally.

By complying with the provisions of Bulgarian National Bank (BNB) Regulation 8 the Bank holds Capital conservation buffer of common equity Tier I equivalent to 2.5% of the amount of the total risk weighted exposures. With the same Regulation Bulgarian National Bank introduces a requirement for the capital systemic risk buffer. In 2020, the buffer is 3% of risk-weighted exposures. The Bank holds its specific countercyclical capital buffer. The assessment of the buffer depends on the level of the reference indicator that BNB announces quarterly. From the beginning of the fourth quarter of 2019 BNB changed the level of the countercyclical capital buffer from 0% to 0.5%. The level was subject to revision as of 1 April 2020, which 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 countercyclical capital buffer specific for the Bank 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 Bank for 2020.

According to a joint decision of the Bulgarian National Bank and Hungarian Central Bank and as a result of a supervisory review and evaluation process, there is no requirement for the Bank to keep any additional capital requirement for 2020 (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 Bank defines fair value using a measurement method based on net present value (NPV). The calculation of the NPV is based on market yield curves and credit spreads where it is required for the corresponding instrument. The aim of the measurement methods is to define the fair value which reflects the value of the financial instrument as of the reporting date, which would have been defined by direct market players. For equity shares with no observable market prices (Level 3) the Bank accepts that the fair value is the purchase value.

The Bank has an established control environment with regard to the fair value measurement. The fair value of the financial instruments is determined independently from the front office by a unit for control of the market risk and the counterparty risk. The specific controls consist of: control of the real price information and performing second measurement using different methods; process of revision and approving of new methods and changes in methods including measurement and back-testing of methods based on real market deals; analysis and research of significant daily dynamics as a result of assessments; revision of significant inside data which is not observed on the market.

The table below analyses financial instruments carried at fair value, by valuation method.

| *In thousands of BGN* | **Level 1: Quoted market prices in active markets** | **Level 2: Valuation techniques - observable inputs** | **Level 3: Valuation techniques - unobservable inputs** | **Total** |
|---|---|---|---|---|
| **31-Dec-2020** | | | | |
| **Assets** | | | | |
| Trading financial assets | 25 635 | - | - | 25 635 |
| Derivative financial instruments | - | 62 769 | - | 62 769 |
| Investments in securities | 2 734 255 | 263 | 17 691 | 2 752 209 |
| **Total** | **2 759 890** | **63 032** | **17 691** | **2 840 613** |
| **Liabilities** | | | | |
| Derivative financial instruments | - | 86 191 | - | 86 191 |
| **Total** | **-** | **86 191** | **-** | **86 191** |
| **31-Dec-2019** | | | | |
| **Assets** | | | | |
| Trading financial assets | 183 413 | - | - | 183 413 |
| Derivative financial instruments | - | 20 111 | - | 20 111 |
| Investments in securities | 1 807 598 | 284 | 18 136 | 1 826 018 |
| **Total** | **1 991 011** | **20 395** | **18 136** | **2 029 542** |
| **Liabilities** | | | | |
| Derivative financial instruments | - | 32 891 | - | 32 891 |
| **Total** | **-** | **32 891** | **-** | **32 891** |

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**

| *In thousands of BGN* | **Level 1** | **Level 2** | **Level 3** | **Total fair value** | **Total carrying amount** |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and current accounts with the Central Bank and other banks | 675 194 | 3 051 745 | - | **3 726 939** | **3 726 939** |
| Loans and advances to banks | - | 2 393 813 | - | **2 393 813** | **2 393 813** |
| Loans and advances to customers | - | - | 13 002 702 | **13 002 702** | **12 868 744** |
| Receivables under factoring agreements | - | - | 183 451 | **183 451** | **183 451** |
| **Liabilities** | | | | | |
| Deposits from banks | - | 36 897 | - | **36 897** | **36 897** |
| Deposits from customers | - | 19 257 372 | - | **19 257 372** | **19 257 235** |
| Loans from banks and financial institutions | - | 12 521 | - | **12 521** | **12 521** |
| Lease liabilities | - | 23 901 | - | **23 901** | **23 901** |

**As of 31 December 2019**

| *In thousands of BGN* | **Level 1** | **Level 2** | **Level 3** | **Total fair value** | **Total carrying amount** |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and current accounts with the Central Bank and other banks | 586 330 | 1 182 743 | - | **1 769 073** | **1 769 073** |
| Loans and advances to banks | - | 2 198 903 | - | **2 198 903** | **2 198 903** |
| Loans and advances to customers | - | - | 8 306 926 | **8 306 926** | **8 229 337** |
| Receivables under factoring agreements | - | - | 69 196 | **69 196** | **69 196** |
| **Liabilities** | | | | | |
| Deposits from banks | - | 18 573 | - | **18 573** | **18 573** |
| Deposits from customers | - | 12 718 650 | - | **12 718 650** | **12 718 637** |
| Loans from financial institutions | - | 38 793 | - | **38 793** | **38 793** |
| Deposits from customers | - | 41 512 | - | **41 512** | **41 512** |

The fair value of Cash equivalents, loans, and receivables from banks, loans and deposits from banks is approximately equal to their carrying value because of their short-term maturity.

The fair value of loans to non-financial institutions and other customers is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes expected lifetime credit losses, market interest rates and forecast analysis. The fair value of the impaired loans with a collateral backing is based on the valuated fair value of the collateral.

To improve the accuracy of the valuation estimate loans are grouped into portfolios with similar characteristics such as product type, borrower type, maturity, currency, collateral type.

The fair value of deposits from customers is estimated using discounted cash flow techniques, applying the rates that are currently offered in the country for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

## 5. Net interest income

| *In thousands of BGN* | **2020** | **2019** |
|---|---|---|
| **Interest income** | | |
| Loans and advances to banks | 5 624 | 17 581 |
| Loans and advances to customers | 502 548 | 406 229 |
| Investments in securities | 30 624 | 20 831 |
| Deposits from banks (negative interest) | 452 | 852 |
| Deposits from customers (negative interest) | 2 655 | 4 560 |
| **Total** | **541 903** | **450 053** |
| **Interest expense** | | |
| Deposits from banks | (8 441) | (5 995) |
| Deposits from customers | (1 726) | (3 734) |
| Loans from banks and financial institutions | (3) | (12) |
| Lease liabilities | (212) | (305) |
| Investments in securities (negative interest) | (197) | (34) |
| Loans and advances to banks (negative interest) | (2 208) | (2 687) |
| Loans and advances to customers (negative interest) | (305) | (105) |
| **Total** | **(13 092)** | **(12 872)** |
| **Net interest income** | **528 811** | **437 181** |

## 6. Net fee and commission income

| *In thousands of BGN* | 2020 | 2019 |
|---|---|---|
| **Fee and commission income** | | |
| *In Bulgarian Leva* | | |
| Payment and settlement transactions | 66 103 | 56 556 |
| Credit related deals | 21 072 | 16 222 |
| Deposit related deals | 75 446 | 59 189 |
| Other | 25 869 | 17 310 |
| | **188 490** | **149 277** |
| *In foreign currencies* | | |
| Payment and settlement transactions | 22 975 | 29 224 |
| Credit related deals | 9 009 | 5 438 |
| Deposit related deals | 5 205 | 2 781 |
| Other | 5 064 | 3 126 |
| | **42 253** | **40 569** |
| **Total** | **230 743** | **189 846** |
| **Fee and commission expense** | | |
| In Bulgarian Leva | (25 843) | (22 056) |
| In foreign currencies | (5 467) | (5 273) |
| **Total** | **(31 310)** | **(27 329)** |
| **Net fee and commission income** | **199 433** | **162 517** |

## 7. Net trading income

| *In thousands of BGN* | 2020 | 2019 |
|---|---|---|
| Net interest income from trading | (4 494) | (8 468) |
| Net income on FX derivarives revaluation | 71 425 | 10 398 |
| Net income on non FX derivarives revaluation | 61 860 | 1 102 |
| Securities trading and revaluation | (2 701) | (450) |
| Foreign exchange trading | 60 968 | 7 541 |
| Ineffective hedge net gain | (317) | 273 |
| **Total** | **186 741** | **10 396** |

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

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

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

## 8. Net income from other financial instruments at FVTPL

| *In thousands of BGN* | **2020** | **2019 restated** |
|---|---|---|
| Debt instruments | (3 507) | 9 115 |
| Equity instruments | 1 670 | (5) |
| **Total** | **(1 837)** | **9 110** |

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

| *In thousands of BGN* | **2020** | **2019** |
|---|---|---|
| Write-off of financial assets | 2 073 | 3 014 |
| Sale of financial assets | 8 227 | 4 561 |
| **Total** | **10 300** | **7 575** |

The income from sale of financial assets is as a result from sale of a portfolio of non-performing loans.

## 10. Other operating income, net

| *In thousands of BGN* | **2020** | **2019** |
|---|---|---|
| Net income from government bonds measured at fair value through other comprehensive income | (416) | 68 |
| Dividends | 74 712 | 59 |
| Rental fees | 2 228 | 1 441 |
| Card operators | 2 249 | 1 481 |
| Net gain from non financial assets disposal | 705 | 545 |
| Other services | 928 | 1 115 |
| Other | 2 743 | 1 008 |
| **Total** | **83 149** | **5 717** |

## 11. Impairment losses on financial assets, net

| *In thousands of BGN* | **2020** | **2019** |
|---|---|---|
| Impairment loss on bank deposits or loans, net | (5 631) | (59) |
| Impairment loss on loans and factoring agreements, net | (275 931) | (17 721) |
| Impairment gain on POCI | 38 864 | - |
| Impairment loss on other assets, net | (106) | (1 381) |
| Impairment (loss)/gain on financial assets at FVTOCI, net | (3 852) | 277 |
| **Total** | **(246 656)** | **(18 884)** |

## 12. Impairment losses on non-financial assets, net

| *In thousands of BGN* | **2020** | **2019** |
|---|---|---|
| Impairment gains/(losses) on tangible assets | - | 24 |
| Impairment (losses) on collaterals acquired | (1 456) | (3 696) |
| Impairment (losses) on subsidiaries | - | (6 116) |
| **Total** | **(1 456)** | **(9 788)** |

## 13. Personnel expenses

| *In thousands of BGN* | **2020** | **2019** |
|---|---|---|
| Wages and salaries | 131 224 | 96 509 |
| Social payments | 30 028 | 25 404 |
| Other | 1 795 | 1 709 |
| **Total** | **163 047** | **123 622** |

The average number of staff in the Bank is 4 973 for 2020 and 4 237 for 2019.

## 14. Depreciation and amortisation

| *In thousands of BGN* | Note | **2020** | **2019** |
|---|---|---|---|
| Right-of-use assets | 22 | 9 528 | 10 640 |
| Property, plant and equipment | 23 | 26 070 | 19 880 |
| Intangible assets | 24 | 27 682 | 14 209 |
| **Total** | | **63 280** | **44 729** |

## 15. Other expenses

The accrued fees for the services provided by the independent financial auditors' of the Bank for 2020 include statutory audit fees to the amount of BGN 1 374 thousand and a fees for other non-audit related services to the amount of BGN 128 thousand (2019: BGN 782 thousand and BGN 66 thousand, respectively).

| *In thousands of BGN* | **2020** | **2019** |
|---|---|---|
| Services expense | 110 639 | 88 550 |
| Guarantee Funds instalments | 34 351 | 35 312 |
| Materials | 14 509 | 14 212 |
| Expenses related to short-term leases | 4 833 | 3 848 |
| Expense relating to leases of low value assets | 201 | 206 |
| Other expenses | 4 260 | 5 236 |
| **Total** | **168 793** | **147 364** |

## 16. Income tax expense

| *In thousands of BGN* | **2020** | **2019** |
|---|---|---|
| Current tax expense | (12 263) | (27 991) |
| Deferred tax (expense)/ benefit related to origination and reversal of temporary tax differences | (557) | 270 |
| **Total** | **(12 820)** | **(27 721)** |

| *In thousands of BGN* | **2020** | **2019** |
|---|---|---|
| Accounting profit | 205 856 | 276 501 |
| Income tax using the statutory corporate tax rate | (20 586) | (27 650) |
| Allowance for tax paid in foreign tax jurisdictions | 77 | - |
| Tax on permanent tax differences | 7 689 | (71) |
| **Income tax expense** | **(12 820)** | **(27 721)** |
| Effective tax rate | 6.23% | 10.03% |

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

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

| *In thousands of BGN* | **31-Dec-2020** | **31-Dec-2019** |
|---|---|---|
| Cash on hand | | |
| In Bulgarian Leva | 567 252 | 525 627 |
| In foreign currencies | 107 942 | 60 703 |
| Current accounts with the Central Bank and other banks | | |
| In Bulgarian Leva | 2 940 424 | 1 140 555 |
| In foreign currencies | 111 321 | 42 188 |
| **Total** | **3 726 939** | **1 769 073** |

Included in cash on hand are cash in transit 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 Bank's participation in the Guarantee Mechanism of the System Processing Card-based Payment Transactions. Balances with the Central Bank also cover the minimum required reserves amounting to BGN 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.

DSK Bank 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 2 642 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.

## 18. Financial assets held for trading and derivative financial instruments

| *In thousands of BGN* | **31-Dec-2020** | **31-Dec-2019** |
|---|---|---|
| Government securities – Republic of Bulgaria denominated in Bulgarian Leva | 32 | 13 255 |
| Government securities – Republic of Bulgaria denominated in foreign currencies | 11 444 | 139 781 |
| Foreign issuers debt securities denominated in foreign currencies | 14 159 | 30 377 |
| **Total** | **25 635** | **183 413** |

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

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 8 283 thousand, liabilities BGN 7 995 thousand, notional amount BGN 2 150 500 thousand;

The fair value hedge contracts are concluded with OTP Bank as of 31 December 2020 and 2019. The hedged items are government bonds carried at FVTOCI, and in addition, reverse repo deals as at the end of the previous year.

| **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** |
|---|---|---|---|---|---|---|
| *In thousands of BGN* | | | | **Assets** | **Liabilities** | **2020** |
| 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** | |
| *In thousands of BGN* | | | | | | |
| 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 |
|---|---|---|---|---|---|---|
| | | | | Assets | Liabilities | 2019 |
| *In thousands of BGN* | | | | | | |
| Fair value hedge | Interest rate swap | Interest rate risk | 397 860 | - | (14 918) | (14 410) |
| Fair value hedge | 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 | |
| *In thousands of BGN* | | | | | | |
| Fair value hedge | Interest rate risk | 435 390 | - | 13 960 | - | Bond |
| Fair value hedge | FX risk | 1 559 539 | - | - | (6 595) | Repo |

## 19. Loans and advances to banks

### (a) Analysis by type

| *In thousands of BGN* | **31-Dec-2020** | **31.12.2019 restated** |
|---|---|---|
| Deposits with domestic and foreign banks | | |
| In foreign currencies | 2 362 872 | 203 114 |
| Encumbered assets with foreign banks | 7 899 | 2 014 |
| Loans granted | - | 23 472 |
| Loans under repurchase agreements | 29 011 | 1 970 759 |
| Less impairment loss allowances | (5 969) | (456) |
| **Total** | **2 393 813** | **2 198 903** |

### (b) Geographical analysis

| *In thousands of BGN* | **31-Dec-2020** | **31-Dec-2019** |
|---|---|---|
| Domestic banks | 78 161 | 23 354 |
| Foreign banks | 2 315 652 | 2 175 549 |
| **Total** | **2 393 813** | **2 198 903** |

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

As of 31 December 2020 DSK Bank 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 and amount to BGN 1 950 100 thousand with original maturity of two years. Interest rates vary from (-0.25)% to 0.7145%. The deals are collateralised with Hungarian Government Bonds with coverage at 100%;
- Deposits blocked in connection with derivative deals with OTP Bank denominated in EUR and USD amounting to BGN 391 thousand.
- A long term deposit with OTP Bank denominated in EUR amounting to BGN 194 955 thousand with two years original maturity and maturing in February 2021. The deposit bears negative interest of (-0.418)%.
- Subordinated loan denominated in EUR, amounting to 12 000 thousand is acquired by substitution as part of the deal of Expressbank AD purchase. As of December 31, 2019 the carrying amount of the loan is BGN 23 354 thousand and interest rate 2.468%

## 20. Loans and advances to customers

| *In thousands of BGN* | **31-Dec-2020** | **31-Dec-2019** |
|---|---|---|
| **Individuals** | | |
| In Bulgarian Leva | | |
| Consumer loans | 4 076 945 | 3 022 036 |
| Housing and mortgage loans | 3 378 445 | 2 336 111 |
| In foreign currencies | | |
| Consumer loans | 48 018 | 60 468 |
| Housing and mortgage loans | 353 091 | 275 719 |
| **Companies** | | |
| In Bulgarian Leva | | |
| Working capital loans | 1 362 660 | 1 038 643 |
| Investment loans | 1 174 697 | 704 298 |
| In foreign currencies | | |
| Working capital loans | 974 030 | 441 607 |
| Investment loans | 2 344 087 | 912 218 |
| **State Budget** | | |
| In Bulgarian Leva | 28 229 | 1 981 |
| In foreign currencies | 7 933 | 865 |
| Less impairment loss allowances | (879 391) | (564 609) |
| **Total loans and advances to customers** | **12 868 744** | **8 229 337** |

**Impairment allowances of loans and advances to customers**

| *In thousands of BGN* | 31-Dec-2020 | 31-Dec-2019 |
|---|---|---|
| **Balance at 1 January** | **564 609** | **615 444** |
| Net change for the year through profit or loss | 258 182 | 16 479 |
| Increase from merger of subsidiaries | 130 864 | - |
| Decrease | (74 264) | (67 314) |
| **Balance at 31 December** | **879 391** | **564 609** |

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

In accordance with the policy of DSK Bank in 2019 the carrying amount of the sale of problem loans to OTP Factoring Bulgaria is BGN 48 227 thousand and the impairment allowance amounts to BGN 37 504 thousand. DSK Bank income on sale of problem loans to OTP Factoring Bulgaria is BGN 1 054 thousand. There have been no sales of non-performing loans to OTP Factoring in 2020.

The bad debts to sold to unrelated parties have a gross carrying amount of BGN 22 378 thousand and BGN 9 179 thousand for 2020 and 2019, respectively. The impairment allowance on sold bad debts amounts to BGN 17 356 thousand and BGN 9 179 thousand for 2020 and 2019, respectively.

The loans derecognized on account of accumulated impairment, including sales to third parties, amount to BGN 83 359 thousand for 2020, including BGN 38 061 thousand of loans written off partially. The loans derecognized on account of accumulated impairment, including sales to third parties, amount to BGN 21 111 thousand for 2019, of which BGN 14 416 thousand have been partially written off.

As of 31 December 2020 DSK Bank has extended loans to related parties as follows:

- Credit line to Regional Urban Development Fund denominated in BGN, amounting to BGN 196 thousand, granted on 29 April 2020 with maturity date 23 April 2021 and interest rate 0.34%. As of the date of these financial statements the credit line has not been utilised.
- Credit line to OTP Leasing taken over from a merged subsidiary, which is denominated in EUR, amounting to BGN 743 215 thousand, granted on 27 November 2019 with maturity date 31 December 2023 and interest rate 0.18%. As of the date of these financial statements the credit line is fully utilized.
- Credit line to OTP Leasing taken over from a merged subsidiary, which is denominated in EUR, amounting to BGN 78 233 thousand, granted on 27 November 2019 with maturity date 31 December 2023 and interest rate 0.23%. As of the date of these financial statements the credit line is fully utilized.

- Credit line to OTP Leasing taken over from a merged subsidiary, which is denominated in BGN, amounting to BGN 39 117 thousand, granted on 28 November 2019 with maturity date 31 December 2023 and interest rate 0.23%. As of the date of these financial statements the credit line is fully utilized.
- Credit line to OTP Leasing denominated in EUR, amounting to BGN 101 703 thousand, granted on 24 April 2020 with maturity date 31 March 2024 and interest rate 0.29%. As of the date of these financial statements the credit line is fully utilized.
- Credit line to OTP Leasing denominated in BGN, amounting to BGN 36 978 thousand, granted on 5 February 2020 with maturity date 12 February 2021 and interest rate 0.18%. As of the date of these financial statements the credit line has not been utilized.
- Credit line to OTP Leasing denominated in EUR, amounting to BGN 40 500 thousand, granted on 7 April 2020 with maturity date 12 February 2021 and interest rate 0.18%. As of the date of these financial statements the utilized amount is BGN 15 311 thousand.

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

- Credit line to OTP Factoring Bulgaria denominated in BGN, amounting to BGN 7 085 thousand, granted on 14 June 2017 with maturity date 30 April 2020 and interest rate 4%. As of the statement date the credit line is not utilized.
- Credit line to OTP Factoring Bulgaria denominated in BGN, amounting to BGN 2 000 thousand, granted on 7 August 2015 with maturity date 30 April 2020 and interest rate 4%. The disbursed amount as of the date of these financial statements is BGN 2 000 thousand utilized.
- Credit line to OTP Factoring Bulgaria denominated in EUR, amounting to BGN 17 128 thousand, granted on 14 June 2017 with maturity date 30 April 2020 and interest rate 4.2%. As of the statement date the credit line is not utilized.

## 21. Receivables under factoring agreements

| *In thousands of BGN* | **31-Dec-2020** | **31-Dec-2019** |
|---|---|---|
| Advances to clients under local and international factoring | 202 923 | 70 785 |
| Impairment | (19 472) | (1 589) |
| **Total receivables under factoring agreements** | **183 451** | **69 196** |

As of 31 December 2020 the receivables from related parties are represented by a credit line to OTP Leasing taken over from a merged subsidiary, which is denominated in BGN, amounting to BGN 10 000 thousand, granted on 02 December 2011 with maturity date 02 December 2021 and interest rate 1.25%. As of the date of these financial statements the amount utilized is BGN 4 396 thousand.

## 22. Investments in securities

| *In thousands of BGN* | **31-Dec-2020** | **31.12.2019 restated** |
|---|---|---|
| *Investments in instruments measured at fair value through other comprehensive income* | | |
| Equity instruments | 18 614 | 8 004 |
| Government debt securities | 1 987 184 | 1 634 293 |
| Less impairment loss allowances | (3 575) | (859) |
| **Total investments in instruments measured at fair value through other comprehensive income** | **2 002 223** | **1 641 438** |
| *Investments in instruments mandatory measured at fair value through profit or loss* | | |
| Equity instruments | 263 | 284 |
| Corporate debt securities | 171 628 | 184 296 |
| **Total investments in instruments mandatory measured at fair value through profit or loss** | **171 891** | **184 580** |
| *Investments in instruments measured at amortized cost* | | |
| Government debt securities | 579 231 | - |
| Less impairment loss allowances | (1 136) | - |
| **Total investments in instruments measured at amortized cost** | **578 095** | **-** |
| **Total** | **2 752 209** | **1 826 018** |

The assets of DSK Bank 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 from OTP Bank (ISIN XS0274147296) with nominal value BGN 188 626 thousand and carrying amount of BGN 166 238 thousand 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 246 476 thousand).

The securities pledged as collateral for repo deals amount to BGN 31 068 thousand as of 31 December 2019.

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

## 23. Goodwill

The goodwill reported in the separate statement of financial position to the amount of BGN 77 372 thousand has arisen in 2020 upon the merger of Expressbank (Note 38). The goodwill was originally determined on the acquisition of Expressbank by DSK Bank Group, which took place on 15 January 2019, and entirely allocated to the acquired bank as a cash-generating unit in the consolidated financial statements of DSK Bank for 2019 . On merger of Expressbank AD into DSK Bank, the acquisition method as per IFRS 3 *Business Combinations* was applied, whereby the goodwill was recognized in the separate financial statements of the Bank. The combined bank after the merger is regarded as the new cash generating unit, to which the goodwill is allocated.

As of 31 December 2020 the Bank 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 Bank prepared a medium-term cash flow forecasts for the period 2021-2023). In preparing the calculations, the Bank 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 Bank 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 Bank 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 Bank 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 banking sector –, which means that the company's profitability exceeds the expected yield. The value of the Bank 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 premiun | 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 Bank 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 Bank, 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. Right-of-use assets

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

| | Land, buildings and equipment | Vehicles | Total |
|---|---|---|---|
| *In thousands of BGN* | | | |
| **Cost or revalued amount** | | | |
| **Balance as of 31 December 2019** | **50 198** | **1 710** | **51 908** |
| Effects from merger of subsidiaries | 26 706 | 1 633 | 28 339 |
| Additions due to new contracts | 1 496 | 17 | 1 513 |
| Derecognition due to expired contracts | (4 656) | (135) | (4 791) |
| Changes from reassessment and modification | (37 595) | (682) | (38 277) |
| **Cost or revalued amount as of 31 December 2020** | **36 149** | **2 543** | **38 692** |
| **Depreciation** | | | |
| **Balance as of 31 December 2019** | **9 952** | **612** | **10 564** |
| Effects from merger of subsidiaries | 5 408 | 730 | 6 138 |
| Depreciation for the period | 8 775 | 753 | 9 528 |
| Derecognition due to expired contracts | (4 656) | (135) | (4 791) |
| Changes from reassessment and modification | (6 318) | (365) | (6 683) |
| **Depreciation as of 31 December 2020** | **13 161** | **1 595** | **14 756** |
| **Net book value 31 December 2020** | **22 988** | **948** | **23 936** |
| **Net book value 31 December 2019** | **40 246** | **1 098** | **41 344** |

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

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

## 25. Property, plant and equipment

### Movement of property, plant and equipment during the year 2020

| *In thousands of BGN* | Land and buildings | IT equipment | Office equipment | Other equipment | Total |
|---|---|---|---|---|---|
| **Cost or revalued amount** | | | | | |
| **Balance as of 31 December 2019** | **401 225** | **87 480** | **89 713** | **12 737** | **591 155** |
| Effects from merger of subsidiaries | 98 201 | 3 914 | 4 762 | - | 106 877 |
| Additions | - | 9 | - | 16 173 | 16 182 |
| Disposals | (887) | (2 386) | (922) | (1 787) | (5 982) |
| Transfers | 2 732 | 12 774 | 2 097 | (17 603) | - |
| **Cost or revalued amount as of 31 December 2020** | **501 271** | **101 791** | **95 650** | **9 520** | **708 232** |
| **Depreciation** | | | | | |
| **Balance as of 31 December 2019** | **130 036** | **66 873** | **72 802** | **1 753** | **271 464** |
| Effects from merger of subsidiaries | 5 079 | 2 169 | 1 209 | 512 | 8 969 |
| Charge for the period | 8 869 | 10 997 | 6 197 | 7 | 26 070 |
| Disposals | (571) | (2 384) | (896) | (987) | (4 838) |
| **Depreciation as of 31 December 2020** | **143 413** | **77 655** | **79 312** | **1 285** | **301 665** |
| **Net book value 31 December 2020** | **357 858** | **24 136** | **16 338** | **8 235** | **406 567** |
| **Net book value 31 December 2019** | **271 189** | **20 607** | **16 911** | **10 984** | **319 691** |

**Movement of property, plant and equipment during the year 2019**

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

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

In "Other equipment" are included property, plant and equipment under construction and in the process of acquisition, to the amount of BGN 8 658 thousand and BGN 10 888 thousand as of 31 December 2020 and 31 December 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 Bank's activities is as follows: buildings: to the amount of BGN 8 741 thousand, IT equipment: to the amount of BGN 52 087 thousand, office equipment: to the amount of BGN 52 791 thousand, other equipment: to the amount of BGN 4 532 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 Bank's activities is as follows: buildings: to the amount of BGN 6 743 thousand, IT equipment: to the amount of BGN 48 534 thousand, office equipment: to the amount of BGN 45 860 thousand, other equipment: to the amount of BGN 1 733 thousand.

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 date. 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 Bank engaged an independent external appraiser to perform a maket 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 Bank, 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** |
|---|---|---|
| *Depreciated replacement method*<br>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.<br><br>*Capitalisation of income method*<br>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.<br><br>*Comparative value method*<br>The depreciated recoverable amount is determined using market adjustments by means of factors for economic impairment/overestimation based on the market price of property in particular built-up area and the level of supply and demand. The information used is for selling price of property adjusted with factors for location, size, state etc. | 1. Costs of administering the property as percentage of its gross annual income;<br><br>2. Rate of return on income from property;<br><br>3. Adjusting factors in terms of similar market transactions. | The estimated fair value would increase (decrease) if:<br>• the percentage of administering costs is decreased (increased);<br>• the rates of return are decreased (increased);<br>• the adjusting factors are increased (decreased). |

## 26. Intangible assets

### Movement of intangible assets during 2020

| *In thousands of BGN* | Software and licenses | Customer base recognized in a business combination | Assets in the process of acquisition | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance as of 31 December 2019 | 153 800 | - | 21 507 | 175 307 |
| Effects from merger of subsidiaries | 6 127 | 69 836 | - | 75 963 |
| Additions | - | - | 15 760 | 15 760 |
| Disposals | - | - | (10 242) | (10 242) |
| Transfers | 19 668 | - | (19 668) | - |
| **Cost as of 31 December 2020** | **179 595** | **69 836** | **7 357** | **256 788** |
| **Depreciation** | | | | |
| Balance as of 31 December 2019 | 118 474 | - | - | 118 474 |
| Effects from merger of subsidiaries | 3 118 | 30 514 | - | 33 632 |
| Charge for the period | 17 866 | 9 816 | - | 27 682 |
| Disposals | - | - | - | - |
| **Depreciation as of 31 December 2020** | **139 458** | **40 330** | **-** | **179 788** |
| **Net book value 31 December 2020** | **40 137** | **29 506** | **7 357** | **77 000** |
| **Net book value 31 December 2019** | **35 326** | **-** | **21 507** | **56 833** |

### Movement of intangible assets during 2019

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

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 Bank's activities is to the amount of BGN 104 978 and BGN 83 020 thousand, respectively.

## 27. Other assets

| *In thousands of BGN* | **31-Dec-2020** | **31-Dec-2019 restated** |
|---|---|---|
| Temporary settlements with clients | 26 132 | 9 273 |
| Acquired collaterals | 19 661 | 20 340 |
| Clearing and bank settlement assets | 9 350 | 5 378 |
| Tax receivables | 7 646 | 6 133 |
| Advances to suppliers | 7 520 | 1 065 |
| Deferred expenses | 6 028 | 5 094 |
| Receivables from insurers | 4 283 | - |
| Deficiencies in assets | 3 592 | 717 |
| Depository accounts | 3 558 | 2 073 |
| Materials, spare parts | 2 524 | 2 606 |
| Receivables in litigation | 1 719 | 1 602 |
| Other assets | 4 284 | 1 877 |
| Impairment | (25 931) | (19 879) |
| **Total** | **70 366** | **36 279** |

At 31 December 2020 and 2019 the amount of impairment of acquired collaterals is BGN 12 700 and BGN 11 244 thousand, respectively.

Depositary accounts represent temporary balances to secure transactions with securities.

## 28. Deposits from banks and loans from financial institutions

| *In thousands of BGN* | **31-Dec-2020** | **31-Dec-2019 restated** |
|---|---|---|
| **Deposits from banks** | | |
| Current accounts | 21 786 | 10 159 |
| Deposits | 15 111 | 8 414 |
| **Total deposits from banks** | **36 897** | **18 573** |
| **Loans from banks** | | |
| Short term loans | - | 31 085 |
| **Loans from financial institutions** | | |
| Long term loans | 12 521 | 7 708 |
| **Total loans from banks and financial institutions** | **12 521** | **38 793** |

The Bank 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.

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 7 902 thousand, respectively.

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

## 29. Deposits from customers

| *In thousands of BGN* | **31-Dec-2020** | **31-Dec-2019 restated** |
|---|---|---|
| **Individuals** | | |
| In Bulgarian Leva | | |
| Term deposits | 2 738 696 | 2 446 166 |
| Demand deposits | 7 646 322 | 5 051 417 |
| In foreign currencies | | |
| Term deposits | 2 176 602 | 1 313 631 |
| Demand deposits | 2 544 012 | 1 189 822 |
| **Companies** | | |
| In Bulgarian Leva | | |
| Term deposits | 118 985 | 100 458 |
| Demand deposits | 2 161 936 | 1 346 812 |
| In foreign currencies | | |
| Term deposits | 157 858 | 71 061 |
| Demand deposits | 1 093 377 | 542 064 |
| **State Budget** | | |
| In Bulgarian Leva | | |
| Term deposits | 43 584 | 824 |
| Demand deposits | 171 160 | 168 489 |
| In foreign currencies | | |
| Term deposits | 5 077 | 47 |
| Demand deposits | 71 932 | 68 177 |
| **Financial institutions** | | |
| In Bulgarian Leva | | |
| Term deposits | 3 138 | 16 832 |
| Demand deposits | 201 165 | 293 261 |
| In foreign currencies | | |
| Term deposits | 787 | 540 |
| Demand deposits | 122 604 | 109 036 |
| **Total** | **19 257 235** | **12 718 637** |

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 1.50%; deposits from State Budget from 0% to 1.76%; deposits from financial institutions from -1.10% to 0.25%.

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

- Current accounts of group members denominated in BGN and EUR amounting to BGN 48 318 thousand;
- Term deposits of group members denominated in BGN amounting to BGN 2 124 thousand.

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

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

## 30. Lease liabilities

| *In thousands of BGN* | **31-Dec-2020** | **31-Dec-2019** |
|---|---|---|
| With maturity of up to 1 year | 7 114 | 11 002 |
| With maturity from 1 to 5 years | 14 452 | 25 615 |
| With maturity over 5 years | 2 335 | 4 895 |
| **Total lease liabilities** | **23 901** | **41 512** |

## 31. Provisions

### Movement in provisions during 2020

| *In thousands of BGN* | 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 |
|---|---|---|---|---|---|
| Opening balance as of 31 December 2019 | 10 287 | 33 669 | 26 811 | - | 70 767 |
| Effects from merger of subsidiaries | 3 476 | 2 223 | 12 463 | 5 613 | 23 775 |
| Additions during the year | 1 786 | 4 328 | 84 679 | - | 90 793 |
| Reversal during the year | - | (4 043) | (86 609) | (4 871) | (95 523) |
| Amounts paid | (1 189) | (147) | - | - | (1 336) |
| Other movements | (1 785) | - | (71) | - | (1 856) |
| **Total** | **12 575** | **36 030** | **37 273** | **742** | **86 620** |

### Movement in provisions during 2019

| *In thousands of BGN* | Pension employment defined benefit obligations | Provisions for for litigation and others | Provisions for guarantees, letters of credit and loan commitments | Total |
|---|---|---|---|---|
| Opening balance as of 31 December 2018 | 8 463 | 37 976 | 15 169 | 61 608 |
| Additions during the year | 991 | 2 893 | 40 820 | 44 704 |
| Reversal during the year | - | (6 623) | (29 179) | (35 802) |
| Amounts paid | (612) | (577) | 1 | (1 188) |
| Other movements | 1 445 | - | - | 1 445 |
| **Total** | **10 287** | **33 669** | **26 811** | **70 767** |

The estimated amount of the defined benefit obligation as at each reporting date and the expenses for retirement compensations recognised are based on an actuarial report (see below information on actuarial assumptions).

| *In thousands of BGN* | **2020** | **2019** |
|---|---|---|
| Defined benefit obligations at 1 January | 10 287 | 8 463 |
| Effects from merger of subsidiaries | 3 476 | - |
| Benefits paid by the plan | (1 189) | (612) |
| Current and past service costs | 1 776 | 846 |
| Interest cost | 88 | 90 |
| Remeasurements: | | |
| Experience adjustments | (1 782) | 1 112 |
| Actuarial (gains) losses from changes in demographic assumptions | (58) | (407) |
| Actuarial (gains) losses from changes in financial assumptions | (23) | 795 |
| **Defined benefit obligations at 31 December** | **12 575** | **10 287** |

**Expense recognized in statement of profit or loss**

| *In thousands of BGN* | **2020** | **2019** |
|---|---|---|
| Current and past service costs | 1 776 | 846 |
| Interest on obligation | 88 | 90 |
| Actuarial (gains) losses | (78) | 55 |
| **Total** | **1 786** | **991** |

**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 | 1.00% | 3.00% |

## 32. Deferred tax liabilities

Deferred income taxes for 2020 and 2019 are calculated on all temporary differences under the balance sheet 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** |
| *In thousands of BGN* | | | | | | |
| Retirement benefit obligations under the Labour Code and other personnel liabilities | (3 035) | (1 641) | - | - | (3 035) | (1 641) |
| Business reorganisation | - | - | 443 | 443 | 443 | 443 |
| Fixed assets | - | - | 20 982 | 11 486 | 20 982 | 11 486 |
| Provisions for litigation and others | (3 455) | (3 367) | - | - | (3 455) | (3 367) |
| Unused annual leave and other | (1 725) | (1 387) | - | - | (1 725) | (1 387) |
| **Net deferred tax (assets)/liabilities** | **(8 215)** | **(6 395)** | **21 425** | **11 929** | **13 210** | **5 534** |

**Movement in deferred taxes during 2020**

| | **Balance as of 31 December** | **Effects from merger of subsidiaries** | **Recognised in the statement of profit or loss** | **Balance as of 31 December** |
|---|---|---|---|---|
| | **2019** | **2020** | **2020** | **2020** |
| *In thousands of BGN* | | | | |
| Retirement benefit obligations under the Labour Code and other personnel liabilities | (1 641) | (390) | (1 004) | (3 035) |
| Business reorganisation | 443 | - | - | 443 |
| Financial assets | - | (99) | 99 | - |
| Fixed assets | 11 486 | 10 295 | (799) | 20 982 |
| Provisions for litigation and other liabilities | (3 367) | (388) | 300 | (3 455) |
| Unused annual leave and other | (1 387) | (2 299) | 1 961 | (1 725) |
| **Total** | **5 534** | **7 119** | **557** | **13 210** |

**Movement in deferred taxes during 2019**

| *In thousands of BGN* | Balance as of 31 December 2018 | Recognised in the statement of profit or loss 2019 | Recognised in equity 2019 | Balance as of 31 December 2019 |
|---|---|---|---|---|
| Retirement benefit obligations under the Labour Code and other personnel liabilities | (1 364) | (277) | - | (1 641) |
| Business reorganisation | 443 | - | - | 443 |
| Fixed assets | 11 542 | (53) | (3) | 11 486 |
| Contingent liabilities | (3 797) | 430 | - | (3 367) |
| Unused annual leave and other | (1 017) | (370) | - | (1 387) |
| **Total** | **5 807** | **(270)** | **(3)** | **5 534** |

## 33. Other liabilities

| *In thousands of BGN* | 31-Dec-2020 | 31-Dec-2019 restated |
|---|---|---|
| Money transfers for execution | 26 064 | 13 198 |
| Liabilities to personnel and management | 25 131 | 9 501 |
| Obligations under unilaterally terminated contracts | 19 638 | 4 830 |
| Liabilities for centralisation of State Budget with BNB | 9 204 | 334 |
| Liabilities to suppliers | 8 962 | 8 314 |
| Liabilities to insurers | 6 238 | 144 |
| Deferred income | 5 244 | 5 357 |
| Dividend payment obligations | 125 | - |
| Liabilities under condition for financial asset refunding | 67 | 55 |
| Other | 8 723 | 10 085 |
| **Total** | **109 396** | **51 818** |

## 34. Share capital and reserves

### (a) Face value of registered shares

| *In thousands of BGN* | 31-Dec-2020 | 31-Dec-2019 |
|---|---|---|
| Ordinary registered voting shares | 1 328 660 | 1 327 482 |

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 (see also Note 38), 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) Statutory and other reserve

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

## 35. Contingent liabilities and commitments

### (a) Off balance sheet liabilities and commitments

| *In thousands of BGN* | **31-Dec-2020** | **31-Dec-2019** |
|---|---|---|
| Litigation against the Bank and other contingent liabilities | 40 552 | 35 183 |
| Bank guarantees and letters of credit | | |
| in Bulgarian Leva | 379 540 | 172 725 |
| in foreign currencies | 145 680 | 81 144 |
| | **525 220** | **253 869** |
| Factoring agreement commitments | | |
| In Bulgarian Leva | 148 012 | 74 626 |
| In foreign currencies | 212 431 | 135 036 |
| | **360 443** | **209 662** |
| Commitments for undrawn credit facilities | | |
| in Bulgarian Leva | 1 567 742 | 932 974 |
| in foreign currencies | 1 048 174 | 388 106 |
| | **2 615 916** | **1 321 080** |
| Forward and spot deals - sell | | |
| in Bulgarian Leva | 853 695 | 1 200 602 |
| in foreign currencies | 7 521 124 | 7 393 288 |
| | **8 374 819** | **8 593 890** |
| Other | 4 573 | 2 596 |
| **Total** | **11 921 523** | **10 416 280** |

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

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

- DSK Bank has issued guarantees to group members amounting to BGN 2 826 thousand, of which BGN 322 thousand of letters of credit.
- Commitments of the Bank under commercial factoring agreements are to the amount of BGN 5 604 thousand.
- The total contracted overdraft limit on current accounts of group members is to the amount of BGN 79 297 thousand. As of 31 December 2020 the unutilized part of the limit is BGN 63 987 thousand.
- The commitment of the Bank on unutilized credit lines extended to group members amounts to BGN 2 151 thousand.
- The commitment of the Bank on derivative deals with group members amounts to BGN 2 243 225 thousand.

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

- DSK Bank issued a guarantee to group members amounting to BGN 290 thousand.
- An overdraft of BGN 1 600 thousand has granted on a current account of OTP Bank. As of 31 December 2019 the overdraft is not used.

**(b) Contingent liabilities on guarantees and letters of credit**

The Bank provides financial guarantees and letters of credit to guarantee the performance of commitments of its customers to third parties. These agreements have fixed limits and fixed term of validity.

These commitments and contingent liabilities carry an off-balance sheet credit risk, with a provision for the proportion of the uncommitted commitment that is likely to be funded based on a credit conversion factor (Note 31).

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

The legal claims against DSK Bank and other contingent liabilities connected with legal proceedings amount to BGN 40 552 and BGN 35 183 thousand (principal and accrued interest) as of December 31, 2020 and 2019, respectively. For part of these legal claims the Bank's management believes that there is a probability of unfavourable outcome. The Bank considers probability of future cash outflows on other contingent liabilities as well as probabilty for increase of customers' claims against the Bank connected with payments on contracts for products and services provided by the Bank. Based on these assessments provisions at the total amount of BGN 36 030 thousand and BGN 33 669 thousand (note 31) are allocated as at the end of 2020 and 2019, respectively.

**(d) Assets pledged as collateral**

As of 31 December 2020 DSK Bank has pledged government bonds to the amount of BGN 317 375 thousand (2019: BGN 246 476 thousand) as collaterals for funds due to the State Budget. The pledge is registered in the Central Bank in favour of Ministry of Finance under the Public Finance Act. Additionally, government bonds to the amount of BGN 31 068 thousand are pledged as collateral for repo deals as of 31 December 2019.

As of 31 December 2020 DSK Bank 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).

## 36. Cash and cash equivalents

| *In thousands of BGN* | **31-Dec-2020** | **31-Dec-2019** |
|---|---|---|
| Cash on hand | 675 194 | 586 330 |
| Balances with the Central Bank | 2 970 049 | 1 154 794 |
| Receivables from banks with maturity up to 3 months | 378 925 | 35 772 |
| **Total** | **4 024 168** | **1 776 896** |

## 37. Subsidiaries and associated companies

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

On 30 April 2020 Expressbank AD was erased from the Commercial Register following of its merger into DSK Bank (see Note 38).

On 30 September 2020 Express Factoring was also erased from the Commercial Register following its merger into DSK Bank (see Note 38).

The investments in subsidiaries are presented below:

| | | **31-Dec-2020** | | **31-Dec-2019** |
|---|---|---|---|---|
| | **% ownership** | **Carrying amount** | **% ownership** | **Carrying amount** |
| *In thousands of BGN* | | | | |
| DSK Tours EOOD* | 100.00% | 7 137 | 100.00% | 7 137 |
| DSK Rodina Pension Company AD | 99.75% | 10 972 | 99.75% | 10 972 |
| DSK Assets Management AD | 66.00% | 7 300 | 66.00% | 7 300 |
| DSK Leasing AD ** | 60.02% | 1 962 | 60.02% | 1 962 |
| DSK Mobile EAD | 100.00% | 7 200 | 100.00% | 7 200 |
| DSK Dom EAD | 100.00% | 500 | 100.00% | 500 |
| OTP Factoring Bulgaria EAD*** | 100.00% | 37 620 | 100.00% | 37 620 |
| Expressbank AD**** | 0.00% | - | 99.74% | 1 075 302 |
| OTP Leasing EOOD | 100.00% | 49 725 | 0.00% | - |
| Regional Urban Development Fund AD | 52.00% | 208 | 0.00% | - |
| **Total** | | **122 624** | | **1 147 993** |

* DSK Bank owns indirectly DSK Trans Security EAD which is 100% owned by DSK Tours EOOD.

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

*** As of 31 December 2019 DSK Bank owned indirectly Project Company Complex Banya EOOD which was 100% owned by OTP Factoring Bulgaria EAD. In 2020 this entity was sold to a third party.

**** As of 31 December 2019 DSK Bank owned indirectly through Expressbank AD 99.74 % of Express Factoring EOOD, 99.74% of OTP Leasing EOOD and 51.86 % of Regional Urban Development Fund AD. As of 31 December 2020 the Bank has a 100% direct ownership in OTP Leasing EOOD and Regional Urban Development Fund AD.

As of 31 December 2020 and 2019 the cost of the investment of DSK Bank AD in Company for Cash Services AD, an associate of the Bank, is BGN 2 965 thousand, which represents 25% of the share capital of this entity. The net assets of Company for Cash Services AD as of 31 December 2020 amount to BGN 14 505 thousand (2019: 15 090 thousand).

## 38. Merger of subsidiaries

During 2020 the Bank has reported mergers of Expressbank AD and Express Factoring EOOD as of 30 April 2020 and 30 September 2020, respectively, based on separate contracts for transformation through merger of these entities ("merging entities") into DSK Bank. Upon registry of the mergers in the Commercial Register of Bulgaria, DSK Bank has overtaken the rights and liabilities of the merging entities by way of universal succession.

*Merger of Expressbank*

As of 30 April 2020 Expressbank was a joint-stock company holding a universal licence for operating as a credit institution issued by the Bulgarian National Bank. The head office and address of management was at 92, Vladislav Varnenchik Blvd, Varna, Bulgaria. The registered share capital consisted of 33 673 729 ordinary shares of BGN 1 each, of which 99.74% were owned by DSK Bank.

In accordance with the contact for transformation through merger of Expressbank into DSK Bank, an independent appraisal of the fair value of shares of Expressbank was performed for the purpose of determining the number of shares the former shareholders of Expressbank were entitled to receive in their capacity of shareholders of DSK Bank. The share exchange ratio determined by the appraisal was realized through issuance of new shares by DSK Bank to the former shareholders of Expressbank, as well as through cash payments. The increase of share capital of the Bank, as well as the merger transaction, were registered in the Commercial Register on 30 April 2020. The same date has been applied as the accounting date of the merger in the Bank's ledgers. The new shareholder's structure after the merger is discussed in Note 34.

The carrying amounts of the assets and liabilities of Expressbank according to the Bank's consolidated financial statements as at the merger date, are as follows:

| *In thousands of BGN* | **30-April-2020** |
|---|---|
| **Assets** | |
| Cash and current accounts with the Central Bank and other banks | 911 775 |
| Derivative financial instruments | 10 716 |
| Loans and advances to banks | 651 283 |
| Loans and advances to customers | 4 453 904 |
| Investments | 4 592 |
| Current tax assets | 4 234 |
| Investments in subsidaries and associates | 56 926 |
| Right-of-use assets | 22 201 |
| Property, plant and equipment | 97 908 |
| Intangible assets | 42 331 |
| Goodwill recognized on acquisition of Expressbank in 2019 | 77 372 |
| Other assets | 1 550 |
| **Total assets** | **6 334 792** |
| **Liabilities** | |
| Deposits from banks | 31 649 |
| Derivative financial instruments | 10 100 |
| Deposits from customers | 5 053 461 |
| Loans from banks and financial institutions | 32 181 |
| Lease liabilities | 22 175 |
| Provisions | 24 827 |
| Deferred tax liabilities | 7 218 |
| Other liabilities | 28 709 |
| **Total liabilities** | **5 210 320** |
| **Net assets at the merger date** | **1 124 472** |
| Investment as at the merge date | (1 075 302) |
| **Effect from the merger credited to equity** | **49 170** |
| *including:* | |
| Share capital | 1 178 |
| Legal and other reserve | 25 939 |
| Revaluation reserve of financial assets | 11 057 |
| Retained earnings | 10 996 |

*Merger of Express Factoring*

As of 30 September 2020 the Bank owned 100% of the share capital of Express Factoring EOOD, which had its head office and management address at 73, Alexander Stambolijski Blvd., Sofia, Bulgaria. The main activity of the entity was represented by domestic and international factoring of receivables. The registered share capital to the amount of BGN 1 100 thousand consisted of 11 000 company shares of BGN 100 each. The merger was registered in the Commercial Register on 30 September 2020. The same date was applied by the Bank as the accounting date of the merger. The transaction has had no effect on the shareholder's structure of the Bank.

The carrying amounts of the assets and liabilities of Express Factoring according to the Bank's consolidated financial statements as at the merger date are as follows:

| *In thousands of BGN* | **30-September-2020** |
|---|---|
| **Assets** | |
| Cash | 1 398 |
| Receivables under factoring agreements | 138 153 |
| Right-of-use assets | 10 |
| Property, plant and equipment | 2 |
| Intangible assets | 1 |
| Deferred tax assets | 99 |
| Other assets | 39 |
| **Total assets** | **139 702** |
| **Liabilities** | |
| Deposits from banks | - |
| Derivative financial instruments | - |
| Deposits from customers | 49 171 |
| Loans from banks and financial institutions | 78 255 |
| Current tax liabilities | 171 |
| Lease liabilities | 10 |
| Other liabilities | 2 847 |
| **Total liabilities** | **130 454** |
| **Net assets at the merger date** | **9 248** |
| Investment as at the merge date | (6 993) |
| Effect from intragroup adjustment | 712 |
| **Effect from the merger credited to equity (retained earnings)** | **2 967** |

## 39. Related party transactions

DSK Bank has a related party relationship with directors, executive officers, as well as with its subsidiaries and associates, the owner OTP Bank and the other companies within OTP Group. The related party transactions and balances as of, and for the years ended 31 December 2020 and 2019 are as follows:

| **Related party** | **Type of transaction** | **2020** | **2019** |
|---|---|---|---|
| Directors and executive officers | Loans granted | 14 092 | 10 617 |
| Subsidiaries | Current and deposit accounts with DSK Bank | 50 442 | 100 680 |
| Subsidiaries | Current and deposit accounts in Group members | - | 36 734 |
| Subsidiaries | Loans granted | 981 997 | 23 472 |
| Subsidiaries | Right of use assets - gross carrying amount | 352 | 1 759 |
| Subsidiaries | Liabilities | 1 532 | 3 333 |
| Subsidiaries | Other receivables | - | 597 |
| Subsidiaries | Dividend income | 73 718 | 59 |
| Subsidiaries | Interest income | 1 371 | 976 |
| Subsidiaries | Interest expense | 6 | 148 |
| Subsidiaries | Services expense | 13 093 | 10 975 |
| Subsidiaries | Income from sale of loans | - | 1 054 |
| Subsidiaries | Services income | 33 | 25 |
| Subsidiaries | Income from rentals | 954 | 329 |
| Subsidiaries | Rentals expense | - | - |
| Subsidiaries | Fees and commissions income | 91 | 162 |
| Subsidiaries | Fees and commissions expenses | 2 535 | 2 016 |
| Subsidiaries | Guarantees and letters of credit granted | 2 826 | 300 |
| Subsidiaries | Conditional liabilities for currency exchange contracts | - | 13 838 |
| Subsidiaries | Conditional receivables for currency exchange contracts | - | 13 712 |
| Subsidiaries | Fair value of derivatives | - | (67) |
| Subsidiaries | Gains (losses) on derivative deals / on trading activities | - | (18) |
| Subsidiaries | Undrawn lines of credit and commercial factoring | 70 142 | 26 213 |
| Associates | Dividend income | 478 | - |
| Associates | Services expense | 3 753 | 2 538 |
| OTP Bank | Current and deposit accounts in OTP Bank | 6 038 | 2 148 425 |
| 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) | (18 630) |
| OTP Bank | Other liabilities | 424 | 6 |
| OTP Bank | Other receivables | 220 | - |
| OTP Bank | Interest income | 60 527 | 30 514 |
| OTP Bank | Interest expense | 83 048 | 30 749 |
| OTP Bank | Services income | - | 1 100 |
| OTP Bank | Fees and commissions expenses | 215 | 481 |
| OTP Bank | Fees and commissions income | 2 | 2 |
| OTP Bank | Gains (losses) on trading activities | 118 290 | 32 081 |

| | | | |
|---|---|---|---|
| OTP Bank | Gains (losses) on bond issued by OTP Bank | (7 864) | 819 |
| OTP Bank | Other operating income | 880 | - |
| OTP Bank | Conditional liabilities for currency exchange contracts | 2 290 094 | 2 856 950 |
| OTP Bank | Conditional receivables for currency exchange contracts | 2 292 553 | 2 838 813 |
| 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 | Liabilities | - | - |
| Other OTP Group members | Current and deposit accounts in DSK Bank | 3 | 3 |
| Other OTP Group members | Fair value of derivatives | (453) | - |
| Other OTP Group members | Interest income | 1 068 | 2 |
| Other OTP Group members | Interest expense | 104 | - |
| Other OTP Group members | Fees and commissions income | 24 | 19 |
| Other OTP Group members | Other operating income | 15 | 15 |
| Other OTP Group members | Conditional liabilities for currency exchange contracts | 92 787 | 48 013 |
| Other OTP Group members | Conditional 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 and 2019 includes short-term benefits amounting to BGN 8 725 thousand and BGN 3 550 thousand, respectively.

## 40. 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 Bank's operations:

| *In thousands of BGN* | **2020** | **2019** |
|---|---|---|
| Operating income | 844 358 | 629 790 |
| Pre-tax profit | 205 856 | 276 501 |
| Income tax expense | (12 820) | (27 721) |
| Equivalent number of full-time employees, average | 4 967 | 4 237 |
| Return on assets (net profit to total assets) | 0.85% | 1.56% |

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.

## 41. 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 has 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.

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