

DSK Bank AD

**Consolidated Financial Statements
For the year ended 31 December 2021,
report on the management and activity,
declaration of corporate governance,
non-financial declaration
and independent auditors' report**

DSK GROUP
Report on the Management and Activity
of DSK Bank AD and the Companies of the Group for the year ending
31 December 2021

General information about the Group

DSK Bank AD - the parent company

DSK Bank AD (the "Bank") was registered as a sole joint stock company with 100% state participation in January 1999. On October 29, 2003 OTP RT Bank, registered in the Republic of Hungary, acquired 100% of the capital of DSK Bank EAD.

In 2020 the subsidiaries Expressbank AD and Express Factoring EOOD merged into DSK Bank on the basis of merger transformation agreements entered in the Commercial Register on April 30, 2020 and September 30, 2020, respectively.

On April 30, 2020, DSK Bank issued new shares in favor of the non-controlling shareholders of the transforming Expressbank AD. As a result, the Bank was re-registered from a sole proprietorship (EAD) to a joint stock company (AD).

As of December 31, 2021 the consolidated financial statements of DSK Group include DSK Bank AD and its subsidiaries (commonly referred to as the Group).

Companies in the Group

As at the end of 2021 the Group consists of DSK Bank AD, 13 subsidiaries and one associate.

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

- PIC DSK Rodina BGN 14.973 million (99.85%);
- DSK Tours BGN 6.930 million (100%);
 - DSK Trans Security is 100% owned by DSK Tours EOOD
- DSK Asset Management BGN 7.300 million (66%);
- DSK Leasing AD BGN 1.962 million (60.02%)
 - DSK Leasing AD owns 100% of the capital of DSK Auto Leasing EOOD, DSK Operational Leasing EOOD and OTP Insurance Brocker EOOD.
- OTP Leasing EOOD BGN 49.725 million (100%)
- DSK Mobile EAD BGN 7.200 million (100%)
- DSK Dom EAD BGN 0.500 million (100%)
- OTP Factoring Bulgaria EAD BGN 37.620 million (100%)
- Regional Urban Development Fund AD BGN 0,208 million (52%).

As of December 31, 2021 an impairment test of the investments in subsidiaries was performed and as a result of which an impairment of the Bank's investment in DSK Tours EOOD in the amount of BGN 207 thousand was accrued.

DSK Bank holds investments in associated companies as follows:

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

DSK Group

Macroeconomic environment

In 2021, the global economy was once again affected by the global pandemic due to the continued spread of the COVID-19. Although they have reduced their restrictive measures against the virus in most developed and emerging markets, economic recovery has not reached the planned levels. At the end of the summer season, information appeared about a new variant of the COVID-19 Omicron, which is characterized by higher infectivity compared to the previous ones. This has further complicated the

macroeconomic environment not only globally but also nationally. The main driver, which in 2021 stopped the implementation of the planned levels of recovery, is international trade conflicts and the consequent aggravated supply channels (limited transport corridors). It is this process that has led to a serious decline in the world supply of certain goods, a major cause of inflationary pressures, aided by the sharp rise in fuel prices. Additionally, EU's green economy project, which could further hamper activity in specific sectors, including through price destabilization on some raw materials. Inflation in 2021 registered high levels in a number of regions around the world, while in the United States this indicator registered similar levels in 1982. Central banks have set in their plan's inflation, which will subside in 2022 due to its temporary and short-term effect. Signals in the last months of 2021 show that this process will slow down, but at a slower pace than expected.

Naturally, the Bulgarian economy has borne the brunt of the negative consequences of global problems, including the new version of the COVID-19 Omicron. Although there has been a significant improvement in macroeconomic indicators since a year ago, specific sectors such as transport, restaurants and tourism have remained in the shadow of the COVID-19 crisis. Global inflationary pressure also contributed to high inflation in the Bulgarian economy, recording an annual growth of 7.8% at the end of December 2021. The main groups affected in the Consumer Price Index (CPI) are transport, which increased by 22.2% (due to the significant jump in fuel prices), respectively, reflected in food products 8.9% and in the hotel and restaurant sector, where the increase is 6.7%. Despite unfavorable demographic trends in the country, the labor market in 2021 marked a significant improvement and the average annual unemployment rate was 5.5%, a record low for decades. The measures "60/40" and "80/20", which were implemented in support of business and in the past 2021 significantly affected the labor market. On an annual basis, the number of unemployed decreased by 62 thousand and at the end of the year reached 158 thousand people.

At the end of the year, a regular coalition government was formed, preceded by several caretaker governments, three elections, the last of which were 2 in 1 (presidential and early parliamentary elections). Despite the political turmoil over the past year, credit rating agencies (S&P Global Ratings and Fitch Ratings) have not lost confidence in Bulgaria and strengthened their positive long-term outlook for the country.

According to the preliminary data of the National Statistical Institute for the produced gross domestic product at the end of 2021 it amounts to BGN 132 744 million at current prices and marks a real growth of 4.2% compared to a year ago. The balance of the consolidated fiscal program at the end of 2021 is negative and amounts to BGN 3 910 million (minus 3.0% GDP) compared to the set BGN 4 604 million (3.5% GDP) in the update of budget. A key factor in improving the deficit is better revenue performance. Government debt, which serves to finance the deficit, amounted to BGN 31 218 million (23.5% of projected GDP) and increased by 13.5% compared to 2020. Direct investment in the country decreased by 54.4% for the period January-December 2021 compared to the same period of the previous year and amounted to EUR 1 036 million (0.8% of GDP).

The banking system in the country ends in 2021 with nearly BGN 1.4 billion in profit, which compared to a year ago increased by about 68%. Although 2020 has its shortcomings as a basis for comparison, banks in Bulgaria remain stable, capitalized and highly liquid. Lending activity in 2021 remains stable, with significant growth in housing lending on an annual basis (18%). The financial results of the banks follow the current trend of increasing revenues from fees and commissions, declining interest income, which is a result of record low interest rates on loans and deposits. The significant improvement of the macro-environment in the country in 2021 contributed to the low levels of impairment of the portfolio as this expenditure item reduced its value in one year by about 33%. Non-performing loans decreased during the year and by the end of 2021 accounted for 3.7% of the total loan portfolio of banks.

Summary

DSK Bank strengthened its position in the banking market by maintaining its leading position in the portfolio of loans and deposits in retail banking and managed to maintain its stability in terms of liquidity and capital position. The Bank ranks first in the credit market in terms of customer exposures (excluding exposures to credit institutions) with a market share of 20.3% compared to 20.2% at the end of 2020. In terms of customer deposits (excluding those of credit institutions), the Bank also leads position in the banking system of the country with a market share of 18.4% compared to a year ago, when the share was 19.1%. Despite maintaining a leading position in deposit products, in 2021 the Bank took a radical measure to terminate the conclusion of new contracts for time deposits. This measure was taken in order to reduce the excess liquidity in the Bank. Together with the Bank, the main competitors also applied this restrictive policy.

For 2021 DSK Group reports a profit after tax to the amount of BGN 416.5 million.

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

The Cost-to-Income as of December 2021 of the Group is 42.0%, 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 2021 DSK Bank continues to offer traditional lending and deposit products for the households and retain their leading position in this segment.

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

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

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

The Bank offers investment services on the account of customers complying with Markets in Financial Instruments Act and the respective legal acts on its implementation 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 approved internal rules related to those regulatory acts.

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

The performance of the administrative functions is strictly monitored (particularly those related to the interaction with external parties). Procurement is ensured for the entire branch network, whereas most of the supplier contracts are centralized and the orders, supplies and the respective expenses are closely monitored by the Head Office. Reports and other obligations toward external authorities and regulatory bodies are prepared and delivered timely and the compliance with all legislative requirements is monitored by Strategy, finance and data management 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 2021, the companies included in DSK Group did not have any research and development activities.

General information about the Management and the Structure of the Group

DSK Bank AD is a fully licensed bank authorized to perform all banking operations according to the Bulgarian legislation. It is a universal commercial bank with prevailing activity in retail banking.

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

As of December 31, 2021 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
 Krisztián Selmeczy – member of the SB
 Attila Turkovits - member of the SB
 Anthony Radev – 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

In the Supervisory Board, the personal changes in 2021 were as follows:

As of 25.03.2021 have been registered as new members of the SB Attila Turkovits and Anthony Radev

As of 25.03.2021, have been removed as members of the SB Ákos Ferenc Tisza-Papp and Ilona Török.

As of 02.07.2021, the extension of the mandates has been registered of László Bencsik, László Wolf, Gábor Kuncze and Krisztián Selmeczy.

Changes as follows on 25.03.2021:

László Bencsik
 Violina Marinova
 László Wolf
 Gábor Kuncze
 Ákos Ferenc Tisza-Papp – deleted circumstance
 Ilona Török – deleted circumstance
 Krisztián Selmeczy
 Attila Turkovits - new circumstance
 Anthony Radev – new circumstance

Expiration date of the mandate: 28.10.2021

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

Changes as follows on 02.07.2021:

László Bencsik
 Violina Marinova
 László Wolf
 Gábor Kuncze
 Krisztián Selmeczy
 Attila Turkovits
 Anthony Radev

Manner in which the mandate is determined: for Violina Marinova Spasova, Antoni Radev and Атила Туркович the mandate is 3 (three) years, as of the date of his registration as a member of the Supervisory Board in the Commercial Register, and for the other 4 members – 3 (three) years, as of October 29, 2021.

In 2021, DSK Bank has no contracts under Art. 240b of the Commerce Act with members of the Management Board.

The total remuneration received by the management of DSK Bank during the year was in accordance with management contracts and amounted to BGN 4.8 million.

The total remuneration received by the management of DSK Group during the year was in accordance with management contracts and amounted to BGN 7.1 million.

Participation of Management and Supervisory Board members of DSK Bank in the share capital

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

The participation of the Management Board members of DSK Bank in management and supervisory bodies of other companies by the end of 2021, as representatives of DSK Bank is as follows:

Name	Company	Position
Tamas Hak-Kovacs	DSK Leasing AD	Member of SB
Diana Miteva	DK Mobile EAD DSK Dom EAD PIC DSK Rodina AD	Chairperson of SB Chairperson of BD Member of MB
Slaveyko Slaveykov	OTP Factoring Bulgaria EAD	Member of BD
Dorothea Nikolova-Ilcheva	DSK Asset Management AD OTP Factoring Bulgaria EAD	Member of MB Chairperson of BD
Amaud Leclair	DSK Leasing AD	Member of SB
Yuriy Genov	DSK Mobile EAD BORIKA AD	Member of SB Member of SB
Mihail Komitsky	DSK Leasing AD OTP Leasing EOOD DSK AUTO LEASING EOOD DSK Operational Leasing EOOD	Chairperson of MB Director Director Director
Boyan Stefov	DSK Asset Management AD PIC DSK Rodina AD	Member of SB Member of MB

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

As at the end of 31 December 2021 DSK Bank AD has 9 regional centers, 49 financial centers, 23 business centers and zones, 95 branches, 135 bank offices.

The management bodies of the other companies in the Group as of end of 2021 are as follows:**PIC DSK Rodina AD**

Two-tier management system.

Management Board

Diana Decheva Miteva,
Boyan Stefov,
Nikolay Ivanov Marev,
Rumyana Boyanova Sotirova,
Mihail Petrov Sotirov

Supervisory Board

Violina Marinova Spasova,
Choba Nagy,
Yanaki Sevastiyarov Yanakiev

In June 2021 Dorothea Nikolaeva Nikolova-Ilcheva was dismissed as a member of the Management Board and Diana Decheva Miteva and Boyan Filipov Stefov were registered.

The total remuneration received by the management during the year was in accordance with management contracts and amounted to BGN 0.76 million.

DSK Tours EOOD

The company is represented by the manager Andrey Stoyanov Andonov.

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

DSK Trans Security EAD

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

Momchil Lyubomirov Momchilov,
Tsvetoslav Naidenov Dimov,
Zhivko Minchev Minchev

The total remuneration received by the management during the year was in accordance with management contracts and amounted to BGN 0.13 million.

DSK Mobile EAD

Two-tier management system.

Management Board

Vasil Georgiev Dimitrov,
Damyani Evgeniev Medarov,
Emil Stefanov Hristov

Supervisory Board

Diana Decheva Miteva,
Yuriy Blagoev Genov,
Peter Benjo.

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

OTP Factoring Bulgaria EAD

One-tier management system.

Board of Directors

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

The total remuneration received by the management during the year was in accordance with management contracts and amounted to BGN 0.12 million.

DSK Dom EAD

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

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

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

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

DSK Leasing AD

Two - tier management system.

Management Board

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

Supervisory Board

Krisztián Selmeczy,
Tamas Hak-Kovacs,
Attila István Molnár,
Arnaud Renee Julien Leclair

In August 2021 Zoltán Tuboy, Zsolt Baksay and Ivan Atanasov Atev were dismissed as a member of the Supervisory Board and Krisztián Selmeczy, Tamas Hak-Kovacs, Attila István Molnár and Arnaud Renee Julien Leclair were registered as members of the Supervisory Board.

The total remuneration received by the management of DSK Leasing AD and its subsidiaries during the year was in accordance with management contracts and amounted to BGN 0.18 million.

DSK Auto Leasing EOOD

Directors:

Borislav Veselinov Matakiev,
Mihail Rumenov Komitsky

OTP Insurance broker EOOD

The company is represented by the manager Kostadin Dimitrov Karadzhov

DSK Operating Leasing EOOD

Management Board

Borislav Veselinov Matakiev,
Mihail Rumenov Komitsky

DSK Asset Management AD

Two - tier management system.

Management Board

Petko Krustev Krustev,
Dorothea Nikolaeva Nikolova,
Svetoslav Spasov Velinov

Supervisory Board

Benedek Balázs Köves,
Gabor Fazekas,
László György Gáti,
Boyan Filipov Stefov,
Ivaylo Penev Hadjiev

In February 2021 Péter János Haas was dismissed as member of the Supervisory Board and Ivaylo Penev Hadjiev was registered. In August 2021 Diana Decheva Miteva was dismissed as member of the Supervisory Board and Gabor Fazekas, László György Gáti and Boyan Filipov Stefov were registered.

The total remuneration received by the management during the year was in accordance with management contracts and amounted to BGN 0.42 million.

OTP Leasing EOOD

The company is represented by the director Mihail Rumenov Komitsky.

The total remuneration received by the management during the year was in accordance with management contracts and amounted to BGN 0.30 million.

Regional Urban Development Fund AD

One - tier management system - Board of Directors consisting of:

Kamen Marinov Kolchev
Martin Mihaylov Zaimov
Momchil Lyubomirov Momchilov
Anastasia Dimitrova Chorbadjieva
Anatoli Vladev Belchev

In March 2021 Alis Kirkor Magardichyan was dismissed as a member of the Board of Directors and Momchil Lyubomirov Momchilov was registered.

The total remuneration received by the management during the year was in accordance with management contracts and amounted to BGN 0.07 million.

Financial result and profitability**Financial indicators of the Group**

For the year 2021 DSK Group reports profit before tax to the amount of BGN 462.4 m and increased significantly by 138.5% compared to 2020 mainly as a result of lower impairment allowances. Higher net fee income and net foreign exchange gain also contributed for the good performance.

The profit after tax amounted to BGN 416.5 million.

The net interest income was BGN 613.2 m. and slightly decreased compared to 2020 by BGN 5.6 m or 0.9% mainly as a result of lower interest income (BGN 5.1 m). The interest expenses slightly increased year-on-year by BGN 0.5 million mainly as a result of higher negative interest income from loans and advances to banks.

The net non-interest income for 2021 amounted to BGN 404.4 million (a growth of 25.2% or BGN 81.4 million compared to 2020), which is mainly a result of the increase of the fee income and the reported net foreign exchange gain in 2021. Net fee and commission income amounted to BGN 304,1 million and increased by BGN 47.5 million compared to 2020. The net foreign exchange gain was BGN 16.9 million and reported the significant increase compared to previous year by BGN 179.1 million. In 2020 was reported net foreign exchange loss (BGN 162.3 million). Net trading income in 2021 was BGN 24.9 million and decreased compared to previous year by BGN 166.2 million.

The operational expenses (including staff costs, depreciation, services and utilities) amount to BGN 427.4 m. and decreased by BGN 52.6 million or 11% on annual basis.

The impairment allowances on financial assets were BGN 130.8 million in 2021 and decreased significantly compared to 2020 (by BGN 150.3 million or 53.5%).

The average headcount of DSK Group by the end of 2021 is 6 052 (as of 31 of December 2020: 5 863).

The assets per employee ratio is BGN 4.05 m by the end of 2021. The profit per 1 employee is BGN 68.8 thousand.

Balance sheet indicators of the Group

The total assets of the DSK Group amounted to BGN 24 516.6 m as of 31 of December 2021 and increased by 1 633.8 m (or 7.1%) compared to end of 2020.

The market share of the Bank as of 31 December 2021 in the total banking assets in the country was 18.0% (as of December 2020: 18.4%).

The gross loan portfolio (customer loans and advances) of DSK Group as of 2021 end amounted to BGN 14 384.9 m and reported an annula growth of 9.4%., mainly as a result of the increase of HH loan portfolio.

The loans to individuals at gross book value before impairment amounted to BGN 8 967.7 m as of 31 December 2021 and increased compared to previous year by BGN 967.2 million.

The market share of the Bank in terms of household loans was 30.5% by the end -2021 (2020: 30.9%), as in consumer loans (incl. non-residential mortgage loans) and overdrafts was 40.3% (41.6% in 2020), and in housing – 23.9% (24.8% in 2020). The market share of non-financial companies as of December 2021 was 13.0% compared to 13.1% in 2020.

The wholesale loans (incl. budget loans) at gross book value before impairment amounted to BGN 5 417.2 m and reported YoY increase by 5.2%.

The impairment of the loan portfolio (customer loans and advances) as of 31.12. 2021 was BGN 1 018.1 m (as of 31.12.2020: BGN 1 021.4 m).

Total customer deposits amount to BGN 20 052.8 m by end of 2021 and report an annual growth of 4.4%.

BGN 15 960.6 m are deposits from individuals which is 5.7% growth compared to 2020.

The market share of the Bank in terms of household deposits as at the end of 2021 was 23.7% and decreased compared to 2020 (24.1%).

Company deposits (incl. budget) amounted to BGN 3 749.1 million as at the end of 2021 and decreased by 1.7% compared to 2020.

Deposits from financial institutions amounted to BGN 343.1 million, and grew by BGN 55.4 million compared to 2020.

Capital adequacy

DSK Group constantly maintains a level of total capital adequacy, sufficient to cover the risks from its activity and to comply with the regulatory requirements. As at 31 December 2021 the total capital adequacy ratio on consolidated basis was 23.25%. In 2021 the Group provided BGN 1 195.9 million free capital above the total SREP capital requirement and the combined capital buffer, incl. capital conservation buffer (BGN 362 million), systemic risk buffer (BGN 434.4 million), O-SII buffer (BGN 144.8 million) and the specific for the institution countercyclical buffer (BGN 70.9 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 (Guidelines), DSK Group offered to its clients renegotiation instruments, mainly under the non-legislative moratorium. Due to the fact that the crisis continued in 2021, the Guidelines allowed the extension of the moratoriums. The possibility of joining the mechanisms under the private moratorium was equivalently extended. In December 2021, the last concessions granted in this way expired. To help its clients in difficulty, DSK Bank offered renegotiation instruments under its own forbearance instruments, too. In the latter case the loans are classified and reported as forbore.

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 the Group is exposed results from the granted loans to clients. As of the end of the year, the gross loan portfolio of the Group comprised loans to households (62.3%) and company loans (incl. budget) (37.2%). Within household loans the credit risk is well allocated between consumer loans (52.2%) and mortgage loans.

DSK Group 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 2021 was as follows:

Total loan portfolio – 7.1%

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 – 1.1%
- Stage 2 – 15.8%
- Stage 3 – 71.0%

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 2021 the credit performing exposures including those with increased credit risk (classified in stage 1 or stage 2) were 93.3%.

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

The 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 Bank also analyzes 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' behavior is reported to the management.

To analyze 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 Group manages separately the interest rate risk in the banking book and in its trading book.

Mainly 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. Interest rate risk management activities are conducted in the context of the bank's sensitivity to interest rate changes.

DSK Group 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 currencies groups. 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 measures its exposure to interest rate risk in the banking book by calculating two main indicators – the change in net interest income (income- based indicator) and the change in the economic value of capital (value- based indicator), based on the interest rate scenarios described in the EBA guidelines. They represent the sensitivity of the DSK Bank's income and capital to changes in market interest rates.

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

Exchange rate risk

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

As a result of the implementation of Currency Board in Bulgaria, the Bulgarian currency rate to the euro is fixed at 1.95583. The national reporting currency is the Bulgarian lev therefore the 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 Group's strategy is to minimize the impact from the changes of exchange rates on financial results. The net open currency positions are reported to management on a daily basis. The limits for restricting the exchange rate risk are periodically renewed based on analysis of market information and the inner needs of the bank.

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

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

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

Operational risk

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

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

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

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

DSK Group has a unified system for operational risk management, based on centralized collection of data for the operational events and periodical reporting to the management of the Group about the level of operational risk. The system is based on the so-called Risk Responsible Person - people, which are employees on management positions in Head office, branch network and Bank's subsidiaries. They are responsible for the management of operational risk in their units, following the decentralized approach of operational risk management in OTP Group. In 2021, all employees of the DSK Group were trained in the interactive education with test for "Operational Risk Management - recognition and management", prepared and supported by the Human Resources Department. Training is mandatory for all newly appointed employees in the Group.

Potential risks are considered as a part of the business processes and for this reason they are subject of identification in the self-assessments process within the Group's units, and their classification is performed annually on the basis of a standardized taxonomy of operational risks. The purpose of the self-assessment process is to identify and assess possible weaknesses in the processes and to assign additional measures to limit the residual operational risk. During this year Operational Risk Management Section performed the RCSA campaign simultaneously with the annual Business impact analysis. The process owner were directly involved in the assessment of the criticality of the processes and the five most relevant risks, arising from them. The new moment in the campaign was to identify the probable relation between the assessed risks and ESG risks. COVID-19 pandemic was also taken into account by assessment of the influence of the pandemic on the risk level.

Along with the assessment of the criticality of business processes, an assessment of the confidentiality, integrity and availability of IT services in the Bank was performed (CIA). Its results were duly integrated into analysis of IT services and reflected in the Business Impact Analysis (BIA). A procedure for methodological assessment of the damage from ICT incidents has been created for analysis and evaluation of financial effect from IT operational events. The Bank should determine the estimated loss arising from ICT risks on an annual level.

As a part of the Group's operational risk management framework, the management of model risks arising from the used internal models is included. The model risk management aims to build an environment with proper controls by identifying the used models, their categorization and evaluation, as well as compliance with the requirements of the implemented controls. The Operational Risk Management Section prepares and provides to the members of the ORMC an annual report on the model risks, including also the manner in which the models in the different categories meet the control requirements. After the end of the annual campaign, Operational Risk Management Section elaborated the Model Risk Management framework and the related Procedure for Gap and Risk Analysis of the internal models regarding the best practices and the methodology of OTP Group.

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

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

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

"The level of tolerance to operational risk in DSK Bank AD" also aims to monitor the acceptable maximum exposure threshold that DSK Bank is willing to take in case of occurrence of operational events for a certain period of time. Thresholds for all individual risk categories for operational risk are defined and updated annually. In determining the loss thresholds, the distribution of losses by individual risk categories for the previous ten years is examined and their average values are used, which furtheron are interconnected 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 decentralized assessment performed by different units, using the methodological support from the Operational Risk Management Section. As part of this process, the so-called scenario analysis is prepared, aimed to assess the potential effects on the financial position of the Group and the ongoing processes in it, at a certain change in the risk factors associated with probable occurrence of an event with catastrophic consequences. During the last year OTP Group offered 16 scenarios for evaluation. Based on the initial internal loss database analysis and the RCSA campaign results, DSK offered for local evaluation one additional scenario - Mistake by employee.

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 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. 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 and is used for the assessment of DSK Group's capital adequacy regarding operational risk.

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

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

In 2021, the global pandemic and spread of COVID-19 continue to be 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 Unit of the European Central 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 2021 by the Banking Supervision Unit of the ECB and related to operational risk management have been implemented in accordance with regulatory requirements and on time. For 2021 the assessment of all internal audits is that the Group has created an organization, procedures and controls concerning the operational risk management. They are adequate for the volume of activity and continuously changing environment and development of the Group.

Risk Management (hedging)

The Group uses derivatives as forward, futures, swap and option deals to manage an exposure to market risk or for trading. The Group aims to manage risk and the objective of hedge accounting is to represent, in the financial statements, the effect of an Group's risk management activities that use financial instruments to manage exposures arising from particular risks that could affect profit or loss

Detailed information is presented in the annual financial statement.

Investment program

The investments of DSK Group during the year amounted to BGN 39.4 million, in comparison to BGN 37.1 million for the prior period. The investments in information technology were BGN 29.5 million, as their share in the total investments of the Bank was 48% (for 2020 this share was 47%).

PIC DSK Rodina AD

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

On 01.10.2021 the Management Board of the Company adopted a Decision on the establishment of a **Fund for payment of lifelong pensions DSK Rodina** (LLPF DSK Rodina), as the fund was entered in the register of the Financial Supervision Commission and as of 12.10.2021 is considered established.

The subject of activity of LLPF DSK Rodina is the payment of additional lifelong old-age pensions and is carried out in accordance with the Social Security Code (SSC), which regulates the state and supplementary pension insurance in the country and bylaws on its implementation.

As of December 31, 2021 in the LLPF DSK Rodina the total number of pensioners receiving pensions from the fund were 48.

In 2021 a pension fund for **term payments PFTP DSK Rodina** was also established, as from this fund are paid:

1. the lifelong pensions and the due payments to the heirs of the deceased pensioners and expenses for their payment in the country according to art. 192a, para. 9 of the SSC;
2. costs for acquisition and sale of their assets;
3. the fee according to art. 201, para. 1, item 3 from the SSC;
4. funds according to art. 192a, para. 15, item 1 and para. 17 from the SSC are transferred from the PFTP DSK Rodina.

For the year 2021 DSK Rodina reported a profit after tax of BGN 20.0 million (2020: BGN 15.4 million). The revenues from the management funds amounted to BGN 38.2 million, which represented a growth of 23.1% compared to the previous year.

At the end of 2021 the number of the insured individuals reached 875 thousand, which was an increase of 7.5% compared to 2020. The net assets managed by the company rose to BGN 3 671.7 million, growing by 21.0% year-on-year. As of December 2021 DSK Rodina reached a market share in terms of number of insured individuals of 18.03% and 18.76% in terms of net managed assets (2020: respectively 16.89% and 17.55%).

OTP Leasing EOOD

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

The company is among the leading companies on the leasing market in Bulgaria, despite the increased competitive environment. The net financial lease portfolio of OTP Leasing at the end of 2021 amounted to BGN 1 066.2 million (2020: BGN 921.9 million). The realized profit for 2021 stood at BGN 12.85 million (2020: BGN 0.6 million). The rise compared to the previous year was driven by lower risk costs.

DSK Leasing AD

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

In 2021, the company continued to serve mainly its customers under existing contracts, with the new business being taken over mainly by the subsidiary OTP Leasing.

For the reporting period DSK Leasing Group realized a profit after tax amounting to BGN 5.52 million (2020: 4.34 million), as the reported increase was a result of reintegrated provisions in 2021.

DSK Trans Security EAD

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

In 2021, the company continued the process on comprehensive review of its structure and efficiency of its activities, modernization, cost optimization and recalculation of the pricing of the provided services. During the year a high-tech monitoring center has also been established.

The reported financial result was a profit standing at BGN 0.36 million (2020: BGN 0.97 million). The y-o-y decrease was driven mainly by the drop in the revenues from cash pick-up activity as a result of the performed recalculation of the pricing.

OTP Factoring Bulgaria EAD

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

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

As at the end of 2021 the company reported a profit after tax amounting to 12.96 million (2020: BGN 14.76 million, o/w BGN 3 million revenue from the sale of its subsidiary company Project Copany Complex Banya EOOD).

DSK Tours EOOD

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

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

DSK Tours reported a loss of BGN 0.23 million for the reporting period, which is at the level of the realized loss from the previous year.

DSK Asset Management AD

At the end of 2021 DSK Asset Management manages 16 mutual funds – DSK Alternative; DSK Alternative 1 ((previous name DSK Money Market Fund in BGN) and DSK Alternative 2 (previous name DSK Money Market Fund in Euro) – funds in short-term bonds; DSK Standard, DSK Euro Active (funds in bonds), DSK Balance (balanced fund), DSK Global defensive companies (previous name DSK Properties), DSK Growth and DSK Global companies (funds in shares), DSK Stability - European Equities and DSK Stability - German Equities (funds with principal protection). Since 2018 the company has a license to manage DSK Dynamics mutual fund, which adheres to a flexible investment strategy for absolute return.

During the year DSK Asset Management expanded the range of the offered products with four more new funds.

In June the company started the distribution of mutual fund DSK-OTP Premium mix. The fund invests the attracted client funds mainly in other funds managed by OTP Fund Management - a combination of proven products, which, in turn, invest in various assets such as stocks, bonds, financial instruments (derivatives) related to raw materials / goods and others traded in different markets around the world.

In September, the offering of three funds DSK Horizon which are unique for the country, new class of investment products, was initiated. The innovative funds are of the Target-date funds type and aim to enable the client to save and invest funds to achieve a certain goal in a predetermined time horizon (for example, for retirement, for education of children, etc.) without limiting his ability to withdraw funds before the target date.

The reported profit after tax of the company for 2021 amounted to BGN 0.41 million (2020: BGN 0.06 million).

As at the end of 2021 the total assets managed by DSK Asset Management stood at BGN 363.4 million (2020: BGN 191.8 million), representing a substantial increase of 89% y-o-y.

DSK Mobile EAD

In September 2016 DSK Mobile EAD was established in connection with DSK Bank's long-term strategy of digitalization of banking services and linking them to non-banking services in order to provide higher quality of complex banking products and services.

The company started operating activity in 2020. In 2021, activities for accepting contactless payments in the transport in Sofia were initiated. Preparations are underway for public procurement procedures for a new or upgrade of an existing ticket system also in other cities in the country.

During the year DSK Mobile signed a strategic agreement with Viber for resale of business messages, as the main counterparty of DSK Mobile will be DSK Bank. The company has also other potential partners to whom it will be able to sell the service. The company, together with Visa and MasterCard, is developing a transaction model based on the ticketing system. The target customers are parking integrators and owners of parking lots.

The company is also working on a project together with Viber and a pilot Central City Network related to chatbot payments, which includes an initiative DSK Mobile to join as a third party in an existing contract of technology partner and further develop the user interface of an existing chatbot.

The reported net financial result as of 31.12.2021 was a loss amounting to BGN 0.27 million.

DSK Dom EAD

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

DSK Dom has a wide network of representatives throughout the country (1 250 as of December 2021) offering its clients a broad range of housing and mortgage loans.

The realized profit after tax of DSK Dom for 2021 was BGN 0.72 million (2020: 0.27 million).

Regional Urban Development Fund AD

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

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

The realized financial result in 2021 was a profit amounting to BGN 0.73 million (2020: BGN 0.34 million).

Associates

Cash Services Company AD

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

The company reported a profit after tax for 2021 amounting to BGN 0.97 million (2020: BGN 1.36 million).

Audit remuneration

The joint and independent financial audit of the annual financial statements of DSK Group for 2021 has been conducted by the registered auditors Ernst & Young Audit OOD and AFA OOD.

The accrued amounts (BGN 1.5 million) for the services provided by the independent auditors are the following:

- independent financial audit - BGN 1.4 million;
- other services, non-related to audit – BGN 0.05 million.

Events after the reporting period

The war conflict started on 24 February 2022 between Russia and Ukraine, which is unfolding as at the date of these financial statements, has caused disruptions on the leading global financial markets; and the problems with supply chains that were initially caused by the COVID-19 pandemic, are expected to deteriorate even more as a result of this conflict. Economic sanctions have been imposed on the Russian Federation by the EU, USA and other countries. Prices of petrol, gas and other resources are expected to soar, and global inflation is expected to rise. Currently, it is difficult to anticipate the outcome of the conflict, and its long-term impact on the global economic and social developments.

According to management, the main risk for the Bank is not to be able to recover in full the value of assets held in the affected countries (incl. cash at banks operating on the territory of Ukraine or Russia; loans granted to the customers of these two countries; government bonds issued by the Russian Federation). Management's assessment is that this is a non-adjusting event occurred after the end of the reporting period and accordingly, these separate financial statements do not contain adjustments to the value of assets, if such adjustments should be necessary, to reflect the significant increase in credit risk for the Bank. Considering the dynamics of the circumstances, currently management is unable to make a reliable estimate or measurement of the possible effects of the conflict on the operations, assets and economic development of the Bank. Management has undertaken measures for limiting the possible consequences on the Bank's operations.

As of 31 December 2021, the carrying amount of exposures to Russian counterparties is BGN 190 547 thousand, including BGN 183 376 thousand of government bonds. After the end of the reporting period, the Bank sold one of these securities amounting to BGN 107 312 thousand at a price approximating its carrying amount.

The total amount of exposures to Ukrainian customers is BGN 1 709 thousand.

No other significant events after the end of the reporting period have been identified.

Major goals for 2022:

The management of the Bank has defined the following priorities for the business year 2022:

- Plan 2022 has been built on the assumption of economy growth (real GDP growth rate: 3.2% and inflation rate: 3.9% annual average in 2022);
- Keep our dominant role in consumer loans market share;
- Utilize the growth potential in specific areas (housing market, leasing, small business, short-term loans and investment products);
- Create market leading digital solutions;
- Decreasing NPL portfolio;

- Conservative approach in capital management;
- Liquidity policy balanced between risk and profitability;
- Contribution to green transition by applying ESG standards.

The major goals of the companies from the Group in 2022 are as follows:

DSK Rodina – in 2022 the company plans to be among the leading companies on the pension insurance market. DSK Rodina expects to strengthen its market positions, increasing its market shares in terms of number of insured and assets under management.

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

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

DSK Leasing - in 2022 the company will continue to serve its clients mainly on existing contracts, as the new business is taken over mainly by the subsidiary company OTP Leasing.

DSK Trans Security – in the following year the company will focus on enhancing its efficiency and competitiveness. Among the planned goals are optimization of the organizational structure and processes, expansion of the activity, an increase of the revenues from provided services to external customers, as well as automation of the processes.

OTP Factoring Bulgaria – the company has sunset functions, and in 2022 it will not take over a new business, but will continue to manage the existing loan portfolio.

DSK Tours - in 2022 the management of DSK Bank to is yet to decide on the future development of the company.

DSK Asset Management – in 2022 the activity of the company will be accomplished in accordance with its main targets: growth of the assets under management in Mutual funds; stable and sustainable price increases of the funds units; increasing investor interest in collective investment schemes by implementing marketing and awareness campaigns.

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

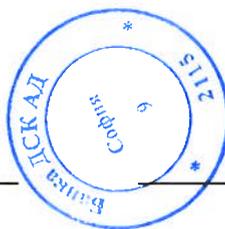
DSK Mobile – the company maintains its business model in 2022 and will continue to develop and expand the activities and projects launched in 2021.

Regional Urban Development Fund – regarding the resource and fulfillment of its commitments under the JESSICA program and the financial instrument Urban Development Fund North, in 2022 the efforts will be focused on identifying new projects and faster negotiation and allocation of available resources. The company will monitor the development of its portfolio and the obligations of its borrowers.

The Report on the Management and the Activity of DSK Bank AD and the Companies of the Group for 2021 is approved by the Management Board with protocol №7 from 11.03.2022.



Tamas Hak-Kovacs
Chief Executive Officer




Slaveyko Slaveykov
Executive Director

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

1. Information as per Art.100n, 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.100n of the POSA;

2. Information as per Art.100n, 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. In addition, DSK Bank regularly assesses the degree of risk associated with economic sectors and the impact that pandemic measures have on them.

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, in order to take adequate measures to limit and prevent the occurrence of such events. 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.

In order to foster and facilitate the application of sustainable risk framework, a second level of control is introduced with the Risk Controller function within Risk Division. As part of the second line of defense, the risk control function supports the implementation of measures and validates the availability of mechanisms for risk management, thus guaranteeing that the existing processes and controls are appropriate and effective. The Risk Controller undertakes independent verifications and monitoring of the risk management mechanisms, identifies different risk types, estimates their impact and reports potential or existing weaknesses and deficiencies in the process of risk management in line with the risk appetite.

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

Internal Audit Directorate 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 – Management Board, Supervisory Board, 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. 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.100n, 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 members of the Management Board and the Supervisory Board and amendments of the Articles of Association are:
 - The Articles of Association of DSK Bank AD;
 - The Governance Rules of DSK Bank AD and Section V. Decision-making Mechanism thereto;
 - Policy for assessing the aptitude of the members of the Management Board and the Supervisory Board, the executive directors and key holders in DSK Bank and its affiliates;
 - Rules on the conflict of interests.
- 3.5.1 The powers of the Supervisory Board and the Management Board of DSK Bank AD are defined in:
 - The Articles of Association of DSK Bank AD;
 - The Governance Rules of DSK Bank AD and Section V Decision-making Mechanism thereto.
- 3.5.2. The members of the Supervisory Board and the Management Board of DSK Bank AD have no right to make decision for shares emission or redemption.

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

Composition and functioning of the administrative, management and Supervisory Boards and the committees thereto

- 4.1. The composition and the requirements on the composition of the management and supervisory bodies, the Audit Committee, the Risk Committee, the Nomination Committee, the Remuneration Committee, the Assets and Liabilities Committee, the Investment Committee, the Product development, pricing and sales Committee, the Credits and Limits Council, the Work-out Committee, the Data and Analytics Committee of DSK Bank AD are defined in:
 - The Articles of Association of DSK Bank AD;
 - Governance Rules of DSK Bank AD;
 - Rules of procedures of the relevant committee.

4.1.1. Composition of the Supervisory Board

The Supervisory Board 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 Board 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 Management Board

The Management Board 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, elected and discharged with a decision of the General Meeting of the Shareholders of the Bank on the basis of a proposal by the Chairperson of the Management Board, meeting the requirements set in the Independent Financial Audit Act, as two of the members need to meet the independence requirements of Art.10a, para. 2 of the CIA.

4.1.4. Composition of the Risk Committee, the Nomination Committee, the Remuneration Committee

The three committees shall consist of at least three members elected by the Supervisory Board of the Bank among its members, the majority (at least two) of the members of each of the Committees must be independent within the meaning of Art. 10a, para. 2 CIA. The Chairperson of the Risk Committee may not be at the same time the Chairperson of the Nomination Committee, the Remuneration Committee or the Audit Committee, as well as the Chairperson of the Supervisory Board of the Bank.

4.1.5. The members of the committees to the Management Board are determined by positions among DSK Bank's employees in the Governance Rules of the Bank.

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

- The Governance Rules of DSK Bank AD;
- The Rules of procedure of the Supervisory Board of DSK Bank AD;
- The Rules of procedure of the Management Board of DSK Bank AD;
- The Statutes of the Audit Committee of DSK Bank AD;
- The Rules of procedure of the Risk Committee of DSK Bank AD;
- The Rules of procedure of the Nomination Committee of DSK Bank AD;
- The Rules of procedure of the Remuneration Committee of DSK Bank AD;
- The Rules of procedure of the Assets and Liabilities Committee of DSK Bank AD;
- The Rules of procedure of the Investment Committee of DSK Bank AD;
- The Rules of procedure of the Product Development, Pricing and Sales Committee of DSK Bank AD;
- The Rules of procedure of the Credits and Limits Council of DSK Bank AD;
- The Rules of procedure of the Work-out Committee of DSK Bank AD;

- The Rules of procedure of the Data and Analytics Committee of DSK Bank AD.

4.3. The functions of the Supervisory Board 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 Management Board.
- Appoints and dismisses the members of the Management Board and determined their remuneration and mandate. Changes in the composition of the Management Board shall not be valid if there is no approval by the BNB.
- Approves the decisions of the Management Board for appointment or dismissal of the chairman and the deputy chairman of the Management Board (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 Management Board.
- 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 Management Board for profit allocation.
- Approves decisions of the Management Board on fundamental changes in the organizational and governance structure of the Bank, specified in the Governance Rules and for the establishment or closure of branches within the meaning of the Commercial Act.
- 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 Nomination Committee, the Risk Committee and the Remuneration Committee, 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 Board and the Management Board, and other stakeholders.
- Approves the Rules of procedure of the Management Board.
- Approves the Performance Management Rules and adopts the Remuneration policies on the income of the Bank and the Bank Group and supervises its implementation.
- 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 the decisions on incorporation of companies.
- Approves decisions for acquisition and disposal of shares in banks and other companies owned for investment purposes, in the cases specified in the Bank's Governance Rules.
- Verifies and approves the quarterly reports on the activity of the Management Board, including changes in the organizational and governance structure of the Bank made during the reporting period.
- On its own judgment may request from the Management Board to provide information or reports on each matter referring to the activity of the Bank.
- Performs other functions stipulated by law, in the Article of Association or other internal acts of the Banks, and gives opinion on each matter presented to it by the Shareholders General Meeting.

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

- Takes decisions on the performance of the bank policy and represents the Bank.
- Takes 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.
- Takes decisions on the appointment and dismissal of the chairperson and the deputy chairperson of the Management Board (if any), the Chief Executive Officer 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 Board.
- Proposes, through the Supervisory Board, 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 Management Board.
- 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 Management Board and the Supervisory Board 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 Heads of Divisions, 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.
- Takes decisions for changes in the organizational and governance structure of the Bank, consisting in opening and / or closing of fundamental and / or independent units in the structure of the Bank and for opening and closing of branches within the meaning of the Commercial Act.
- Determines the levels of risk appetite and risk tolerance.
- Performs efficient control on the decisions of the Assets and Liabilities Committee in regard to the liquidity risk management.
- Reviews the quarterly statements of the Assets and Liabilities Committee 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.

- Takes decisions on providing internal, large and other loans, when this is stipulated as per the regulatory acts or the internal acts of the Bank.
- Takes decisions on Banks receiving credits and credit lines and establishment of securities, including in favour of third parties.
- 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.
- Takes decisions on the incorporation of companies, acquisitions and disposal of shares and share participations.
- Takes decisions for exercising the rights of the Bank, arising from its participation in companies, related to increase or decrease of the capital, transformation, termination of the activity and liquidation of the company.
- Takes decision for appointing a procurator.
- Takes decision for establishment of other funds, except the mandatory ones, and determines the conditions for their use.
- Reports its activity before the Supervisory Board at least once on every three months, including changes in the organizational and governance structure of the Bank made during the reporting period.
- Immediately notifies the chairperson of the Supervisory Board about the occurrence of circumstances that may reasonably be considered to be of great significance for the Bank or its operations.
- Takes decision on all other matters related to the banking activity, if this is stipulated in a regulatory act, the Articles of Association, the Governance 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 Board.

4.5. Functions of the Audit Committee of the Bank are as follows:

- Informs the Management Board 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 Management Board within 7 days after the date of each approval for signing a contract for rendering the non-prohibited services, out of the audit and for each approval under Art. 66, para. 3 of the Independent Financial Audit Act.
- Responsible for the procedure for selection of auditor's companies, which together to perform the audit of the annual individual and consolidated financial statements of the Bank, recommends to the Management Board to propose to the Shareholders General Meeting the appointment of these audit companies, respectively postponement of the term for withdrawal of an audit company.
- 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.
- Recommends to the Management Board to propose to the General Meeting of the Shareholders the early release of each of the audit companies if there are reasons.

4.6. The functions of the Risk Committee, the Nomination Committee, the Remuneration Committee of the Bank are as follows:

- The Risk Committee provides advice to the Supervisory Board and the Management Board in connection with the overall risk strategy and the Bank's risk appetite, and its operation is detailed in the Governance Rules and Rules of Procedure of the Risk Committee of DSK Bank AD.
- The Nomination Committee nominates candidates for members of the Management Board, and its operation is detailed in the Governance Rules and Rules of Procedure of the Nomination Committee of DSK Bank AD.
- The Remuneration Committee provides the opportunity to make competent and independent decisions regarding remuneration policies and practices, as well as the incentives created through them for risk, capital and liquidity management, and its operation is detailed in the Governance Rules and Rules of Procedure of the Remuneration Committee of DSK Bank AD.

4.7. Functions of the Committees to the Management Board:

- The Assets and Liabilities Committee exercises control over the management of the Bank's assets and liabilities in order to achieve maximum return within the budgetary objectives and risk appetite approved by the Management Board, and its operation is detailed in the Governance Rules and Rules of Procedure of the Assets and Liabilities Committee of DSK Bank AD.
- The Investment Committee manages the investment program and the large expenses of the Bank in order to maximize the return on investment, as its operation is detailed in the Governance Rules and Rules of Procedure of the Investment Committee of DSK Bank AD.
- The Product Development, Pricing and Sales Committee manages and develops products, services and packages of products and services while optimizing their profitability for the Bank, in order to meet customer needs, maintain leadership positions, increase competitiveness and increase customer base, as its operation is detailed in the Governance Rules and Rules of Procedure of the Product Development, Pricing and Sales Committee of DSK Bank AD.
- The Credits and Limits Council is responsible for making decisions regarding ensuring the optimal balance of risk and benefit according to the banking strategy within the framework of lending to larger corporate clients and regulating the government and counterparty risk that the Bank assumes when concluding transactions with countries and financial institutions, as its operation is detailed in the Governance Rules and Rules of Procedure of the Credits and Limits Council of DSK Bank AD.
- The Work-out Committee is responsible for the management and restructuring of the Bank's non-performing loans, as its operation is detailed in the Governance Rules and Rules of Procedure of the Work-out Committee of DSK Bank AD.
- The Data and Analytics Committee is responsible for the management and development of the data received and processed in connection with the implementation of the overall activities of the Bank, of DSK Bank AD, as its operation is detailed in the Governance Rules and Rules of Procedure of the Data and Analytics Committee of DSK Bank AD.

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

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

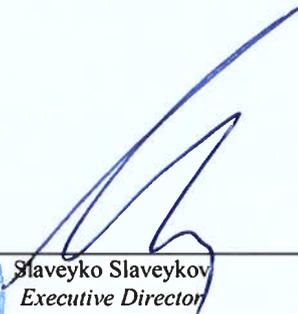
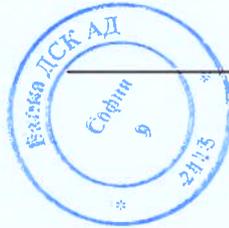
DSK Bank ensures the diversity in way of:

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

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



Tamás Hák-Kovács
Chief Executive Director



Slaveyko Slaveykov
Executive Director

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

PURPOSE

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

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

STRATEGY

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

The strategy is built on four pillars for future development:

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

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

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

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

ORGANIZATIONAL STRUCTURE, INFRASTRUCTURE, PRODUCTS:

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

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

POLICIES APPLIED IN REGARD TO THE MAIN AND AUXILIARY ACTIVITIES:

Client Services

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

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

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

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

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

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

MODERN PRODUCTS AND SERVICE CHANNELS

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

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

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

INTERNAL PROGRAMS AND INNOVATION INITIATIVES

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

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

SUSTAINABLE DEVELOPMENT AND CORPORATE SOCIAL RESPONSIBILITY

Ethics Code and Anti-Corruption Policy

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

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

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

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

Financial education and innovations

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

Early children development

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

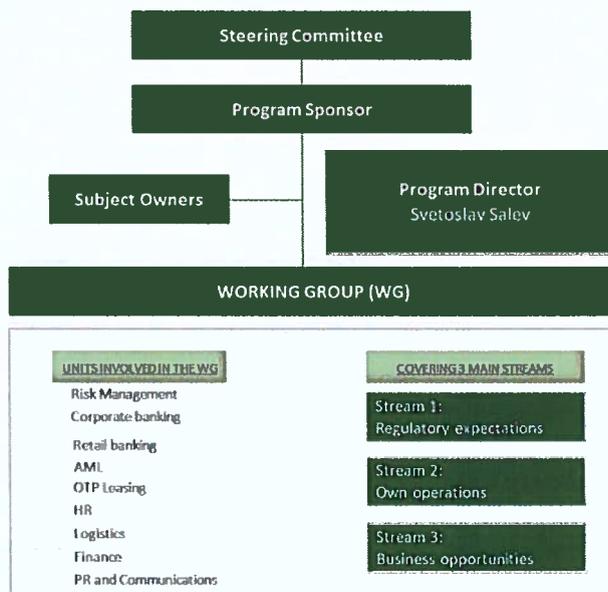
This year we celebrated 10 years of partnership under the motto "10 years together", along with several other joint initiatives. A child, from the foster families we take care of, was a trainee in DSK Bank for 6 months, we also sent the children gifts for the beginning of the school year and 1st of June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

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

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

Climate and Environmental risks

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



Steering Committee: Key governing body of the Program

Members:

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

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

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

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

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

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

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

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

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

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

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

DSK Bank Group's own emissions

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

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

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

* Motor vehicles biogen consumption collected separately since 2021

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

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

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

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

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

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

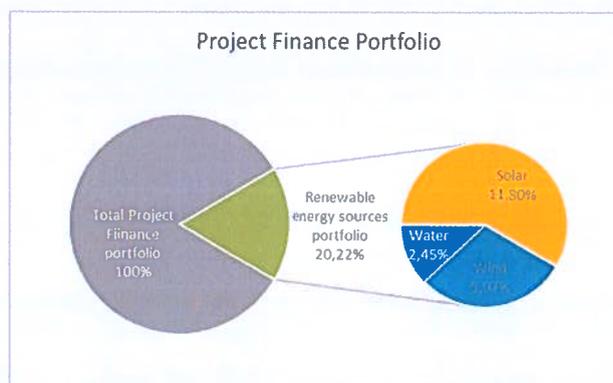
Under development is technical specification for launching a procedure for energy efficiency audit. Initially the audit is meant to cover part of the largest buildings – 3 in Sofia, 1 in Stara Zagora and 1 in Burgas. After the audit additional actions will be defined based on the conclusions – repairs,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

Responsible financing

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

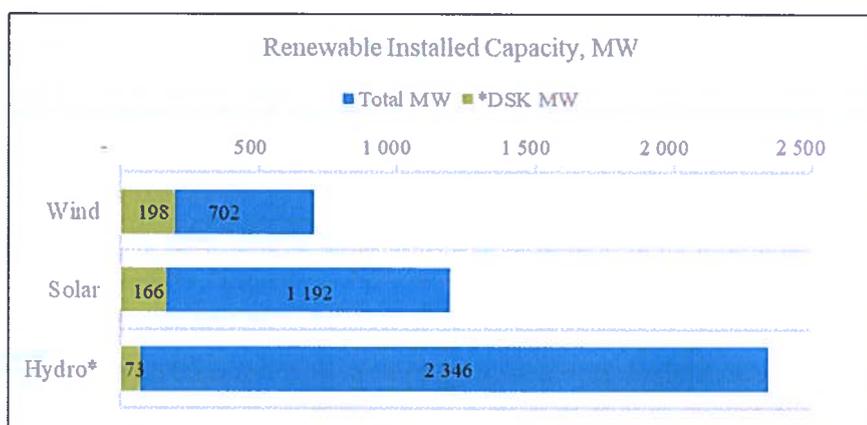
In 2021 we continued to support our business customers through financing renewable energy source projects, to ensure smooth transition to a low-carbon economy.

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



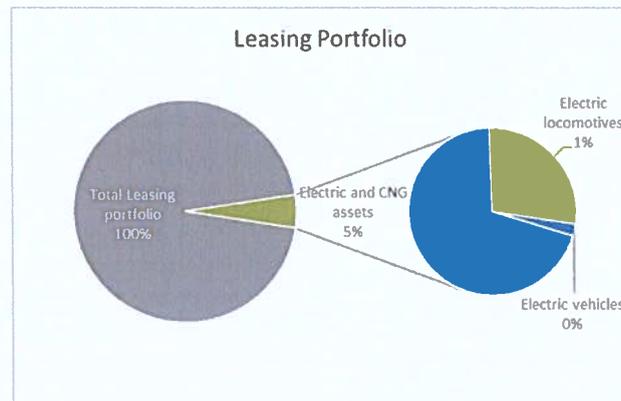
DSK Bank Group is well positioned in the Renewable sector, as the DSK Bank Group's share of financed renewables in MW represents significant part of the total installed MW in Bulgaria, in particular for wind and solar energy:

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



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

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



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

Scenario analysis and stress testing

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

ESG Risk assessment

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

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

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

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

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

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

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

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

ESG Risk Appetite Statement

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

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

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

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

- Shipment of oil or other hazardous substances in tankers which do not comply with IMO requirements.
- Mining, exploration and upgrading of shale gas in Europe.

- Coal mining using “Mountain Top Removal” technique.
- The keeping of animals for the primary purpose of fur production or any activities involving fur production.
- The manufacture, placing on the market and use of asbestos fibres, and of articles and mixtures containing these fibres added intentionally.
- The export of mercury and mercury compounds, and the manufacture, export and import of a large range of mercury added products.

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

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

KPIs

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

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

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

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

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

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

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

Scope 3 financed emissions

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

Protection of natural resources

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

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

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

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

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

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

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

Charity events with the participation of the employees

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

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

Support for cultural projects and town development projects

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

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

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

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

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

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

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

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

Support for other social projects

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

DSK Bank Group in its capacity of an employer

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

AWARDS

Last year DSK Bank Group has won several awards.

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

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

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

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

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

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

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

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

Tamás Hák-Kovács
Chief Executive Director



Slaveyko Slaveykov
Executive Director

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38, Oborishte str.
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Independent auditors' report

To the shareholders of

DSK Bank AD

Report on the Audit of the Consolidated Financial Statements

Opinion

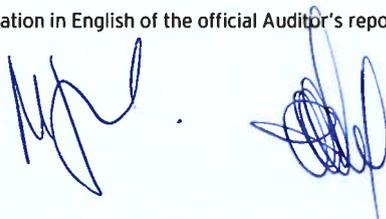
We have audited the accompanying consolidated financial statements of DSK Bank AD and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit and loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Basis for Opinion

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

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A member firm of Ernst & Young Global Limited

Ernst & Young Audit OOD,
seat and address of management in Sofia
Polygraphia Office Center
47A, Tsarigradsko Shose Blvd., floor 4
UIC: 130972874, VAT # BG130972874
BGN IBAN: BG48 UNCR 7000 1520 6686 91
SWIFT/BIC: UNCRBGSF with Unicredit Bulbank AD

Key Audit Matters

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
<p>Impairment of loans and advances to customers</p> <p>The Bank's disclosures about impairment of loans and advances to customers are included in Note 4(c) "Credit risk" and Note 20 "Loans and advances to customers" to the consolidated financial statements.</p> <p>Loans and advances to customers represent a significant part (55%) of the total assets of the Group as at 31 December 2021 with aggregate gross carrying amount of BGN 14 384 875 thousand and accumulated loss allowance of BGN 1 018 059 thousand. The Group applies impairment model based on expected credit losses ("ECL") in accordance with the requirements of IFRS 9 "Financial Instruments".</p> <p>The application of such an impairment model in the determination of loss allowance for loans and advances to customers requires Group's Management to exercise a significant degree of judgment due to the increased level of complexity, specifically with respect to quantifying expected credit losses as disclosed in Note 4(c). The key inputs and areas of judgement in the assessment of expected credit losses</p>	<p>In this area, our audit procedures included, among others:</p> <ul style="list-style-type: none"> • We obtained an understanding of the Group's impairment policy and process of determining the loss allowance for loans and advances to customers, including the models applied for calculation of ECL on collective and individual basis as well as whether the key assumptions and judgments used therein are in accordance with the requirements of IFRS 9. • We reviewed and assessed the adequacy and the consistency of application of the methodology and models used by the Group to identify loan losses in accordance with IFRS 9 requirements. • We obtained an understanding and assessed the internal controls at

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are related to the development of quantitative and qualitative criteria for

- identification of significant increase of credit risk (SICR) criteria for staging of loans to customers (Stage 1: Exposures with no SICR, Stage 2: Exposures with SICR but no objective evidence for impairment and Stage 3: Exposures with objective evidence for impairment);
- determining the probability of default/loss (PD/PL), the loss given default or loss (LGD/LGL) and the exposure at default or loss (EAD);
- incorporating forward looking information (FLI) of macro-economic factors considering multiple scenarios in ECL estimation.

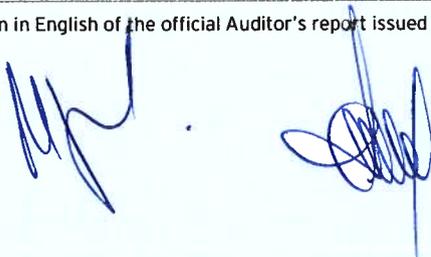
A higher degree of estimation uncertainty is inherent in calculating ECLs for loans and advances to customers in Stages 1 and 2, assessed for impairment collectively in view of the Group's availability of sufficient and adequate historical data from internal and external sources for back testing and calibrating the PD and LGD estimates in the impairment model. In addition, the Management is required to apply significant management judgment in determining ECLs for loans and advances to customers which are assessed for impairment individually depending on the customer's risk category and the credit product used, ranges of possible scenarios based on their outcomes for timing and amount of cash flows from future collections, including from the sale of respective collaterals.

In 2021 the social and economic consequences from the continuing crisis arising from the COVID-19 pandemic increased the estimation uncertainty of the ECL measurement. The Group has addressed the significant uncertainties from the pandemic environment via reassessing the assumptions for probability

entity level with respect to the development and application of the impairment models, including the model documentation and the update frequency and reasonableness of the parameters and macro indicators applied.

- We obtained an understanding and performed a walk-through of the processes and the key internal controls over the monitoring and loan loss allowance estimation of loans to corporate and retail clients in accordance with the requirements of IFRS 9 focusing on additional monitoring procedures and the result from the measures applied by the Group based on the specific consequences from COVID-19 and on any changes as a result of the calibration of the methodology for calculation of ECL. We involved our internal IT specialists to assess and test the IT general controls over these processes.
- We assessed the design and tested the operating effectiveness of the controls over the monitoring and assessment for impairment of loans and advances from customers' processes.
- We performed independent calculation, involving our credit experts, of the parameters applied in the loss allowance models, including review of the calculation logic for compliance with Group's impairment calculation models. For a sample of loans from different risk categories we have recalculated the amount of impairment based on the relevant input data.
- We analysed and assessed the adequacy of management judgments, involving our credit experts, in relation to probability of default/probability of loss (PD/PL) and the estimated amount of loss given

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of default (PD), the scenarios used in calculation of the ECL and enhancing its credit risk monitoring procedures to distinguish the cases/indications that are related to long-term financial difficulties of the borrowers from those that are derived from the pandemic and represent temporary liquidity difficulties.

Due to the significance of the loans and advances to customers as an item in the Bank's consolidated financial statements, and the complexity of the specific models and calculations, the large number of significant judgments and the inherent high degree of estimation uncertainty involved in the impairment model under IFRS 9, we have considered this matter as a key audit matter.

default/ loss given loss (LGD/LGL) in the context of the specifics of the Group's loan portfolio and the availability of the internal historical and forward-looking information for parameters development. In addition, we assessed for reasonableness the PD/PL and LGD/LGL calculations by examining support for the key assumptions used and data sources, including for consideration of the available historic information on the impacts arising from COVID-19 pandemic.

- We performed tests of details and analyses, on a sample basis, of loans and advances to customers, for which the Group has not identified objective evidence of impairment, in order to assess their adequate classification in the respective risk category (phase) by the Group.
- For a risk-based sample of loans and advances from customers that are subject to individual impairment assessment by the Group and focusing on those with the most significant potential impact on the consolidated financial statements (phase 3), we specifically assessed the Group's assumptions and judgments on the classification of these based on the criteria defined by the Group, including the impact from the consequences of the development of COVID 19 pandemic, as well as the realization of collateral in relation to our expectations and available market information.
- We performed subsequent events procedures focused on the development of the risk-based sample of loans and advances from customers, after the reporting period date to assess the consistency of the

	<p>Group's assumptions for the expected future cash flows.</p> <ul style="list-style-type: none">• We assessed the adequacy, completeness and relevance of the disclosures for the impairment of loans and advances to customers under the requirements of IFRS 9.
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Other Matter

The consolidated financial statements of the Group for the year ended 31 December 2020 were audited jointly by Deloitte Audit OOD and AFA OOD who expressed an unmodified opinion on those consolidated financial statements on 16 March 2021.

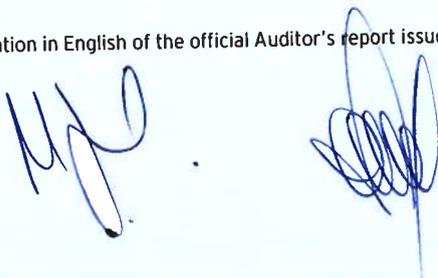
Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information, which we have obtained prior the date of our auditor's report, comprises the consolidated management report, including the corporate governance statement and the consolidated non-financial declaration prepared by management in accordance with Chapter Seven of the Accountancy Act, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless and to the extent explicitly specified in our report.

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

We have nothing to report in this regard.



Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

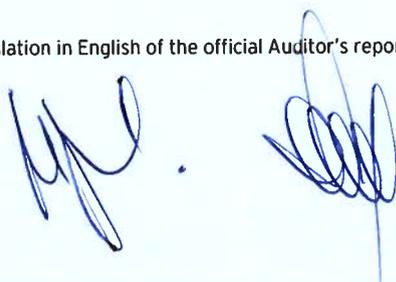
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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 and severally responsible for the performance of our audit and for the expressed by us audit opinion as per the requirements of the IFAA applicable in Bulgaria. In accepting and executing the joint audit engagement, in connection with which we report hereby, we also have followed the Guidance on Performing a Joint Audit issued on 13 June 2017 by the Institute of Certified Public Accountants in Bulgaria and the Commission for Public Oversight of Statutory Auditors in Bulgaria.

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Report on Other Legal and Regulatory Requirements

Additional Matters to be Reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, described above in the *Information Other than the Consolidated Financial Statements and Auditor's Report Thereon* section, in relation to the consolidated management report, including the corporate governance statement of the Group and the consolidated non-financial declaration, we have also performed the procedures added to those required under ISAs in accordance with the Guidelines on New and Expanded Auditor's Reports and Auditor's Communication of the professional organisation of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming opinions about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and in the Public Offering of Securities Act applicable in Bulgaria.

Opinion in connection with Art. 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, our opinion is that:

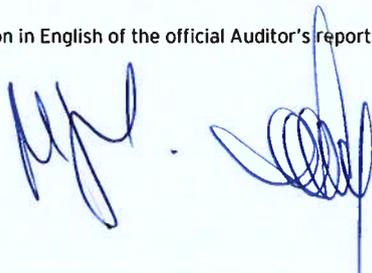
- a) The information included in the consolidated management report referring to the financial year for which the consolidated financial statements have been prepared is consistent with those consolidated financial statements.
- b) The consolidated management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act
- c) The corporate governance statement of the Group referring to the financial year for which the consolidated financial statements have been prepared presents the information required under Chapter Seven of the Accountancy Act and Art. 100 (m), paragraph 8 of the Public Offering of Securities Act.
- d) The consolidated non-financial declaration referring to the financial year for which the consolidated financial statements have been prepared is provided and prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

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

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

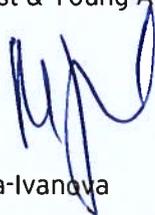
- Ernst & Young Audit OOD and AFA OOD were appointed as statutory auditors of the consolidated financial statements of DSK Bank Group for the year ended 31 December 2021 by the general meeting of shareholders held on 31 March 2021 for a period of one year.
- The audit of the consolidated financial statements of the Group for the year ended 31 December 2021 represents the first total uninterrupted statutory audit engagement

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- for that group carried out by Ernst & Young Audit OOD and five total uninterrupted statutory audit engagement for that group carried by AFA OOD.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report, provided to the audit committee of DSK Bank AD, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
 - We hereby confirm that we have not provided the prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act.
 - We hereby confirm that in conducting the audit we have remained independent of the Group.

Audit Firm Ernst & Young Audit OOD:



Milka Natcheva-Ivanova
Legal Representative and
Registered Auditor in charge of the audit

Audit Firm AFA OOD:



Renny Iordanova
Legal Representative and
Registered Auditor in charge of the audit

Sofia, Bulgaria

14 March 2022

Consolidated statement of profit or loss
For the year ended 31 December 2021

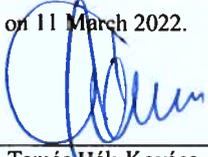
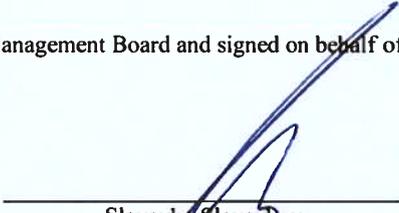
		2021	2020
<i>In thousands of BGN</i>			
	Note		
Interest income		628 510	633 645
Interest expense		<u>(15 344)</u>	<u>(14 872)</u>
Net interest income	4	<u>613 166</u>	<u>618 773</u>
Fee and commission income		347 079	295 789
Fee and commission expense		<u>(42 957)</u>	<u>(39 201)</u>
Net fee and commission income	5	<u>304 122</u>	<u>256 588</u>
Net trading income	6	24 883	191 088
Net income from other financial instruments at FVTPL	7	17 377	(1 936)
Net gains from realisation of financial assets measured at amortised cost	8	22 314	20 295
Net gain/ (loss) from foreign exchange		16 876	(162 260)
Other operating income, net	9	<u>18 804</u>	<u>19 163</u>
Operating income		<u>1 017 542</u>	<u>941 711</u>
Impairment losses on financial assets, net	10	(130 792)	(281 120)
Impairment gain/ (loss) on non-financial assets, net	11	689	(912)
Net income from provisions	31	2 164	10 865
Personnel expenses	12	(188 222)	(197 780)
Depreciation and amortisation	13	(63 740)	(80 713)
Other expenses	14	(175 441)	(201 556)
Profit on sale of subsidiaries	38	-	3 098
Share of profit of associates, accounted for using the equity method	37	<u>240</u>	<u>331</u>
Profit before tax		<u>462 440</u>	<u>193 924</u>
Income tax expense	15	<u>(45 903)</u>	<u>(18 403)</u>
Profit for the year		<u><u>416 537</u></u>	<u><u>175 521</u></u>

Profit for the year attributable to:

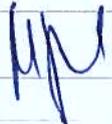
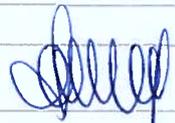
Owners of the parent	413 804	173 563
Non-controlling interest	2 733	1 958

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

The consolidated financial statements are authorised for issue from the Management Board and signed on behalf of DSK Bank AD on 11 March 2022.

 Tamás Hák-Kovács Chief Executive Director		 Slaveyko Slaveykov Executive Director
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Consolidated financial statements on which we have issued audit report dated 14 March 2022

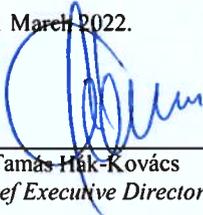
Audit company „Ernst and Young Audit“ OOD:	Audit company „AFA“ OOD:
	

Consolidated statement of comprehensive income
For the year ended 31 December 2021

	2021	2020
<i>In thousands of BGN</i>		
Profit for the year	416 537	175 521
<i>Items that may be reclassified subsequently to profit or loss</i>		
Movement in the investment revaluation reserve for debt instruments measured at fair value through other comprehensive income	(18 472)	13 371
Income tax related to OCI items that may be reclassified subsequently to profit or loss	3 286	(1 464)
	<u>(15 186)</u>	<u>11 907</u>
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Movement in revaluation reserve for equity instruments designated at fair value through other comprehensive income	882	239
Revaluation of land and buildings	44 521	-
Remeasurements of net defined benefit liability	(299)	(99)
Income tax related to OCI items that will not be reclassified subsequently to profit or loss	(4 489)	(51)
	<u>40 615</u>	<u>89</u>
Other comprehensive income for the year, net of tax	<u>25 429</u>	<u>11 996</u>
Total comprehensive income	<u>441 966</u>	<u>187 517</u>
Attributable to:		
Owners of the parent	439 233	185 559
Non-controlling interest	2 733	1 958

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

The consolidated financial statements are authorised for issue from the Management Board and signed on behalf of DSK Bank AD on 11 March 2022.


 Tamás Hák-Kovács
 Chief Executive Director




 Slaveyko Slaveykov
 Executive Director

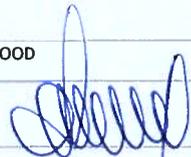
Consolidated financial statements on which we have issued audit report dated 14 March 2022

Audit company „Ernst and Young Audit“ OOD:	Audit company „AFA“ OOD
	

Consolidated statement of financial position
As at 31 December 2021

<i>In thousands of BGN</i>	Note	31-December-2021	31-December-2020
Assets			
Cash and current accounts with the Central Bank and other banks	16	3 959 884	3 741 532
Financial assets held for trading	17	143 362	63 111
Derivative financial instruments	17	33 459	62 769
Investments at fair value through profit or loss	21	6 538	172 193
Investments at fair value through other comprehensive income	21	1 725 597	2 002 223
Loans and advances to banks	18	1 915 161	2 393 813
Net receivables from finance lease	19	1 100 802	990 039
Loans and advances to customers	20	13 366 816	12 127 091
Investments at amortised cost	21	1 492 728	578 095
Current tax assets		10 076	15 381
Investments in associates	37	3 566	3 626
Goodwill	22	78 547	78 547
Investment property	23	19 411	19 854
Right-of-use assets	24	22 199	26 339
Property, plant and equipment	25	454 121	422 614
Intangible assets	26	79 290	91 101
Other assets	27	105 081	94 557
Total assets		<u>24 516 638</u>	<u>22 882 885</u>
Liabilities			
Deposits from banks	28	255 502	36 897
Derivative financial instruments	17	43 629	86 191
Deposits from customers	29	20 052 824	19 206 792
Loans from banks and financial institutions	28	203 554	54 220
Current tax liabilities		492	712
Lease liabilities	30	20 793	24 393
Provisions	31	83 462	86 885
Deferred tax liabilities	32	17 382	13 770
Other liabilities	33	140 842	118 013
Total liabilities		<u>20 818 480</u>	<u>19 627 873</u>

Consolidated financial statements on which we have issued audit report dated 14 March 2022

Audit company „Ernst and Young Audit“ OOD:	Audit company „AFA“ OOD
	

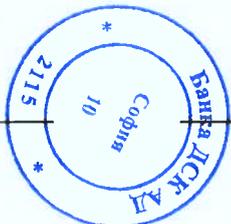
Consolidated statement of financial position (continued)

As at 31 December 2021

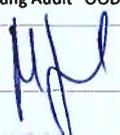
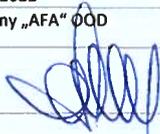
<i>In thousands of BGN</i>	Note	31-December-2021	31-December-2020
Shareholder's equity			
Share capital	34	1 328 660	1 328 660
Reserves	34	1 893 583	1 668 877
Retained earnings		461 194	245 244
Equity attributable to the owners of the parent		3 683 437	3 242 781
Non-controlling interest		14 721	12 231
Total shareholder's equity		3 698 158	3 255 012
Total liabilities and shareholder's equity		24 516 638	22 882 885

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

The consolidated financial statements are authorised for issue from the Management Board and signed on behalf of DSK Bank AD on 11 March 2022.

 Tamás Hák-Kovács <i>Chief Executive Director</i>		 Slaveyko Slaveykov <i>Executive Director</i>
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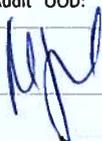
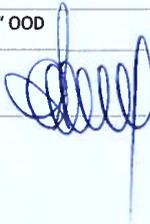
Consolidated financial statements on which we have issued audit report dated 14 March 2022

Audit company „Ernst and Young Audit“ OOD: 	Audit company „AFA“ OOD: 
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Consolidated statement of cash flows
For the year ended 31 December 2021

<i>In thousands of BGN</i>	Note	2021	2020
Cash flow from operating activities			
Profit before taxation		462 440	193 924
<i>Adjustments for:</i>			
Impairment losses on financial assets, net	10	130 792	281 120
Impairment (gain)/ loss on non-financial assets, net	11	(689)	912
Depreciation and amortization	13	63 740	80 713
Net gains from operations with investments		(42 260)	(189 152)
Net (gains)/ losses from foreign exchange		(16 876)	162 260
Net interest income	4	(613 166)	(618 773)
Dividends	9	(598)	(40)
Share of profit of associates		(240)	(331)
Profit on disposal of a subsidiary	38	-	(3 098)
Net reversal of provisions		(2 164)	(10 865)
Other non cash changes		9 011	14 154
Net cash flow used in operating activities before movements in operating assets and liabilities		(10 010)	(89 176)
Movements in operating assets			
(Increase)/ decrease in securities held for trading		(81 472)	138 788
Decrease in loans and advances to banks		790 060	590 743
Increase in loans and advances to customers		(1 388 137)	(320 209)
(Increase)/ decrease in finance lease receivables		(113 479)	41 667
Decrease in other assets		32 679	17 403
Movements in operating liabilities			
Increase/ (decrease) in deposits from banks		218 606	(40 660)
Increase/ (decrease) in loans from banks and financial institutions		149 453	(230 987)
Increase in deposits from customers		761 808	1 437 333
Increase in other liabilities		24 362	5 838
Cash generated from operations		383 870	1 550 740
Interest received		652 359	609 197
Interest paid		(9 978)	(8 141)
Tax paid		(38 773)	(30 316)
Net cash flow from operating activities		987 478	2 121 480

Consolidated financial statements on which we have issued audit report dated 14 March 2022

Audit company „Ernst and Young Audit“ OOD:	Audit company „AFA“ OOD:
	

Consolidated statement of cash flows (continued)
For the year ended 31 December 2021
(continued)

<i>In thousands of BGN</i>	Note	2021	2020
Cash flow from investing activities			
Acquisition of property, plant and equipment, and intangible assets net		(46 426)	(35 789)
Acquisition of investments in securities, net		(423 243)	(860 267)
Dividends received		898	518
Disposal of subsidiaries, net of cash	38	-	3 111
Net cash flow used in investing activities		<u>(468 771)</u>	<u>(892 427)</u>
Cash flow from financing activities			
Dividends paid		(158)	(2 171)
Repayment of the lease liabilities	30	<u>(7 597)</u>	<u>(11 146)</u>
Net cash flow used in financing activities		<u>(7 755)</u>	<u>(13 317)</u>
Net increase in cash and cash equivalents		<u>510 952</u>	<u>1 215 736</u>
Effect of foreign exchange rate changes		2 644	(2 739)
Cash and cash equivalents at the beginning of the year	36	<u>4 038 761</u>	<u>2 825 764</u>
Cash and cash equivalents at the end of the year	36	<u>4 552 357</u>	<u>4 038 761</u>

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

The consolidated financial statements are authorised for issue from the Management Board and signed on behalf of DSK Bank AD on 11 March 2022.



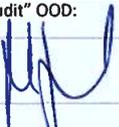
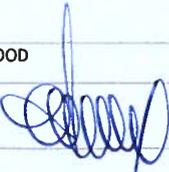
Tamás Hák-Kovács
Chief Executive Director





Slaveyko Slaveykov
Executive Director

Consolidated financial statements on which we have issued audit report dated 14 March 2022

Audit company „Ernst and Young Audit“ OOD:	Audit company „AFA“ OOD
	

Consolidated statement of changes in equity for the year ended 31 December 2021

In thousands of BGN

	Share capital	Statutory and other reserves	Revaluation reserve - land and buildings	Revaluation reserve from financial assets	Defined benefit pension reserve	Share-based payment reserve	Retained earnings	Total Equity attributable to the owners of the parent	Non-controlling interest	Total equity
Balance as of 1 January 2020 (Note 1(g))	1 327 482	1 225 197	113 674	36 707	(4 635)	-	356 083	3 054 508	15 158	3 069 666
<i>Total comprehensive income</i>										
Profit for the year	-	-	-	-	-	-	173 563	173 563	1 958	175 521
Other comprehensive income	-	-	-	12 095	(99)	-	-	11 996	-	11 996
Total comprehensive income	-	-	-	12 095	(99)	-	173 563	185 559	1 958	187 517
Transfer of revaluation reserve from land and buildings, net of tax	-	-	(300)	-	-	-	300	-	-	-
Distribution of profit for reserves	-	286 210	-	-	-	-	(286 210)	-	-	-
Distribution of dividends	-	-	-	-	-	-	-	-	(2 171)	(2 171)
Equity changes as a result of merger of subsidiaries (Note 38)	1 178	-	-	28	-	-	1 508	2 714	(2 714)	-
Balance as of 31 December 2020	1 328 660	1 511 407	113 374	48 830	(4 734)	-	245 244	3 242 781	12 231	3 255 012
<i>Total comprehensive income</i>										
Profit for the year	-	-	-	-	-	-	413 804	413 804	2 733	416 537
Other comprehensive income	-	-	40 069	(14 341)	(299)	-	-	25 429	-	25 429
Total comprehensive income	-	-	40 069	(14 341)	(299)	-	413 804	439 233	2 733	441 966
Transfer of revaluation reserve from land and buildings, net of tax	-	-	(1 557)	-	-	-	1 557	-	-	-
Transfer of share-based payment reserve	-	-	-	-	-	1 361	-	1 361	-	1 361
Distribution of profit for reserves	-	197 659	-	-	-	-	(197 659)	-	-	-
Distribution of dividends	-	-	-	-	-	-	-	-	(185)	(185)
Increase of investments in subsidiaries	-	32	-	-	-	-	26	58	(58)	-
Other movements	-	4	-	-	1 778	-	(1 778)	4	-	4
Balance as of 31 December 2021	1 328 660	1 709 102	151 886	34 489	(3 255)	1 361	461 194	3 683 437	14 721	3 698 158

The consolidated statement of changes in equity is to be read together with the Notes from 1 to 41 forming part of the consolidated financial statements.
The consolidated financial statements are authorised for issue from the Management Board and signed on behalf of DSK Bank AD on 11 March 2022.


Tamás Hájkó Kovács
Chief Executive Director


Slavejko Slavejkor
Executive Director



Consolidated financial statements on which we have issued audit report dated 14 March 2022
Audit company „AFA“ OOD



1. Basis of preparation and legal status and governance

(a) Legal status and governance

DSK Bank AD (The "Bank") was incorporated on 2 March 1951 in Bulgaria as a centralised deposit accepting institution under the name "State Savings Bank". In 1998, when the Act of DSK transformation was passed, DSK Bank EAD (The "Bank") was transformed into a commercial bank and is allowed to conduct all the transactions stated in art.1 par.2 from the Banking Law in force as of the date of transformation. Later the Bank receives a full banking license to operate as a commercial bank by order No.220882 of 26 September 2002 issued by the Bulgarian National Bank.

On 26 January 1999 Sofia City Court registered the State Savings Bank as a solely owned joint stock company "DSK Bank", 100% owned by the state. In 2001 pursuant to a court decision the Bank has been transformed to a joint stock company with its capital divided between the Council of Ministers –75% and the Bank Consolidation Company AD – 25%.

On 29 November 2002 following a decision of the Sofia City Court the Bank Consolidation Company acquired 100% of the share capital of DSK Bank EAD.

On 29 October 2003 following a decision of the Sofia City Court OTP Bank, incorporated in Hungary, acquired 100% of the share capital of DSK Bank EAD.

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

On 30 April 2020 the Bank issued new shares in favour of the non-controlling shareholders of the transforming bank Expressbank AD (see also Note 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 2021 those charged with governance are the Supervisory Board and the Audit Committee.

As of 31 December 2021 members of the Supervisory Board are: László Bencsik – Chairman of the Supervisory Board; László Wolf, Violina Marinova, Gábor Kuncze, Anthony Radev, Attila Turkovits and Krisztián Selmeczy – members of the Supervisory Board.

As of 31 December 2021 the Management of the Bank is represented by the Management Board composed of 7 (seven) members, namely: Tamás Hák-Kovács – Chairman of the Management Board and CEO; Diana Miteva, Slaveyko Slaveykov, Arnaud Leclair, Yuriy Genov, Boyan Stefov and Dorothea Nikolova – Members of the Management Board and Executive Directors; Mihail Komitski– Member of the Management Board and Head of division.

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

An Audit Committee is functioning within the Bank and is in charge of monitoring the work of external auditors, internal audit performance, risk management, accounting activities and financial reporting. As of 31 December 2020, the Audit Committee is composed of: Chairman - Dimitar Bazlyankov; members - Zoltan Tuboly and Daniela Petrova.

These consolidated financial statements comprise DSK Bank AD and its subsidiaries listed in Note (i)(3) below (together referred to as the Group).

(b) Going concern

The management has made an assessment of the ability of the Group to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Group ability to continue as a going concern. Despite the continuing spread of COVID-19 and the war conflict between Russia and Ukraine started after the end of the reporting period and unfolding as of the date of approval of these financial statements, the Group continues to discharge its liabilities as they become due, maintain liquidity and meet capital requirements. Therefore, the financial statements continue to be prepared on the going concern basis.

(c) COVID-19

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

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

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

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

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

(d) Statement of compliance and representation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) effective from 1 January 2021 and adopted by the Commission of European Union (EU). IFRSs adopted by the EU is the commonly accepted name of the frame – accounting base equivalent to the frame adopted with the definition of §1, p. 8 of Supplementary provisions of Accounting Act under the name International Accounting Standards (IAS).

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

(e) Basis of measurement

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

(f) Functional and presentation currency

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

(g) Comparative information

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

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

Comparative information in these consolidated financial statements has been restated as described below.

Consolidated statement of profit or loss

In order to ensure better presentation, the Group reclassified BGN 10 080 thousand from “Other operating income, net” to “Net gains from realisation of financial assets measured at amortised cost” for the year ending 31 December 2020. The amount represents income from repayment of loans and advances to customers, that were written-off in prior periods.

Consolidated statement of financial position

The Bank revised the separate presentation of the receivables under factoring agreements. Due to the fact that such receivables have similar characteristics with the loans granted to customers, in these consolidated financial statements the receivables under factoring agreements, which were previously presented separately in the statement of financial position as of 31 December 2020, have been reclassified to the “Loans and advances to customers” item.

Additionally, the Group elaborated on the presentation of assets in the statement of financial position and as a result, investments in securities have been split according to their measurement basis and presented in the order of their liquidity.

The reclassifications described above have had the following effects on the consolidated statement of financial position as of 31 December 2020:

	31-December- 2020 before reclassification	31-December- 2020 reclassified
<i>In thousands of BGN</i>		
Assets		
Investments at fair value through profit or loss	-	172 193
Investments at fair value through other comprehensive income	-	2 002 223
Loans and advances to customers	11 947 992	12 127 091
Investments in securities	2 752 511	-
Investments at amortised cost	-	578 095
Receivables under factoring agreements	179 099	-
Total assets	14 879 602	14 879 602

The Bank believes that the reclassifications described above do not have a material effect on the information presented in the consolidated statement of financial position as of the beginning of the previous year. Consequently, the 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.

Consolidated statement of changes in equity

In 2020 the Bank presented “Cost of hedging” as a separate component of equity in the statement of changes in equity. This component included the hedging gains and losses on debt instruments measured at fair value through other comprehensive income, which were designated as hedged items. The hedging relationship is defined as a fair value hedge. The gains and losses presented under the “cost of hedging” heading, reflect the change in fair value of hedged items, and therefore the Bank has considered more appropriate to reclassify such gains and losses to become an integral part of the revaluation reserve from financial assets.

The reclassifications described above have had the following effects on the consolidated statement of changes in equity for the year ending 31 December 2020:

	Revaluation reserve from financial assets	Cost of hedging	Revaluation reserve from financial assets
	before reclassification	before reclassification	reclassified
Balance as of 1 January 2020	52 727	(16 020)	36 707
Other comprehensive income	21 708	(9 613)	12 095
Total comprehensive income	21 708	(9 613)	12 095
Equity changes as a result of merger of subsidiaries (Note 38)	28	-	28
Balance as of 31 December 2020	74 463	(25 633)	48 830

(h) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Management discusses with the Group Audit Committees the development, selection and disclosure of the Group's critical accounting policies and estimates, and the application of these policies and estimates.

COVID-19 Pandemic Considerations

As described in Note 1c above, on March 11, 2020, COVID-19 was declared a global pandemic by the World Health Organization. As a result of the heightened uncertainty associated with the unprecedented nature of the COVID-19 pandemic, developing reliable estimates and applying judgment has become even more challenging. ECL accounting has become particularly difficult in the current circumstances and requires significant judgment. The ECL model is forward-looking and is based on a probability-weighted approach. Measurement of ECLs at each reporting period reflects reasonable and supportable information about past events, current conditions, and forecasts of future events and economic conditions. During this period of greater economic uncertainty, it is very difficult to forecast future events and the macroeconomic inputs used in ECL modelling. Determining macroeconomic scenarios and assigning probabilities to these scenarios requires significant judgment. The Bank applies expert credit judgment to adjust modelled ECL results when it becomes evident that known or expected risk factors and information were not considered in the credit rating and modelling process. As a result of COVID-19 and the recent economic downturn, significant measurement uncertainty exists in determining ECLs, especially regarding key inputs used in the model.

Determination of control over investment and pension funds

The Group acts as a fund manager to a number of investment funds - DSK Global Defensive Companies, DSK Standard, DSK Euro Active, DSK Balance, DSK Growth, DSK Stability – European Equities, DSK Stability – German Equities, DSK Alternative, DSK Alternative 1, DSK Alternative 2, DSK Global Companies, DSK Dynamics, DSK_OTP Premium Mix, DSK Horizon 2030, DSK Horizon 2035 and DSK Horizon 2040. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the fund (comprising any carried interest and expected management fees) and the investors' rights to remove the fund manager. For all funds managed by the Group, the investors are not able to vote to remove the fund manager without cause, and the Group's aggregate economic interest is insignificant. As a result, the Group has concluded that it acts as agent for the investors in all cases, and therefore has not consolidated these funds.

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

Determining control over companies with no equity participation

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

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

Expected credit losses from financial assets

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

Accounting for acquisition of subsidiaries

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

Fair value of financial instruments, not traded on active markets

In case when fair values of financial assets and liabilities in the statement of financial position cannot be obtained from active markets, these are defined through different measurement techniques using models. The basic data for these models is extracted from indicators observed where possible on financial markets; otherwise assumptions are made for establishing of fair values. These assumptions take in consideration factors related to liquidity, volatility for long – term derivatives and discount ratios, pre – term repayments and probabilities of default for asset – backed securities (Note 3 (f)). The past 2021 year was marked again by the global COVID-19 pandemic. The leading markets in the USA and EU recovered the losses after the initial shock due to COVID-19 and surged during the year. Central banks continued to support the markets and economies while there was an increase in the expectations that key interest rates will increase and the quantitative easing programs will be ceased. Inflation was a hot topic and it is expected to remain so in the next year as well. Markets movement is a function of many market participants' expectations – what social and economic processes and trends will be at the heart of the future market and companies performance. With the advent of various vaccines and vaccination plans it is expected that the impact and risks related to COVID-19 will fade away with time.

Revaluation of land and buildings

The Bank applies the revaluation model to land and buildings using the services of licensed appraisers to perform the valuations (Note 25). The appraisers use appropriate valuation methods and techniques using observable market data, to the extent such data is readily available and accessible. When there are significant non-observable inputs in the valuation model, the fair value will be sensitive to any changes of those inputs. In addition, the COVID-19 pandemic imposes significant uncertainty on valuation results. Management has concluded that the real estate market prices have not been impacted significantly by the spread of the COVID-19 pandemic during the year. Still, the future impact of COVID-19 on the real estate market, if any, is unknown. If such impact was known and had been taken into consideration in performing the fair value appraisal, the results might have differed from those incorporated in these financial statements.

Provisions for litigation settlements

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

Impairment of goodwill and intangible assets

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

(i) Basis of consolidation

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

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

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

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

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

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

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

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

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

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

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

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

(1) Accounting for business combinations

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

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

Recognition principles

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

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

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

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

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

Goodwill

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

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

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

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

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

The Group has selected to apply the so called "pooling of interests method" in accounting for common control transactions, including merger of subsidiaries that have been consolidated prior to the merger (see Note 38). Under this method, the carrying amounts of assets and liabilities of the merging company as per the consolidated financial statements become assets and liabilities of the successor entity (the Bank), while the consolidated financial statements remain unchanged after the merger. When the non-controlling shareholders of the merging entity become shareholders in DSK Bank, it is accounted for as a transaction between owners. The Group continues to report the goodwill recognized on the acquisition of the merging subsidiary, however allocated to the already united (merged) cash generating unit.

(3) *Subsidiaries*

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

As of 31 December 2021 and 2020 DSK Bank has the following fully consolidated subsidiaries:

	Main activity	Ownership interest %	
		31-Dec-2021	31-Dec-2020
DSK Tours EOOD	Tour operator and agent	100.00%	100.00%
DSK Rodina Pension Company AD	Pension fund management	99.85%	99.75%
DSK Asset Management AD	Investment scheme management	66.00%	66.00%
DSK Trans Security EAD *	Incasso, transport and security of cash	100.00%	100.00%
DSK Leasing AD **	Finance lease	60.02%	60.02%
DSK Mobile EAD	Marketing, development and implementation of information systems	100.00%	100.00%
DSK Dom EAD	Credit intermediary	100.00%	100.00%
OTP Factoring Bulgaria EAD	Factoring of receivables	100.00%	100.00%
OTP Leasing EOOD	Finance lease	100.00%	100.00%
Regional Urban Development Fund AD	Financing of urban development projects	52.00%	52.00%

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

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

(4) Subsidiaries acquired with a view for resale

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

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

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

(5) Associates

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

DSK Bank owns 25% of the equity in Cash Services Company and has significant influence over the financial and operating policies of the company (Note 37).

2. Significant accounting policies

(a) Interest income and expenses recognition

In the consolidated statement of profit or loss interest income and expenses include:

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

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

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

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

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

Interest revenue on receivables with risk Stage 3 and purchased credit-impaired receivables including with delays in payments over 90 days on individual assessment basis with credit impairment based on unwinding when the receivable is expected to be covered by the contractual cash flows from collateral or other cash flows.

For these financial assets, the Group recognizes interest on the basis of the discounted unwinding cash flows by accruing an adjustment for the difference between the contractually accrued interest on the basis of EIR on the gross value of the financial asset and the difference between the present values of the unwinding cash flows in the separate reporting periods discounted with the EIR. The adjustment is reported in the income statement as a decrease of interest income.

(b) Foreign currency transactions

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

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

(c) Fees and commissions

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

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

Performance obligations and revenue recognition policies

Fee type	Nature and timing of satisfaction of performance obligations, and the significant payment terms	Revenue recognition under IFRS
Fees and commissions related to payment transactions	<p>The Group provides to its customers a variety of services, related to withdrawals and depositing funds into bank accounts, payments in local and foreign currency, according to which different fees are applied.</p> <p>In the case of transaction – based fees (for example in the case of cash withdrawal either a POS/ATM payment fee or a fee for cash withdrawal in the Group’s offices is charged, etc.) the fee is due immediately after the transaction takes place or once per month. The fee is usually defined in % of the transaction amount with a pre – defined fixed minimum amount.</p> <p>For services resulting in bank transfer of money, the fee is charged when the transaction takes place. These fees are defined in fixed amount or in %.</p> <p>The Group performs a regular pricing review of applicable fees and commissions.</p>	<p>Transaction-based fees are charged when the transaction takes place or monthly at the end of the month.</p>
Fees and commissions related to credit deals	<p>The Group offers a number of account management services for both retail and companies, also provides its clients with various types of credit cards charged at differentiated levels.</p> <p>Fees related to these services are mainly connected with account management, credit card issuing, annual bank card fees and other fees for usual account services.</p> <p>Annual bank card fees are defined as fixed amount depending on the card type.</p> <p>The Group performs a regular pricing review of applicable fees and commissions.</p>	<p>Fees for current account management services are on a monthly basis.</p> <p>Fees on one – off services are charged at the moment of service delivery.</p>
Fee type	Nature and timing of satisfaction of performance obligations, and the significant payment terms	Revenue recognition under IFRS
Fees and commissions related to deposit deals	<p>The Group offers a wide range of account management services to both individuals and enterprises, for which respective fees are charged, in addition they are provided with various debit cards charged differently.</p> <p>Fees related to these services are mainly connected with account opening and closing fees, management fees, online banking, debit card issuing, monthly fees for debit card services and other fees for usual account services.</p> <p>Fees for current account management services are charged to the customer on a monthly basis. They are usually fixed to an amount depending on the package program or the category of the client.</p> <p>Monthly and annual fees on bank cards are set in fixed amount. They depend on the type of the bank card.</p> <p>Fees for one – off services of occasional type are charged in the moment the client makes use of the service. These fees can be fixed or determined in %.</p> <p>The Group regularly reviews applied fees.</p>	<p>Fees for current account management services are on a monthly basis.</p> <p>Fees on one – off services are charged at the moment of service delivery.</p>

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Other fees and commissions	Fees reported in the “Other fees” category are fees for safekeeping of money or valuables in the safe boxes of the public treasury issuing of bank certificate, issuing of bank reference, photocopies of documents, etc.	Long – term service fees related to the period the client takes benefit of this service.
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These fees concern long – term services provision (bank safekeeping) or one – off administrative services.	One – off fees are charged on the moment of service delivery.
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Fees and deductions related to asset management of DSK Rodina are reported in this category. They include fees from security contributions, initial charges, investment fees and others.	Revenues are recognized along the time, as the contract progress is measured on the basis of time elapsed (on a linear basis - monthly).
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Fees and deductions related to asset management of Group Funds are fixed in % and are defined according to the local legal requirements and the rules of procedure of the respective pension fund.

(d) Net trading income

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

(e) Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets (including property, plant and equipment) are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

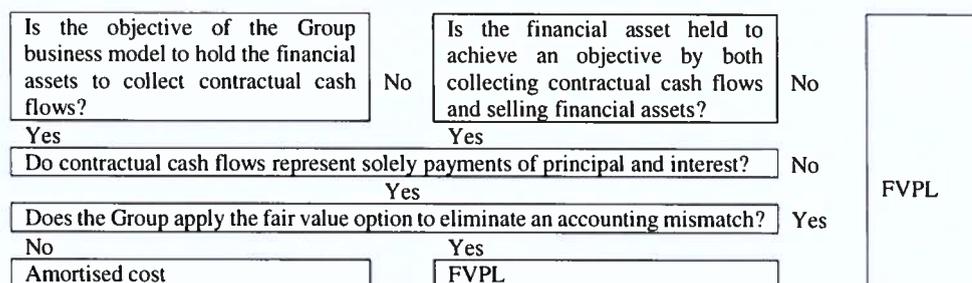
The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

(f) Financial instruments

(1) Classification

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

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



Business model for financial assets management

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

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

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

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

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

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

(2) *Recognition*

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

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.

The change in fair value of assets measured at fair value, between the trade date and the settlement date, is recognized in profit or loss, or in other comprehensive income, as applicable, depending on the asset category under IFRS 9.

Loans and receivables from customers are recognized when the funds are transferred to the customers. Deposits received are recognized when the funds are transferred to the Bank.

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

Assets to be acquired and liabilities to be incurred as a result of a firm commitment to purchase or sell goods or services are generally not recognised until at least one of the parties has performed under the agreement. Further details of the Bank's policy are provided in 2(k) Loans and advances and 2(l) Receivables under factoring agreements.

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

(3) *Initial measurement*

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

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

The Group has reported its financial liabilities in all relevant items of the Statement of financial position, except for "Provisions" and "Deferred tax liabilities", as well as "Liabilities to personnel and management" and "Deferred income", which are part of the "Other liabilities" item.

(4) *Subsequent measurement*

Amortised cost measurement

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

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

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

Fair value measurement

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

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

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

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

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

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

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

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

Fair value measurement through other comprehensive income

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

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

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

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

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

Fair value measurement through profit or loss

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

(5) ***Derecognition***

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

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

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

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

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

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

(6) *Offsetting*

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

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

(7) *Impairment of financial assets*

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

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

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

When assessing credit risk, the Group classifies loans granted in stages depending on the level of the existing risk, as follows:

- ✓ Stage 1 - includes performing loans without a significant increase in credit risk after initial recognition. The impairment of these assets is based on the probability of default of the debtor over the next 12 months or for a shorter period if the life of the instrument is less than one year;
- ✓ Stage 2 - includes assets with a significant increase in credit risk after initial recognition. In this case, the expected credit losses are calculated over the life of the asset;
- ✓ Stage 3 - includes assets, the substantial part of which overdue for more than 90 days and for which the probability to be repaid in full is considered by the Bank very low. The expected credit losses for these instruments are also calculated over their entire life.

- ✓ Purchased or originated credit-impaired (POCI) financial assets – these assets are credit-impaired on their initial recognition. With respect to them, the Group recognizes cumulative changes in the expected credit losses over the entire life of the instrument subsequent to initial recognition.

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

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

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

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

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

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

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

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

(8) *Reclassification*

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

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

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

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

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

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

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

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

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

(9) *Modification*

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

- The gross carrying amount of the financial asset shall be recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets);
- The adjustment to the gross carrying amount is the difference between the present value of the modified cash flow discounted to the agreed EIR and the present value of the modified cash flow on the recalculated new EIR. This adjustment is reflected in a corrective account and a one-time effect on profit or loss and is amortized as interest income/expense over the remaining term of the modified financial asset.

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

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

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

(10) *Purchased credit-impaired financial assets*

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

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

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

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

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

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

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

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

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

(g) Cash and cash equivalents

For the purposes of the statement of cash flows, 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 original maturity of up to three months, gross of impairment.

(h) 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.

(i) 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 (see (d)(1) above).

(j) Derivatives

The Group uses derivatives as forward, futures, swap and option deals to manage an exposure to market risk or for trading. All derivatives are recognised as financial assets held for trading or financial liabilities at the trade date. The changes in market value of derivatives are recognised in the Statement of profit or loss. For derivatives designated as hedging instruments see further below.

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

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

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

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

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

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

- The hedging relationship consists only of eligible hedging instruments and eligible hedged items;
- At the inception of the hedging relationship there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess whether the hedging relationship meets the hedge effectiveness requirements (including its analysis of the sources of hedge ineffectiveness and how it determines the hedge ratio);
- The hedging relationship meets all of the following hedge effectiveness requirements: there is an economic relationship between the hedged item and the hedging instrument; the effect of credit risk does not dominate the value changes that result from that economic relationship; and the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. However, that designation shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness (irrespective of whether recognised or not) that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting.

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

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

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

(k) Loans and advances

In addition to the information presented in Note 2(e)(3), loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near future term. They include loans and advances to banks and loans and advances to customers.

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

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured in accordance with the business model and the result from the test whether the contractual cash flows represent solely payments of principal and interest (SPPI test).

(l) Receivables under factoring arrangements

In addition to the information presented in Note 2(e)(3), upon initial recognition, receivables under factoring contracts are recognised at fair value, including costs directly attributable to the acquisition of the financial asset. Subsequently, receivables are carried at amortised cost, less any costs of impairment. Factoring receivables are derecognised when the derecognition criteria applicable to financial assets are met.

Non-recourse factoring receivables

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

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

Recourse factoring receivables

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

(m) Property, plant and equipment

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

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

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

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

The annual rates of depreciation used by the Group are as follows:

	%
Buildings	1-4
Leasehold improvements	10-34
Machines and equipment	8-33
Motor cars	12,5-25
Vehicles (without motor cars)	10-25
Computers, according to their class and useful life	15-50
Fixtures and fitting and other depreciable fixed assets	15-50

DSK Operative Leasing EOOD leases assets (machinery and equipment and vehicles) under operating lease agreements. Such assets are depreciated over the term of the respective lease agreement.

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

In 2021 the Group performed a review of the useful lives of property, plant and equipment, as a result of which the depreciation rates of computers and other IT equipment (communication equipment, printers, servers and other) were revised. The effect from the change in the statement of profit or loss for 2021 represents a decrease of depreciation expenses by BGN 3 074 thousand.

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

(n) Investment property

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

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

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

(o) Intangible assets

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

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

The annual rates of amortization are as follows:

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

In 2021 the Group performed a review of the useful lives of intangible assets, as a result of which the amortization rates of software and licenses were revised. The effect from the change in the statement of profit or loss for 2021 represents a decrease of amortization expenses by BGN 764 thousand.

An intangible asset is derecognized from the statement of financial position when it is permanently retired from active use and no future benefits are expected from its use, or it is sold. The gain or loss on sale 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 Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

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

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

Impairment losses are recognised in profit or loss statement. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed.

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

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

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

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

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

- (a) the amount of the initial measurement of the lease liability;
- (b) any lease payments made at or before the commencement date, less any lease incentives received;
- (c) any initial direct costs incurred by the lessee; and
- (d) an estimate of costs to be incurred by the Group in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

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

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

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

- (a) fixed payments, less any lease incentives receivable;
- (b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- (c) amounts expected to be payable by the lessee under residual value guarantees;
- (d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- (e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

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

- (a) less any accumulated depreciation and any accumulated impairment losses; and
- (b) adjusted for any remeasurement of the lease liability.

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

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

- (a) increasing the carrying amount to reflect interest on the lease liability;
- (b) reducing the carrying amount to reflect the lease payments made; and
- (c) remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

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

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

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

- (a) short term leases - up to 12 months; and
- (b) leases for which the underlying asset is of low value. For the purpose of the standard low-value assets are up to BGN 10 000.

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

The effects of lease contracts of the Group as lessee are disclosed in Notes 4, 13, 14, 24 and 30.

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

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

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

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

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

Minimum lease payments

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

Initial and subsequent measurement

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

(r) Assets acquired from collaterals

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

(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 cost and net realizable value. For this reason, annually, as at the date of Bank's financial statements, an estimation of the net realizable value of these assets is performed based on the most reliable existing data at the valuation date.

(t) Provisions

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

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

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

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

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

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

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

(u) Capital and reserves

(1) Share capital

The share capital is presented at the par value of the shares issued and subscribed by the Bank.

(2) Reserves

Reserves are comprised of legal and other reserves and retained earnings, revaluation reserves of financial assets, revaluation reserve of properties, defined benefit pension reserve and share-based payment reserve.

More information for the Group's reserves is provided in Note 34.

(v) Deposits

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

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

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

(w) Contingent liabilities

Contingent liabilities are:

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

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

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

(x) 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.

(y) Employee benefits

(1) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligations to pay any further amounts. The Government of Bulgaria is responsible for providing pensions in Bulgaria under a defined contribution pension plan. The Group's contributions to the defined contribution pension plan are recognised as an employee benefit expense in statement of profit or loss in the periods during which services are rendered by employees.

(2) Defined benefit plans

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

The Group has obligation to pay certain amounts to each employee who retires with the Group in accordance with Art.222, § 3 of the Labour Code in Bulgaria. According to these regulations in the LC, when a labour contract of a company's employee, who has acquired a pension right, is ended, the Group is obliged to pay compensations amounted to two gross monthly salaries. In case the employee's length of service in the company, or in the group to which the company belongs, equals to or is greater than 10 or more years, as at retirement date, then the compensation amounts to six gross monthly salaries. If the employee has been working continuously for DSK Bank for certain period the Collective Labour Contract adopts the next compensations: five years – the severance payment is two gross monthly salaries; from five to ten years – the severance payment is three gross monthly salaries; from ten to fifteen years – the severance payment is seven gross monthly salaries; more than fifteen years – the severance payment is eight gross monthly salaries. The Management of the Group estimates the approximate amount of the potential expenditures for every employee based on a calculation performed by a qualified actuary using the projected unit credit method as at the statement date.

The estimated amount of the current year obligation and the main assumptions, on the base of which the estimation of the obligation has been made, is disclosed to the financial statements in Note 31.

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

(3) *Termination benefits*

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

(4) *Short-term employee benefits*

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

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

(z) **Share-based payments**

The Bank recognises the services received or acquired in a share-based payment transaction as the services are received. The Bank recognises a corresponding increase in equity if the services were received in an equity-settled share-based payment transaction, or a liability if the services were acquired in a cash-settled share-based payment transaction.

For equity-settled share-based payment transactions, the Bank measures the services received, and the corresponding increase in equity, directly, at the fair value of the services received, unless that fair value cannot be estimated reliably. If the Bank cannot estimate reliably the fair value of the services received, the Bank measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

For cash-settled share-based payment transactions, the Bank measures the services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Bank remeasures the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

For share-based payment transactions, where the Bank is the receiver of services, which are settled based on shares of the parent company, the Bank measures in its separate financial statements the services received as either an equity-settled or a cash-settled share-based payment transaction by assessing: (a) the nature of the awards granted, and (b) its own rights and obligations. The Bank measures the services received as an equity-settled share-based payment transaction when:

- (a) the awards granted are its own equity instruments, or equity instruments of the parent company, or
- (b) the Bank has no obligation to settle the share-based payment transaction.

The Bank subsequently remeasures such an equity-settled share-based payment transaction only for changes in non-market vesting conditions. In all other circumstances, the Bank measures the services received as a cash-settled share-based payment transaction.

(aa) 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 IFRS 4 Insurance Contracts “*Extension of the Temporary Exemption from Applying IFRS 9*” adopted by the EU on 15 December 2020 (effective for annual periods beginning on or after 1 January 2021);
- 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).

The adoption of these amendments to the existing standards has not led to any material changes in the Group’s financial statements.

The amendments resulting from the Interest Rate Benchmark Reform — Phase 2 are related to financial reporting issues, which may arise from discontinuance of the use of a certain interest rate benchmark or its replacement with an alternative one. The Bank uses benchmark rates in its operating activity and follows an action plan approved by management which is disclosed in Note 3b (1).

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

At the date of authorisation of these consolidated financial statements, the following new standards, amendments to existing standards or interpretations are issued by IASB and adopted by the EU, but are not yet effective:

- Amendment to IFRS 16 Leases *Covid 19- Related Rent Concessions beyond 30 June 2021*, adopted by the EU on 30 August 2021 (effective for annual periods beginning on or after 31 March 2021);
- Amendments to IAS 1 Presentation of Financial Statements: *Disclosure of Accounting policies* adopted by the EU on 2 March 2022 (effective for annual periods beginning on or after January 1, 2023);
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: *Definition of Accounting Estimates* adopted by the EU on 2 March 2022 (effective for annual periods beginning on or after January 1, 2023);
- IFRS 17 “Insurance Contracts”, including Amendments to IFRS 7, adopted by the EU on 19 November 2021 (effective for annual periods beginning on or after January 1, 2023);
- Amendments to IAS 16 “Property, Plant and Equipment” - *Proceeds before Intended Use*, adopted by the EU on 28 June 2021 (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, adopted by the EU on 28 June 2021 (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, adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022);
- Amendments to various standards due to “Improvements to IFRSs (cycle 2018 -2020)” resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022).

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 interpretations, which have not yet been adopted by EU as at the date of approval of these financial statements:

- 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 1 Presentation of Financial Statements and IFRS Practice Statement 2: *Disclosure of Accounting policies* (effective for annual periods beginning on or after 1 January 2023);
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: *Definition of Accounting Estimates* (effective for annual periods beginning on or after 1 January 2023);
- Amendments to IAS 12 Income Taxes: *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* (effective for annual periods beginning on or after 1 January 2023);
- Amendments to IFRS 17 Insurance contracts: *Initial Application of IFRS 17 and IFRS 9 – Comparative Information* (effective for annual periods beginning on or after 1 January 2023);
- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: *Sales or contributions of assets between an investor and its associate/joint venture.*

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

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

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

3. Risk management disclosures

Structure and functions of the Risk Management Unit

The credit risk management of the Group is the responsibility of two divisions, which are independent from the business units, each managed by an Executive Director. The various credit risk management functions are performed by the following:

Risk Management Division:

- Credit risk - Corporate Clients Directorate having functions related to approval of exposures to corporate and small and medium-sized (SME) clients until 1 October 2021, and afterwards – solely corporate clients depending on the specified competencies, while maintaining low level of credit risk as well as functions related to ongoing monitoring of business clients. After 1 October 2021 a part of the SME clients are re-directed to the Corporate Clients – Middle Market segment, and the rest – to the Small Business Segment;
- Credit risk – Individual Clients Directorate, having functions related to maintaining of adequate mechanisms of assessment, monitoring and management of credit risk, and approving loan applications based on an acceptable level of risk, in the Individuals and Small Business segments, as well as preparation and validation of models for credit risk assessment and analysis of the loan portfolio;
- 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, and the credit risk policy, 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:

- The Collection Division was established in 2020 with the purpose to achieve a better segregation of duties between loan origination, risk monitoring and collection and restructuring. 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. The division includes 4 units responsible for different segments of non-performing loans, namely: individuals; legal entities; real estate representing collateral on non-performing loans; and a unit engaged with management and regulatory reporting, preparing also operational reports and analyses related to non-performing loan management.

Below are represented the various risks, to which the Group is exposed, as well as the approaches taken to manage those risks.

(a) Liquidity risk

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

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

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

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

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

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

Residual contractual maturities of liabilities as of 31 December 2021

	Carrying amount	Gross nominal flow	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Without maturity
<i>In thousands of BGN</i>								
Liabilities								
Deposits from banks	255 502	255 497	243 459	-	-	12 038	-	-
Derivative financial instruments	43 629	43 629	5 751	6 796	27 271	3 682	129	-
Deposits from customers	20 052 824	20 053 074	17 998 572	752 145	1 247 780	54 577	-	-
Loans from banks and financial institutions	203 554	205 190	149 703	175	564	13 897	40 851	-
Current tax liabilities	492	492	172	51	269	-	-	-
Lease liabilities	20 793	20 526	891	1 250	3 131	14 215	1 039	-
Provisions	83 462	84 021	1 293	4 143	30 685	46 903	379	618
Deferred tax liabilities	17 382	17 382	-	-	-	17 382	-	-
Other liabilities	140 842	141 383	106 483	10 763	22 452	926	320	439
Total liabilities	20 818 480	20 821 194	18 506 324	775 323	1 332 152	163 620	42 718	1 057
Unused loan commitments	-	2 845 327	150 242	293 959	1 513 168	485 258	402 700	-
Total liabilities and commitments	20 818 480	23 666 521	18 656 566	1 069 282	2 845 320	648 878	445 418	1 057

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Residual contractual maturities of liabilities as of 31 December 2020

	Carrying amount	Gross nominal flow	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Without maturity
<i>In thousands of BGN</i>								
Liabilities								
Deposits from banks	36 897	36 897	36 897	-	-	-	-	-
Derivative financial instruments	86 191	86 191	9 760	20 646	54 333	7	1 445	-
Deposits from customers	19 206 792	19 206 169	16 722 403	808 273	1 622 246	53 247	-	-
Loans from banks and financial institutions	54 220	54 815	8	9	-	17 103	37 695	-
Current tax liabilities	712	712	435	13	264	-	-	-
Lease liabilities	24 393	24 858	955	1 545	6 091	13 886	2 381	-
Provisions	86 885	87 432	1 777	4 742	31 344	43 997	4 940	632
Deferred tax liabilities	13 770	13 770	-	203	771	12 796	-	-
Other liabilities	118 013	121 826	93 974	8 264	12 094	7 242	67	185
Total liabilities	19 627 873	19 632 670	16 866 209	843 695	1 727 143	148 278	46 528	817
Unused loan commitments	-	2 919 688	148 251	328 665	1 446 572	591 559	404 641	-
Total liabilities and commitments	19 627 873	22 552 358	17 014 460	1 172 360	3 173 715	739 837	451 169	817

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The tables below set out the remaining expected maturities of the Group's assets and liabilities based on their contractual dates of repayment. The tables do not reflect adjustments by maturity buckets, depending on the retention periods of funds borrowed from clients. The Group manages the maturity gap between assets and liabilities by maintaining a liquidity buffer consisting of high-quality liquid assets. Such assets can be sold or pledged as collateral as necessary, for the purpose of covering liabilities.

Maturity table of assets and liabilities as of 31 December 2021

	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
<i>In thousands of BGN</i>							
Assets							
Cash and current accounts with the Central Bank and other banks	3 959 884	3 958 650	-	1 234	-	-	-
Trading financial assets	143 362	4	25 762	38 017	69 818	9 761	-
Derivative financial instruments	33 459	5 346	7 102	16 363	4 537	111	-
Investments at fair value through profit or loss	6 538	-	-	-	-	-	6 538
Investments at fair value through other comprehensive income	1 725 597	3 754	385 439	35 551	902 879	378 480	19 494
Loans and advances to banks	1 915 161	304 018	641 920	769 460	199 753	-	10
Net receivables from finance lease	1 100 802	39 602	61 103	276 267	703 572	20 258	-
Loans and advances to customers	13 366 816	352 433	521 726	2 793 760	4 557 437	5 140 400	1 060
Investments at amortised cost	1 492 728	1 401	12 838	168 846	638 756	670 887	-
Current tax assets	10 076	9 933	-	143	-	-	-
Investments in associates	3 566	-	-	-	-	-	3 566
Goodwill	78 547	-	-	-	-	-	78 547
Investment property	19 411	-	-	-	-	-	19 411
Right-of-use assets	22 199	29	58	602	42	-	21 468
Property, plant and equipment	454 121	30	61	274	1 997	9 094	442 665
Intangible assets	79 290	-	-	1	2 482	9 934	66 873
Other assets	105 081	43 235	12 824	9 968	33 941	4 606	507
Total assets	24 516 638	4 718 435	1 668 833	4 110 486	7 115 214	6 243 531	660 139
Derivatives assets							
Trading:	33 013						
Outflow		(671 472)	(439 262)	(334 723)	(349 467)	-	-
Inflow		710 656	595 202	344 996	354 311	4 677	-
Hedge accounting:	446						
Outflow		(74 255)	(268 183)	(260 321)	-	-	-
Inflow		74 255	268 183	260 321	-	-	-
Total derivatives	33 459	39 184	155 940	10 273	4 844	4 677	-

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<i>In thousands of BGN</i>	Carrying amount	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Without maturity
Liabilities							
Deposits from banks	255 502	243 464	0	0	12 038	0	0
Derivative financial instruments	43 629	5 751	6 796	27 271	3 682	129	0
Deposits from customers	20 052 824	17 998 522	752 099	1 247 651	54 552	0	0
Loans from banks and financial institutions	203 554	149 720	9	59	12 915	40 851	-
Current tax liabilities	492	172	51	269	-	-	-
Lease liabilities	20 793	883	1 239	3 541	14 099	1 031	-
Provisions	83 462	1 293	4 143	30 685	46 903	379	59
Deferred tax liabilities	17 382	-	-	-	17 382	-	-
Other liabilities	140 842	106 483	10 763	21 911	926	320	439
Total liabilities	20 818 480	18 506 288	775 100	1 331 387	162 497	42 710	498
Unused loan commitments	-	150 242	293 959	1 513 168	485 258	402 700	-
Total liabilities and commitments	20 818 480	18 656 530	1 069 059	2 844 555	647 755	445 410	498
Derivatives liabilities							
Trading:	30 680						
Outflow		(355 500)	(411 137)	(344 543)	(142 792)	(4 677)	-
Inflow		710 656	595 202	344 996	354 312	4 677	-
Hedge accounting:	12 949						
Outflow		-	(149 635)	-	-	-	-
Inflow		-	149 635	-	-	-	-
Total derivatives	43 629	355 156	184 065	453	211 520	-	-

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Maturity table of assets and liabilities as of 31 December 2020

	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
<i>In thousands of BGN</i>							
Assets							
Cash and current accounts with the Central Bank and other banks	3 741 532	3 706 362	-	-	-	-	35 170
Trading financial assets	63 111	1	11 109	165	42 980	8 856	-
Derivative financial instruments	62 769	8 353	17 447	35 240	24	1 705	-
Investments at fair value through profit or loss	172 193	-	690	-	-	165 548	5 955
Investments at fair value through other comprehensive income	2 002 223	4 169	377 442	92 439	1 090 354	419 205	18 614
Loans and advances to banks	2 393 813	297 114	676 338	1 414 576	-	5 775	10
Net receivables from finance lease	990 039	33 674	59 907	256 897	622 405	17 156	-
Loans and advances to customers	12 127 091	409 266	527 287	2 588 487	3 901 911	4 692 519	7 621
Investments at amortised cost	578 095	248	1 768	1 873	334 858	239 348	-
Current tax assets	15 381	14 561	-	-	820	-	-
Investments in associates	3 626	-	-	-	-	-	3 626
Goodwill	78 547	-	-	1 175	-	-	77 372
Investment property	19 854	-	-	-	-	-	19 854
Right-of-use assets	26 339	89	178	804	2 181	-	23 087
Property, plant and equipment	422 614	10	16	59	819	1 711	419 999
Intangible assets	91 101	-	-	1	2 728	10 906	77 466
Other assets	94 557	48 461	5 299	6 982	29 571	4 225	19
Total assets	22 882 885	4 522 308	1 677 481	4 398 698	6 028 651	5 566 954	688 793
Derivatives assets							
Trading:	62 769						
Outflow		(568 756)	(684 042)	(338 474)	(24 737)	(80 215)	-
Inflow		571 848	688 279	345 382	24 801	80 215	-
Hedge accounting:	-						
Outflow		-	-	-	-	-	-
Inflow		-	-	-	-	-	-
Total derivatives	62 769	3 092	4 237	6 908	64	-	-

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DSK Bank AD
Consolidated Financial Statements
for 2021

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	19 206 792	16 722 407	808 412	1 622 532	53 441	-	-
Loans from banks and financial institutions	54 220	8	9	-	17 103	37 100	-
Current tax liabilities	712	435	13	264	-	-	-
Lease liabilities	24 393	941	1 523	5 963	13 628	2 338	-
Provisions	86 885	1 777	4 742	31 344	43 997	4 940	85
Deferred tax liabilities	13 770	-	203	771	12 796	-	-
Other liabilities	118 013	93 974	4 451	12 094	7 242	67	185
Total liabilities	19 627 873	16 866 199	839 999	1 727 301	148 214	45 890	270
Unused loan commitments	-	148 251	328 665	1 446 572	591 559	404 641	-
Total liabilities and commitments	19 627 873	17 014 450	1 168 664	3 173 873	739 773	450 531	270
Derivatives liabilities							
Trading:	57 991						
Outflow		(473 473)	(614 648)	(254 109)	-	(80 215)	-
Inflow		469 368	610 006	249 596	-	80 215	-
Hedge accounting:	28 200						
Outflow		(15 939)	(478 464)	(413 250)	-	-	-
Inflow		68 536	510 341	328 775	-	-	-
Total derivatives	86 191	48 492	27 235	(88 988)	-	-	-

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

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

- demand deposits from customers are expected to remain stable or increase;
- Residential and non-residential mortgage loans to individuals have average original contractual maturity of 23 years but as the main part of these loans are with equal annuity payments the average effective maturity is 14 years. In addition the customers more often take the advantage of full or partial early repayment option which according to the law is without penalty payment after the first year of the contract. For these reasons the average effective maturity of the loans is additionally decreased with up to 5 years in view of actual observed volume of earlier repayments during 2021.

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

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

(b) Market risk

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

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

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

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

	31-December-2021	31-December-2020
<i>In thousands of BGN</i>		
Government bonds		
Rated Baa1	99 367	48 952
Rated Baa3	23 710	-
Rated Ba1	20 285	14 159
Total	143 362	63 111

(1) Interest rate risk

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

Group’s activities are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or undergo changes in their interest rates at different times and to a different degree. In cases of assets and liabilities with floating interest rates, the Group is exposed to a risk of adverse changes in the market interest curves.

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

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

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

Exposure to interest rate risk as of 31 December 2021

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 2 years	Over 2 years	Non- interest- bearing	Total
<i>In thousands of BGN</i>							
Cash and current accounts with the Central Bank and other banks	85 731	-	-	-	-	3 874 153	3 959 884
Fixed rate	2 699	-	-	-	-	-	2 699
Floating rate	83 032	-	-	-	-	-	83 032
Non-interest bearing	-	-	-	-	-	3 874 153	3 874 153
Trading financial assets	-	25 575	37 941	16 571	63 275	-	143 362
Fixed rate	-	25 575	37 941	16 571	63 275	-	143 362
Derivative financial instruments	3 240	6 828	259	-	-	23 132	33 459
Fixed rate	-	-	-	-	-	-	-
Floating rate	3 240	6 828	259	-	-	-	10 327
Non-interest bearing	-	-	-	-	-	23 132	23 132
Investments at fair value through profit or loss	-	-	-	-	-	6 538	6 538
Non-interest bearing	-	-	-	-	-	6 538	6 538
Investments at fair value through other comprehensive income	-	379 556	32 366	291 246	1 002 935	19 494	1 725 597
Fixed rate	-	379 556	32 366	291 246	1 002 935	-	1 706 103
Non-interest bearing	-	-	-	-	-	19 494	19 494
Loans and advances to banks	304 018	641 930	769 460	199 753	-	-	1 915 161
Fixed rate	304 018	641 930	769 460	199 753	-	-	1 915 161
Net receivables from finance lease	38 329	61 153	276 492	286 701	438 127	-	1 100 802
Fixed rate	5 126	7 671	35 080	37 099	58 506	-	143 482
Floating rate	33 203	53 482	241 412	249 602	379 621	-	957 320
Loans and advances to customers	12 358 247	36 971	134 346	331 157	420 204	85 891	13 366 816
Fixed rate	27 314	36 736	133 052	292 801	417 847	-	907 750
Floating rate	12 330 933	235	1 294	38 356	2 357	-	12 373 175
Non-interest bearing	-	-	-	-	-	85 891	85 891
Investments at amortised cost	-	9 970	165 859	182 997	1 133 902	-	1 492 728
Fixed rate	-	9 970	165 859	182 997	1 133 902	-	1 492 728
Total interest sensitive assets	12 789 565	1 161 983	1 416 723	1 308 425	3 058 443	4 009 208	23 744 347
Fixed rate	339 157	1 101 438	1 173 758	1 020 467	2 676 465	-	6 311 285
Floating rate	12 450 408	60 545	242 965	287 958	381 978	-	13 423 854
Non-interest bearing	-	-	-	-	-	4 009 208	4 009 208
Deposits from banks	230 716	-	-	-	-	24 786	255 502
Fixed rate	218 587	-	-	-	-	-	218 587
Floating rate	12 129	-	-	-	-	-	12 129
Non-interest bearing	-	-	-	-	-	24 786	24 786
Derivative financial instruments	2 369	12 844	5 388	-	-	23 028	43 629
Floating rate	2 369	12 844	5 388	-	-	-	20 601
Non-interest bearing	-	-	-	-	-	23 028	23 028
Deposits from customers	18 014 925	727 725	1 240 680	36 232	18 325	14 937	20 052 824
Fixed rate	1 797 508	727 725	1 240 680	36 232	18 325	-	3 820 470
Floating rate	16 217 417	-	-	-	-	-	16 217 417

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Non-interest bearing	-	-	-	-	-	14 937	14 937
Loans from banks and financial institutions	155 409	7 294	-	-	-	40 851	203 554
Fixed rate	155 409	-	-	-	-	-	155 409
Floating rate	-	7 294	-	-	-	-	7 294
Non-interest bearing	-	-	-	-	-	40 851	40 851
Lease liabilities	882	1 221	4 781	5 300	8 609	-	20 793
Fixed rate	503	581	2 029	2 174	2 895	-	8 182
Floating rate	379	640	2 752	3 126	5 714	-	12 611
Total interest sensitive liabilities	18 404 301	749 084	1 250 849	41 532	26 934	103 602	20 576 302
Fixed rate	2 172 007	728 306	1 242 709	38 406	21 220	-	4 202 648
Floating rate	16 232 294	20 778	8 140	3 126	5 714	-	16 270 052
Non-interest bearing	-	-	-	-	-	103 602	103 602

Exposure to interest rate risk as of 31 December 2020

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 2 years	Over 2 years	Non-interest-bearing	Total
<i>In thousands of BGN</i>							
Cash and current accounts with the Central Bank and other banks	125 903	-	-	-	-	3 615 629	3 741 532
Fixed rate	14 582	-	-	-	-	-	14 582
Floating rate	111 321	-	-	-	-	-	111 321
Non-interest bearing	-	-	-	-	-	3 615 629	3 615 629
Trading financial assets	-	10 941	95	13 369	38 706	-	63 111
Fixed rate	-	10 941	95	13 369	38 706	-	63 111
Derivative financial instruments	5 170	13 667	-	-	1 706	42 226	62 769
Floating rate	5 170	13 667	-	-	1 706	-	20 543
Non-interest bearing	-	-	-	-	-	42 226	42 226
Investments at fair value through profit or loss	-	166 238	-	-	-	5 955	172 193
Floating rate	-	166 238	-	-	-	-	166 238
Non-interest bearing	-	-	-	-	-	5 955	5 955
Investments at fair value through other comprehensive income	-	365 455	89 432	415 949	1 112 773	18 614	2 002 223
Fixed rate	-	365 455	89 432	415 949	1 112 773	-	1 983 609
Non-interest bearing	-	-	-	-	-	18 614	18 614
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
Net receivables from finance lease	33 554	59 770	256 389	275 549	364 777	-	990 039
Fixed rate	4 799	8 271	35 685	38 849	54 664	-	142 268
Floating rate	28 755	51 499	220 704	236 700	310 113	-	847 771
Loans and advances to customers	10 854 871	37 416	181 062	163 761	823 461	66 520	12 127 091
Fixed rate	32 460	37 338	180 865	163 505	739 714	-	1 153 882
Floating rate	10 822 411	78	197	256	83 747	-	10 906 689
Non-interest bearing	-	-	-	-	-	66 520	66 520
Investments at amortised cost	-	-	-	68 784	509 311	-	578 095
Fixed rate	-	-	-	68 784	509 311	-	578 095

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Total interest sensitive assets	11 324 511	1 290 463	1 978 802	937 412	2 850 734	3 748 944	22 130 866
Fixed rate	348 955	1 058 981	1 757 901	700 456	2 455 168	-	6 321 461
Floating rate	10 975 556	231 482	220 901	236 956	395 566	-	12 060 461
Non-interest bearing	-	-	-	-	-	3 748 944	3 748 944
Deposits from banks	16 328	-	-	-	-	20 569	36 897
Fixed rate	1 152	-	-	-	-	-	1 152
Floating rate	15 176	-	-	-	-	-	15 176
Non-interest bearing	-	-	-	-	-	20 569	20 569
Derivative financial instruments	10 638	17 872	16 881	7	1 445	39 348	86 191
Fixed rate	-	-	-	-	-	-	-
Floating rate	10 638	17 872	16 881	7	1 445	-	46 843
Non-interest bearing	-	-	-	-	-	39 348	39 348
Deposits from customers	19 145 800	19 811	29 365	-	-	11 816	19 206 792
Fixed rate	9 244	19 811	29 365	-	-	-	58 420
Floating rate	19 136 556	-	-	-	-	-	19 136 556
Non-interest bearing	-	-	-	-	-	11 816	11 816
Loans from banks and financial institutions	-	12 530	-	-	41 690	-	54 220
Fixed rate	-	-	-	-	-	-	-
Floating rate	-	12 530	-	-	41 690	-	54 220
Lease liabilities	871	1 409	5 450	5 608	11 055	-	24 393
Fixed rate	871	1 409	5 450	5 608	11 055	-	24 393
Total interest sensitive liabilities	19 173 637	51 622	51 696	5 615	54 190	71 733	19 408 493
Fixed rate	11 267	21 220	34 815	5 608	11 055	-	83 965
Floating rate	19 162 370	30 402	16 881	7	43 135	-	19 252 795
Non-interest bearing	-	-	-	-	-	71 733	71 733

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

The Group manages the interest rate risk in the banking book (IRRBB) in accordance 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. In calculating the indicators the Group makes business assumptions, including product characteristics, behavioral characteristics, early repayment, valuation ratios and modelling of deposits. The Bank has approved a risk appetite and limits for both indicators, and they are monitored and reported to management on a regular basis. Based on this approach for management of the interest rate risk in the banking book the effect on equity and net interest income from the supervisory outlier test, parallel shift of interest rates by 200 bp, is presented in the table below:

	Net interest income		Equity	
	200 bp increase	200 bp decrease	200 bp increase	200 bp decrease
<i>Effect in thousands of BGN</i>				
31 December 2021				
As at 31 December	11 796	(23 882)	94 784	46 564
31 December 2020				
As at 31 December	(3 342)	(1 979)	55 883	1 374

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Interest rate benchmark reform

On 5th March 2021 the Financial Conduct Authority (FCA) of the United Kingdom announced the dates after which all LIBOR settings will be ceased or no longer be representative. The dates are as follows:

- immediately after 31 December 2021, in the case of all Sterling, Euro, Swiss franc and Japanese yen settings, and the 1-week and 2-month US dollar settings; and
- immediately after 30 June 2023, in the case of the remaining US dollar settings

In its activity the Bank uses LIBOR as a reference rate for the calculation of amounts due with respect to financial contracts. The Bank uses as a reference rate 1-month and 3-month USD LIBOR. The exposure of the Bank towards LIBOR is limited and it is predominated by interest rate swaps based on 3M USD LIBOR.

The Bank has an action plan with respect to art. 28, para 2 of Regulation (EU) 2016/2011. It describes the planned actions if an interest benchmark or index (indicator) used by the Bank materially changes or cease to exist. If an interest rate benchmark or index used by the Bank to determine a reference interest rate in financial contracts is materially changed or ceased to be provided, DSK Bank shall apply a reference interest rate using another appropriate interest rate benchmark or index published by BNB, or a combination of indices.

The exposure of the Group towards LIBOR benchmarks as of 31 December 2021 is the following:

Currency	Index	Type of exposure	Amount in original currency ('000)	Amount in BGN ('000)
USD	USD LIBOR	Corporate exposures	41 369	71 438
USD	USD LIBOR	Interest rate swaps	175 650*	303 321

*notional value

(2) Exchange rate risk

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

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

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

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

The statistics of the model for 2021 and 2020 are as follows:

<i>In thousands of BGN</i>	2021	2020
At 31 December	11	14
Average for the period	23	21
Maximum for the period	600	122
Minimum for the period	1	1

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

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

(c) Credit risk

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

Non-legislative moratorium in COVID-19 crisis

In 2020 the coronavirus pandemic reached Europe. As a result lockdowns were implemented in a number of European countries, incl. Bulgaria, where state of emergency entered into effect on March 13th 2020. To support the credit situation of clients with loans, and in line with the EBA *Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis* ("the Guidelines"), DSK Bank, OTP Leasing and DSK Leasing offered to their clients renegotiation instruments, mainly under the non-legislative moratorium. As the pandemic continued in 2021, the Guidelines allowed for extension of the moratoria. Accordingly, the opportunity for joining the non-legislative moratorium mechanisms was also extended. These concessions expired in December 2021. DSK Bank supports its clients in difficulty by also using its own forbearance instruments, in which case the loans are classified and reported as forborne.

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

Significant increase in credit risk

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

In the context of the COVID-19 crisis the identification and measurement of credit risk had to address the specific situation of the loans included in the non-legislative moratorium in Bulgaria. For all loans in or outside of the moratorium DSK Bank continued estimating monthly whether a significant increase of credit risk has occurred. The assessment is performed either in the process of individual case-by-case monitoring and review, or in the presence of indicators of increased credit risk, 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 2021, the exposures with significant increase in credit risk due to factors, such as the ongoing impact of the COVID-19 crisis, have been determined in the non-retail segment on the grounds of the risk profile of the industry (e.g. hotels); any disruptions in the supply chain; increase in the prices of resources, together with a case-by-case assessment of the borrower's financial position, and based by the borrower's rating as well. In retail, the assessment is based on behavioral models.

Unlikelihood-to-pay assessment

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

The Group applies the new definition of default in accordance with EBA/ GL/2016/07; EBA/RTS/2016/06; (EU) 2018/1845 as of 1 January 2021. As of 1 January 2021 the objective criterion for default is based on the number of consecutive days for which there is a past due amount above a materiality threshold.

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

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

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

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

- **Application PD model**

The purpose of application PD model is to provide a reliable tool (quantitative measurement) for prediction of the future debt service by customers applying for credit. The Application PD model uses client data, which is available at the point of loan application, such as demographic data, credit history and behaviour within the Bank 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;
- Business clients in the Small Business segment;
- Corporate clients- non-standard SMEs and corporate customers.

- **Behavioural PD model**

The purpose of the behavioural PD model is to provide a reliable tool for prediction of the future debt servicing based on the client's behaviour, when using the products of the Group and servicing its debt obligations.

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

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

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

- **Model assisting the collection of problem loans (Collection Models)**

The purpose of the model is to distinguish problem loans for which the delay to undertake measures could probably lead to subsequent deterioration of the exposure of the Group. When on the basis of the model high probability for deterioration of certain exposures is estimated, the Group undertakes actions to collect it with the aim for minimisation of risk.

- **Expert model**

The expert models for assessment of customers applying for credits is based on the experts' expectations regarding the reasonable parameters to be used, their weights and cut-off levels. Finally a matrix is determined, which provides the basis for pooling the customers into risk groups. The Group uses expert models, when it is impossible to develop a statistical model due to insufficient transactions and/or defaults as well as when brand new products are created or a new segment becomes a target, when it is not possible an available statistical model to be applied.

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

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

(2) *Expected Credit Loss measurement (ECL)*

The key inputs used for measuring ECL are:

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

These figures are generally derived from internally developed statistical models within OTP Group and 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 and other sources of repayment. The LGD/LGL models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realisation of collateral, cross-collateralisation and seniority of claim, cost of realisation of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

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

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

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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.

As of 31 December 2021 DSK Bank returned to the pre-COVID-19 policy to apply 3 macro scenarios for the purposes of deriving the ECL for the loan book. Compared to 2020, the main scenario weight dropped from 80% to 50%. Two stress scenarios are used (mild stress and severe stress).

- In case only the baseline scenario would apply 100%, ECL would be 15.5% lower than the actual for 31 December 2021.
- In case only the mild stress scenario would apply 100%, ECL would be 3.8% lower than the actual for 31 December 2021.
- In case only the severe stress scenario would apply 100%, ECL would be 44.5% higher than the actual for 31 December 2021.

Individual and collective assessment of expected credit losses

The following exposures are subject to collective impairment:

- retail exposures;
- Small Business segment exposures;
- All other exposures, which are not classified in Stage 3 and do not exceed the threshold for an individually significant exposure.

Groupings based on shared risk characteristics

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

- instrument type;
- credit risk ratings;
- collateral type;
- date of initial recognition;
- remaining term to maturity;
- industry;
- geographical location of the borrower; and

- the value of collateral relative to the financial asset if it has an impact on the probability of a default occurring (for example, non-recourse loans in some jurisdictions or loan-to-value ratios).

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

Credit quality

The Group monitors credit risk per class of financial instrument.

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

Cash at banks and loans and advances to banks at amortised cost

	31-December- 2021	31-December- 2020
<i>In thousands of BGN</i>		
Concentration by sector		
Central bank	3 064 020	2 970 049
Other banks	2 005 567	2 490 093
Total	5 069 587	5 460 142
Concentration by region		
Europe	5 050 583	5 419 888
North America	6 910	39 511
Asia	11 753	240
Australia	341	503
Total	5 069 587	5 460 142

The concentration of credit risk as of 31 December 2021 is represented by the carrying amount of the largest exposure to one commercial bank, which amounts to BGN 682 628 thousand (2020: 589 318 thousand).

31-December-2021 **31-December-2020**

In thousands of BGN

Concentration by sector

Retail:

Mortgages	4 122 632	3 522 220
Other retail loans	4 088 568	3 730 672

Corporate:

Agriculture and forestry	308 847	337 456
Construction	203 762	203 634
Financial and insurance activities	43 614	51 237
Hotels and catering	279 509	360 345
Manufacturing	1 849 743	1 879 402
Real estate activities	513 983	480 561
State Budget	55 591	57 719
Trade and services	1 219 045	1 046 990
Transport and communications	373 579	124 445
Other industry sectors	307 943	332 410
Total	13 366 816	12 127 091

Concentration by region

Europe	13 343 520	12 111 700
North America	7 612	6 138
Asia	11 379	7 722
Africa	3 922	1 108
Australia	281	324
South America	102	99
Total	13 366 816	12 127 091

As of 31 December 2021, 4% of the carrying amount of loans to corporate clients is concentrated in one client (2020: 2%).

The exposure to the top 5 retail clients amounts to 0.18% of the carrying amount of loans to clients in the retail segment as of 31 December 2021 and 2020. Such exposures are fully collateralised.

Finance lease receivables

	31-December-2021	31-December-2020
<i>In thousands of BGN</i>		
Concentration by sector		
Retail:		
Households	241 723	194 781
Corporate:		
Agriculture and forestry	111 897	81 653
Construction	88 257	56 372
Financial activities	1 827	14 147
Hotels and catering	5 396	5 387
Manufacturing	82 515	70 124
Real estate activities	5 758	3 799
Trade and services	212 774	222 505
Transport and communications	276 001	281 194
Administrative and Support Service Activities	49 167	38 817
Other industry sectors	25 487	21 260
Total	<u>1 100 802</u>	<u>990 039</u>
 Concentration by region		
Europe	<u>1 100 802</u>	<u>990 039</u>
Total	<u>1 100 802</u>	<u>990 039</u>

As of 31 December 2021 the largest exposure to one customer has a carrying amount of BGN 32 158 thousand (2020: 45 278 thousand), which represents 3% of the total net receivables under finance leases (2020: 5%).

Investments in securities

	31-December-2021	31-December-2020
<i>In thousands of BGN</i>		
Concentration by sector		
<i>Investments in instruments measured at fair value through other comprehensive income</i>		
Government bonds	1 706 103	1 983 609
Equity instruments	19 494	18 614
<i>Investments in instruments mandatory measured at fair value through profit or loss</i>		
Equity instruments	902	565
Corporate debt securities	5 636	171 628
<i>Investments in instruments measured at amortized cost</i>		
Government bonds	1 492 728	578 095
Total	<u>3 224 863</u>	<u>2 752 511</u>
 Concentration by region		
Europe	2 949 883	2 571 795
North America	127 433	122 117
Asia	147 547	58 599
Total	<u>3 224 863</u>	<u>2 752 511</u>

The carrying amount of the Group's investments in securities represents the assets' maximum exposure to credit risk.

As of 31 December 2021 and 2020 the government bonds include BGN 1 711 155 thousand and BGN 1 122 821 thousand, respectively, issued by one issuer.

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

Loan commitments and financial guarantee contracts

	31-December-2021	31-December-2020
<i>In thousands of BGN</i>		
Concentration by sector		
Retail:		
Collateralised by mortgage	100 522	71 904
Other retail loans	360 932	319 255
Corporate:		
Agriculture and forestry	69 652	124 350
Construction	285 660	291 881
Financial and insurance activities	31 843	74 986
Hotels and catering	17 534	17 575
Manufacturing	1 012 518	1 254 248
Real estate activities	245 677	98 696
State Budget	64 683	20 802
Trade and services	883 087	802 380
Transport and communications	152 838	217 369
Other industry sectors	105 656	148 636
Total	3 330 602	3 442 082
Concentration by region		
Europe	3 329 796	3 432 756
North America	223	2 453
Asia	457	2 947
Africa	94	3 518
Australia	-	382
Oceania	24	23
South America	8	3
Total	3 330 602	3 442 082

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

The Bank uses an internal credit rating system, according to which customers are rated from 1 to 10 using internal grades as follows:

Grade	Grade description	Probability of default (PD)	
		Low PD bound	High PD bound
1	Low risk	0%	0.27%
2	Low risk	0.27%	0.54%
3	Low risk	0.54%	0.93%
4	Moderate risk	0.93%	1.56%
5	Moderate risk	1.56%	2.62%
6	Moderate risk	2.62%	4.36%
7	Increased risk	4.36%	8.07%
8	Increased risk	8.07%	19.78%
9	High risk	19.78%	100.00%
10	Default	100%	100%

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The tables below provide an analysis of the Group's credit risk exposure per class of financial asset, stage and internal credit rating used by the Group for monitoring and management of credit risk, without considering the effects of any collateral or other credit enhancements. Unless specifically indicated, financial assets are presented at their carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively. Municipalities and public-sector entities (PSE) are reported separately as they are assessed by means of expert models different from the statistical models used for the rest of the clients.

Cash at banks and loans and advances to banks at amortised cost

	31-Dec-2021	31-Dec-2020
	Stage 1	Stage 1
<i>In thousands of BGN</i>		
Grades 1-3: Low risk	5 079 865	5 466 111
Total gross carrying amount	5 079 865	5 466 111
Loss allowance	(10 278)	(5 969)
Carrying amount	5 069 587	5 460 142

Loans and advances to customers at amortised cost

	31-December-2021				
	Stage 1	Stage 2	Stage 3	POCI	Total
<i>In thousands of BGN</i>					
Grades 1-3: Low risk	4 324 723	18 757	-	283	4 343 763
Grades 4-6: Moderate risk	5 020 125	511 862	-	1 023	5 533 010
Grades 7-8: Increased risk	718 928	664 798	-	1 267	1 384 993
Grade 9: High risk	3 354	134 103	-	818	138 275
Grade 10: Default	-	-	916 260	37 373	953 633
Municipality, PSE	56 104	2 103	-	-	58 207
Not rated	1 903 608	69 165	-	221	1 972 994
Total gross carrying amount	12 026 842	1 400 788	916 260	40 985	14 384 875
Loss allowance	(126 814)	(221 058)	(650 866)	(19 321)	(1 018 059)
Carrying amount	11 900 028	1 179 730	265 394	21 664	13 366 816

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31-December-2020

	Stage 1	Stage 2	Stage 3	POCI	Total
<i>In thousands of BGN</i>					
Grades 1-3: Low risk	5 164 857	167 066	-	332	5 332 255
Grades 4-6: Moderate risk	4 393 791	525 403	-	1 250	4 920 444
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	-	-	1 000 933	59 847	1 060 780
Municipality, PSE	64 650	-	-	-	64 650
Not rated	483 716	87 374	-	238	571 328
Total gross carrying amount	10 602 209	1 481 442	1 000 933	63 954	13 148 538
Loss allowance	(103 503)	(190 358)	(693 390)	(34 196)	(1 021 447)
Carrying amount	10 498 706	1 291 084	307 543	29 758	12 127 091

Finance lease receivables

	Stage 1	Stage 2	Stage 3	POCI	Total
<i>In thousands of BGN</i>					
Grades 1-3: Low risk	759 368	48 723	-	-	808 091
Grades 4-6: Moderate risk	222 141	71 058	803	-	294 002
Grade 10: Default	-	-	28 801	2 954	31 755
Total gross carrying amount	981 509	119 781	29 604	2 954	1 133 848
Loss allowance	(7 083)	(14 949)	(9 163)	(1 851)	(33 046)
Carrying amount	974 426	104 832	20 441	1 103	1 100 802

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

Investments in securities measured at fair value through other comprehensive income

	31-December-2021	31-December-2020
	Stage 1	Stage 1
<i>In thousands of BGN</i>		
Grades 1-3: Low risk	1 725 597	2 002 223
Total fair value	1 725 597	2 002 223
Loss allowance	(3 088)	(3 575)

Investments in securities measured at amortized cost

	31-December-2021	31-December-2020
	Stage 1	Stage 1
<i>In thousands of BGN</i>		
Grades 1-3: Low risk	1 495 603	579 231
Total gross carrying amount	1 495 603	579 231
Loss allowance	(2 875)	(1 136)
Total carrying amount	1 492 728	578 095

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Loan commitments and financial guarantee contracts

31-December-2021				
	Stage 1	Stage 2	Stage 3	Total
<i>In thousands of BGN</i>				
Grades 1-3: Low risk	1 202 495	4 453	-	1 206 948
Grades 4-6: Moderate risk	1 260 300	41 304	-	1 301 604
Grades 7-8: Increased risk	279 599	19 751	-	299 350
Grade 9: High risk	276	3 452	-	3 728
Grade 10: Default	-	-	11 201	11 201
Municipality, PSE	63 953	79	-	64 032
Not rated	441 803	1 936	-	443 739
Total amount committed	3 248 426	70 975	11 201	3 330 602
Loss allowance	(23 714)	(4 590)	(3 997)	(32 301)

31-December-2020				
	Stage 1	Stage 2	Stage 3	Total
<i>In thousands of BGN</i>				
Grades 1-3: Low risk	1 387 486	18 720	-	1 406 206
Grades 4-6: Moderate risk	1 248 662	35 604	-	1 284 266
Grades 7-8: Increased risk	119 432	9 754	-	129 186
Grade 9: High risk	1 457	3 722	-	5 179
Grade 10: Default	-	-	9 505	9 505
Municipality, PSE	15 636	-	-	15 636
Not rated	570 645	21 459	-	592 104
Total amount committed	3 343 318	89 259	9 505	3 442 082
Loss allowance	(27 691)	(5 432)	(4 040)	(37 163)

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The next table summarizes the loss allowance and provisions by type of exposure as of 31 December 2021 and 2020:

Loss allowance or provision by type of exposure

	31-December-2021	31-December-2020
<i>In thousands of BGN</i>		
Cash at banks	(365)	-
Loans and advances to banks at amortised cost	(9 913)	(5 969)
Loans and advances to customers at amortised cost	(1 018 059)	(1 021 447)
Receivables from finance lease	(33 046)	(29 861)
Securities at fair value through other comprehensive income and securities at amortised cost	(5 963)	(4 711)
Loan commitments and financial guarantee contracts	(32 301)	(37 163)
Total	(1 099 647)	(1 099 151)

The tables below summarize the movement of the gross carrying amount and the corresponding expected credit losses (ECLs) of the financial assets, as well as the movement of financial guarantee exposures and loan commitments, and the provisions thereon, for the years ending 31 December 2021 and 2020.

Movement of the gross carrying amount and expected credit loss of cash at banks and loans and advances to banks at amortised cost

	2021		2020	
	Stage 1 Gross carrying amount	ECL	Stage 1 Gross carrying amount	ECL
<i>In thousands of BGN</i>				
As at 1 January	5 466 111	(5 969)	5 019 610	(972)
New financial assets originated or purchased	2 097 412	(10 226)	5 298 765	(5 969)
Financial assets that have been derecognised	(2 483 658)	5 969	(4 852 264)	972
Foreign exchange differences	-	(52)	-	-
As at 31 December	5 079 865	(10 278)	5 466 111	(5 969)

Movement of the gross carrying amount and expected credit loss of loans and advances to customers at amortised cost

	2021									
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
<i>In thousands of BGN</i>										
As at 1 January	10 602 209	(103 503)	1 481 442	(190 358)	#####	(693 390)	63 954	(34 196)	13 148 538	(1 021 447)
Transfer to stage 1	360 460	(45 638)	(348 533)	40 401	(11 927)	5 237	-	-	-	-
Transfer to stage 2	(474 339)	4 988	513 329	(22 521)	(38 990)	17 533	-	-	-	-
Transfer to stage 3	(58 334)	654	(114 779)	19 807	173 113	(20 461)	-	-	-	-
Increases due to change in credit risk	-	(10 003)	-	(88 948)	-	(225 894)	-	(5 060)	-	(329 905)
Decreases due to change in credit risk	-	60 531	-	27 626	-	113 058	-	16 100	-	217 315
Write-offs	-	-	-	-	(133 344)	133 344	-	-	(133 344)	133 344
New financial assets purchased or originated	5 084 127	(51 612)	231 682	(31 644)	84 790	(35 697)	2 503	-	5 403 102	(118 953)
Financial assets that have been derecognised	(3 487 281)	17 769	(362 353)	24 579	(158 315)	55 404	(25 472)	3 835	(4 033 421)	101 587
As at 31 December	12 026 842	(126 814)	1 400 788	(221 058)	916 260	(650 866)	40 985	(19 321)	14 384 875	(1 018 059)

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	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
<i>In thousands of BGN</i>										
As at 1 January	11 330 634	(118 667)	552 805	(48 259)	980 954	(676 174)	51 447	(22 221)	12 915 840	(865 321)
Transfer to stage 1	125 830	(11 876)	(117 013)	8 168	(8 817)	3 708	-	-	-	-
Transfer to stage 2	(772 512)	8 874	799 989	(19 533)	(27 477)	10 659	-	-	-	-
Transfer to stage 3	(89 607)	1 035	(88 124)	9 890	177 731	(10 925)	-	-	-	-
Increases due to change in credit risk	-	(12 832)	-	(92 806)	-	(215 053)	13 401	(25 059)	13 401	(345 750)
Decreases due to change in credit risk	-	34 034	-	8 255	-	68 982	-	-	-	111 271
Write-offs	-	-	-	-	(124 046)	124 046	(13 084)	13 084	(137 130)	137 130
New financial assets purchased or originated	2 821 067	(23 630)	411 757	(62 799)	124 150	(48 053)	13 088	-	3 370 062	(134 482)
Financial assets that have been derecognised	(2 813 203)	19 559	(77 972)	6 726	(121 562)	49 420	(898)	-	(3 013 635)	75 705
As at 31 December	10 602 209	(103 503)	1 481 442	(190 358)	#####	(693 390)	63 954	(34 196)	13 148 538	(1 021 447)

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Movement of the gross carrying amount and expected credit loss of finance lease receivables

	2021						Total			
	Stage 1	Stage 2		Stage 3		POCI				
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL		
<i>In thousands of BGN</i>										
As at 1 January	863 313	(6 132)	115 928	(9 395)	32 912	(11 345)	7 747	(2 989)	1 019 900	(29 861)
Transfer to stage 1	67 522	(7 463)	(59 587)	4 525	(7 935)	2 938	-	-	-	-
Transfer to stage 2	(69 822)	649	72 013	(1 284)	(2 191)	635	-	-	-	-
Transfer to stage 3	(6 899)	81	(8 523)	1 135	15 422	(1 216)	-	-	-	-
Write-offs	-	-	-	-	-	-	(752)	752	(752)	752
New financial assets originated or purchased	466 478	(3 656)	29 645	(2 459)	4 631	(1 652)	-	-	500 754	(7 767)
Financial assets that have been derecognised	(339 083)	9 438	(29 695)	(7 471)	(13 235)	1 477	(4 041)	386	(386)	3 830
As at 31 December	981 509	(7 083)	119 781	(14 949)	29 604	(9 163)	2 954	(1 851)	1 133 848	(33 046)

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	2020									
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
<i>In thousands of BGN</i>										
As at 1 January	940 214	(2 255)	78 894	(786)	27 225	(3 609)	11 391	(271)	1 057 724	(6 921)
Transfer to stage 1	14 333	(380)	(14 930)	389	597	(9)	-	-	-	-
Transfer to stage 2	(65 499)	243	71 678	(471)	(6 179)	228	-	-	-	-
Transfer to stage 3	(9 900)	34	(11 114)	405	21 014	(439)	-	-	-	-
Increases due to change in credit risk	-	(1 690)	-	(6 970)	-	(5 554)	-	(2 535)	-	(16 749)
New financial assets originated or purchased	251 981	(2 092)	25 330	(2 084)	5 303	(2 020)	-	-	282 614	(6 196)
Financial assets that have been derecognised	(267 816)	8	(33 930)	122	(15 048)	58	(3 644)	(183)	(320 438)	5
As at 31 December	863 313	(6 132)	115 928	(9 395)	32 912	(11 345)	7 747	(2 989)	1 019 900	(29 861)

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Movement of the fair value and expected credit loss of investments in securities measured at fair value through other comprehensive income

	2021		2020	
	Stage 1		Stage 1	
	Fair value	ECL	Fair value	ECL
<i>In thousands of BGN</i>				
As at 1 January	2 002 223	(3 575)	1 641 438	(859)
Increases due to change in credit risk	-	(230)	-	(1 599)
Decreases due to change in credit risk	-	288	-	3
Fair value net change	(11 696)	-	(32 530)	-
New financial assets originated or purchased	189 957	(172)	743 949	(1 302)
Financial assets that have been derecognised	(454 887)	601	(350 634)	182
As at 31 December	<u>1 725 597</u>	<u>(3 088)</u>	<u>2 002 223</u>	<u>(3 575)</u>

Movement of the gross carrying amount and expected credit loss of investments in securities carried at amortised cost

	2021		2020	
	Stage 1		Stage 1	
	Gross carrying amount	ECL	Gross carrying amount	ECL
<i>In thousands of BGN</i>				
As at 1 January	579 231	(1 136)	-	-
Increases due to change in credit risk	-	(158)	-	-
Decreases due to change in credit risk	-	121	-	-
New financial assets originated or purchased	916 372	(1 702)	579 231	(1 136)
As at 31 December	<u>1 495 603</u>	<u>(2 875)</u>	<u>579 231</u>	<u>(1 136)</u>

Movement of loan commitments and financial guarantee contracts, and the provisions for loan commitments and financial guarantee contracts

2021

In thousands of BGN

	Stage 1 Outstanding exposure	ECL	Stage 2 Outstanding exposure	ECL	Stage 3 Outstanding exposure	ECL	Total Outstanding exposure	ECL
As at 1 January	3 343 318	(27 691)	89 259	(5 432)	9 505	(4 040)	3 442 082	(37 163)
Transfer to stage 1	42 683	(2 573)	(41 394)	2 146	(1 289)	427	-	-
Transfer to stage 2	(54 024)	320	55 212	(807)	(1 188)	487	-	-
Transfer to stage 3	(2 113)	14	(368)	25	2 481	(39)	-	-
Increases due to change in credit risk	-	(3 793)	-	(2 035)	-	(607)	-	(6 435)
Decreases due to change in credit risk	-	12 458	-	2 489	-	189	-	15 136
New loan commitments originated or purchased	1 718 776	(9 483)	39 190	(2 001)	8 273	(2 573)	1 766 239	(14 057)
Financial assets that have been derecognised	(1 800 214)	7 034	(70 924)	1 025	(6 581)	2 159	(1 877 719)	10 218
As at 31 December	3 248 426	(23 714)	70 975	(4 590)	11 201	(3 997)	3 330 602	(32 301)

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	Stage 1 Outstanding exposure	ECL	Stage 2 Outstanding exposure	ECL	Stage 3 Outstanding exposure	ECL	Total Outstanding exposure	ECL
<i>In thousands of BGN</i>								
As at 1 January	2 736 588	(30 084)	31 223	(2 227)	32 100	(12 749)	2 799 911	(45 060)
Transfer to stage 1	16 377	(1 121)	(15 871)	970	(506)	151	-	-
Transfer to stage 2	(84 125)	683	84 303	(749)	(178)	66	-	-
Transfer to stage 3	(5 996)	61	(7 732)	41	13 728	(102)	-	-
Increases due to change in credit risk	-	(749)	-	(393)	-	(1 289)	-	(2 431)
Decreases due to change in credit risk	-	7 212	-	64	-	55	-	7 331
New loan commitments originated or purchased	1 050 087	(7 502)	55 935	(3 414)	(6 373)	8 515	1 099 649	(2 401)
Financial assets that have been derecognised	(369 613)	3 809	(58 599)	276	(29 266)	1 313	(457 478)	5 398
As at 31 December	3 343 318	(27 691)	89 259	(5 432)	9 505	(4 040)	3 442 082	(37 163)

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Unofficial translation from Bulgarian

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-December-2021		31-December-2020	
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
<i>In thousands of BGN</i>				
0-30 days	13 597 828	(441 395)	12 182 798	(366 878)
31-60 days	90 231	(31 182)	155 326	(46 598)
61-90 days	70 463	(30 147)	93 658	(37 328)
91-180 days	62 300	(33 329)	77 931	(37 784)
More than 181 days	564 053	(482 006)	638 825	(532 859)
Total	14 384 875	(1 018 059)	13 148 538	(1 021 447)

Modified and forborne loans

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

The table below includes the assets that were modified and, therefore, treated as forborne during the period:

	31-December-2021	31-December-2020
<i>In thousands of BGN</i>		
Amortised cost before modification of financial assets modified during the period	343 059	153 063
Amortised cost after modification of financial assets modified during the period	329 485	166 010

The tables below show the gross carrying amount of previously modified financial assets for which loss allowance has changed to 12mECL measurement during the period:

31-December-2021	Gross carrying amount	Corresponding ECL
<i>In thousands of BGN</i>		
Facilities that have cured since modification and are now measured using 12mECL (Stage 1)	10 846	97
Facilities that reverted to (Stage 2/3) LTECL having once cured	58 214	14 014

31-December-2020	Gross carrying amount	Corresponding ECL
<i>In thousands of BGN</i>		
Facilities that have cured since modification and are now measured using 12mECL (Stage 1)	13 736	107
Facilities that reverted to (Stage 2/3) LTECL having once cured	53 281	15 299

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The following tables provide a summary of the Group's forbore assets:

31-December-2021	Gross carrying amount of loans and advances to customers	Performing loans - Stage 2		Non-performing loans - Stage 3		Total forbearance ratio
		Modification	Refinancing	Modification	Refinancing	
		Total performing loans	Total performing loans	Total nonperforming loans	Total nonperforming loans	
<i>In thousands of BGN</i>						
Loans and advances to customers						
Corporate lending	6 453 382	239 972	5 859	62 602	14 512	5.00%
Consumer lending	4 567 951	24 805	44 886	65 003	107 985	5.31%
Residential mortgages	4 277 022	41 296	7 548	100 532	19 947	3.96%
Total	15 298 355	306 073	58 293	228 137	142 444	14.27%
31-December-2020						
	Gross carrying amount of loans and advances to customers	Performing loans - Stage 2		Non-performing loans - Stage 3		Total forbearance ratio
		Modification	Refinancing	Modification	Refinancing	
		Total performing loans	Total performing loans	Total nonperforming loans	Total nonperforming loans	
<i>In thousands of BGN</i>						
Loans and advances to customers						
Corporate lending	6 094 559	24 220	748	94 929	19 017	2.28%
Consumer lending	4 124 963	15 422	28 577	66 380	86 516	4.77%
Residential mortgages	3 731 536	13 082	5 646	137 557	24 905	4.86%
Total	13 951 058	52 724	34 971	298 866	130 438	11.91%

The forbearance ratio is calculated as total forbore loans divided by the gross carrying amount of loans and advances to customers.

31-December-2021	Gross amount of forborne loans			ECL allowance		
	Stage 2	Stage 3	Total	Stage 2	Stage 3	Total
<i>In thousands of BGN</i>						
Loans and advances to customers						
Corporate lending	245 831	77 114	322 945	66 780	39 378	106 158
Consumer lending	69 691	172 988	242 679	20 422	118 580	139 002
Residential mortgages	48 844	120 479	169 323	6 523	67 611	74 134
Total	364 366	370 581	734 947	93 725	225 569	319 294

31-December-2020	Gross amount of forborne loans			ECL allowance		
	Stage 2	Stage 3	Total	Stage 2	Stage 3	Total
<i>In thousands of BGN</i>						
Loans and advances to customers						
Corporate lending	24 968	113 946	138 914	5 831	65 255	71 086
Consumer lending	43 999	152 896	196 895	10 968	95 952	106 920
Residential mortgages	18 728	162 462	181 190	1 928	99 135	101 063
Total	87 695	429 304	516 999	18 727	260 342	279 069

Mortgage lending

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

	31-December-2021		31-December-2020	
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
<i>In thousands of BGN</i>				
LTV ratio				
Less than 50%	621 285	(5 748)	615 072	(5 587)
51-70%	907 456	(9 294)	893 383	(8 672)
71-90%	1 531 384	(16 097)	1 274 269	(12 794)
91-100%	660 995	(5 973)	462 984	(4 273)
More than 100%	354 342	(5 266)	213 586	(4 639)
Total	4 075 462	(42 378)	3 459 294	(35 965)

Credit impaired - mortgage lending

	31-December-2021		31-December-2020	
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
<i>In thousands of BGN</i>				
LTV ratio				
Less than 50%	45 231	(21 321)	41 152	(18 932)
51-70%	43 957	(19 949)	53 253	(23 528)
71-90%	47 655	(22 634)	53 230	(27 292)
91-100%	14 082	(7 694)	18 970	(12 035)
More than 100%	57 646	(47 425)	120 339	(106 266)
Total	208 571	(119 023)	286 944	(188 053)

Loan commitments - Mortgage lending

<i>In thousands of BGN</i>	31-December-2021		31-December-2020	
	Amount committed	Loss allowance	Amount committed	Loss allowance
LTV ratio				
Less than 50%	12 837	(72)	15 164	95
51-70%	7 082	(12)	3 276	21
71-90%	7 902	(21)	4 019	33
91-100%	3 440	(2)	2 401	4
More than 100%	69 261	(485)	47 044	353
Total	100 522	(592)	71 904	506

Assets obtained by taking possession of collateral

In 2021 the Group acquired real estate, collateral for loans amounting to BGN 2 534 thousand (2020: BGN 1 657 thousand). The Group's policy is to acquire real estate pledged as collateral in order to protect itself against market price fluctuations, and perform a careful assessment of whether the property can be realized at a reasonable price. The main purpose is to realise collateral on a timely basis and at the best possible price.

The table below presents information about the collateral of cash at the Central Bank and other banks, loans and advances to banks and other customers, measured at fair value determined in accordance with the Group's policy, and capped to the gross carrying amount of the respective loans collateralised, as well as the amortised cost of loans that have no collateral.

Loans and advances to banks and customers by type of collateral

	31-December-2021	31-December-2020
<i>In thousands of BGN</i>		
Secured by mortgages	4 900 485	4 474 578
Cash collateral	67 795	36 111
Government securities	219 386	29 011
Other types of collateral*	7 173 085	4 757 469
Without collateral	7 103 989	9 317 480
Total	19 464 740	18 614 649

* 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-December-2021		31-December-2020	
	Carrying amount	Collateral	Carrying amount	Collateral
<i>In thousands of BGN</i>				
Advances to banks	<u>235 711</u>	<u>222 840</u>	<u>29 011</u>	<u>29 323</u>
Total	<u>235 711</u>	<u>222 840</u>	<u>29 011</u>	<u>29 323</u>

(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 in the Group is coordinated by Operational Risk Management Committee (ORMC), which is a permanent consultative body subordinated to the Management Board (MB) and involves the heads of the major units of Bank's Head Office. Chairman of the ORMC is the Head of General Policy and Risk Management Directorate, part of the Risk Management Division. The meetings are held quarterly, discussing the level of operational risk and the planned measures for mitigation/elimination of operational risks' consequences, identified in the previous quarter. The main focus of ORMC activity is the prevention of operational risks by implementing a comprehensive approach, aiming at limiting preconditions, leading to operational events occurrence. The reports about the level of operational risk reviewed at the ORMS are then forwarded to the MB of the Bank with a proposal for decisions to be taken based on these reports.

The responsibility for the development of the Operational risk management system is assigned to Operational Risk Management Department as part of the General Policy and Risk Management Directorate, which is part of the Risk Management Division, independent from the business units. The Division is headed by a responsible Executive Director.

The Group has a system for identification and management of operational risk designed and implemented according to the OTP Bank model. It operates by gathering data for the operational events occurred within the Group, analysis of the potential consequences from occurrence of future events and reporting to Management about the level of operational risk on a regular basis. The information is declared by the so-called risk-responsible employees, who are employees at managerial positions at the Head office, in the branch network and at the Bank's subsidiaries. These employees are responsible for the management of operational risk in their units, following the decentralized approach of operational risk management in OTP Group.

Potential risks shall be reviewed as part of the business processes and for this reason they shall have to be identified in the self-assessment of the Group's units, these risks shall be classified on the basis of the standardized taxonomy of operational risks annually. The methodology for identification of potential risks is based on a decentralized assessment performed by experts in the various sections/ units of the Bank, who are supported by the expertise of the Operational Risk Management Department.

As part of this process, the so-called scenario analyses are prepared, aimed to evaluate the potential effects on the financial position of the Bank and the Bank's processes, at a certain change in the risk factors associated with probable occurrence of an event with catastrophic consequences.

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

The Group 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 Plan's efficiency is tested annually in order to determine the readiness of the Bank to respond in times of crisis and to ensure continuity of the Bank's operations. The test results are reported to the MB of the Bank.

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.

In accordance with the European standards for outsourcing, the Group has a methodology for preliminary and periodic risk assessment of outsourcing activities to external service providers.

Similarly and in accordance with the internal normative rules, the models used in the Bank are subject to annual risk assessment.

Reputational risk, which is a result of operational events in the field of IT technologies, is calculated using a methodology developed according to the standard of the OTP Group.

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

The National Bank of Hungary and Bulgarian National Bank Joint Decision which approved the Group to apply the Advanced Measurement Approach for the capital calculation purposes on the individual and also on the consolidated basis has been in force since 31 March 2014. On its ground, the required regulatory capital for operational risk is calculated centrally by OTP Banking Group, and its adequacy is verified annually in the process of the Internal Capital Adequacy Analysis. In addition, an internal methodology for performing stress tests has been developed and applied, which assesses the adequacy of the allocated capital for operational risk of the Group.

Annually the Bank performs a product review, focusing on the potential conduct risk and on the most important controls integrated into the sales processes to mitigate this risk.

An insurance policy has been developed and is in force, according to which the Bank maintains valid insurance policies covering major risks such as theft and damage to tangible assets, valuables and others. Insurance policies are subject to regular review and update.

Annual internal training on the topic for operational risk is conducted for all employees, aimed at raising awareness of identifying and limiting operational risks. Training is also mandatory for all new employees.

The units responsible for the management of the different types of risk carry out constant ex-post control on a sample basis and at different intervals in order to ensure compliance with the rules and procedures to ensure consistency, security and validity of the transactions. This type of control is mainly aimed at detecting operational human and technical errors, uncommitted actions by responsible officials or intentional inaccuracies.

The operational risk management system 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 a program of OTP Bank.

In 2021, there are no registered operational events that could potentially jeopardize the Group's activities. For all so-called extraordinary operational events that have a significant potential financial or reputational impact, action plans have been developed and all necessary and sufficient measures have been taken to limit their impact as well as to reduce and eliminate the likelihood of their occurrence in the future.

From the very beginning of the pandemic situation caused by COVID-19, the Group has taken all necessary and mandatory measures to protect the lives and health of its employees and customers and has provided the necessary resources to ensure the business continuity. The group continues to keep a record and to report regularly the additional costs, incurred for prevention of the risk of spreading of COVID-19 - mainly for the purchase of disinfectants, coronavirus tests, campaigns for prevention and more.

(e) Capital Management

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

(1) Regulatory capital

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

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

CRD IV defines the scope of consolidation for regulatory purposes.

- Fully consolidated the following subsidiaries: DSK Leasing AD, DSK Auto Leasing EOOD, DSK Operative Leasing EOOD, OTP Insurance Broker EOOD, OTP Leasing EOOD, DSK Asset Management AD, DSK Rodina Pension Company AD, DSK Mobile EAD, DSK Dom EAD, OTP Factoring Bulgaria EAD, Regional Urban Development Fund AD, DSK Tours EOOD and its subsidiary DSK Trans Security EAD which provides services auxiliary to the main banking activities as per the Credit Institutions Act.
- The associated company Cash Services Company AD is valued under the equity method.

The Group calculates the total capital adequacy (the 'Basel ratio') as a ratio between total own funds for solvency purposes and the total of the risk-weighted assets for credit, market and operational risks. Tier I capital adequacy is the ratio between the Tier I capital and the risk-weighted assets and should be higher than 11.50%, buffers including. The total capital adequacy ratio should be higher than 15%, buffers including.

Pursuant to a Commission Regulation (EU) 2016/2067, as of 1 January 2018 DSK Bank AD introduced IFRS 9. In connection with the European Parliament's expectations that the application of IFRS 9 may lead to a sudden significant increase in expected credit loss provisions and consequently to a sudden decrease in institutions' Common Equity Tier 1 capital, transitional measures are being introduced in the institutions to mitigate in time any significant negative impact.

According to them, the institution should be allowed to include in its Common Equity Tier 1 capital a portion of the increased expected credit loss provisions for a transitional period. The portion of expected credit loss provisions that can be included in Common Equity Tier 1 capital should decrease over time down to zero to ensure the full implementation of IFRS 9 on the day immediately after the end of the transitional period. The impact of the expected credit loss provisions on Common Equity Tier 1 capital should not be fully neutralized during the transitional period. Credit institutions which have decided to apply these measures shall inform the competent authority accordingly.

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. In order to ensure flexibility in the application of capital requirements and in response to expected difficulties caused by the Covid-19 pandemic, an emergency regulation extended the transition period until 31 December 2024.

(2) *Capital ratios*

Total own funds for solvency purposes

	Basel III 2021	Basel III 2020
<i>In thousands of BGN</i>		
Tier 1 capital	3 366 271	3 081 559
<i>Common equity Tier 1 capital</i>	3 366 271	3 081 559
<i>Additional Tier 1 capital (AT1)</i>	-	-
Tier 2 capital	-	-
Own funds	3 366 271	3 081 559
Credit risk capital requirement	1 093 565	1 040 841
Market risk capital requirement	3 482	3 598
Operational risk capital requirement	61 238	54 167
Total requirement regulatory capital	1 158 285	1 098 606
Surplus of total capital	2 207 986	1 982 953
CET1 capital ratio (%)	23.25%	22.44%
Capital adequacy ratio (%)	23.25%	22.44%

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

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

By complying with the provisions of Bulgarian National Bank Regulation 8 the Group holds Capital conservation buffer of common equity Tier I equivalent to 2.5% of the amount of the total risk weighted exposures. With the same Regulation Bulgarian National Bank introduces a requirement for the capital systemic risk buffer. In 2021, the buffer is 3% of risk-weighted exposures. The Group holds its specific countercyclical capital buffer. The assessment of the buffer depends on the level of the reference indicator that the Central Bank announces quarterly. From the beginning of the fourth quarter of 2019 BNB changed the level of the countercyclical capital buffer from 0% to 0.5%. As of 1 April 2020, the level should have been changed to 1.00%. However, BNB decided to keep the level at 0.5%, which is applicable to 2021 as well, with the aim to maintain the stability of the banking system in a continuously deteriorating economic environment and worsening quality of credit portfolios, increase of impairment losses and a potential pressure on profitability and capital ratios of credit institutions due to the COVID-19 pandemic. The specific for the Group countercyclical capital buffer as of December 31, 2021 is 0.49%. The capital requirements are also increasing by introducing other systemically important institutions buffer, which is calculated at 1.00% of the total risk exposures of the Group for 2021 and 2020.

According to the joint decision of the Bulgarian National Bank and the Hungarian Central Bank taken after a regulatory review and assessment had been performed, there is no requirement for the Group to keep any additional capital requirement for 2021 and 2020.

(f) Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in the accounting policy. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The fair values of financial assets and financial liabilities which are traded on active markets and for which market information is available are based on quoted market prices or closing prices. The use of real market prices and information reduces the necessity for management assessment and assumptions as well as the uncertainty related to the determination of the fair value. The availability of real market prices and information varies depending on the products and markets and changes based on the specific events and the general financial markets environment. For part of the other financial instruments (Level 2) the Group defines fair value using a measurement method based on net present value (NPV). The calculation of the NPV is based on market yield curves and credit spreads where it is required for the corresponding instrument. The aim of the measurement methods is to define the fair value which reflects the value of the financial instrument as of the reporting date, which would have been defined by direct market players.

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

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

	Level 1: Quoted market prices in active markets	Level 2: Valuation techniques - observable inputs	Level 3: Valuation techniques - unobservable inputs	Total
<i>In thousands of BGN</i>				
31-December-2021				
Assets				
Trading financial assets	143 362	-	-	143 362
Derivative financial instruments	40	33 419	-	33 459
Investments at fair value through profit or loss	597	305	5 636	6 538
Investments at fair value through other comprehensive income	1 706 131	6 474	12 992	1 725 597
Total	1 850 130	40 198	18 628	1 908 956
Liabilities				
Derivative financial instruments	-	43 629	-	43 629
Total	-	43 629	-	43 629
31-December-2020				
Assets				
Trading financial assets	63 111	-	-	63 111
Derivative financial instruments	-	62 769	-	62 769
Investments at fair value through profit or loss	166 238	263	5 692	172 193
Investments at fair value through other comprehensive income	1 983 609	6 313	12 301	2 002 223
Total	2 212 958	69 345	17 993	2 300 296
Liabilities				
Derivative financial instruments	-	86 191	-	86 191
Total	-	86 191	-	86 191

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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 2021

	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
<i>In thousands of BGN</i>					
Assets					
Cash and current accounts with the Central Bank and other banks	3 959 884	-	-	3 959 884	3 959 884
Loans and advances to banks	-	1 915 161	-	1 915 161	1 915 161
Net receivables from finance lease	-	-	1 098 640	1 098 640	1 100 802
Loans and advances to customers	-	-	13 442 073	13 442 073	13 366 816
Investments at amortised cost	1 492 728	-	-	1 492 728	1 492 728
Liabilities					
Deposits from banks	-	255 502	-	255 502	255 502
Deposits from customers	-	20 052 902	-	20 052 902	20 052 824
Loans from financial institutions	-	203 554	-	203 554	203 554
Lease liabilities	-	20 793	-	20 793	20 793

As of 31 December 2020

	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
<i>In thousands of BGN</i>					
Assets					
Cash and current accounts with the Central Bank and other banks	675 203	3 066 329	-	3 741 532	3 741 532
Loans and advances to banks	-	2 393 813	-	2 393 813	2 393 813
Net receivables from finance lease	-	-	995 620	995 620	990 039
Loans and advances to customers	-	-	12 261 049	12 261 049	12 127 091
Investments at amortised cost	578 095	-	-	578 095	578 095
Liabilities					
Deposits from banks	-	36 897	-	36 897	36 897
Deposits from customers	-	19 206 929	-	19 206 929	19 206 792
Loans from financial institutions	-	54 220	-	54 220	54 220
Lease liabilities	-	24 393	-	24 393	24 393

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The fair value of cash at banks, loans and advances to banks, and loans and deposits from banks is approximately equal to their carrying value because of their short-term maturity.

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

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

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

4. Net interest income

	2021	2020
<i>In thousands of BGN</i>		
Interest income		
Loans and advances to banks	5 275	8 136
Loans and advances to customers	585 708	591 732
Investments at fair value through other comprehensive income	23 401	27 266
Investments at amortised cost	10 334	3 358
Deposits from banks	959	498
Deposits from customers	2 833	2 655
Total	628 510	633 645
Interest expense		
Deposits from banks	(70)	(6 652)
Deposits from customers	(925)	(1 636)
Loans from banks and financial institutions	(15)	(2 798)
Lease liabilities	(154)	(295)
Cash with the Central Bank (negative interest)	(1 712)	(197)
Loans and advances to banks (negative interest)	(12 306)	(2 989)
Loans and advances to customers (negative interest)	(162)	(305)
Total	(15 344)	(14 872)
Net interest income	613 166	618 773

5. Net fee and commission income

	2021	2020
<i>In thousands of BGN</i>		
Fee and commission income		
<i>In Bulgarian Leva</i>		
Payment and settlement transactions	89 872	75 382
Credit related deals	28 558	25 315
Deposit related deals	93 966	75 446
Mutual and pension funds management	40 876	32 708
Other	41 542	43 759
	<u>294 814</u>	<u>252 610</u>
<i>In foreign currencies</i>		
Payment and settlement transactions	28 874	22 975
Credit related deals	8 237	9 009
Deposit related deals	7 482	5 205
Other	7 672	5 990
	<u>52 265</u>	<u>43 179</u>
Total	347 079	295 789
Fee and commission expense		
In Bulgarian Leva	(36 491)	(33 730)
In foreign currencies	(6 466)	(5 471)
Total	<u>(42 957)</u>	<u>(39 201)</u>
Net fee and commission income	<u>304 122</u>	<u>256 588</u>

Included in "other" are fees for agency services, sms services, package services, issuance of guarantees, commercial factoring commissions, etc.

6. Net trading income

	2021	2020
<i>In thousands of BGN</i>		
Net interest income from securities held for trading	(683)	(4 380)
Net income on FX derivatives revaluation	(5 054)	71 425
Net income on non FX derivatives revaluation	170	62 074
Securities trading and revaluation	(1 473)	(2 701)
Foreign exchange trading	31 916	64 987
Ineffective hedge net gain	7	(317)
Total	<u>24 883</u>	<u>191 088</u>

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

	2021	2020
<i>In thousands of BGN</i>		
(Loss)/ gain on hedged assets	(15 282)	11 673
Gain /(loss) on hedging instruments	<u>15 289</u>	<u>(11 990)</u>
Hedge ineffectiveness recognised immediately in profit or loss	<u><u>7</u></u>	<u><u>(317)</u></u>

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

Additional information about the hedging is provided in Note 17.

7. Net income from other financial instruments at FVTPL

	2021	2020
<i>In thousands of BGN</i>		
Debt instruments	17 245	(3 507)
Equity instruments	<u>132</u>	<u>1 571</u>
Total	<u><u>17 377</u></u>	<u><u>(1 936)</u></u>

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

	2021	2020 restated
<i>In thousands of BGN</i>		
Collection of previously written-off loans and receivables	11 974	11 630
Sale of financial assets	<u>10 340</u>	<u>8 665</u>
Total	<u><u>22 314</u></u>	<u><u>20 295</u></u>

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

9. Other operating income, net

	2021	2020 restated
<i>In thousands of BGN</i>		
Net income from government bonds measured at fair value through other comprehensive income	(128)	(416)
Dividends	598	518
Rental fees	2 823	1 998
Income from security and cash collection	822	1 320
Income from tourist services	78	-
Operating lease	3 252	4 054
Card operators	293	2 249
Net gain / (loss) on disposal of non-financial assets	(1 082)	502
Other services	3 917	1 945
Government grants	358	-
Other	7 873	6 993
Total	<u>18 804</u>	<u>19 163</u>

10. Impairment losses on financial assets, net

	2021	2020
<i>In thousands of BGN</i>		
Impairment loss on loans and receivables from banks, net	(4 257)	(4 997)
Impairment loss on loans and factoring agreements, net	(134 434)	(315 492)
Impairment gain on POCI	9 299	43 501
Impairment loss on other assets, net	(294)	(280)
Impairment loss on securities	(1 106)	(3 852)
Total	<u>(130 792)</u>	<u>(281 120)</u>

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11. Impairment gain/ (loss) on non-financial assets, net

<i>In thousands of BGN</i>	<i>Note</i>	2021	2020
Impairment loss on tangible assets	25	(5 849)	-
Reversal of impairment on intangible assets		-	546
Impairment losses on inventory		344	(2)
Impairment gain/ (loss) on collaterals acquired		<u>6 194</u>	<u>(1 456)</u>
Total		<u>689</u>	<u>(912)</u>

The impairment gain/ (loss) on acquired collaterals is reflected in the carrying amount of those assets (Note 27).

12. Personnel expenses

<i>In thousands of BGN</i>	2021	2020
Wages and salaries	154 674	158 685
Social security contributions	30 749	35 451
Cash-settled share-based payments	1 091	-
Other	<u>1 708</u>	<u>3 644</u>
Total	<u>188 222</u>	<u>197 780</u>

The average number of full-time employees is 6 052 for 2021 and 5 863 for 2020.

13. Depreciation and amortisation

<i>In thousands of BGN</i>	<i>Note</i>	2021	2020
Investment property	23	443	443
Right-of-use assets	24	7 999	11 407
Property, plant and equipment	25	25 758	32 075
Intangible assets	26	<u>29 540</u>	<u>36 788</u>
Total		<u>63 740</u>	<u>80 713</u>

14. Other expenses

	2021	2020
<i>In thousands of BGN</i>		
Hired services	107 869	112 219
Guarantee Funds contributions	35 304	56 952
Materials	16 554	17 345
Expenses related to short-term leases	3 940	4 274
Expense relating to leases of low value assets	1 829	1 362
Other expenses	9 945	9 404
Total	<u>175 441</u>	<u>201 556</u>

The fees accrued for the services provided by the independent financial auditors' of the Group for 2021 include statutory audit fees to the amount of BGN 1 416 thousand and fees for other non-audit related services to the amount of BGN 50 thousand. (2020: BGN 1 795 thousand and BGN 215 thousand, respectively).

15. Income tax expense

	2021	2020
<i>In thousands of BGN</i>		
Current tax expense	(46 743)	(20 333)
Deferred tax benefit/ (expense)/ related to origination and reversal of temporary tax differences	840	1 930
Total	<u>(45 903)</u>	<u>(18 403)</u>

	2021	2020
<i>In thousands of BGN</i>		
Accounting profit	462 440	193 924
Income tax using the statutory corporate tax rate	(46 244)	(19 392)
Allowance for tax paid in foreign tax jurisdictions	375	77
Tax on permanent tax differences	(34)	912
Income tax expense	<u>(45 903)</u>	<u>(18 403)</u>
Effective tax rate	9.93%	9.49%

Current taxes are calculated using a tax rate of 10% for 2021 and 2020.

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

	31-December- 2021	31-December- 2020
<i>In thousands of BGN</i>		
Cash on hand		
In Bulgarian Leva	710 207	567 261
In foreign currencies	95 251	107 942
Current accounts with the Central Bank		
In Bulgarian Leva	3 016 022	2 940 422
In foreign currencies	48 064	29 627
Current accounts with other banks		
In Bulgarian Leva	14 286	4 605
In foreign currencies	76 419	91 675
Less impairment loss allowances	(365)	-
Total	3 959 884	3 741 532

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

The current account with the Central Bank is used for direct participation in the money and securities markets and for settlement purposes as well as for keeping funds for Group's participation in the Guarantee Mechanism of the System Processing Card-based Payment Transactions. Balances with the Central Bank also cover the minimum required reserves amounting to BGN 1 563 810 thousand and BGN 1 596 998 thousand as of 31 December 2021 and 2020, respectively. Minimum reserves are non-interest bearing and are regulated on a monthly basis. Daily fluctuations are allowed. Shortages or excess reserve funds on monthly basis bear penalty interest.

The accumulated impairment as of 31 December 2021 amounting to BGN 365 thousand includes BGN 66 thousand of impairment of cash held at the Central Bank and BGN 299 thousand of impairment of cash at other banks.

Cash at OTP Group member banks is disclosed in Note 39.

17. Financial assets held for trading and derivative financial instruments

	31-December-2021	31-December-2020
<i>In thousands of BGN</i>		
Government securities – Republic of Bulgaria denominated in Bulgarian Leva	57 008	32
Government securities – Republic of Bulgaria denominated in foreign currencies	86 354	11 444
Foreign issuers' debt securities denominated in foreign currencies	-	51 635
Total	143 362	63 111

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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, 2021 between 0.00% and 4.00% (2020: between 4.00% and 5.00%) and government securities denominated in EUR earn interest between 1.875% and 3.125% (2020: between 1.875% and 2.00%).

As of 31 December 2021 government securities issued by foreign governments comprise securities denominated in EUR (2020: EUR and USD). The EUR denominated government securities earn interest as of December 31, 2021 between 0.45% and 3.875% (2020: 3.875%). Government securities denominated in USD in the previous period earn interest between 5.50% and 6.375%.

Derivative financial instruments as of 31 December 2021

	Carrying value		Notional amount
	Assets	Liabilities	
<i>In thousands of BGN</i>			
Derivatives held for trading			
Interest rate swaps	9 881	7 652	1 417 385
Foreign exchange contracts	12 547	12 191	1 620 147
Commodity swaps	10 585	10 837	219 231
Total	33 013	30 680	3 256 763
Derivatives used as fair value hedging instruments			
Interest rate swaps	446	12 949	602 759
Total	446	12 949	602 759
Total derivative financial instruments	33 459	43 629	3 859 522

Derivative financial instruments as of 31 December 2020

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

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The derivative transactions with related parties are disclosed in Note 39.

The fair value hedge contracts as of 31 December 2021 and 2020 are interest rate swaps used to hedge interest rate risk. The contracts are concluded with OTP Bank (see also Note 39). The hedged items are government bonds carried at FVTOCI, whose carrying amount as of 31 December 2021 and 2020 is BGN 646 842 thousand and BGN 982 425 thousand, respectively.

<i>In thousands of BGN</i>	2021	2020
Gain/ (loss) from changes in fair value used for calculating hedge ineffectiveness for the year (Note 7)	14 931	(11 990)
Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item	10 351	25 633

18. Loans and advances to banks

(a) Analysis by type

	31-December-2021	31-December-2020
<i>In thousands of BGN</i>		
Deposits with domestic and foreign banks		
In Bulgarian Leva	1 000	-
In foreign currencies	1 683 947	2 362 872
Encumbered assets (Note 35(d))	4 415	7 899
Loans under repurchase agreements	235 711	29 011
Other receivables	1	-
Less impairment loss allowances	(9 913)	(5 969)
Total	<u>1 915 161</u>	<u>2 393 813</u>

(b) Geographical analysis

	31-December-2021	31-December-2020
<i>In thousands of BGN</i>		
Domestic banks	2 326	78 161
Foreign banks	1 912 835	2 315 652
Total	<u>1 915 161</u>	<u>2 393 813</u>

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

The loans and advances to banks – related parties are disclosed in Note 39.

19. Net receivables from finance lease

	31-December-2021	31-December-2020
<i>In thousands of BGN</i>		
Gross receivables from finance lease	1 180 932	1 065 229
Unrealized financial income	(47 084)	(45 329)
Net minimum lease payments	1 133 848	1 019 900
Impairment	(33 046)	(29 861)
Net receivables from finance lease	1 100 802	990 039

Net receivables from finance leases are allocated as follows:

	31-December-2021	31-December-2020
<i>In thousands of BGN</i>		
With maturity of up to 1 year	387 477	359 373
With maturity from 1 to 5 years	725 500	640 803
With maturity over 5 years	20 871	19 724
Impairment	(33 046)	(29 861)
Net receivables from finance lease	1 100 802	990 039

20. Loans and advances to customers

	31-December-2021	31-December-2020
<i>In thousands of BGN</i>		
Individuals		
In Bulgarian Leva		
Consumer loans	4 640 544	4 190 780
Housing and mortgage loans	4 010 941	3 388 802
In foreign currencies		
Consumer loans	43 088	63 442
Housing and mortgage loans	273 092	357 436
Companies		
In Bulgarian Leva		
Working capital loans	1 510 541	1 362 656
Investment loans	1 182 413	1 151 310
Advances to clients under local and international factoring	134 710	134 600
In foreign currencies		
Working capital loans	891 734	958 719
Investment loans	1 532 301	1 422 205
Advances to clients under local and international factoring	105 169	63 908
State Budget		
In Bulgarian Leva	53 640	46 747
In foreign currencies	6 702	7 933
Less impairment loss allowances	(1 018 059)	(1 021 447)
Total loans and advances to customers	13 366 816	12 127 091

The movement of the provision for expected credit loss of loans and advances to customers is provided above as a part of the credit risk management disclosure.

The interest rates on loans as at 31 December 2021 are in the following range: receivables from individuals from 0.01% to 40.35%; receivables from companies from 0.01% to 20.00%; receivables from the State Budget from 0.09% to 4.50%.

The interest rates on loans as at 31 December 2020 are in the following range: 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 bad debts sold to unrelated parties have a gross carrying amount of BGN 18 277 thousand and BGN 53 681 thousand for 2021 and 2020, respectively. The impairment allowance on sold bad debts amounts to BGN 18 277 thousand and BGN 48 659 thousand for 2021 and 2020, respectively.

The loans derecognized on account of accumulated impairment amount to BGN 113 943 thousand and BGN 101 052 thousand for 2021 and 2020, respectively, including BGN 68 993 thousand and BGN 38 847 thousand of loans written off partially.

21. Investments in securities

	31-December-2021	31-December-2020
<i>In thousands of BGN</i>		
<i>Investments in instruments measured at fair value through other comprehensive income</i>		
Equity instruments	19 494	18 614
Government debt securities	1 709 191	1 987 184
Less impairment loss allowances	(3 088)	(3 575)
Total investments in instruments measured at fair value through other comprehensive income	1 725 597	2 002 223
<i>Investments in instruments mandatory measured at fair value through profit or loss</i>		
Equity instruments	902	565
Corporate debt securities	5 636	171 628
Total investments in instruments mandatory measured at fair value through profit or loss	6 538	172 193
<i>Investments in instruments measured at amortized cost</i>		
Government debt securities	1 495 603	579 231
Less impairment loss allowances	(2 875)	(1 136)
Total investments in instruments measured at amortized cost	1 492 728	578 095
Total	3 224 863	2 752 511

The investments in securities issued by OTP Group members, are disclosed in Note 39.

Investments measured at FVTOCI include government bonds issued by the Ministry of Finance of the Republic of Bulgaria denominated in BGN with an applicable interest rate in the range between 0.01% and 5.00% (2020: 0.01% and 5.00%) and denominated in EUR with an interest rate ranging between 0.375% and 5.75% (2020: 1.875% and 5.75%).

Foreign issuers' debt securities represent government bonds denominated in EUR earning interest from 1.3% to 3.75% (2020: 0.875% to 4.00%) and government bonds denominated in USD earning interest in the range from 1.625% to 6.75% (2020: 1.625% to 6.75%).

As of 31 December 2021 and 2020, the securities pledged as collateral and blocked in favour of the Ministry of Finance on deposits from the State Budget include both instruments measured at FVTOCI and instruments carried at amortised cost, which are disclosed in Note 35(d).

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

22. Goodwill

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

<i>In thousands of BGN</i>	31-December-2021	31-December-2020
Expressbank AD	77 372	77 372
DSK Rodina Pension Company AD	1 175	1 175
Total	<u>78 547</u>	<u>78 547</u>

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

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

As of 31 December 2021 the Group performed a test for impairment of goodwill allocated to the combined bank using a model whose key inputs are the cash flows of the combined bank for a three-year period. Based on the actual financial performance for the 11 months to November 2021 and the financial preliminary estimations for December 2021, the Group prepared a medium-term cash flow forecasts for the period 2022-2024. In preparing the calculations, the Group considered the actual worldwide economic situation, the expected economic growth for the following years, their possible effects on the financial sector, the plans for growing, which result from these, and the expected changes of the mentioned factors.

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

Present value calculation with the FCF method

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

Present value calculation with the EVA method

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

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

	2022	2023	2024
Discount rate	0.5%	0.5%	0.5%
Risk premium	6.0%	6.0%	6.0%

Calculation of terminal value:

Long-term discount rate	0.5%
Long-term risk premium	6.0%
Long-term risk growth rate	3.0%

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

The calculated recoverable amount under both methods exceeds the carrying amount of net assets of DSK Group, being the cash-generating unit for the purposes of the test, by approximately 20%. Therefore, management has concluded that the developments during the reporting period, including the spread of COVID-19, have not led to impairment of goodwill as of 31 December 2021.

23. Investment property

	31-December-2021	31-December-2020
<i>In thousands of BGN</i>		
Cost		
Balance as of 01 January	22 512	22 512
Balance as of 31 December	22 512	22 512
Depreciation		
Balance as of 01 January	2 658	2 215
Charge for the period	443	443
Balance as of 31 December	3 101	2 658
Net book value	19 411	19 854

The fair value of the investment property determined by independent licensed external appraisers as of 31 December 2021 and 2020, is BGN 19 523 thousand and 19 759 thousand, respectively.

The last valuation of the investment property is determined according to independent appraisers' report dated 3 November 2021. The appraisers have used two valuation methods, namely the comparative value method (market analogy method) and the income method.

Under the market analogy approach, market prices of similar (analogous) assets are used, adjusted for the specifics of the investment property being valued. The analogous items are similar or identical to the ones being valued in terms of location, construction and stage of completion.

The income approach reflects the capability of assets to generate rental income. The appraisal is based on the average market rents for similar properties, adjusted for possible losses from vacancies or uncollectible rents, housing costs, major repairs, taxes and charges and other costs. The major factors used in the model for adjusting the gross annual income are the following:

Operating costs, taxes, charges	5.00%
Loss of rentals	7.00%
Capitalisation rate	7.50%

The fair value of the property is the weighted average of the values determined by both methods. The fair value is categorised as Level 3 in the fair value hierarchy as per IFRS 13.

24. Right-of-use assets

Movement of right-of-use assets during the year 2021

	Land, buildings and equipment	Vehicles	Total
<i>In thousands of BGN</i>			
Cost			
Balance as of 31 December 2020	37 949	4 178	42 127
Additions due to new contracts	4 258	810	5 068
Derecognition due to expired contracts	(1 321)	(717)	(2 038)
Changes from reassessment and modification	(3 796)	(259)	(4 055)
Balance as of 31 December 2021	37 090	4 012	41 102
Depreciation			
Balance as of 31 December 2020	13 988	1 800	15 788
Depreciation for the period	6 987	1 012	7 999
Derecognition due to expired contracts	(1 321)	(717)	(2 038)
Changes from reassessment and modification	(2 602)	(244)	(2 846)
Balance as of 31 December 2021	17 052	1 851	18 903
Net book value 31 December 2021	20 038	2 161	22 199
Net book value 31 December 2020	23 961	2 378	26 339

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

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

25. Property, plant and equipment

Movement of property, plant and equipment during the year 2021

	Land and buildings	IT equipment	Office equipment	Other equipment	Assets under operative leasing	Total
<i>In thousands of BGN</i>						
Cost or revalued amount						
Balance as of 31 December 2020	506 766	102 786	96 260	18 314	18 768	742 894
Additions	8 007	420	225	10 807	9 828	29 287
Disposals	(10 188)	(2 700)	(737)	(2 811)	(9 197)	(25 633)
Transfers	2 853	8 364	2 352	(13 569)	-	-
Revaluation increase	76 337	-	-	-	-	76 337
Impairment charge	(919)	-	-	-	-	(919)
Balance as of 31 December 2021	582 856	108 870	98 100	12 741	19 399	821 966
Depreciation						
Balance as of 31 December 2020	145 697	78 792	79 640	8 373	7 778	320 280
Charge for the period	9 691	7 414	5 515	313	2 825	25 758
Disposals	(5 407)	(2 684)	(581)	(1 297)	(4 970)	(14 939)
Revaluation increase	31 816	-	-	-	-	31 816
Impairment charge	4 930	-	-	-	-	4 930
Balance as of 31 December 2021	186 727	83 522	84 574	7 389	5 633	367 845
Net book value 31 December 2021	396 129	25 348	13 526	5 352	13 766	454 121
Net book value 31 December 2020	361 069	23 994	16 620	9 941	10 990	422 614

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Movement of property, plant and equipment during the year 2020

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

“Land and buildings” includes leasehold improvements to the amount of BGN 2 661 thousand and BGN 3 441 thousand as of 31 December 2021 and 2020, respectively.

In “Other equipment” are included property, plant and equipment under construction and acquisition of property plant and equipment to the amount of BGN 4 510 thousand and BGN 8 658 thousand as of 31 December 2021 and 2020, respectively.

As of 31 December 2021, the gross carrying amount of fully depreciated property, plant and equipment that are still in use in the course of the Group's activities is as follows: buildings: to the amount of BGN 432 thousand, IT equipment: to the amount of BGN 50 071 thousand, office equipment: to the amount of BGN 59 653 thousand, other equipment: to the amount of BGN 5 082 thousand.

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

The fair value of land and buildings was determined by licensed appraisers as of 31 December 2021. The valuation was performed using the comparative value method (market analogy method). Under this method, the value of property is determined by direct comparison to the market price of other similar properties. The appraisers have used data from actual market transactions concluded during the 6-month period prior to the valuation date. The market price of the analogous property is adjusted by an expert coefficient for market adaptation (ECMA), which is usually in the range from -25% to +25%, and reflects the availability of sufficient market information for analogous items. The ECMA can exceed this range in exceptional circumstances and by decision of the appraiser only for unique properties with characteristics similar to the appraised ones, for which no sufficient market analogues are available. Additionally, the price is adjusted by coefficients reflecting the area, location, size and structure of the property, as well as a weight factor reflecting the weight of the selected market analogs in the determined fair value.

The main coefficients applied in the properties' revaluation as of 31 December 2021 are in the following range:

Coefficient	Range	
Valuation of buildings:	from	to
Location	0.80	1.30
Physical condition	0.80	1.30
Area	0.75	1.20
Different statute	0.60	1.00
Valuation of land:		
Location, size, structure	0.80	1.25
Area	0.75	1.25
Business purpose	0.70	1.00

The coefficient for actual market deals used for land valuation is 0.90.

Based on the inputs in the valuation model used, the fair value of land and buildings is categorized as Level 3 in the fair value hierarchy. The fair value is sensitive to changes in the adjusting coefficients used, and may vary, in case such coefficients are decreased or increased.

26. Intangible assets

Movement of intangible assets during 2021

	Intangible assets	Assets recognized in business combinations	Assets in the process of acquisition	Total
<i>In thousands of BGN</i>				
Cost				
Balance as of 31 December 2020	180 419	86 588	8 411	275 418
Additions	474	-	17 828	18 302
Disposals	(6 585)	-	(59)	(6 644)
Transfers	17 400	-	(17 400)	-
Balance as of 31 December 2021	191 708	86 588	8 780	287 076
Amortization				
Balance as of 31 December 2020	139 799	44 518	-	184 317
Charge for the period	17 119	12 421	-	29 540
Disposals	(6 071)	-	-	(6 071)
Balance as of 31 December 2021	150 847	56 939	-	207 786
Net book value 31 December 2021	40 861	29 649	8 780	79 290
Net book value 31 December 2020	40 620	42 070	8 411	91 101

Movement of intangible assets during 2020

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

As of 31 December 2021 and 2020, the gross carrying amount of fully amortized intangible assets (licenses and software) that are still in use in the course of the Group's activities is to the amount of BGN 109 466 thousand and BGN 106 510 thousand, respectively.

27. Other assets

	31-December-2021	31-December-2020
<i>In thousands of BGN</i>		
Temporary accounts with clients	30 723	26 132
Deferred expenses	25 973	19 162
Clearing and bank settlement assets	12 797	9 350
Receivables for fees	11 929	7 646
Advances to suppliers	9 934	13 725
Acquired collaterals	4 446	6 961
Materials, spare parts	4 241	5 378
Shortages of assets	3 494	3 592
Receivables from litigation	1 835	1 835
Depository accounts	1 242	3 558
Receivables from insurers	24	4 283
Other assets	14 579	8 990
Impairment	(16 136)	(16 055)
Total	105 081	94 557

Depository accounts represent temporary balances to secure transactions with securities.

The accumulated impairment of other assets is mostly attributable to receivables for fees, receivables from litigation and writs, as well as shortages of assets. The movement of impairment for 2021 and 2020 is the following:

	2021	2020
<i>In thousands of BGN</i>		
Opening balance	16 055	25 959
Charge for the year	1 048	2 988
Release for the year	(1 098)	(2 706)
Written-off	65	(10 189)
Foreign exchange differences	66	3
Closing balance	16 136	16 055

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

	31-December-2021	31-December-2020
<i>In thousands of BGN</i>		
Deposits from banks		
Current accounts	26 008	21 786
Deposits	229 494	15 111
Total deposits from banks	255 502	36 897
 Loans from banks		
Short term loans	155 409	-
 Loans from financial institutions		
Long term loans	48 145	54 220
Total loans from banks and financial institutions	203 554	54 220

As of 31 December 2021 short-term loans from banks to the amount of BGN 155 409 thousand represent a liability under a repo deal with an unrelated party with maturity date 4 January 2022. The interest rate is negative -0.95%. The loan is collateralized with securities to the amount of BGN 189 896 thousand (see също Note 35(d)).

The Group has received a long-term loan from the European Investment Fund under the programme “JEREMIE” for the purpose of granting preferential interest loans to SMEs. As of 31 December 2021 and 2020 the BGN equivalent of the outstanding balance of the loan is BGN 7 294 thousand and BGN 12 521 thousand, respectively.

As of 31 December 2021 the interest rate on BGN 3 718 thousand of the balance is 0.207% and the interest rate on the remaining amount of BGN 3 576 thousand is 0.007%.

As of 31 December 2020 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 Group has received financing from the Fund Manager of Financial Instruments in Bulgaria (FMFIB) under operating agreements with the purpose of providing finance to ultimate beneficiaries for urban development projects. The Group is entitled to receive a fee for managing the funds, which is determined on the basis of extended, and repaid, funds to, and from, the ultimate recipients of those funds. As of 31 December 2021, the Group’s liability under the financing agreements is BGN 40 851 thousand (2020: BGN 37 100 thousand), including BGN 18 436 thousand (2020: BGN 22 355 thousand) due for repayment in June 2035 and BGN 22 415 thousand (2020: BGN 14 745 thousand) with a term of repayment equal to the longest term contracted with an ultimate beneficiary plus three months. The financing is non-interest bearing for the Group.

As of 31 December 2020 OTP Leasing Bulgaria EOOD has a loan received from a Bulgarian bank to the amount of BGN 4 599 thousand, which was fully repaid in 2021.

The deposits received from related parties are disclosed in Note 39.

The Group has not had any defaults of principal or interest or other breaches with respect to its liabilities during the years 2021 and 2020.

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29. Deposits from customers

	31-December-2021	31-December-2020
<i>In thousands of BGN</i>		
Individuals		
In Bulgarian Leva		
Term deposits	2 091 540	2 738 696
Demand deposits	9 395 571	7 646 322
In foreign currencies		
Term deposits	1 701 777	2 176 602
Demand deposits	2 943 060	2 544 012
Companies		
In Bulgarian Leva		
Term deposits	172 532	117 171
Demand deposits	2 045 866	2 153 247
In foreign currencies		
Term deposits	117 941	157 858
Demand deposits	937 036	1 093 373
State Budget		
In Bulgarian Leva		
Term deposits	43 300	43 584
Demand deposits	155 596	171 160
In foreign currencies		
Term deposits	4 763	5 077
Demand deposits	100 721	71 932
Financial institutions		
In Bulgarian Leva		
Term deposits	318	3 128
Demand deposits	115 608	162 579
In foreign currencies		
Term deposits	844	787
Demand deposits	226 351	121 264
Total	20 052 824	19 206 792

The interest rates on deposits as at 31 December 2021 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 -1.01% to 0.20%.

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 deposits received from related parties are disclosed in Note 39.

30. Lease liabilities

	31-December-2021	31-December-2020
<i>In thousands of BGN</i>		
With maturity of up to 1 year	7 164	7 399
With maturity from 1 to 5 years	12 600	14 659
With maturity over 5 years	1 029	2 335
Total lease liabilities	20 793	24 393

The changes in lease liabilities for the years ending 31 December 2021 and 2020 are presented below:

<i>In thousands of BGN</i>	2021	2020
As of 1 January	24 393	65 166
<i>Non-cash changes:</i>		
Increase due to new contracts	5 068	1 848
Interest accrued	154	295
Changes from reassessment and modification	(1 225)	(31 770)
	3 997	(29 627)
<i>Cash flows:</i>		
Payments	(7 597)	(11 146)
	(7 597)	(11 146)
As of 31 December	20 793	24 393

31. Provisions

Movement in provisions during 2021

	Pension employment defined benefit obligations	Provisions for litigation and others	Provisions for guarantees, letters of credit, loan commitments and factoring	Provisions for restructuring	Total
<i>In thousands of BGN</i>					
Opening balance as of 31 December 2020	12 889	36 091	37 163	742	86 885
Additions during the year	1 539	4 961	66 164	-	72 664
Reversal during the year	(30)	(3 755)	(71 043)	-	(74 828)
Amounts paid	(922)	(18)	-	(635)	(1 575)
Other movements	298	1	17	-	316
Closing balance as of 31 December 2021	13 774	37 280	32 301	107	83 462

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Movement in provisions during 2020

	Pension employment defined benefit obligations	Provisions for litigation and others	Provisions for guarantees, letters of credit, loan commitments and factoring	Provisions for restructuring	Total
<i>In thousands of BGN</i>					
Opening balance as of 31 December 2019	14 582	36 004	45 060	5 842	101 488
Additions during the year	1 864	4 358	85 386	-	91 608
Reversal during the year	-	(4 072)	(93 301)	(5 100)	(102 473)
Amounts paid	(1 368)	(199)	-	-	(1 567)
Other movements	(2 189)	-	18	-	(2 171)
Closing balance as of 31 December 2020	12 889	36 091	37 163	742	86 885

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

	2021	2020
<i>In thousands of BGN</i>		
Defined benefit obligations at 1 January	12 889	14 170
Benefits paid by the plan	(923)	(1 368)
Current service costs	1 521	1 558
Past service costs	41	277
Interest cost	2	90
Remeasurements:		
Actuarial losses/ (gains) from experience adjustments	564	(1 750)
Actuarial losses/ (gains) from changes in demographic assumptions	4	(58)
Actuarial gains from changes in financial assumptions	(324)	(30)
Defined benefit obligations at 31 December	13 774	12 889

Expense recognised in profit or loss

<i>In thousands of BGN</i>	2021	2020
Current service costs	1 521	1 558
Past service costs	(25)	277
Interest on obligation	68	90
Actuarial gains	(54)	(61)
Total	<u>1 510</u>	<u>1 864</u>

Actuarial assumptions

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

	2021	2020
Discount rate at 31 December	0.60%	0.50%
Future salary increases	2.25%	3.25%

32. Deferred tax liabilities

Deferred income taxes for 2021 and 2020 are calculated on all temporary differences under the liability method using a tax rate of 10%.

Deferred income tax balances are attributable to the following items:

	Assets		Liabilities		Net	
	2021	2020	2021	2020	2021	2020
<i>In thousands of BGN</i>						
Retirement benefit obligations under the Labour Code and other personnel liabilities	(3 752)	(3 299)	-	-	(3 752)	(3 299)
Business reorganisation	-	-	443	443	443	443
Financial assets	(7)	(9)	-	-	(7)	(9)
Fixed assets	(53)	(76)	25 785	22 255	25 732	22 179
Provisions for litigation and others	(3 643)	(3 545)	-	-	(3 643)	(3 545)
Unused annual leave and other	(1 393)	(2 000)	2	1	(1 391)	(1 999)
Net deferred tax (assets)/liabilities	<u>(8 848)</u>	<u>(8 929)</u>	<u>26 230</u>	<u>22 699</u>	<u>17 382</u>	<u>13 770</u>

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Movement in deferred taxes during 2021

	Balance as of 31 December	Recognised in the statement of profit or loss	Charged directly to equity	Balance as of 31 December
	2020	2021	2021	2021
<i>In thousands of BGN</i>				
Retirement benefit obligations under the Labour Code and other personnel liabilities	(3 299)	(453)	-	(3 752)
Business reorganisation	443	-	-	443
Financial assets	(9)	2	-	(7)
Fixed assets	22 179	(899)	4 452	25 732
Provisions for litigation and other liabilities	(3 545)	(98)	-	(3 643)
Unused annual leave and other	(1 999)	608	-	(1 391)
Total	13 770	(840)	4 452	17 382

Movement in deferred taxes during 2020

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

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33. Other liabilities

<i>In thousands of BGN</i>	31-December-2021	31-December-2020
Money transfers for execution	40 139	26 064
Liabilities to personnel and management	29 683	29 275
Liabilities to suppliers	20 138	9 776
Obligations under unilaterally terminated contracts	17 578	19 638
Liabilities to customers related to purchase and repurchase of investments in mutual funds	12 853	446
Initial installments received under finance leases	4 035	2 279
Liabilities for centralisation of State Budget with BNB	3 065	9 213
Liabilities to insurers	1 349	6 238
Dividend payment obligations	279	125
Deferred income	251	5 582
Liabilities under condition for financial asset refunding	40	67
Other	11 432	9 310
Total	140 842	118 013

34. Share capital and reserves

(a) Face value of registered shares

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

As of 31 December 2021 and 2020 the share capital consists of 132 865 992 ordinary dematerialized registered voting shares with par value of BGN 10 each.

OTP Bank, incorporated in Hungary, is the owner of 99.91% of the share capital of DSK Bank as of 31 December 2021 and 2020.

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%	8.67%
KAFIJAT Group	19 661 409	7.02%	7.10%
Groupama Group	14 311 769	5.11%	5.17%

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(b) Legal and other reserve

Legal and other reserve includes statutory reserve according to local regulation and profits transferred reserves according to decisions of the General Meeting of Shareholders. Legal and other reserves in the consolidated statement of changes in equity include also the specialized reserves created under the provisions of the Social Security Code, which are used by DSK Rodina Pension Company AD to cover its obligations to individuals with additional pension insurance.

(c) Revaluation reserves

(1) Revaluation reserve – land and buildings

The properties revaluation reserve arises on the revaluation of land and buildings according to the revaluation model as per IAS 16. Such reserve is reported in the Statement of changes in equity net of deferred tax. Items of other comprehensive income included in the properties revaluation reserve will not be reclassified subsequently to profit or loss.

In 2021 the revaluation reserve of land and buildings has increased by BGN 44 521 thousand, gross of tax, as a result of a revaluation of properties carried out as at 31 December 2021 (Note 25). The deferred tax liability on the reserve recognized directly in equity amounts to BGN 4 452 thousand (Note 32).

For the years ending 31 December 2021 and 2020, revaluation reserve of land or buildings sold to the amount of BGN 1 557 thousand and BGN 300 thousand, respectively, has been transferred directly to retained earnings.

(2) Revaluation reserve – financial assets

The revaluation reserve of financial assets is comprised of the following:

- Gains and losses from changes in the fair value of debt and equity instruments measured at fair value through other comprehensive income;
- Tax effects arisen from the reported gains and losses from changes in the fair value of debt and equity instruments measured at fair value through other comprehensive income;
- Accumulated gains and losses recycled to profit or loss on changes in the fair value attributable to the hedged risk, or on disposal of debt instruments measured at FVTOCI, which have been designated as hedged items;
- Expected credit losses on debt instruments measured at FVTOCI;
- Foreign exchange gains and losses on equity instruments measured at FVTOCI.

(d) Defined benefit pension reserve

The defined benefit pension reserve is comprised of actuarial gains and losses arisen on actuarial valuation of the retirement benefits performed by a licensed actuary as at the end of each reporting period (Note 31).

(e) Share-based payment reserve

The share-based payment reserve is related to performance-based remunerations accrued by the Bank in previous periods, which are to be settled by equity instruments of the parent company.

According to the Remuneration Policy, certain members of the key management personnel are entitled to a performance-based bonus. The scope of persons eligible for such a bonus is defined based on the significance of the position both at OTP Group level and local level, and its significance for risk management.

Performance is measured against goals and criteria defined in separate agreements with the respective persons.

The performance-based remuneration is settled through cash and equity instruments at a ratio of 50:50. A part of the remuneration can be deferred for a maximum period of 5 years.

Until the end of 2020, the equity-settled part of the performance-based remuneration for the scoped-in staff members, was in the form of real shares of OTP Bank. Since 1 January 2021, the shares granted to the eligible staff members are only virtual, meaning that the remuneration is still linked to the price of OTP Bank shares, however it is cash-settled.

The number of shares to be granted to each eligible person is determined as the ratio of the amount of share-based payment and the price of OTP Bank shares. The share price is determined by the Supervisory Board of OTP Bank within 10 days before settlement of the performance-based remuneration, based on the average of the daily prices of the ordinary shares issued by OTP Bank quoted at the Budapest Stock Exchange on the three trading days preceding the day of the decision.

35. Contingent liabilities and commitments

(a) Off balance sheet liabilities and commitments

	31-December-2021	31-December-2020
<i>In thousands of BGN</i>		
Litigation against the Group and other contingent liabilities	41 625	40 593
Bank guarantees and letters of credit		
In Bulgarian Leva	354 066	379 187
In foreign currencies	131 209	143 207
	<u>485 275</u>	<u>522 394</u>
Factoring agreement commitments		
In Bulgarian Leva	11 093	142 408
In foreign currencies	948	212 431
	<u>12 041</u>	<u>354 839</u>
Commitments for undrawn credit facilities		
In Bulgarian Leva	1 817 760	1 544 016
In foreign currencies	1 015 526	1 020 833
	<u>2 833 286</u>	<u>2 564 849</u>
Forward and spot deals - sell		
In Bulgarian Leva	1 396 050	853 695
In foreign currencies	6 462 235	7 521 124
	<u>7 858 285</u>	<u>8 374 819</u>
Other	7 477	4 573
Total	<u><u>11 237 989</u></u>	<u><u>11 862 067</u></u>

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

The off-balance sheet liabilities and commitments to related parties are disclosed in Note 39.

(b) Contingent liabilities on guarantees and letters of credit

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

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

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

The Legal claims against the Group and other commitment liabilities connected with legal proceedings amount to BGN 41 625 thousand and BGN 40 593 thousand (principal and accrued interest) as of December 31, 2021 and 2020, respectively. For part of these legal claims the Group's management believes that there is a probability of unfavourable outcome. The Group considers probability of future cash outflows on other contingent liabilities as well as probability for increase of customers' claims against the Group connected with payments on contracts for products and services provided by the Group. Based on these assessments provisions at the total amount of BGN 37 280 thousand and BGN 36 091 thousand (Note 31) are allocated as at the end of 2021 and 2020, respectively.

(d) Assets pledged as collateral

As of 31 December 2021 and 2020 the Group has pledged assets as collateral as follows:

	31-December-2021	31-December-2020
<i>In thousands of BGN</i>		
Securities measured at FVTOCI	277 596	258 068
Securities measured at amortised cost	223 857	59 307
Financial assets at amortised cost	4 415	7 899
Total	505 868	325 274

As of 31 December 2021 and 2020 securities to the total amount of BGN 311 557 thousand and BGN 317 375 thousand, respectively, are pledged in favour of the Ministry of Finance as collateral for funds due to the State Budget. Additionally, as of 31 December 2021 securities measured at FVTOCI to the amount of BGN 189 896 thousand are pledged as collateral of repo deals (Note 28).

The pledge in favour of the Ministry of Finance is registered at the Bulgarian National Bank under the Public Finance Act.

As of 31 December 2021 DSK Bank has pledged deposits collateralising derivative deals with OTP Bank amounting to BGN 525 thousand (2020: BGN 580 thousand) and with other foreign banks amounting to BGN 3 890 thousand (2020: BGN 7 319 thousand) (see also Note 21).

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(a) Operating leases – the Group as a lessor

The Group has entered into operating lease agreements as a lessor, and recognised income from rentals under those agreements to the amount of BGN 2 823 thousand and BGN 1 998 thousand for 2021 and 2020, respectively (Note 9).

The table below provides a maturity breakdown of the undiscounted cash flow payments, which are to be received in the future by the Group in its capacity as a lessor:

	31-December- 2021	31-December- 2020
<i>In thousands of BGN</i>		
In less than 1 year	4 155	4 365
Between 1 and 2 years	3 296	3 389
Between 2 and 3 years	2 338	1 949
Between 3 and 4 years	2 042	823
Between 4 and 5 years	1 929	357
Total undiscounted future lease payments	<u>13 760</u>	<u>10 883</u>

36. Cash and cash equivalents

	<i>Note</i>	31-December-2021	31-December-2020
<i>In thousands of BGN</i>			
Cash on hand	<i>16</i>	805 458	675 203
Balances with Central Bank	<i>16</i>	3 064 086	2 970 049
Receivables from banks with original maturity up to 3 months		<u>682 813</u>	<u>393 509</u>
Total		<u>4 552 357</u>	<u>4 038 761</u>

37. Associates

As of 31 December 2021 and 2020 the Group exercises significant influence over Company for Cash Services AD, in which it holds 25% of the share capital.

The net assets of the associate are as follows:

Net asset value	31-December-2021	31-December-2020
<i>In thousands of BGN</i>		
Cash Services Company AD	14 264	14 505

The table below shows the carrying amount of the associate and the share in its profit for the years ending 31 December 2021 and 2020:

<i>In thousands of BGN</i>	31-December-2021	31-December-2020
Carrying amount of interests in associates	3 566	3 626
<i>Share of:</i>		
Profit from continuing operations	240	331

38. Business combinations and mergers

Merger of subsidiaries

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

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

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

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Disposal of subsidiaries through a sale transaction

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

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

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

39. Related party transactions

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

The Group has a related party relationship with its directors and executive officers, its subsidiaries and associates and the other companies within OTP Bank Group. The directors and executive officers are represented by the members of the Management Board and the Supervisory Board of the Bank, as well as the managing directors of the Bank's subsidiaries.

The related party transactions are based on contractual terms and conditions.

The related party transactions and balances as of and for the years ended 31 December 2021 and 2020 are as follows:

**DSK
Bank AD**
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As of, and for the year ending 31 December 2021:

<i>In thousands of BGN</i>	OTP Bank	Other OTP Group members	Directors and executive officers	Total
Incomes/ (Expenses)				
Interest income	148	3 553	38	3 739
Interest expense	(780)	-	-	(780)
Fees and commissions income	4	26	-	30
Fees and commissions expenses	(160)	-	-	(160)
Gains (losses) on trading activities	17 459	-	-	17 459
Net income from other financial instruments at FVTPL	15 758	-	-	15 758
Other operating income	1 089	63	-	1 152
Assets				
Current and deposit accounts gross carrying amount	8 962	691 753	-	700 715
Derivative financial instruments	6 478	-	-	6 478
Loans granted to customers, receivables banks gross carrying amount	195 338	-	1 983	197 321
Other receivables	220	-	-	220
Liabilities				
Current and deposit accounts with DSK Bank	4 335	2	13 470	17 807
Derivative financial instruments	28 746	231	-	28 977
Conditional liabilities				
Undrawn lines of credit and commercial factoring	1 600	-	832	2 432
Conditional liabilities for currency exchange contracts	1 591 540	113 736	-	1 705 276
Guarantees and letters of credit granted	-	16	-	16
Conditional receivables				
Conditional receivables for currency exchange contracts	1 627 218	113 438	-	1 740 656
Conditional receivables for financial guarantees	-	17	-	17

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As of, and for the year ending 31 December 2020:

<i>In thousands of BGN</i>	OTP Bank	Other OTP Group members	Directors and executive officers	Total
Incomes/ (Expenses)				
Interest income	2 450	1 068	38	3 556
Interest expense	(1 045)	(104)	(1)	(1 150)
Fees and commissions income	2	24	-	26
Fees and commissions expenses	(215)	-	-	(215)
Gains (losses) on trading activities	89 457	-	-	89 457
Net income from other financial instruments at FVTPL	(2 883)	-	-	(2 883)
Other operating income	880	15	-	895
Assets				
Current and deposit accounts - gross carrying amount	6 042	786 314	-	792 356
Derivative financial instruments	29 418	-	-	29 418
Loans granted to customers, receivables banks - gross carrying amount	-	-	2 329	2 329
Bond issued by OTP Bank	166 238	-	-	166 238
Other receivables	220	-	-	220
Liabilities				
Current and deposit accounts with DSK Bank	3 990	3	15 036	19 029
Derivative financial instruments	64 490	452	-	64 942
Other liabilities	424	-	-	424
Conditional liabilities				
Undrawn lines of credit and commercial factoring	1 600	-	710	2 310
Conditional liabilities for currency exchange contracts	2 290 094	92 787	-	2 382 881
Conditional receivables				
Conditional receivables for currency exchange contracts	2 292 553	92 115	-	2 384 668
Conditional receivables for financial guarantees	-	1 956	-	1 956

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As of 31 December 2021 the Group has nostro accounts with OTP Bank denominated in EUR, USD, GBP, CHF and HUF with total balance to the amount of BGN 7 437 thousand and impairment thereon amounting to BGN 17 thousand. The Bank has nostro accounts with other OTP Bank Group members denominated in RON, RUB, HRK and RSD with total balance as of 31 December 2021 to the amount of BGN 3 890 thousand.

As of 31 December 2020 The Group has nostro accounts with OTP Bank denominated in EUR, SEK, USD, GBP, CHF and HUF with total balance 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.

As of 31 December 2021 the Group has the following intragroup derivative deals:

- Interest rate swaps with OTP Bank Group members – assets BGN 2 531 thousand, liabilities BGN 15 059 thousand, notional amount BGN 1 248 886 thousand;
- Derivative deals for foreign exchange with OTP Bank Group members - assets BGN 3 875 thousand, liabilities BGN 3 154 thousand, notional amount BGN 459 333 thousand;
- Commodity swap deals with OTP Bank Group members - assets BGN 72 thousand, liabilities BGN 10 764 thousand, notional amount BGN 109 657 thousand.

As of 31 December 2020 DSK Bank has the following intragroup derivative 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 2021 the Group has the following intragroup loans and advances to banks:

- Deposits blocked in connection with derivative deals with OTP Bank denominated in EUR and USD amounting to BGN 525 thousand (Note 35(d));
- Short-term deposit at OTP Bank to the amount of BGN 1 000 thousand with maturity date 4 January 2022 and a negative interest rate of -0.43%;
- Deposit accounts with OTP BANKA SRBIJA A.D.NOVI SAD denominated in EUR amounting to BGN 687 863 thousand with maturity of up to 1 year and maturity dates between 31 March 2022 and 30 October 2022. The interest rates vary between 0.16% and 0.86%;
- A receivable under repo deal with OTP Bank in EUR, to the amount of BGN 195 338 thousand with original maturity of over 1 year and repayment date 25 August 2023. It is with a negative interest rate of -0.35%.

As of 31 December 2020 the Group has the following intragroup loans and advances to banks:

- 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 2020 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. The bond is with a variable interest rate, which is 2.48% as of 31 December 2020. In 2021 the investment has been sold.

The deposits received from OTP Bank Group members represent loro accounts with DSK Bank denominated in BGN and EUR with total balance as of 31 December 2021 and 2020 to the amount of BGN 4 337 thousand and BGN 3 993 thousand, respectively.

As of 31 December 2021 the Group has the following intragroup off-balance sheet liabilities and commitments:

- DSK Bank has issued guarantees to OTP group members amounting to BGN 17 thousand.
- The commitment of the Bank on derivative deals with OTP group members amounts to BGN 1 705 276 thousand.

As of 31 December 2020 DSK Bank has commitments to related parties on derivative transactions to the amount of BGN 2 382 881 thousand.

As of 31 December 2021 and 2020 an overdraft of BGN 1 600 thousand has been granted on a current account of OTP Bank, which has not been utilised as of those dates.

The remuneration of the key management personnel for 2021 includes short-term benefits amounting to BGN 7 051 thousand, including share-based payments to the amount of BGN 1 091 thousand (Note 12).

The remuneration of the key management personnel for 2020 includes short-term and long-term benefits amounting to BGN 10 681 thousand.

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 Group's operations:

<i>In thousands of BGN</i>	2021	2020
Operating income	1 017 542	941 711
Pre-tax profit	462 440	193 924
Income tax expense	(45 903)	(18 403)
Equivalent number of full-time employees, average	6 052	5 863
Return on assets (net profit to total assets)	1.74%	0.78%
Government grants received	358	-

The quantitative data above is calculated on the basis of the consolidated financial statements.

The total assets used to determine the return on assets, is the average of assets for four quarters.

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 reporting period

The war conflict started on 24 February 2022 between Russia and Ukraine, which is unfolding as at the date of these financial statements, has caused disruptions on the leading global financial markets; and the problems with supply chains that were initially caused by the COVID-19 pandemic, are expected to deteriorate even more as a result of this conflict on the territory of Ukraine. Economic sanctions have been imposed on the Russian Federation by the EU, USA and other countries. Prices of petrol, gas and other resources are expected to soar, and global inflation is expected to rise. Currently, it is difficult to anticipate the outcome of the conflict, and its long-term impact on the global economic and social developments.

According to management, the main risk for the Group is not to be able to recover in full the value of assets held in the affected countries (incl. cash at banks operating on the territory of Ukraine or Russia; loans granted to Russian or Ukrainian customers; government bonds issued by the Russian Federation). Management's assessment is that this is a non-adjusting event occurred after the end of the reporting period and accordingly, these separate financial statements do not contain adjustments to the value of assets, if such adjustments should be necessary, to reflect the significant increase in credit risk for the Group. Considering the dynamics of the circumstances, currently management is unable to make a reliable estimate or measurement of the possible effects of the conflict on the operations, assets and economic development of the Group. Management has undertaken measures for limiting the possible consequences on the Group's operations.

As of 31 December 2021, the carrying amount of exposures to Russian counterparties is BGN 190 547 thousand, including BGN 183 376 thousand of government bonds. After the end of the reporting period, the Group sold one of these securities amounting to BGN 107 312 thousand at a price approximating its carrying amount.

The total amount of exposures to Ukrainian customers is BGN 1 709 thousand.

No other significant events after the end of the reporting period have been identified.