DSK Bank AD
Separate financial statements
for the year ended 31 December 2021,
management report on the activity,
declaration of corporate governance,
non-financial declaration
and independent auditors' report

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

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 Bank reports a profit after tax to the amount of BGN 393.6 million.

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

The Cost-to-Income as of December 2021 is 41.2%, 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 retains its leading positions in this segment.

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

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

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

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

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

General information about the Management and the Structure of the Bank

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

DSK Bank AD has a two-tier management system. The Governing bodies are: 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 during the year was in accordance with management contracts and amounted to BGN 4.8 million.

Participation of Management and Supervisory Board members in the share capital

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

The participation of the MB members in management and supervisory bodies of other companies in 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
Arnaud 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.

Financial result and profitability

For 2021 DSK Bank reported BGN 434.1 million profit before tax, which increased by 111% 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 for 2021 was BGN 393.6 million.

The net interest income amounted to BGN 574.3 million and grew by BGN 45.5 million or 9 % compared to 2020, mainly as a result of higher interest income by BGN 47.8 million compared to 2020 as the interest income on loans increased by BGN 44.3 million. The interest expenses increased year-on-year by BGN 2.2 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 366.3 million (a growth of 16% or BGN 50.8 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 258.4 million and increased by BGN 59 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 162.2 million). Net trading income in 2021 was BGN 25 million and decreased compared to previous year by BGN 161.8 million.

The perating expenses (incl. personnel expenses, amortization, hired services, material expenses and other) stood at BGN 387.2 million, and decreased by BGN 7.9 million or 2% compared to 2020.

The impairment allowances on financial assets were BGN 121.8 million in 2021 and decreased significantly compared to 2020 (by BGN 124.8 million or 51%).

The average headcount of the Bank as of 31 December 2021 was 5 255 (31 December 2020: 4 973).

The assets per employee ratio increased from BGN 4.59 million as of the end of 2020 to BGN 4.65 million as of the end of 2021. The profit per employee ratio also increased from BGN 38.8 thousand for 2020 to BGN 74.9 thousand for 2021.

Balance sheet indicators

The total assets of DSK Bank AD as at 31 December 2021 amounted to BGN 24 413 million and grew by BGN 1 604.1 million (or 7%) compared to 2020, which was mainly as a result of the household loan portfolio growth (by 12.6%).

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%).

Interest bearing assets comprised 96.7% relative share of the Bank's total assets.

The gross loan portfolio of DSK Bank as of 31 December 2021 was BGN 15 298.4 million and increased by BGN 1 347.3 million or 9.7% year-on-year.

Loans to individuals (gross value) amounted to BGN 8 845 million and grew by BGN 988.5 million (12.6%) compared to the end of previous year.

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.

Company gross loans (incl. budget) amounted to BGN 6 453.4 million and increased by BGN 358.8 million (5.9%) compared to 2020.

Impairment allowance of the loan portfolio amounted to BGN 909.3 million and increased by BGN 10.4 million year-on-year.

Customer deposits amounted to BGN 20 104.7 million and grew by 4.4% or BGN 847.4 million compared to 2020.

Household deposits as at the end of 2021 were BGN 15 960.6 million and reported an increase of BGN 855 million or 5.7%.

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

Company deposits (incl. budget) amounted to BGN 3 761.3 million as at the end of 2021 and decreased by BGN 62.6 million compared to 2020.

Deposits from financial institutions amounted to BGN 382.7 million, and grew by BGN 55 million compared to 2020.

Net loan to deposit ratio as of 31 December 2021 was 71.6% (as at the end of 2020: 67.8%).

Card transactions

The number of the cards issued by DSK Bank as of 31.12.2021 were 2 199.9 thousand. In Retail banking the number of total cards issued were 2 134.6 thousand out of which debit cards amounted to 1 944.6 thousands and credit cards were 189.9 thousand. The card numbers of corporate customers were 65.3 thousand.

As of December 2021 the Bank operated with 1 046 ATM and 15 150 POS devices. During the year the Bank installed 1 149 POS devices.

Capital adequacy

The Bank constantly maintains a level of total capital adequacy, sufficient to cover the risks from its activity and to comply with the regulatory requirements. As at 31 December 2021 the total capital adequacy ratio on individual basis was 22.57%. DSK Bank AD provided BGN 1 108.6 million free capital above the total SREP capital requirement and the combined capital buffer, incl. capital conservation buffer (BGN 365.7 million), systemic risk buffer (BGN 439 million), O-SII buffer (BGN 146.3 million) and the specific for the institution countercyclical buffer (BGN 71.7 million).

Credit risk

In 2020 the coronavirus pandemic reached Europe. As a result lockdowns were implemented in a number of European countries, incl. Bulgaria (for Bulgaria it entered into effect on March 13th 2020). To support the credit situation of clients with loans, and in line with the EBA Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (Guidelines), DSK Bank 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 forborne.

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

The main credit risk to which DSK Bank AD is exposed results from the granted loans to clients. As of the end of the year, the gross loan portfolio of the Bank comprised loans to households (57.8%) and company loans (incl. budget) (42.2%). Within household loans the credit risk is well allocated between consumer loans (51.6%) and mortgage loans.

DSK Bank AD measures credit risk in compliance with IFRS requirements (officially adopted by the Bulgarian legislation) and according to the adopted impairment policy of DSK Bank AD in accordance with International Financial Reporting Standards.

The coverage ratio (ratio of coverage of the total loan portfolio from expected credit loss impairment) as of December 2021 was as follows:
Total loan portfolio – 5.9%

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 – 66.7%

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 94.5%, as the distribution within the products was as follows:

Consumer loans to individuals – 89.6%, point of sale loans to individuals – 88.9%, mortgage loans to individuals - 95.3%, loans to small business – 90.0%, loans to corporate clients (mid-corporate clients and large corporate clients) – 98.0%.

During the entire year continued the work on taking intensified measures for improvement of the process of monitoring and management of the portfolio quality, including improvement in the procedures for monitoring and analysis of problem loans, improvement of the work of the inspectors for problem loans in the branch network, early identification of problem exposures and undertaking intensive actions on determination of the reasons and finding solutions in line with the changed circumstances considering at the same time the interest of the Bank, as well as of the borrowers. For this purpose the Bank cooperates actively with the factoring company OTP Factoring Bulgaria to which the Bank sells or assigns management of non-performing loans.

Liquidity risk

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

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

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

In addition to monitoring the liquidity position, the 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 Bank manages separately the interest rate risk in the banking book and in its trading book.

The Bank`s activities are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or undergo changes in their interest rates at different times and to a different degree. Interest rate risk management activities are conducted in the context of the bank's sensitivity to interest rate changes.

DSK Bank analyzes the interest rate risk in the banking book by classifying its financial assets and liabilities into time zones according to their sensitivity to changes in interest rates and into different 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 Bank is exposed to exchange rate risk when conducting transactions with financial instruments denominated in foreign currencies.

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

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

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

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

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

Operational risk

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

The operational risk management in DSK Bank is coordinated by Operational Risk Management Committee (ORMC), which is a permanent consultative body subordinated to the Management Board (MB) and includes the heads of the major units of DSK Bank Head Office. The meetings are held after the end of each quarter, as on these meetings a report is being presented for consideration of the level of operational risk and measures for mitigation/elimination of operational risks' consequences, identified in the previous quarter are planned. 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 Bank risk exposure to operational risk is monitored both by type of the risk events and by different business lines.

DSK Bank 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 Bank's units, and their classification is performed annually on the basis of a standardized taxonomy of operational risks. The purpose of the self-assessment process is to identify and assess possible weaknesses in the processes and to assign additional measures to limit the residual operational risk. 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 Bank's operational risk management framework, the management of model risks arising from the used internal models is included. The model risk management aims to build an environment with proper controls by identifying the used models, their categorization and evaluation, as well as compliance with the requirements of the implemented controls. The Operational Risk Management Section prepares and provides to the members of the ORMC an annual report on the model risks, including also the manner in which the models in the different categories meet the control requirements. 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 are prepared, aimed to assess the potential effects on the financial position of the Group and the ongoing processes in it, at a certain change in the risk factors associated with probable occurrence of an event with catastrophic consequences. 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 Group to apply the Advanced Measurement Approach for the capital calculation purposes on the individual and also on the consolidated base has been in force since 31 March 2014. In the internal capital adequacy assessment process (ICAAP) a detailed analysis of the impact of individual types of risk on the capital position of the bank is performed, including by applying a set of stress tests. The methodology developed and implemented for operational risk stress testing and is used for the assessment of DSK Bank's capital adequacy regarding operational risk.

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

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

In 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 Bank has created an organization, procedures and controls concerning the operational risk management. They are adequate for the volume of activity and continuously changing environment and development of the Bank.

Risk Management (hedging)

DSK Bank uses derivatives as forward, futures, swap and option deals to manage an exposure to market risk or for trading.

The Bank aims to manage risk and the objective of hedge accounting is to represent, in the financial statements, the effect of an Bank's risk management activities that use financial instruments to manage exposures arising from particular risks that could affect profit or loss

Detailed information is presented in the annual financial statement,

Investment program

The investments of DSK Bank during the year amounted to BGN 27.1 million.

The investments in information technology were BGN 17.2 million, as their share in the total investments of the Bank was 64% (for 2020 this share was 49%). The significant change is coming from realization of larger share of business projects in 2021 compared to previous period.

Audit remuneration

The joint and independent financial audit of the annual financial statements of DSK Bank for 2021 has been conducted by the registered auditors Ernst & Young Audit OOD and AFA OOD.
The accrued amount for the services provided by the auditors for the independent financial audit amounts to BGN 1.0 million. There are no other services, non-related to audit.

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 (inl. cash at banks operating on the territory of Ukrain 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 Ukranian 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 Report on the Management and the Activity of DSK Bank AD for 2021 is approved by the Management Board with a protocol №7/11.03.2022.

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

Банка ДСК АД
София
2115

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 internals acts of DSK Bank and OTP Group, including the Ethical Code, Rules on conflict of interests, personal data protection, application of sanction programs, etc. The unit performs a compliance assessment for the product proposals in regard to the existing legal framework, and, if appropriate, in regard to all known pending changes in the legislation and the supervisory requirements. Regulatory Compliance Directorate provides methodical support and exercise control on the activity of DSK Bank in its capacity of an investment mediator, and proposes measures for eliminating the inconsistencies in this filed;

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

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

STRATEGY

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 with the aim to accomplish the business strategy while continuously improving the Bank'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 the Bank 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. The Bank reacted in fast and adequate manner, in order to ensure the **safety of its employees and clients**. Special selection is developed and offered on the corporate web site, as well as visual materials used by the clients as to receive current information about the procedures for safe servicing in the branches, the possibilities for using remote services and other useful information.

During the periods of active virus spread in the country, DSK Bank 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 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 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 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 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 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.

DSK Bank 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 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, 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 **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, the Bank 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 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 may **apply, receive and use their consumer loan totally online without visiting bank offices.** The process is very simplified in order to make it comfortable and accessible for the clients. They can receive a loan contract through the application on their mobile phone, to read and sign it, and then returned it to the Bank. Option for documents signing using the QES is provided also for the 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 the 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 seeks to expand its innovative activities also through partnership with new, perspective companies. As a **partner of OTP Startup Partner Program**, the Bank is looking for cooperation with dynamic startups. The fourth edition of the program that started in September 2020 with invitation for applications, provided an opportunity for a flying start for innovative startup and scaleup companies, which would like to test their developments in the banking field in relation to the user experience and services, internal efficiency, product innovations in retail banking and banking for small and medium enterprises, etc. 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 as part of OTP Group is committed to the fight against corruption and states zero tolerance to any kinds of bribery. The Bank has adopted a Policy for corruption prevention, where the principles of anti-corruption activity are defined, as well as the main fields with risk of corruption.

In the course of and in connection with the Bank's activities, all staff members and any other contractual partners of the Bank are strictly prohibited from performing any act of corruption and from participating or being involved in corruption. The Bank consistently and resolutely stands up against corruption. In case of a violation of the Policy by any person, the Bank shall take all steps necessary to avert potential negative consequences and to avoid similar events in the future. The Bank 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 institutions defines the clear principles and requirements for the employees and the partners of the Bank, as all well its affiliated companies, in relation to the adherence to the ethical norms at work. The main emphasis of the Ethics Code includes – the right of the employees to participate in the political or public life, ensuring safe and healthy occupational environment, promotion of mutual respect, prohibition for discrimination and abuse, integrity in business relations, zero tolerance to corruption and attempts for influence, limitations for offering and accepting gifts above the specified value. In case of doubt or possible violations of the norms of the Ethics Code and the Policy, the employees are offered an option to report it, including anonymously, to Regulatory Compliance Department, which will undertake the measures necessary as per the internal rules.

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

Financial education and innovations

During 2021 the Bank 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 clients, but also for everyone using online financial and other services. The purpose of this campaign is easier and clear way to present the main issues related to the safe online banking and surfing in Internet. As a responsible and committed institution DSK Bank has its mission to provide knowledge to the users, so as they to be safe and secure when using the electronic banking channels or the online environment resources.

Early children development

During the year DSK Bank 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 committed to take care for two SOS families.

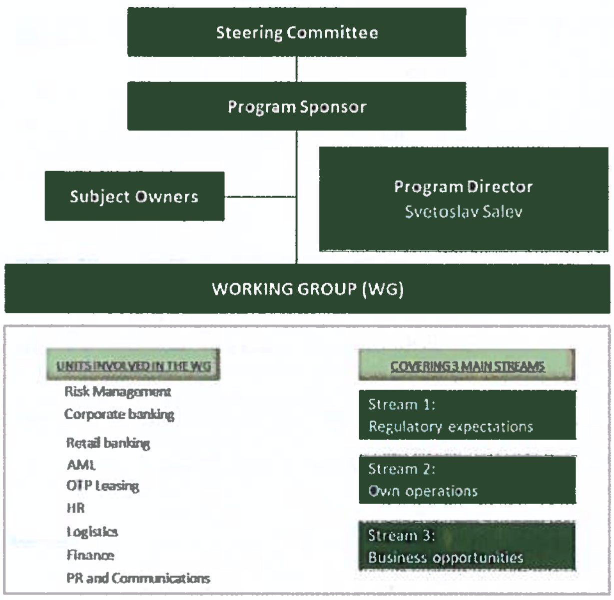
This year we celebrated 10 years of partnership under the motto "10 years together", along with several other joint initiatives. A child, from the foster families we take care of, was a trainee in the Bank for 6 months, we also sent the children gifts for the beginning of the school year and 1st of June (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 the 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 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 continously 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'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 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'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 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 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.

Bank'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 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 obtain directly from the suppliers.

The total Bank'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 our subsidiary 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 and considered in the investment planning.

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

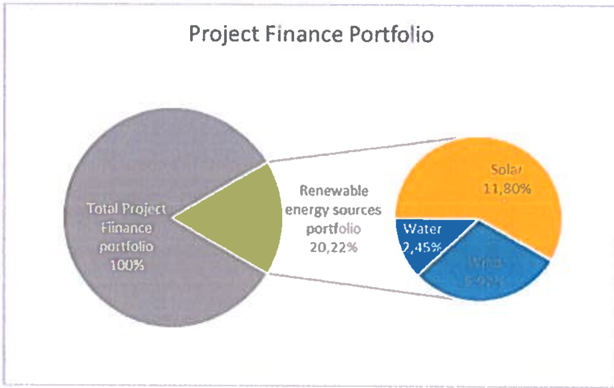
Under development is technical specification for launching a procedure for energy efficiency audit. Initially the audit is meant to cover part of the largest buildings – 3 in Sofia, 1 in Stara Zagora and 1 in Burgas. After the audit additional actions will be defined based on the conclusions – repairs, 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, the Bank requires a maximum adherence to the legislation.

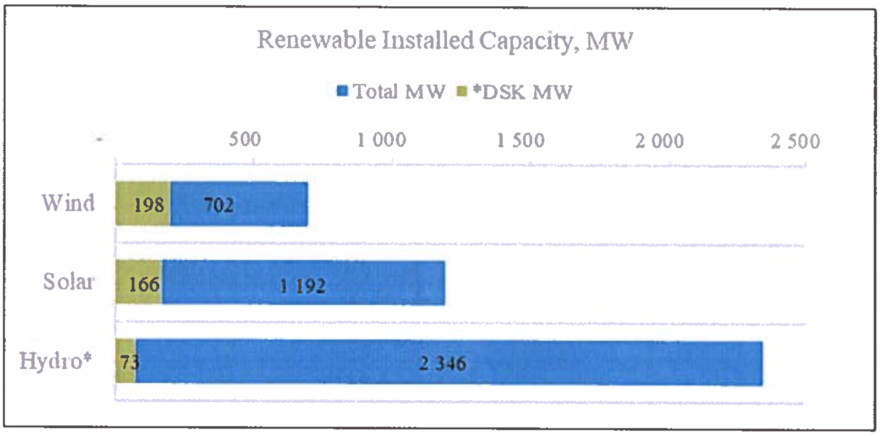
In 2021 we continued to support our business customers through financing renewable energy source projects, to ensure smooth transition to a low-carbon economy.

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.



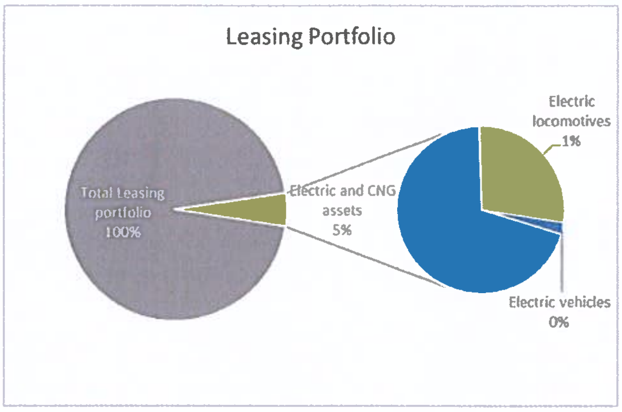
DSK Bank is well positioned in the Renewable sector, as the DSK's share of financed renewables in MW represents significant part of the total installed MW in Bulgaria, in particular for wind and solar energy:

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

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

- Transactions with the purpose to violate legal regulations of the host country or international law, like:
    - Illegal arms trade;
    - Prohibited gambling;
    - Illegal trading in drugs;
    - Production or trade in products containing PCBs (Polychlorinated biphenyls are a group of highly toxic chemicals);
    - Production or trade in pharmaceuticals, pesticides/herbicides and other hazardous substances subject to international phase-outs or bans;
    - Production or trade in ozone depleting substances subject to international phase out;
    - Trade in wildlife or wildlife products regulated under CITES;
    - Transboundary movements of waste prohibited under international law.
- Trade in goods without required export or import licenses or other evidence of authorisation of transit from the relevant countries of export, import and, if applicable, transit.
- Activities prohibited by host country legislation or international conventions relating to the protection of biodiversity resources or cultural heritage.
- Drift net fishing in the marine environment using nets in excess of 2.5 km in length.
- Shipment of oil or other hazardous substances in tankers which do not comply with IMO requirements.
- Mining, exploration and upgrading of shale gas in Europe.

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

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

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

KPIs

We are planning to set up quantitative and qualitative KPIs for monitoring and measuring our performance on the road to achieve the goals defined by OTP Group and the targets that will be established with adoption of ESG Strategy of DSK Bank 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 is not covered by the Taxonomy Regulation, we report "zero" value of the indicators related to Turnover, CapEx and OpEx from eligible activities. The same result is valid for the DSK Bank Group (incl. our subsidiaries).

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	Eligible proportion /GAR asset	0,41%
11	Non-eligible proportion /GAR asset	72,72%
12	Proportion of on-demand inter-bank loans /GAR asset	10,09%
13	Proportion of derivatives /GAR asset	0,17%
14	Proportion of non-NFRD undertakings /GAR asset	4,00%
15	Proportion of trading portfolio /Total asset	0,58%
16	Proportion to central gov., etc. /Total asset	17,93%
17	Proportion of cash + cash related + other assets /GAR asset	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 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 is to mitigate the impact on the environment. For years now, the Bank fulfils the policy **for no-waste banking administration**, which main goal is protection of environment. In practice this includes collection of all used toners and inkjet cartridges of the printing devices in all Bank branches and their recycling. The Bank applies also a policy of responsible paper consumption by optimizing the printing activities through migration of transactions to the electronic channels, double-sided printing, reducing the number of pages of the contract general terms and conditions for the products.

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

In 2021, the 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 in this event was the way for the Bank to show its support for people from disadvantaged groups.

In August 2021, 13 teams from the 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 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 modem 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 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, 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 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 provided a financial support for the foundation campaign for collecting funds in favour of the Fund supporting women – victims of domestic abuse. The funds are directed to the crisis centres providing services for women and children, being victims of domestic abuse.

Bank in its capacity of an employer

Personal and leadership qualities are very important for the company to move forward. And so is the diversity of professionals working in the Bank. This is the focus set by the Bank 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 employees, because we believe that employees are the best recommendation for every employer. The Bank 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 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 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

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Slaveyko Slaveykov
Executive Director

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Independent auditors' report

To the shareholders of DSK BANK AD

Report on the Audit of the Separate Financial Statements

Opinion

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

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Bank 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 separate 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.

Key Audit Matters

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

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td colspan="2">Impairment of loans and advances to customers

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 separate financial statements.</td></tr>
<tr><td>Loans and advances to customers represent a significant part (59%) of the total assets of the Bank as at 31 December 2021 with aggregate gross carrying amount of BGN 15 298 355 thousand and accumulated loss allowance of BGN 909 275 thousand. The Bank applies impairment model based on expected credit losses ("ECL") in accordance with the requirements of IFRS 9 "Financial Instruments".

The application of such an impairment model in the determination of loss allowance for loans and advances to customers requires the Bank'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 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 clients (Stage 1: Exposures with no SICR, Stage 2:</td><td>In this area, our audit procedures included, among others:

• We obtained an understanding of the Bank'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 Bank in accordance with IFRS 9 requirements.
• We obtained an understanding and assessed the internal controls at 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</td></tr>
</table>

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 Bank's availability of sufficient and adequate historical data from internal and external sources for back testing and calibrating the PD/PL and LGD/LGL estimates in the impairment model. In addition, the Management is required to apply significant 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 Bank has addressed the significant uncertainties from the pandemic environment via reassessing the assumptions for probability of default/loss (PD/PL), 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	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 Bank 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 Bank'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 default/ loss given loss (LGD/LGL) in the context of the specifics of the Bank'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

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 separate financial statements, and the complexity of the specific models and calculations, the 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.	examining supporting information 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 Bank has not identified objective evidence of impairment, in order to assess their adequate classification in the respective risk category (phase) by the Bank. • For a risk-based sample of loans and advances from customers that are subject to individual impairment assessment by the Bank and focusing on those with the most significant potential impact on the separate financial statements (phase 3), we specifically assessed the Bank's assumptions and judgments on the classification of these based on the criteria defined by the Bank and the expected future cash flows, 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 Bank's assumptions for the expected future cash flows. • 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.

Other Matter

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

Information Other than the Separate 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 management report, including the corporate governance statement and the non-financial declaration prepared by management in accordance with Chapter Seven of the Accountancy Act, but does not include the separate financial statements and our auditor's report thereon.

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

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

We have nothing to report in this regard.

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

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

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

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

Translation in English of the official Auditor's report issued in Bulgarian.

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

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 separate financial statements.

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

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

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

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

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 Separate Financial Statements and Auditor's Report Thereon* section, in relation to the management report, including the corporate governance statement and the 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 management report referring to the financial year for which the separate financial statements have been prepared is consistent with those separate financial statements.

b) The management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.
c) The corporate governance statement referring to the financial year for which the separate 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 non-financial declaration referring to the financial year for which the separate 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 Ordinance №58/2018 of Financial Supervision Commission

Statement in accordance with article 11 of Ordinance №58/2018 of FSC on the requirements for protection of the financial instruments and cash funds of clients, for management of goods and for providing or receipt of remuneration, commissions, other cash and non-cash benefits

On the basis of the performed audit procedures and the obtained understanding for the activity of the Bank and during the performance of our audit of the separate financial statements of the Bank, the created and applied organization in relation with the fiduciary assets is in accordance with the requirements of article 3-10 of Ordinance №58 of FSC and article 92-95 of Markets in Financial Instruments Act, on the activity of the Bank in its role as investment intermediary.

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

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

- Ernst & Young Audit OOD and AFA OOD were appointed as statutory auditors of the separate financial statements of DSK Bank AD (the Bank) 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 separate financial statements of the Bank for the year ended 31 December 2021 represents first year total uninterrupted statutory audit engagement for that entity carried out by Ernst & Young Audit OOD and fifth total uninterrupted statutory audit engagement for that entity carried by AFA OOD.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report, provided to Bank's audit committee, 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 the Bank.

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

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

In thousands of BGN	Note	2021	2020
Interest income		589 676	541 903
Interest expense		(15 328)	(13 092)
Net interest income	5	**574 348**	**528 811**
Fee and commission income		296 509	230 743
Fee and commission expense		(38 118)	(31 310)
Net fee and commission income	6	**258 391**	**199 433**
Net trading income	7	24 966	186 741
Net income from other financial instruments at FVTPL	8	17 083	(1 837)
Net gains from realisation of financial assets measured at amortised cost	9	12 609	10 300
Net gain/ (loss) from foreign exchange		16 886	(162 239)
Other operating income, net	10	36 377	83 149
Operating income		**940 660**	**844 358**
Impairment losses on financial assets, net	11	(121 831)	(246 656)
Impairment gain/ (loss) on non-financial assets, net	12	138	(1 456)
Net income from provisions	31	2 328	4 730
Personnel expenses	13	(161 135)	(163 047)
Depreciation and amortisation	14	(57 196)	(63 280)
Other expenses	15	(168 909)	(168 793)
Profit before tax		**434 055**	**205 856**
Income tax expense	16	(40 466)	(12 820)
Profit for the year		**393 589**	**193 036**

The separate statement of profit or loss is to be read together with the Notes from 1 to 40 forming an integral part of the separate financial statements.

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

Tamás Hák-Kovács
Chief Executive Director

Slaveyko Slaveykov
Executive Director

Банка ДСК АД
София
2115

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

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

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

In thousands of BGN	**2021**	**2020**
Profit for the year	**393 589**	**193 036**
Items that may be reclassified subsequently to profit or loss		
Movement in the investment revaluation reserve for debt instruments measured at fair value through other comprehensive income	(18 472)	13 153
Income tax related to OCI items that may be reclassified subsequently to profit or loss	3 286	(1 442)
	(15 186)	11 711
Items that will not be reclassified subsequently to profit or loss		
Movement in revaluation reserve for equity instruments designated at fair value through other comprehensive income	882	239
Revaluation of land and buildings	44 521	-
Remeasurements of net defined benefit liability	(286)	1 785
Income tax related to OCI items that will not be reclassified subsequently to profit or loss	(4 489)	(51)
	40 628	1 973
Other comprehensive income for the year, net of tax	**25 442**	**13 684**
Total comprehensive income	**419 031**	**206 720**

The separate statement of comprehensive income is to be read together with the Notes from 1 to 40 forming an integral part of the separate financial statements.

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

Tamás Hák-Kovács
Chief Executive Director

Slaveyko Slaveykov
Executive Director

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

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

Separate statement of financial position

In thousands of BGN	Note	31-December-2021	31-December-2020
Assets			
Cash and current accounts with the Central Bank and other banks	17	3 945 492	3 726 939
Financial assets held for trading	18	93 708	25 635
Derivative financial instruments	18	33 459	62 769
Investments at fair value through profit or loss	21	5 941	171 891
Investments at fair value through other comprehensive income	21	1 725 597	2 002 223
Loans and advances to banks	19	1 915 161	2 393 813
Loans and advances to customers	20	14 389 080	13 052 195
Investments at amortised cost	21	1 492 728	578 095
Current tax assets		9 867	14 478
Investments in subsidaries and associates	37	129 383	125 589
Goodwill	22	77 372	77 372
Right-of-use assets	23	21 281	23 936
Property, plant and equipment	24	436 273	406 567
Intangible assets	25	66 139	77 000
Other assets	26	71 486	70 366
Total assets		**24 412 967**	**22 808 868**
Liabilities			
Deposits from banks	27	255 502	36 897
Derivative financial instruments	18	43 629	86 191
Deposits from customers	28	20 104 677	19 257 235
Loans from banks and financial institutions	27	162 703	12 521
Lease liabilities	29	21 293	23 901
Provisions	30	83 099	86 620
Deferred tax liabilities	31	16 976	13 210
Other liabilities	32	121 799	109 396
Total liabilities		**20 809 678**	**19 625 971**
Shareholder's equity			
Share capital	33	1 328 660	1 328 660
Reserves	33	1 859 338	1 641 056
Retained earnings		415 291	213 181
Total shareholder's equity		**3 603 289**	**3 182 897**
Total liabilities and shareholder's equity		**24 412 967**	**22 808 868**

The separate statement of financial position is to be read together with the Notes from 1 to 40 forming an integral part of the separate financial statements.

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

Tamás Hák-Kovács
Chief Executive Director

Slaveyko Slaveykov
Executive Director

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

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

Separate statement of cash flows

For the year ended 31 December 2021

In thousands of BGN	Note	2021	2020
Cash flow from operating activities			
Profit before tax		434 055	205 856
Adjustments for:			
Impairment losses on financial assets, net	11	121 831	246 656
Impairment (gain)/ loss on non-financial assets, net	12	(138)	1 456
Depreciation and amortization	14	57 196	63 280
Net gains from operations with investments		(42 049)	(184 904)
Net (gains)/ losses from foreign exchange		(16 886)	162 239
Net interest income	5	(574 348)	(528 811)
Dividend income	10	(26 741)	(74 712)
Net expense for provisions	30	(2 328)	(4 730)
Other non cash changes		3 092	11 008
Net cash flow used in operating activities before movements in operating assets and liabilities		**(46 316)**	**(102 662)**
Movements in operating assets			
(Increase)/ decrease in securities held for trading		(69 294)	151 245
Decrease in loans and advances to banks		790 060	85 745
Increase in loans and advances to customers		(1 479 077)	(438 372)
Decrease in other assets		41 774	1 052
Movements in operating liabilities			
Increase in deposits from banks		218 606	307 961
Increase in loans from banks and financial institutions		150 301	83 769
Increase in deposits from customers		763 518	1 594 428
Increase in other liabilities		13 738	22 430
Cash generated from operations		**383 310**	**1 705 596**
Interest received		613 525	518 282
Interest paid		(9 962)	(7 271)
Tax paid		(33 656)	(22 761)
Net cash flow from operating activities		**953 217**	**2 193 846**

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

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

Separate statement of cash flows

For the year ended 31 December 2021
(continued)

In thousands of BGN	Note	2021	2020
Cash flow from investing activities			
Acquisition of property, plant and equipment, and intangible assets net		(34 113)	(30 615)
Acquisition of investments in securities, net		(423 159)	(862 388)
Dividends received		26 741	74 712
Acquisition of shares in a subsidiary		(4 001)	-
Net cash flow used in investing activities		**(434 532)**	**(818 291)**
Cash flow from financing activities			
Repayment of the lease liabilities	29	(7 532)	(9 658)
Net cash flow used in financing activities		**(7 532)**	**(9 658)**
Net increase in cash and cash equivalents		**511 153**	**1 365 897**
Effect of foreign exchange rate changes		2 644	(2 739)
Cash and cash equivalents acquired on merger of subsidiaries		-	884 114
Cash and cash equivalents at the beginning of the year	35	**4 024 168**	**1 776 896**
Cash and cash equivalents at the end of the year	35	**4 537 965**	**4 024 168**

The separate statement of cash flows is to be read together with the Notes from 1 to 40 forming an integral part of the separate financial statements.

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

Tamás Hák-Kovács
Chief Executive Director

2115
6
София
Банка ДСК АД

Slaveyko Slaveykov
Executive Director

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

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

Separate 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
Balance as of 1 January 2020 (Note 1(g))	**1 327 482**	**1 200 054**	**113 674**	**25 875**	**(4 697)**	**-**	**261 652**	**2 924 040**
Total comprehensive income								
Profit for the year	-	-	-	-	-	-	193 036	193 036
Other comprehensive income	-	-	-	11 899	1 785	-	-	13 684
Total comprehensive income	**-**	**-**	**-**	**11 899**	**1 785**	**-**	**193 036**	**206 720**
Equity changes as a result of merger of subsidiaries (Note 37)	1 178	25 939	-	11 057	-	-	13 963	52 137
Transfer of revaluation reserve from land and buildings, net of tax	-	-	(300)	-	-	-	300	-
Distribution of profit for reserves	-	255 770	-	-	-	-	(255 770)	-
Balance as of 31 December 2020	**1 328 660**	**1 481 763**	**113 374**	**48 831**	**(2 912)**	**-**	**213 181**	**3 182 897**
Total comprehensive income								
Profit for the year	-	-	-	-	-	-	393 589	393 589
Other comprehensive income	-	-	40 069	(14 341)	(286)	-	-	25 442
Total comprehensive income	**-**	**-**	**40 069**	**(14 341)**	**(286)**	**-**	**393 589**	**419 031**
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
Distribution of profit for reserves	-	193 036	-	-	-	-	(193 036)	-
Balance as of 31 December 2021	**1 328 660**	**1 674 799**	**151 886**	**34 490**	**(3 198)**	**1 361**	**415 291**	**3 603 289**

The separate statement of changes in equity is to be read together with the Notes from 1 to 40 forming an integral part of the separate financial statements.

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

Tamás Hák-Kovács
Chief Executive Director

Банка ДСК АД
София
2115
10

Slaveyko Slaveykov
Executive Director

Signed according to auditor's report:

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

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

Unofficial translation from Bulgarian

1. Basis of preparation and legal status and governance

(a) Legal status and governance

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

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

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

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

In 2020 the subsidiaries Expressbank AD and Express Factoring EOOD merged into DSK Bank based on agreements for transformation through merger registered in the Commercial Register on 30 April 2020 and 30 September 2020, respectively. The transformations have been undertaken with the aim to optimise the structure, enhance effectiveness of processes, decrease expenses and improve customer service. More details of the mergers are provided in Note 37.

On 30 April 2020 DSK Bank issued new shares in favour of the non-controlling shareholders of the transforming bank Expressbank AD (see also Note 33). 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 the 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 by, namely: Tamás Hák-Kovács – Chairman of the Management Board and CEO; Diana Miteva, Slaveyko Slaveykov, Arnaud Leclair, Yuriy Genov, Boyan Stefov and Dorothea Nikolova – Members of the Management Board and Executive Directors; Mihail Komitski– Member of the Management Board and Head of division.

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

An Audit Committee is functioning within the Bank and is in charge of monitoring the work of external auditors, internal audit performance, risk management, accounting activities and financial reporting. As of 31 December 2021 the Audit Committee is composed of: Chairman Dimitar Bazlyankov; members - Zoltan Tuboly and Daniela Petrova.

(b) Going concern

The management has made an assessment of the ability of the Bank to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Bank's ability to continue as a going concern. Despite the 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 Bank continues to discharge its liabilities as they become due, maintain liquidity and meet capital requirements. Therefore, the financial statements continue to be prepared on the going concern basis.

(c) COVID-19

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

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

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

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

The effects on the elements of the financial statements, estimates, judgements and risk management policies are disclosed in Notes 1(h), 4(b), 4(c), 4(d).

(d) Statement of compliance and representation

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

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

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

(e) Basis of measurement

These separate financial statements of the Bank have been prepared on a historical cost basis except for the derivative financial instruments, the financial assets and financial liabilities held for trading, and the financial assets measured at fair value through other comprehensive income, which are carried at fair value; and the land and buildings that are reported at revalued amounts.

(f) Functional and presentation currency

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

(g) Comparative information

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

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

Comparative information in these separate financial statements has been redrafted as described below.

Separate 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 characterisics with the loans granted to customers, in these separate 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 Bank 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 separate statement of financial position as of 31 December 2020:

In thousands of BGN	**31-December-2020 before reclassification**	**31-December-2020 reclassified**
Assets		
Investments at fair value through profit or loss	-	171 891
Investments at fair value through other comprehensive income	-	2 002 223
Loans and advances to customers	12 868 744	13 052 195
Investments in securities	2 752 209	-
Investments at amortised cost	-	578 095
Receivables under factoring agreements	183 451	-
Total assets	**15 804 404**	**15 804 404**

The Bank believes that the reclassifications in the separate statement of financial position described above do not have a material effect on the information presented in the separate statement of financial position as of the beginning of the previous year. Consequently, the Bank has not presented a third statement of financial position as at the beginning of the preceding period in accordance with para. 40A (b) of IAS 1 Presentation of Financial Statements.

Separate 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 separate statement of changes in equity for the year ending 31 December 2020:

In thousands of BGN	**Revaluation reserve from financial assets** before reclassification	**Cost of hedging** before reclassification	**Revaluation reserve from financial assets** reclassified
Balance as of 1 January 2020	**41 895**	**(16 020)**	**25 875**
Other comprehensive income	21 512	(9 613)	11 899
Total comprehensive income	**21 512**	**(9 613)**	**11 899**
Equity changes as a result of merger of subsidiaries (Note 37)	11 057	-	11 057
Balance as of 31 December 2020	**74 464**	**(25 633)**	**48 831**

(h) Use of estimates and judgements

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

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

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

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

COVID-19 Pandemic Considerations

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

Expected credit losses from financial assets

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

Fair value of financial instruments, not traded on active markets

In case when fair values of financial assets and liabilities in the statement of financial position cannot be obtained from active markets, these are defined through different measurement techniques using models. The basic data for these models is extracted from indicators observed where possible on financial markets; otherwise assumptions are made for establishing of fair values. These assumptions take in consideration factors related to liquidity, volatility for long – term derivatives and discount rates, pre – term repayments and probabilities of default for asset – backed securities (Note 4 (f)). The 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 perfom the valuations (Note 24). 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 signifant 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 Bank, the management assesses the probability and the risks of negative outcome and charges provisions in cases when a higher than 50% probability of unfavorable outcome for the Bank is distinguished or in case of potential risks of increase in claims from Bank`s customers concerning contract payments for products and services (Note 30).

Impairment of goodwill and intangible assets (customer base)

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

2. Merger of acquired subsidiaries

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

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

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

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

3. Significant accounting policies

(a) Interest income and expenses recognition

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

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

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

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

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

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

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

For these financial assets, the Bank recognizes interest on the basis of the discounted unwinding cash flows by accruing an adjustment for the difference between the contractually accrued interest on the basis of EIR on the gross value of the financial asset and the difference between the present values of the unwinding cash flows in the separate reporting periods discounted with the EIR. 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 commission

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

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

Performance obligations and revenue recognition policies

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

Fee type	Nature and timing of satisfaction of performance obligations, and the significant payment terms	Revenue recognition under IFRS
Fees and commissions related to credit deals	The Bank provides a range of bank services on clients` accounts to both retail and companies against a service fee, as well as submits for the use of its customers different types of credit cards with respective fees applied.	Fees for ongoing services are charged on a monthly basis.
	Account management fees are typically related to bank account servicing, issuing credit cards, annual fees on credit cards and other fees on credit cards for usual bank account services. Annual card fees are fixed and depend on the type of bank card. The Bank regularly reviews applied fees.	Fees on one – off services are charged at the moment of service delivery.
Fees and commissions on deposit accounts	The Bank offers a number of account management services for both retail and companies against a service fee as well as makes available for its clients different types of debit cards with respective fees applied. Fees related to these services are account opening and closing fees, management fees, online banking, debit card issuing, monthly fees for debit card services and other fees for usual account services. Fees for current account management services are charged to the customer on a monthly basis. They are usually fixed to an amount depending on the package program or the category of the client.	Fees for current account management services of customers` accounts are charged monthly. Fees on one – off services are charged at the moment of service delivery.

	Monthly and annual fees on bank cards are set in fixed amount. They are differentiated according to the type of bank card. Fees for occasional one – off services are charged when the client makes use of the service. These fees can be fixed or determined in %. The Bank regularly reviews applied fees.	
Other fees and commissions	Fees reported in the "Other fees" category are fees for safekeeping of money or valuables in the safe boxes of the public treasury, issuing a bank certificate, issuing a bank reference, photocopies of documents, etc. These fees concern long – term services provision (bank safekeeping) or one – off administrative services.	Fees for long – term services are charged in the respective period they are provided for. Fees for one – off services are charged when the service is provided.

(d) Net trading income

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

(e) Government grants

Government grants are not recognised until there is reasonable assurance that the Bank 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 Bank recognises as expenses the related costs for which the grants are intended to compensate.

Government grants whose primary condition is that the Bank should purchase, construct or otherwise acquire non-current assets (including property, plant and equipment) are recognised as deferred income in the separate 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 Bank with no future related costs are recognised in profit or loss in the period in which they become receivable.

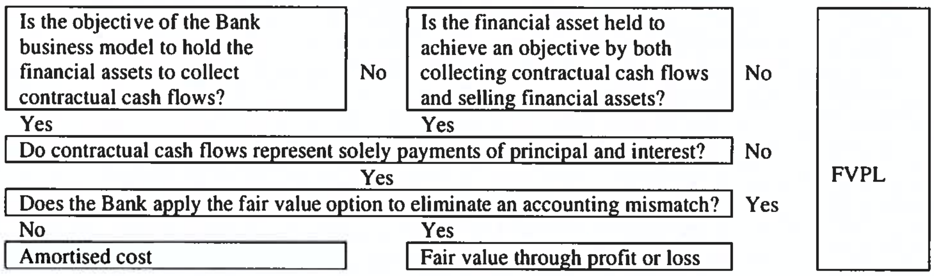
The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

(f) **Financial instruments**

(1) *Classification*

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

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



Business model for financial assets management

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

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

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

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

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

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

(2) *Recognition*

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

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 Bank becomes a party to the contract and, as a consequence, has a legal right to receive or a legal obligation to pay cash.

Assets to be acquired and liabilities to be incurred as a result of a firm commitment to purchase or sell goods or services are generally not recognised until at least one of the parties has performed under the agreement. Further details of the Bank's policy are provided in 3(m) Loans and advances and 3(n) Receivables under factoring agreements.

Planned future transactions, no matter how likely, are not assets and liabilities because the Bank 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 Bank shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

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

The Bank 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 Bank shall resume charging interest over subsequent periods on the basis of the gross amortized cost of the financial asset.

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

Fair value measurement

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

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

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

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

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

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

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

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

Fair value measurement through other comprehensive income

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

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

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

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

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

Fair value measurement through profit or loss

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

(5) *Derecognition*

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

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

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

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

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

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

(6) *Offsetting*

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

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

(7) *Impairment of financial assets*

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

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

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 Bank groups 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 Bank 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 Bank, for economic or contractual reasons relating to the borrower's financial difficulty, has granted to the borrower a concession that the Bank would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

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

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

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

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

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

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

(8) *Reclassification*

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

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

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

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

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

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

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

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

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

(9) Modification

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

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

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

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

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

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

(10) *Purchased credit-impaired financial assets*

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

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

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

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

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

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

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

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

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

(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 **(f)***(1)* above.

(j) Investments in subsidiaries and associates

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

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

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

(k) Derivatives

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

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

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

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

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

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

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

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

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

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

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

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

(l) Loans and advances

In addition to the information presented in Note 3(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 Bank does not intend to sell immediately or in the near future term. They include loans and advances to banks and loans and advances to customers.

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

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

(m) Receivables under factoring arrangements

In addition to the information presented in Note 3(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 Bank recognises its non-recourse factoring receivables by measuring them initially at fair value depending on the level of risks and benefits assumed associated with the ownership of the receivables being transferred.

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

Recourse factoring receivables

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

(n) Goodwill

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

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

(o) Property, plant and equipment

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

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

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

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

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

	%
• Buildings	1 - 4
• Leasehold improvements	10 - 34
• Machines and equipment	8 - 30
• Motor cars	25
• Vehicles (without motor cars)	10
• Computers, according to their class and useful life	20 - 25
• Fixtures and fitting and other depreciable fixed assets	15 - 50

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

In 2021 the Bank 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.

(p) Intangible assets

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

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

The annual rates of amortization are as follows:

	%
• Computer software and licenses, according to class and useful life	20
• Customer base recognized in a business combination	35

In 2021 the Bank performed a review of the useful lives of intangible assets, as a result of which the amortization rates of software and licenses, whose range was between 10% and 50% for 2020, 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 furure benefits are expected from its use, or it is sold. The gain or loss on sale is determined as the difference between sales proceeds and the carrying amount of the asset at the date of disposal. It is reported net under the heading "Other operating income, net" on the face of the statement of profit or loss for the year..

(q) Impairment of non-financial assets

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

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

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

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

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

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

(r) Leasing

(1) General provisions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The effects of lease contracts of the Bank as lessee are disclosed in Notes 5, 14, 15, 23 and 29.

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

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

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

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

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

Minimum lease payments

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

Initial and subsequent measurement

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

(s) Assets acquired from collaterals

Acquired assets, which prior to their acquisition were held as collateral of loans granted, are classified by the Bank as other assets. According to the Bank's accounting policy, assets classified as other assets acquired from collaterals, are subsequently measured at the lower of cost and net realizable value.

(t) 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.

(u) Provisions

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

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

- The Bank has a present obligation (legal or constructive) as a 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.

(v) Deposits

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

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

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

(w) 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 Bank's reserves is provided in Note 33.

(x) Contingent liabilities

Contingent liabilities are:

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

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

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

(y) 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.

(z) Employee benefits

(1) Defined contribution plans

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

(2) *Defined benefit plans*

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

The Bank has obligation to pay certain amounts to each employee who retires with the Bank in accordance with Art.222, § 3 of the Labour Code in Bulgaria. According to these regulations in the LC, when a labour contract of a company's employee, who has acquired a pension right, is ended, the Bank is obliged to pay compensations amounted to two gross monthly salaries. In case the employee's length of service in the company or in the group to which the company belongs, equals to or is greater than 10 or more years, as at retirement date, then the compensation amounts to six gross monthly salaries. If the employee has been working continuously for the Bank for certain period the Collective Labour Contract adopts the next compensations: five years – the severance payment is two gross monthly salaries; from five to ten years – the severance payment is three gross monthly salaries; from ten to fifteen years – the severance payment is seven gross monthly salaries; more than fifteen years – the severance payment is eight gross monthly salaries. The Management of the Bank estimates the approximate amount of the potential expenditures for every employee based on a calculation performed by a qualified actuary using the projected unit credit method as at the statement date. The estimated amount of the current year obligation and the main assumptions, on the base of which the estimation of the obligation has been made, is disclosed to the financial statements in Note 30.

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

(3) *Termination benefits*

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

(4) *Short-term employee benefits*

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

(aa) **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.

(a) 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 Bank's separate 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 4(b)(*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 separate financial statements, the following amendments to the existing standards were issued by IASB and adopted by the EU and which are not yet effective:.

- Amendment to IFRS 16 Leases *Covid 19- Related Rent Concessions beyong 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 separate 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 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 Bank anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the separate financial statements of the Bank in the period of initial application.

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

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

4. Risk management disclosures

Structure and functions of the Risk Management Unit

The credit risk management of the Bank is the responsibility of 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:

<u>Risk Management Division</u>:

- 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 Buisness 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 based on 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 presented the various risks on which DSK Bank AD is exposed to as well as the approaches taken to manage those risks.

(a) Liquidity risk

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

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

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

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

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

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

Residual contractual maturities of financial liabilities as of 31 December 2021

In thousands of BGN	Carrying amount	Gross nominal flow	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years
Liabilities							
Deposits from banks	**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	**20 104 677**	**20 104 927**	18 050 425	752 145	1 247 780	54 577	-
Loans from banks and financial institutions	**162 703**	**162 682**	155 388	-	-	7 294	-
Lease liabilities	**21 293**	**21 567**	842	1 157	4 811	13 718	1 039
Provisions	**83 099**	**83 099**	1 293	4 139	30 540	46 748	379
Deferred tax liabilities	**16 976**	**16 976**	-	-	-	16 976	-
Other liabilities	**121 799**	**121 799**	103 558	187	17 951	63	40
Total liabilities	**20 809 678**	**20 810 176**	**18 560 716**	**764 424**	**1 328 353**	**155 096**	**1 587**
Unused loan commitments	-	2 875 520	150 242	293 959	1 513 168	515 451	402 700
Total liabilities and commitments	**20 809 678**	**23 685 696**	**18 710 958**	**1 058 383**	**2 841 521**	**670 547**	**404 287**

Residual contractual maturities of financial liabilities as of 31 December 2020

In thousands of BGN	Carrying amount	Gross nominal flow	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years
Liabilities							
Deposits from banks	**36 897**	**36 897**	36 897	-	-	-	-
Derivative financial instruments	**86 191**	**86 191**	9 760	20 646	54 333	7	1 445
Deposits from customers	**19 257 235**	**19 256 312**	16 772 546	808 273	1 622 246	53 247	-
Loans from banks and financial institutions	**12 521**	**12 521**	-	-	-	12 521	-
Lease liabilities	**23 901**	**24 366**	846	1 327	5 105	14 707	2 381
Provisions	**86 620**	**86 620**	1 777	4 832	31 210	43 861	4 940
Deferred tax liabilities	**13 210**	**13 210**	-	-	-	13 210	-
Other liabilities	**109 396**	**109 396**	91 462	125	12 477	5 265	67
Total liabilities	**19 625 971**	**19 625 513**	**16 913 288**	**835 203**	**1 725 371**	**142 818**	**8 833**
Unused loan commitments	-	2 976 359	148 251	328 665	1 438 705	656 097	404 641
Total liabilities and commitments	**19 625 971**	**22 601 872**	**17 061 539**	**1 163 868**	**3 164 076**	**798 915**	**413 474**

The tables below set out the remaining expected maturities of the Bank'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 Bank 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

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
Assets							
Cash and current accounts with the Central Bank and other banks	**3 945 492**	3 945 492	-	-	-	-	-
Trading financial assets	**93 708**	4	25 762	37 954	28 905	1 083	-
Derivative financial instruments	**33 459**	5 346	7 102	16 363	4 537	111	-
Investments at fair value through profit or loss	**5 941**	-	-	-	-	-	5 941
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	641 930	769 460	199 753	-	-
Loans and advances to customers	**14 389 080**	351 002	520 556	2 789 414	5 602 764	5 125 344	-
Investments at amortised cost	**1 492 728**	1 401	12 838	168 846	638 756	670 887	-
Current tax assets	**9 867**	9 867	-	-	-	-	-
Investments in subsidaries and associates	**129 383**	-	-	-	-	-	129 383
Goodwill	**77 372**	-	-	-	-	-	77 372
Right-of-use assets	**21 281**	-	-	-	-	-	21 281
Property, plant and equipment	**436 273**	-	-	-	-	-	436 273
Intangible assets	**66 139**	-	-	-	-	-	66 139
Other assets	**71 486**	40 264	822	8 122	17 672	4 606	-
Total assets	**24 412 967**	**4 661 148**	**1 594 449**	**3 825 710**	**7 395 266**	**6 180 511**	**755 883**
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**	**-**
Liabilities							
Deposits from banks	**255 502**	243 464	-	-	12 038	-	-
Derivative financial instruments	**43 629**	5 751	6 796	27 271	3 682	129	-
Deposits from customers	**20 104 677**	18 050 375	752 099	1 247 651	54 552	-	-
Loans from banks and financial institutions	**162 703**	155 409	-	-	7 294	-	-
Lease liabilities	**21 293**	834	1 146	4 680	13 602	1 031	-
Provisions	**83 099**	1 293	4 139	30 540	46 748	379	-
Deferred tax liabilities	**16 976**	-	-	-	16 976	-	-
Other liabilities	**121 799**	103 558	187	17 951	63	40	-
Total liabilities	**20 809 678**	**18 560 684**	**764 367**	**1 328 093**	**154 955**	**1 579**	**-**
Unused loan commitments	-	150 242	293 959	1 513 168	515 451	402 700	-
Total liabilities and commitments	**20 809 678**	**18 710 926**	**1 058 326**	**2 841 261**	**670 406**	**404 279**	**-**

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**	**-**	**-**

Maturity table of assets and liabilities as of 31 December 2020

In thousands of BGN	**Carrying amount**	**Up to 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**Over 5 years**	**Without maturity**
Assets							
Cash and current accounts with the Central Bank and other banks	**3 726 939**	3 726 939	-	-	-	-	-
Trading financial assets	**25 635**	1	10 800	102	14 732	-	-
Derivative financial instruments	**62 769**	8 353	17 447	35 240	24	1 705	-
Investments at fair value through profit or loss	**171 891**	-	690	-	-	165 548	5 653
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	676 038	1 412 762	-	7 899	-
Loans and advances to customers	**13 052 195**	424 268	527 774	2 586 375	4 835 125	4 678 653	-
Investments at amortised cost	**578 095**	248	1 768	1 873	334 858	239 348	-
Current tax assets	**14 478**	14 478	-	-	-	-	-
Investments in subsidaries and associates	**125 589**	-	-	-	-	-	125 589
Goodwill	**77 372**	-	-	-	-	-	77 372
Right-of-use assets	**23 936**	-	-	-	-	-	23 936
Property, plant and equipment	**406 567**	-	-	-	-	-	406 567
Intangible assets	**77 000**	-	-	-	-	-	77 000
Other assets	**70 366**	44 502	1 302	4 699	16 730	3 133	-
Total assets	**22 808 868**	**4 520 072**	**1 613 261**	**4 133 490**	**6 291 823**	**5 515 491**	**734 731**
Derivatives assets							
Trading:	62 769						
Outflow		(568 756)	(684 042)	(338 474)	(24 737)	(80 215)	-
Inflow		571 848	688 279	345 382	24 801	80 215	-
Hedge accounting:	-						
Outflow		-	-	-	-	-	-
Inflow		-	-	-	-	-	-
Total derivatives	**62 769**	**3 092**	**4 237**	**6 908**	**64**	**-**	**-**
Liabilities							
Deposits from banks	**36 897**	36 897	-	-	-	-	-
Derivative financial instruments	**86 191**	9 760	20 646	54 333	7	1 445	-
Deposits from customers	**19 257 235**	16 772 850	808 412	1 622 532	53 441	-	-
Loans from banks and financial institutions	**12 521**	-	-	-	12 521	-	-
Lease liabilities	**23 901**	832	1 305	4 977	14 449	2 338	-
Provisions	**86 620**	1 777	4 832	31 210	43 861	4 940	-
Deferred tax liabilities	**13 210**	-	-	-	13 210	-	-
Other liabilities	**109 396**	91 462	125	12 477	5 265	67	-
Total liabilities	**19 625 971**	**16 913 578**	**835 320**	**1 725 529**	**142 754**	**8 790**	**-**
Unused loan commitments	-	148 251	328 665	1 438 705	656 097	404 641	-
Total liabilities and commitments	**19 625 971**	**17 061 829**	**1 163 985**	**3 164 234**	**798 851**	**413 431**	**-**

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

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

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

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

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

(b) Market risk

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

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

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

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

In thousands of BGN	31-December-2021	31-December-2020
Government bonds		
Rated Baa1	49 713	11 476
Rated Baa3	23 710	-
Rated Ba1	20 285	14 159
Total	**93 708**	**25 635**

(1) *Interest rate risk*

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

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

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

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

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

Exposure to interest rate risk as of 31 December 2021

In thousands of BGN	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 2 years	Over 2 years	Non-interest-bearing	Total
Cash and current accounts with the Central Bank and other banks	**75 971**	**-**	**-**	**-**	**-**	**3 869 521**	**3 945 492**
Fixed rate	-	-	-	-	-	-	-
Floating rate	75 971	-	-	-	-	-	75 971
Non-interest bearing	-	-	-	-	-	3 869 521	3 869 521
Trading financial assets	**-**	**25 575**	**37 941**	**16 571**	**13 621**	**-**	**93 708**
Fixed rate	-	25 575	37 941	16 571	13 621	-	93 708
Floating rate	-	-	-	-	-	-	-
Non-interest bearing	-	-	-	-	-	-	-
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	**-**	**-**	**-**	**-**	**-**	**5 941**	**5 941**
Fixed rate	-	-	-	-	-	-	-
Floating rate	-	-	-	-	-	-	-
Non-interest bearing	-	-	-	-	-	5 941	5 941
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
Floating rate	-	-	-	-	-	-	-
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
Floating rate	-	-	-	-	-	-	-
Non-interest bearing	-	-	-	-	-	-	-
Loans and advances to customers	**13 462 650**	**36 736**	**133 052**	**292 801**	**417 847**	**45 994**	**14 389 080**
Fixed rate	27 314	36 736	133 052	292 801	417 847	-	907 750
Floating rate	13 435 336	-	-	-	-	-	13 435 336
Non-interest bearing	-	-	-	-	-	45 994	45 994
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
Floating rate	-	-	-	-	-	-	-
Non-interest bearing	-	-	-	-	-	-	-
Total interest sensitive assets	**13 845 879**	**1 100 595**	**1 138 937**	**983 368**	**2 568 305**	**3 964 082**	**23 601 166**
Fixed rate	331 332	1 093 767	1 138 678	983 368	2 568 305	-	6 115 450
Floating rate	13 514 547	6 828	259	-	-	-	13 521 634
Non-interest bearing	-	-	-	-	-	3 964 082	3 964 082
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**
Fixed rate	-	-	-	-	-	-	-
Floating rate	2 369	12 844	5 388	-	-	-	20 601
Non-interest bearing	-	-	-	-	-	23 028	23 028
Deposits from customers	**18 066 778**	**727 725**	**1 240 680**	**36 232**	**18 325**	**14 937**	**20 104 677**
Fixed rate	1 797 508	727 725	1 240 680	36 232	18 325	-	3 820 470
Floating rate	16 269 270	-	-	-	-	-	16 269 270
Non-interest bearing	-	-	-	-	-	14 937	14 937
Loans from banks and financial institutions	**155 409**	**7 294**	**-**	**-**	**-**	**-**	**162 703**
Fixed rate	155 409	-	-	-	-	-	155 409
Floating rate	-	7 294	-	-	-	-	7 294
Non-interest bearing	-	-	-	-	-	-	-
Lease liabilities	**833**	**1 147**	**4 680**	**5 232**	**9 401**	**-**	**21 293**
Fixed rate	452	502	1 914	2 101	3 687	-	8 656
Floating rate	381	645	2 766	3 131	5 714	-	12 637
Non-interest bearing	-	-	-	-	-	-	-
Total interest sensitive liabilities	**18 456 105**	**749 010**	**1 250 748**	**41 464**	**27 726**	**62 751**	**20 587 804**
Fixed rate	2 171 956	728 227	1 242 594	38 333	22 012	-	4 203 122
Floating rate	16 284 149	20 783	8 154	3 131	5 714	-	16 321 931
Non-interest bearing	-	-	-	-	-	62 751	62 751

Exposure to interest rate risk as of 31 December 2020

In thousands of BGN	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 2 years	Over 2 years	Non-interest-bearing	Total
Cash and current accounts with the Central Bank and other banks	**111 321**	**-**	**-**	**-**	**-**	**3 615 618**	**3 726 939**
Fixed rate	-	-	-	-	-	-	-
Floating rate	111 321	-	-	-	-	-	111 321
Non-interest bearing	-	-	-	-	-	3 615 618	3 615 618
Trading financial assets	**-**	**10 632**	**32**	**13 369**	**1 602**	**-**	**25 635**
Fixed rate	-	10 632	32	13 369	1 602	-	25 635
Floating rate	-	-	-	-	-	-	-
Non-interest bearing	-	-	-	-	-	-	-
Derivative financial instruments	**5 170**	**13 667**	**-**	**-**	**1 706**	**42 226**	**62 769**
Fixed rate	-	-	-	-	-	-	-
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**	**-**	**-**	**-**	**5 653**	**171 891**
Fixed rate	-	-	-	-	-	-	-
Floating rate	-	166 238	-	-	-	-	166 238
Non-interest bearing	-	-	-	-	-	5 653	5 653
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
Floating rate	-	-	-	-	-	-	-
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
Non-interest bearing	-	-	-	-	-	-	-
Loans and advances to customers	**11 908 716**	**37 338**	**180 865**	**163 505**	**739 714**	**22 057**	**13 052 195**
Fixed rate	32 460	37 338	180 865	163 505	739 714	-	1 153 882
Floating rate	11 876 256	-	-	-	-	-	11 876 256
Non-interest bearing	-	-	-	-	-	22 057	22 057
Investments at amortised cost	**-**	**-**	**-**	**68 784**	**509 311**	**-**	**578 095**
Fixed rate	-	-	-	68 784	509 311	-	578 095
Floating rate	-	-	-	-	-	-	-
Non-interest bearing	-	-	-	-	-	-	-
Total interest sensitive assets	**12 330 220**	**1 230 306**	**1 722 153**	**661 607**	**2 365 106**	**3 704 168**	**22 013 560**
Fixed rate	329 574	1 050 401	1 722 153	661 607	2 363 400	-	6 127 135
Floating rate	12 000 646	179 905	-	-	1 706	-	12 182 257
Non-interest bearing	-	-	-	-	-	3 704 168	3 704 168
Deposits from banks	**16 328**	**-**	**-**	**-**	**-**	**20 569**	**36 897**
Fixed rate	1 152	-	-	-	-	-	1 152

Floating rate	15 176	-	-	-	-	-	15 176
Non-interest bearing	-	-	-	-	-	20 569	20 569
Derivative financial instruments	**10 638**	**17 872**	**16 881**	**7**	**1 445**	**39 348**	**86 191**
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	**19 195 943**	**19 811**	**29 365**	**-**	**-**	**12 116**	**19 257 235**
Fixed rate	9 244	19 811	29 365	-	-	-	58 420
Floating rate	19 186 699	-	-	-	-	-	19 186 699
Non-interest bearing	-	-	-	-	-	12 116	12 116
Loans from banks and financial institutions	**-**	**12 521**	**-**	**-**	**-**	**-**	**12 521**
Fixed rate	-	-	-	-	-	-	-
Floating rate	-	12 521	-	-	-	-	12 521
Non-interest bearing	-	-	-	-	-	-	-
Lease liabilities	**832**	**1 305**	**4 977**	**5 408**	**11 379**	**-**	**23 901**
Fixed rate	832	1 305	4 977	5 408	11 379	-	23 901
Floating rate	-	-	-	-	-	-	-
Non-interest bearing	-	-	-	-	-	-	-
Total interest sensitive liabilities	**19 223 741**	**51 509**	**51 223**	**5 415**	**12 824**	**72 033**	**19 416 745**
Fixed rate	11 228	21 116	34 342	5 408	11 379	-	83 473
Floating rate	19 212 513	30 393	16 881	7	1 445	-	19 261 239
Non-interest bearing	-	-	-	-	-	72 033	72 033

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

DSK Bank 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 Bank 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**
Effect in thousands of BGN				
31 December 2021				
As at 31 December	9 433	(24 906)	105 508	41 514
31 December 2020				
As at 31 December	(3 342)	(1 979)	55 883	1 374

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

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

The risk management policy is aimed at limiting the possible losses from negative fluctuations of foreign currencies rates different from euro. The Bank senior management sets limits on maximum open positions – total and by currency, stop-loss and VaR (Value at Risk) to manage the Bank's exchange rate risk. Bank's strategy is to minimize the impact from the changes of exchange rates on financial results. The net open currency positions 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 Bank.

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

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

In thousands of BGN	**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 signficant changes of the currency rates.

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

(c) Credit risk

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

Non-legislative moratorium in COVID-19 crisis

In 2020 the coronavirus pandemic reached Europe. As a result lockdowns were implemented in a number of European countries, incl. Bulgaria, where state of emergency entered into effect on March 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 offered to its 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 the latter case the loans are classified and reported as forborne.

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

Significant increase in credit risk

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

In the context of the COVID-19 crisis the identification and measurement of credit risk had to address the specific situation of the loans included in the non-legislative moratorium in Bulgaria. For all loans in or outside of the moratorium DSK Bank continued estimating monthly whether a significant increase of credit risk has occurred. The assessment is performed either in the process of individual case-by-case monitoring and review, or in 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.

Unlikeliness-to-pay assessment

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

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

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

- Application PD model

The purpose of application PD model is to provide a reliable tool (quantitative measurement) for prediction of the future debt service by customers applying for credit. The Application PD model uses client data, which is available at the point of loan application, such as demographic data, 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.

- Behavioural PD model

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

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

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

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

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

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

- Expert model

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

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

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

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

The key inputs used for measuring ECL are:

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

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

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

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

Expected credit losses are measured in a way that reflects:

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

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 Bank monitors credit risk per class of financial instrument.

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

Cash at banks and loans and receivables from banks at amortised cost

	31-December-2021	**31-December-2020**
In thousands of BGN		
Concentration by sector		
Central bank	3 064 020	2 970 049
Other banks	1 991 199	2 475 509
Total	**5 055 219**	**5 445 558**
Concentration by region		
Europe	5 036 215	5 405 304
North America	6 910	39 511
Asia	11 753	240
Australia	341	503
Total	**5 055 219**	**5 445 558**

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).

Loans and advances to customers at amortised cost

In thousands of BGN	31-December-2021	31-December-2020
Concentration by sector		
Retail:		
Mortgages	4 122 609	3 522 168
Other retail loans	4 087 531	3 723 103
Corporate:		
Agriculture and forestry	303 120	336 235
Construction	203 106	203 043
Financial and insurance activities	1 110 198	1 019 384
Hotels and catering	279 509	360 345
Manufacturing	1 845 626	1 874 907
Real estate activities	504 850	472 731
State Budget	36 262	39 211
Trade and services	1 216 478	1 045 918
Transport and communications	372 442	123 046
Other industry sectors	307 349	332 104
Total	**14 389 080**	**13 052 195**
Concentration by region		
Europe	14 365 784	13 036 804
North America	7 612	6 138
Asia	11 379	7 722
Africa	3 922	1 108
Australia	281	324
South America	102	99
Total	**14 389 080**	**13 052 195**

As of 31 December 2021 and 2020, 17% of the carrying amount of loans to corporate clients is concentrated in one client.

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.

Investments in securities

	31-December-2021	31-December-2020
In thousands of BGN		
Concentration by sector		
Investments in instruments measured at fair value through other comprehensive income		
Government bonds	1 706 103	1 983 609
Equity instruments	19 494	18 614
Investments in instruments mandatory measured at fair value through profit or loss		
Equity instruments	305	263
Corporate debt securities	5 636	171 628
Investments in instruments measured at amortized cost		
Government bonds	1 492 728	578 095
Total	**3 224 266**	**2 752 209**
Concentration by region		
Europe	2 949 286	2 571 493
North America	127 433	122 117
Asia	147 547	58 599
	3 224 266	**2 752 209**

The carrying amount of the Bank'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.

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

Loan commitments and financial guarantee contracts

In thousands of BGN	31-December-2021	31-December-2020
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	114 348	147 954
Hotels and catering	17 534	17 575
Manufacturing	1 005 420	1 253 259
Real estate activities	245 677	98 696
State Budget	27 120	12 386
Trade and services	877 968	800 553
Transport and communications	152 838	217 217
Other industry sectors	105 696	146 549
Total	**3 363 367**	**3 501 579**
Concentration by region		
Europe	3 362 561	3 492 253
North America	223	2 453
Asia	457	2 947
Africa	94	3 518
Australia	-	382
Oceania	24	23
South America	8	3
Total	**3 363 367**	**3 501 579**

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

The Bank uses an internal credit rating system, according to which ustomers are rated from 1 to 10 using internal grades as follows:

		Probability of default (PD)	
Grade	**Grade description**	**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%

The tables below provide an analysis of the Bank's credit risk exposure per class of financial asset, stage and internal credit rating used by the Bank 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-December-2021	31-December-2020
In thousands of BGN	**Stage 1**	**Stage 1**
Grades 1-3: Low risk	5 065 497	5 451 527
Total gross carrying amount	**5 065 497**	**5 451 527**
Loss allowance	(10 278)	(5 969)
Carrying amount	**5 055 219**	**5 445 558**

Loans and advances to customers at amortised cost

	31-December-2021				
In thousands of BGN	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Grades 1-3: Low risk	5 380 922	18 568	-	283	5 399 773
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	-	353	137 810
Grade 10: Default	-	-	793 526	37 373	830 899
Municipality, PSE	36 773	2 103	-	-	38 876
Not rated	1 903 608	69 165	-	221	1 972 994
Total gross carrying amount	**13 063 710**	**1 400 599**	**793 526**	**40 520**	**15 298 355**
Loss allowance	(139 763)	(221 007)	(529 192)	(19 313)	(909 275)
Carrying amount	**12 923 947**	**1 179 592**	**264 334**	**21 207**	**14 389 080**

In thousands of BGN	31-December-2020 Stage 1	Stage 2	Stage 3	POCI	Total
Grades 1-3: Low risk	5 152 744	167 066	-	332	5 320 142
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	-	-	856 972	59 384	916 356
Municipality, PSE	46 132	-	-	-	46 132
Not rated	1 461 291	87 374	-	238	1 548 903
Total gross carrying amount	**11 549 153**	**1 481 442**	**856 972**	**63 491**	**13 951 058**
Loss allowance	(117 277)	(190 358)	(557 050)	(34 178)	(898 863)
Carrying amount	**11 431 876**	**1 291 084**	**299 922**	**29 313**	**13 052 195**

Investments in securities measured at fair value through other comprehensive income

In thousands of BGN	31-December-2021 Stage 1	31-December-2020 Stage 1
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

In thousands of BGN	31-December-2021 Stage 1	31-December-2020 Stage 1
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**

Loan commitments and financial guarantee contracts

In thousands of BGN	31-December-2021 Stage 1	Stage 2	Stage 3	Total
Grades 1-3: Low risk	1 272 823	4 453	-	1 277 276
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	26 390	79	-	26 469
Not rated	441 803	1 936	-	443 739
Total amount committed	**3 281 191**	**70 975**	**11 201**	**3 363 367**
Loss allowance	(23 730)	(4 590)	(3 997)	(32 317)

In thousands of BGN	31-December-2020 Stage 1	Stage 2	Stage 3	Total
Grades 1-3: Low risk	1 387 108	18 720	-	1 405 828
Grades 4-6: Moderate risk	1 248 510	35 604	-	1 284 114
Grades 7-8: Increased risk	119 432	9 754	-	129 186
Grade 9: High risk	1 457	3 722	-	5 179
Grade 10: Default	-	-	9 505	9 505
Municipality, PSE	8 018	-	-	8 018
Not rated	638 290	21 459	-	659 749
Total amount committed	**3 402 815**	**89 259**	**9 505**	**3 501 579**
Loss allowance	(27 801)	(5 432)	(4 040)	(37 273)

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

In thousands of BGN	31-December-2021	31-December-2020
Cash at banks	(365)	-
Loans and advances to banks at amortised cost	(9 913)	(5 969)
Loans and advances to customers at amortised cost	(909 275)	(898 863)
Securities at fair value through other comprehensive income and securities at amortised cost	(5 963)	(4 711)
Loan commitments and financial guarantee contracts	(32 317)	(37 273)
Total	**(957 833)**	**(946 816)**

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 by type of exposure. The effects from merger of subsidiaries (Note 37) in the movements for 2020 are included in the "new financial assets originated or purchased" item.

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		**Stage 1**	
In thousands of BGN	**Gross carrying amount**	**ECL**	**Gross carrying amount**	**ECL**
As at 1 January	**5 451 527**	**(5 969)**	**3 382 102**	**(456)**
New financial assets originated or purchased	2 085 335	(10 226)	5 284 190	(5 969)
Financial assets that have been derecognised	(2 471 365)	5 969	(3 214 765)	456
Foreign exchange differences	-	(52)	-	-
As at 31 December	**5 065 497**	**(10 278)**	**5 451 527**	**(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**	
In thousands of BGN	**Gross carrying amount**	**ECL**	**Gross carrying amount**	**ECL**	**Gross carrying amount**	**ECL**	**Gross carrying amount**	**ECL**	**Gross carrying amount**	**ECL**
As at 1 January	**11 549 153**	**(117 277)**	**1 481 442**	**(190 358)**	**856 972**	**(557 050)**	**63 491**	**(34 178)**	**13 951 058**	**(898 863)**
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	(58 214)	627	(114 779)	19 807	172 993	(20 434)	-	-	-	-
Increases due to change in credit risk	-	(10 003)	-	(88 948)	-	(215 547)	-	(5 060)	-	(319 558)
Decreases due to change in credit risk	-	62 472	-	27 626	-	112 335	-	16 090	-	218 523
Write-offs	-	-	-	-	(113 943)	113 943	-	-	(113 943)	113 943
New financial assets purchased or originated	5 186 034	(52 960)	231 493	(31 593)	79 714	(35 692)	2 498	-	5 499 739	(120 245)
Financial assets that have been derecognised	(3 499 384)	18 028	(362 353)	24 579	(151 293)	50 483	(25 469)	3 835	(4 038 499)	96 925
As at 31 December	**13 063 710**	**(139 763)**	**1 400 599**	**(221 007)**	**793 526**	**(529 192)**	**40 520**	**(19 313)**	**15 298 355**	**(909 275)**

	2020									
	Stage 1		**Stage 2**		**Stage 3**		**POCI**		**Total**	
In thousands of BGN	**Gross carrying amount**	**ECL**	**Gross carrying amount**	**ECL**	**Gross carrying amount**	**ECL**	**Gross carrying amount**	**ECL**	**Gross carrying amount**	**ECL**
As at 1 January	**7 709 337**	**(91 329)**	**461 726**	**(39 437)**	**693 668**	**(435 432)**	**-**	**-**	**8 864 731**	**(566 198)**
Transfer to stage 1	115 189	(8 892)	(109 264)	6 714	(5 925)	2 178	-	-	-	-
Transfer to stage 2	(710 558)	8 371	737 594	(18 619)	(27 036)	10 248	-	-	-	-
Transfer to stage 3	(76 984)	938	(79 051)	7 974	156 035	(8 912)	-	-	-	-
Increases due to change in credit risk	-	(3 759)	-	(84 196)	-	(180 756)	-	-	-	(268 711)
Decreases due to change in credit risk	-	30 463	-	7 853	-	68 294	-	-	-	106 610
Write-offs	-	-	-	-	(74 264)	74 264	-	-	(74 264)	74 264
New financial assets purchased or originated	6 551 515	(68 253)	594 822	(75 242)	199 828	(106 767)	63 491	(34 178)	7 409 656	(284 440)
Financial assets that have been derecognised	(2 039 346)	15 184	(124 385)	4 595	(85 334)	19 833	-	-	(2 249 065)	39 612
As at 31 December	**11 549 153**	**(117 277)**	**1 481 442**	**(190 358)**	**856 972**	**(557 050)**	**63 491**	**(34 178)**	**13 951 058**	**(898 863)**

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
In thousands of BGN				
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	**1 725 597**	**(3 088)**	**2 002 223**	**(3 575)**

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
In thousands of BGN				
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	**1 495 603**	**(2 875)**	**579 231**	**(1 136)**

Movement of loan commitments and financial guarantee contracts, and the provisions for loan commitments and financial guarantee contracts

	2021							
	Stage 1 Outstanding exposure	**ECL**	**Stage 2 Outstanding exposure**	**ECL**	**Stage 3 Outstanding exposure**	**ECL**	**Total Outstanding exposure**	**ECL**
In thousands of BGN								
As at 1 January	**3 402 815**	**(27 801)**	**89 259**	**(5 432)**	**9 505**	**(4 040)**	**3 501 579**	**(37 273)**
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	-	12 490	-	2 489	-	189	-	15 168
New loan commitments originated or purchased	1 695 085	(9 485)	39 190	(2 001)	8 273	(2 573)	1 742 548	(14 059)
Financial assets that have been derecognised	(1 803 255)	7 098	(70 924)	1 025	(6 581)	2 159	(1 880 760)	10 282
As at 31 December	**3 281 191**	**(23 730)**	**70 975**	**(4 590)**	**11 201**	**(3 997)**	**3 363 367**	**(32 317)**

2020

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	**1 751 499**	**(23 395)**	**23 518**	**(1 344)**	**9 594**	**(2 072)**	**1 784 611**	**(26 811)**
Transfer to stage 1	16 029	(1 115)	(15 565)	970	(464)	145	-	-
Transfer to stage 2	(70 461)	683	70 628	(749)	(167)	66	-	-
Transfer to stage 3	(5 199)	61	(816)	41	6 015	(102)	-	-
Increases due to change in credit risk	-	(243)	-	(388)	-	(1 143)	-	(1 774)
Decreases due to change in credit risk	-	7 184	-	64	-	36	-	7 284
New loan commitments originated or purchased	2 028 267	(15 226)	59 613	(4 302)	4 383	(2 283)	2 092 263	(21 811)
Financial assets that have been derecognised	(317 320)	4 250	(48 119)	276	(9 856)	1 313	(375 295)	5 839
As at 31 December	**3 402 815**	**(27 801)**	**89 259**	**(5 432)**	**9 505**	**(4 040)**	**3 501 579**	**(37 273)**

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	
In thousands of BGN	**Gross carrying amount**	**Loss allowance**	**Gross carrying amount**	**Loss allowance**
0-30 days	14 634 665	(454 315)	13 129 708	(380 623)
31-60 days	90 042	(31 131)	155 326	(46 598)
61-90 days	70 463	(30 147)	93 658	(37 328)
91-180 days	62 254	(33 283)	77 925	(37 778)
More than 181 days	440 931	(360 399)	494 441	(396 536)
Total	**15 298 355**	**(909 275)**	**13 951 058**	**(898 863)**

Modified and forborne loans

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

The table below includes the assets that were modified and, therefore, treated as forborne during the period:

In thousands of BGN	**31-December-2021**	**31-December-2020**
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 table below shows 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 carring amount**	**Corresponding ECL**
In thousands of BGN		
Facilities that have cured since modification and are now measured using12mECL (Stage 1)	10 846	97
Facilities that reverted to (Stage 2/3) LTECL having once cured	58 214	14 014

31-December-2020	**Gross carring amount**	**Corresponding ECL**
In thousands of BGN		
Facilities that have cured since modification and are now measured using12mECL (Stage 1)	13 736	107
Facilities that reverted to (Stage 2/3) LTECL having once cured	53 281	15 299

The following tables provide a summary of the Bank's forborne assets:

31-December-2021		**Performing loans - Stage 2**			**Non-performing loans - Stage 3**				
	Gross carrying amount of loans and advances to customers	**Modification**	**Refinancing**	***Total performing forborne loans***	**Modification**	**Refinancing**	***Total nonperforming forborne loans***	**Total forborne loans**	**Forbearance ratio**
In thousands of BGN									
Loans and advances to customers									
Corporate lending	**6 453 382**	239 972	5 859	**245 831**	62 602	14 512	**77 114**	**322 945**	**5.00%**
Consumer lending	**4 567 951**	24 805	44 886	**69 691**	65 003	107 985	**172 988**	**242 679**	**5.31%**
Residential mortgages	**4 277 022**	41 296	7 548	**48 844**	100 532	19 947	**120 479**	**169 323**	**3.96%**
Total	**15 298 355**	**306 073**	**58 293**	**364 366**	**228 137**	**142 444**	**370 581**	**734 947**	**14.27%**

31-December-2020		**Performing loans - Stage 2**			**Non-performing loans - Stage 3**				
	Gross carrying amount of loans and advances to customers	**Modification**	**Refinancing**	***Total performing forborne loans***	**Modification**	**Refinancing**	***Total nonperforming forborne loans***	**Total forborne loans**	**Forbearance ratio**
In thousands of BGN									
Loans and advances to customers									
Corporate lending	**6 094 559**	24 220	748	**24 968**	94 929	19 017	**113 946**	**138 914**	**2.28%**
Consumer lending	**4 124 963**	15 422	28 577	**43 999**	66 380	86 516	**152 896**	**196 895**	**4.77%**
Residential mortgages	**3 731 536**	13 082	5 646	**18 728**	137 557	24 905	**162 462**	**181 190**	**4.86%**
Total	**13 951 058**	**52 724**	**34 971**	**87 695**	**298 866**	**130 438**	**429 304**	**516 999**	**11.91%**

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

	31-December-2021		**31-December-2020**	
	Gross carrying amount	**Loss allowance**	**Gross carrying amount**	**Loss allowance**
In thousands of BGN				
LTV ratio				
Less than 50%	621 285	(5 748)	615 073	(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)**	**3 459 295**	**(35 965)**

Overdue loans - mortgage lending

In thousands of BGN	31-December-2021 Gross carrying amount	31-December-2021 Loss allowance	31-December-2020 Gross carrying amount	31-December-2020 Loss allowance
LTV ratio				
Less than 50%	44 655	(20 745)	41 034	(18 813)
51-70%	43 724	(19 716)	53 037	(23 312)
71-90%	47 050	(22 029)	52 459	(26 521)
91-100%	14 082	(7 694)	18 828	(11 894)
More than 100%	52 049	(41 851)	106 883	(92 863)
Total	**201 560**	**(112 035)**	**272 241**	**(173 403)**

Loan commitments - Mortgage lending

In thousands of BGN	31-December-2021 Amount committed	31-December-2021 Loss allowance	31-December-2020 Amount committed	31-December-2020 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 Bank acquired real estate, collateral for loans amounting to BGN 2 442 thousand (2020: BGN 1 657 thousand). The Bank's policy is to acquire real estatate 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 Bank'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

In thousands of BGN	31-December-2021	31-December-2020
Secured by mortgages	4 880 954	4 456 621
Cash collateral	60 198	36 111
Government securities	219 386	29 011
Other types of collateral*	7 153 755	4 644 983
Without collateral	8 049 559	10 235 859
Total	**20 363 852**	**19 402 585**

* Other types of collateral comprise tangible collateral, guarantees from credit institutions, pledge over receivables 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	
In thousands of BGN	Carrying amount	Collateral	Carrying amount	Collateral
Advances to banks	235 711	222 840	29 011	29 323
Total	**235 711**	**222 840**	**29 011**	**29 323**

(d) Operational risk

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

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

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

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's regulatory capital requirements are based on CRD IV.

(1) Regulatory capital

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

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

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

Capital ratios

Total own funds for solvency purposes

In thousands of BGN	**Basel III 2021**	**Basel III 2020**
Tier 1 capital	3 301 563	3 036 976
Common equity Tier 1 capital	3 301 563	3 036 976
Additional Tier 1 capital (AT1)	-	-
Tier 2 capital	-	-
Own funds	**3 301 563**	**3 036 976**
Credit risk capital requirement	1 106 301	1 057 787
Market risk capital requirement	2 846	1 969
Operational risk capital requirement	61 238	54 167
Total requirement regulatory capital	**1 170 385**	**1 113 923**
Surplus of total capital	**2 131 178**	**1 923 053**
CET1 capital ratio (%)	22.57%	21.81%
Capital adequacy ratio (%)	**22.57%**	**21.81%**

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

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

By complying with the provisions of Bulgarian National Bank (BNB) Regulation 8 the Bank holds Capital conservation buffer of common equity Tier I equivalent to 2.5% of the amount of the total risk weighted exposures. With the same Regulation Bulgarian National Bank introduces a requirement for the capital systemic risk buffer. In 2021, the buffer is 3% of risk-weighted exposures. The Bank holds its specific countercyclical capital buffer. The assessment of the buffer depends on the level of the reference indicator that BNB announces quarterly. From the beginning of the fourth quarter of 2019 BNB changed the level of the countercyclical capital buffer from 0% to 0.5%. The level was subject to revision as of 1 April 2020, which should have been changed to 1.00%. However, BNB decided to keep the level at 0.5%, 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 countercyclical capital buffer specific for the Bank 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 Bank for 2021.

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

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

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

In thousands of BGN	**Level 1: Quoted market prices in active markets**	**Level 2: Valuation techniques - observable inputs**	**Level 3: Valuation techniques - unobservable inputs**	**Total**
31-December-2021				
Assets				
Trading financial assets	93 708	-	-	93 708
Derivative financial instruments	40	33 419	-	33 459
Investments at fair value through profit or loss	-	305	5 636	5 941
Investments at fair value through other comprehensive income	1 706 131	6 474	12 992	1 725 597
Total	**1 799 879**	**40 198**	**18 628**	**1 858 705**
Liabilities				
Derivative financial instruments	-	43 629	-	43 629
Total	**-**	**43 629**	**-**	**43 629**
31-December-2020				
Assets				
Trading financial assets	25 635	-	-	25 635
Derivative financial instruments	-	62 769	-	62 769
Investments at fair value through profit or loss	166 238	263	5 390	171 891
Investments at fair value through other comprehensive income	1 983 609	6 313	12 301	2 002 223
Total	**2 175 482**	**69 345**	**17 691**	**2 262 518**
Liabilities				
Derivative financial instruments	-	86 191	-	86 191
Total	**-**	**86 191**	**-**	**86 191**

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

In thousands of BGN	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Total carrying amount**
Assets					
Cash and current accounts with the Central Bank and other banks	805 434	3 140 058	-	**3 945 492**	**3 945 492**
Loans and advances to banks	-	1 915 161	-	**1 915 161**	**1 915 161**
Loans and advances to customers	-	-	14 439 509	**14 439 509**	**14 389 080**
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	-	20 104 755	-	**20 104 755**	**20 104 677**
Loans from banks and financial institutions	-	162 703	-	**162 703**	**162 703**
Lease liabilities	-	21 293	-	**21 293**	**21 293**

As of 31 December 2020

In thousands of BGN	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Total carrying amount**
Assets					
Cash and current accounts with the Central Bank and other banks	675 194	3 051 745	-	**3 726 939**	**3 726 939**
Loans and advances to banks	-	2 393 813	-	**2 393 813**	**2 393 813**
Loans and advances to customers	-	-	13 186 153	**13 186 153**	**13 052 195**
Investments at amortised cost	578 095	-	-	**578 095**	**578 095**
Liabilities					
Deposits from banks	-	36 897	-	**36 897**	**36 897**
Deposits from customers	-	19 257 372	-	**19 257 372**	**19 257 235**
Loans from financial institutions	-	12 521	-	**12 521**	**12 521**
Deposits from customers	-	23 901	-	**23 901**	**23 901**

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 valued fair value of the collateral.

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

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

5. Net interest income

In thousands of BGN	2021	2020
Interest income		
Loans and advances to banks	5 275	5 624
Loans and advances to customers	546 874	502 548
Investments at fair value through other comprehensive income	23 401	27 266
Investments at amortised cost	10 334	3 358
Deposits from banks (negative interest)	959	452
Deposits from customers (negative interest)	2 833	2 655
Total	**589 676**	**541 903**
Interest expense		
Deposits from banks	(70)	(4 682)
Deposits from customers	(925)	(1 726)
Loans from banks and financial institutions	(2)	(3)
Lease liabilities	(154)	(212)
Cash with the Central Bank (negative interest)	(1 712)	(3 956)
Loans and advances to banks (negative interest)	(12 303)	(2 208)
Loans and advances to customers (negative interest)	(162)	(305)
Total	**(15 328)**	**(13 092)**
Net interest income	**574 348**	**528 811**

6. Net fee and commission income

In thousands of BGN	2021	2020
Fee and commission income		
In Bulgarian Leva		
Payment and settlement transactions	89 872	66 103
Credit related deals	22 732	21 072
Deposit related deals	94 165	75 446
Other	37 475	25 869
	244 244	**188 490**
In foreign currencies		
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	5 064
	52 265	**42 253**
Total	**296 509**	**230 743**
Fee and commission expense		
In Bulgarian Leva	(31 652)	(25 843)
In foreign currencies	(6 466)	(5 467)
Total	**(38 118)**	**(31 310)**
Net fee and commission income	**258 391**	**199 433**

Included in "other" are fees for agency services, sms services, package services, issuance of guarantees, commercial factoring commissions, etc.

7. Net trading income

In thousands of BGN	2021	2020
Net interest income from securities held for trading	(1 221)	(4 494)
Net income on FX derivarives revaluation	(5 054)	71 425
Net income on non FX derivarives revaluation	170	61 860
Securities trading and revaluation	(852)	(2 701)
Foreign exchange trading	31 916	60 968
Ineffective hedge net gain	7	(317)
Total	**24 966**	**186 741**

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

In thousands of BGN	2021	2020
(Loss)/ gain on hedged assets	(15 282)	11 673
Gain /(loss) on hedging instruments	15 289	(11 990)
Hedge ineffectiveness recognised immediately in profit or loss	**7**	**(317)**

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 18.

8. Net income from other financial instruments at FVTPL

In thousands of BGN	2021	2020
Debt instruments	17 245	(3 507)
Equity instruments	(162)	1 670
Total	**17 083**	**(1 837)**

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

In thousands of BGN	2021	2020
Collection of previously written-off loans and receivables	2 770	2 073
Sale of financial assets	9 839	8 227
Total	**12 609**	**10 300**

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

10. Other operating income, net

In thousands of BGN	2021	2020
Net income of securities measured at fair value through other comprehensive income		
Government bonds	(128)	(416)
Equity investments	-	-
Dividends	26 741	74 712
Rental fees	2 877	2 228
Card operators	293	2 249
Net gain / (loss) on disposal of non-financial assets	(1 009)	705
Other services	1 205	928
Government grants	356	-
Other	6 042	2 743
Total	**36 377**	**83 149**

11. Impairment losses on financial assets, net

In thousands of BGN	2021	2020
Impairment loss on loans and receivables from banks, net	(4 257)	(5 631)
Impairment loss on loans and factoring agreements, net	(124 355)	(275 931)
Impairment gain on POCI	8 156	38 864
Impairment loss on other assets, net	(269)	(106)
Impairment loss on securities	(1 106)	(3 852)
Total	**(121 831)**	**(246 656)**

12. Impairment gain/ (loss) on non-financial assets, net

In thousands of BGN	Note	2021	2020
Impairment loss on tangible assets	24	(5 849)	-
Impairment gain/ (loss) on collaterals acquired		6 194	(1 456)
Impairment loss on investments in subsidiaries	36	(207)	-
Total		138	(1 456)

The impairment gain/ (loss) on acquired collaterals is reflected in the carrying amount of those assets (Note 26).

13. Personnel expenses

In thousands of BGN	**2021**	**2020**
Wages and salaries	132 729	131 224
Social security contributions	26 688	30 028
Cash-settled share-based payments	1 091	-
Other	627	1 795
Total	**161 135**	**163 047**

The average number of full-time employees is 5 255 for 2021 and 4 967 for 2020.

14. Depreciation and amortisation

In thousands of BGN	*Note*	**2021**	**2020**
Right-of-use assets	*23*	7 473	9 528
Property, plant and equipment	*24*	22 409	26 070
Intangible assets	*25*	27 314	27 682
Total		**57 196**	**63 280**

15. Other expenses

In thousands of BGN	**2021**	**2020**
Hired services	106 197	110 639
Guarantee Funds contributions	35 304	34 351
Materials	14 299	14 509
Expenses related to short-term leases	3 827	3 609
Expense relating to leases of low value assets	1 677	1 425
Other expenses	7 605	4 260
Total	**168 909**	**168 793**

The accrued fees for the services provided by the independent financial auditors' of the Bank for 2021 include statutory audit fees to the amount of BGN 1 million and fees for other non-audit related services to the amount of BGN 0 thousand (2020: BGN 1.4 million and BGN 128 thousand, respectively).

16. Income tax expense

In thousands of BGN	**2021**	**2020**
Current tax expense	(41 152)	(12 263)
Deferred tax benefit/ (expense)/ related to origination and reversal of temporary tax differences	686	(557)
Total	**(40 466)**	**(12 820)**

In thousands of BGN	**2021**	**2020**
Accounting profit	434 055	205 856
Income tax using the statutory corporate tax rate	(43 406)	(20 586)
Allowance for tax paid in foreign tax jurisdictions	375	77
Tax on permanent tax differences	2 565	7 689
Income tax expense	**(40 466)**	**(12 820)**
Effective tax rate	9.32%	6.23%

Current taxes are calculated using a tax rate of 10% for 2021 and 2020.

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

In thousands of BGN	31-December-2021	31-December-2020
Cash on hand		
In Bulgarian Leva	710 183	567 252
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	1	2
In foreign currencies	76 336	81 694
Less impairment loss allowances	(365)	-
Total	**3 945 492**	**3 726 939**

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

The current account with the Central Bank is used for direct participation in the money and securities markets and for settlement purposes as well as for keeping funds for Bank's participation in the Guarantee Mechanism of the System Processing Card-based Payment Transactions. Balances with the Central Bank also cover the minimum required reserves amounting to BGN 1 563 810 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 dislosed in Note 38.

18. Financial assets held for trading and derivative financial instruments

In thousands of BGN	31-December-2021	31-December-2020
Government securities – Republic of Bulgaria denominated in Bulgarian Leva	11 063	32
Government securities – Republic of Bulgaria denominated in foreign currencies	82 645	11 444
Foreign issuers' debt securities denominated in foreign currencies	-	14 159
Total	**93 708**	**25 635**

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**	
In thousands of BGN			
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**	
In thousands of BGN			
Derivatives held for trading			
Interest rate swaps	20 543	18 643	1 111 392
Foreign exchange contracts	13 974	12 849	2 071 272
Commodity swaps	28 252	26 499	236 435
Total	**62 769**	**57 991**	**3 419 099**
Derivatives used as fair value 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**

The derivative transactions with related parties are disclosed in Note 38.

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 38). 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.

In thousands of BGN	**2021**	**2020**
(Loss)/ gain on hedged assets	(15 282)	11 673
Gain /(loss) on hedging instruments	15 289	(11 990)
Hedge ineffectiveness recognised immediately in profit or loss	**7**	**(317)**

19. Loans and advances to banks

(a) Analysis by type

In thousands of BGN	**31-December-2021**	**31-December-2020**
Deposits with domestic and foreign banks		
In Bulgarian Leva	1 000	-
In foreign currencies	1 683 947	2 362 872
Encumbered assets (Note 34(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	**1 915 161**	**2 393 813**

(b) Geographical analysis

In thousands of BGN	**31-December-2021**	**31-December-2020**
Domestic banks	2 326	78 161
Foreign banks	1 912 835	2 315 652
Total	**1 915 161**	**2 393 813**

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

The loans and advances to banks – related parties are disclosed in Note 38.

20. Loans and advances to customers

In thousands of BGN	**31-December-2021**	**31-December-2020**
Individuals		
In Bulgarian Leva		
Consumer loans	4 537 411	4 076 945
Housing and mortgage loans	4 006 372	3 378 445
In foreign currencies		
Consumer loans	30 541	48 018
Housing and mortgage loans	270 650	353 091
Companies		
In Bulgarian Leva		
Working capital loans	1 510 541	1 362 660
Investment loans	1 203 304	1 174 697
Advances to clients under local and international factoring	134 710	139 015
In foreign currencies		
Working capital loans	891 734	974 030
Investment loans	2 566 912	2 344 087
Advances to clients under local and international factoring	105 169	63 908
State Budget		
In Bulgarian Leva	34 309	28 229
In foreign currencies	6 702	7 933
Less impairment loss allowances	(909 275)	(898 863)
Total loans and advances to customers	**14 389 080**	**13 052 195**

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 sale of loans to related parties, as well as the balances of loans to related parties are disclosed in Note 38.

The bad debts sold to unrelated parties have a gross carrying amount of BGN 18 277 thousand and BGN 22 378 thousand for 2021 and 2020, respectively. The impairment allowance on sold bad debts amounts to BGN 18 277 thousand and BGN 17 356 thousand for 2021 and 2020, respectively.

The loans derecognized on account of accumulated impairment amount to BGN 113 943 thousand and BGN 83 359 thousand for 2021 and 2020, respectively, including BGN 68 993 thousand and BGN 38 061 thousand of loans written off partially.

21. Investments in securities

In thousands of BGN	31-December-2021	31-December-2020
Investments in instruments measured at fair value through other comprehensive income		
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**
Investments in instruments mandatory measured at fair value through profit or loss		
Equity instruments	305	263
Corporate debt securities	5 636	171 628
Total investments in instruments mandatory measured at fair value through profit or loss	**5 941**	**171 891**
Investments in instruments measured at amortized cost		
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	**3 224 266**	**2 752 209**

The investments in securities issued by OTP Group members, are disclosed in Note 38.

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 0.0% 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 34(d).

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

22. Goodwill

The goodwill reported in the separate statement of financial position to the amount of BGN 77 372 thousand has arisen in 2020 upon the merger of Expressbank (Note 37). The goodwill was originally determined on the acquisition of Expressbank by DSK Bank Group, which took place on 15 January 2019, and entirely allocated to the acquired bank as a cash-generating unit in the consolidated financial statements of DSK Bank for 2019. On merger of Expressbank AD into DSK Bank, the acquisition method as per IFRS 3 *Business Combinations* was applied, whereby the goodwill was recognized in the separate financial statements of the Bank. The combined bank after the merger is regarded as the new cash generating unit, to which the goodwill is allocated.

As of 31 December 2021 the Bank performed a test for impairment of goodwill allocated to the combined bank using a model whose key inputs are the cash flows of the combined bank for a three-year period. Based on the actual financial performance for the 11 months to November 2021 and the financial preliminary estimations for December 2021, the Bank prepared a medium-term cash flow forecasts for the period 2022-2024. In preparing the calculations, the Bank considered the actual worldwide economic situation, the expected economic growth for the following years, their possible effects on the financial sector, the plans for growing, which result from these, and the expected changes of the mentioned factors.

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

Present value calculation with the FCF method

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

Present value calculation with the EVA method

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

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

		2022	**2023**	**2024**
Discount rate		0.50%	0.50%	0.50%
Risk premium		6.00%	6.00%	6.00%
Calculation of residual value:				
Long-term discount rate	0.50%			
Long-term risk premium	6.00%			
Long-term growth rate	3.00%			

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

The calculated recoverable amount under both methods exceeds the carrying amount of net assets of DSK Bank, being the cash-generating unit for the purposes of the test, by approximately 20%. Therefore, management has concluded that the developments during 2021, including the spread of COVID-19, have not led to impairment of goodwill as of 31 December 2021.

23. Right-of-use assets

Movement of right-of-use assets during the year 2021

In thousands of BGN	Land, buildings and equipment	Vehicles	Total
Cost			
Balance as of 31 December 2020	**36 149**	**2 543**	**38 692**
Additions due to new contracts	5 069	811	5 880
Derecognition due to expired contracts	(2 037)	(622)	(2 659)
Changes from reassessment and modification	(3 649)	(407)	(4 056)
Balance as of 31 December 2021	**35 532**	**2 325**	**37 857**
Depreciation			
Balance as of 31 December 2020	**13 161**	**1 595**	**14 756**
Depreciation for the period	6 781	692	7 473
Derecognition due to expired contracts	(2 037)	(622)	(2 659)
Changes from reassessment and modification	(2 602)	(392)	(2 994)
Balance as of 31 December 2021	**15 303**	**1 273**	**16 576**
Net book value 31 December 2021	**20 229**	**1 052**	**21 281**
Net book value 31 December 2020	**22 988**	**948**	**23 936**

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

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

24. Property, plant and equipment

Movement of property, plant and equipment during the year 2021

In thousands of BGN	**Land and buildings**	**IT equipment**	**Office equipment**	**Other equipment**	**Total**
Cost or revalued amount					
Balance as of 31 December 2020	**501 271**	**101 791**	**95 650**	**9 520**	**708 232**
Additions	8 007	187	182	9 880	18 256
Disposals	(8 002)	(3 172)	(684)	(1 396)	(13 254)
Transfers	2 853	7 852	2 352	(13 057)	-
Revaluation increase	76 337	-	-	-	76 337
Impairment charge	(919)	-	-	-	(919)
Balance as of 31 December 2021	**579 547**	**106 658**	**97 500**	**4 947**	**788 652**
Depreciation					
Balance as of 31 December 2020	**143 413**	**77 655**	**79 312**	**1 285**	**301 665**
Charge for the period	9 667	7 270	5 465	7	22 409
Disposals	(4 324)	(3 161)	(531)	(425)	(8 441)
Revaluation increase	31 816	-	-	-	31 816
Impairment charge	4 930	-	-	-	4 930
Balance as of 31 December 2021	**185 502**	**81 764**	**84 246**	**867**	**352 379**
Net book value 31 December 2021	**394 045**	**24 894**	**13 254**	**4 080**	**436 273**
Net book value 31 December 2020	**357 858**	**24 136**	**16 338**	**8 235**	**406 567**

Movement of property, plant and equipment during the year 2020

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

"Land and buildings" include 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 in the process of acquisition, 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 Bank's activities is as follows: buildings: to the amount of BGN 418 thousand, IT equipment: to the amount of BGN 49 814 thousand, office equipment: to the amount of BGN 59 483 thousand, other equipment: to the amount of BGN 4 847 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 Bank's activities is as follows: buildings: to the amount of BGN 8 741 thousand, IT equipment: to the amount of BGN 52 087 thousand, office equipment: to the amount of BGN 52 791 thousand, other equipment: to the amount of BGN 4 532 thousand.

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' revaluaton 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.

25. Intangible assets

Movement of intangible assets during 2021

In thousands of BGN	Software and licenses	Customer base recognized in a business combination	Assets in the process of acquisition	Total
Cost				
Balance as of 31 December 2020	179 595	69 836	7 357	256 788
Additions	-	-	17 020	17 020
Disposals	(7 785)	-	(59)	(7 844)
Transfers	17 378	-	(17 378)	-
Balance as of 31 December 2021	**189 188**	**69 836**	**6 940**	**265 964**
Amortization				
Balance as of 31 December 2020	139 458	40 330	-	179 788
Charge for the period	16 987	10 327	-	27 314
Disposals	(7 277)	-	-	(7 277)
Balance as of 31 December 2021	**149 168**	**50 657**	**-**	**199 825**
Net book value 31 December 2021	**40 020**	**19 179**	**6 940**	**66 139**
Net book value 31 December 2020	**40 137**	**29 506**	**7 357**	**77 000**

Movement of intangible assets during 2020

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

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 Bank's activities is to the amount of BGN 108 623 thousand and BGN 104 978 thousand, respectively.

26. Other assets

In thousands of BGN	31-December-2021	31-December-2020
Temporary accounts with clients	28 768	26 132
Clearing and bank settlement assets	12 797	9 350
Deferred expenses	9 738	6 028
Receivables for fees	7 885	7 646
Advances to suppliers	5 251	7 520
Acquired collaterals	4 369	6 961
Materials, spare parts	3 658	2 524
Shortages of assets	3 494	3 592
Receivables from litigation	1 739	1 719
Depository accounts	1 242	3 558
Receivables from insurers	24	4 283
Other assets	5 916	4 284
Impairment	(13 395)	(13 231)
Total	**71 486**	**70 366**

Depositary 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:

In thousands of BGN	2021	2020
Opening balance	13 231	8 635
Increase from merger of subsidiaries	-	4 490
Charge for the year	1 013	2 315
Release for the year	(744)	(2 209)
Foreign exchange differences	(105)	-
Closing balance	**13 395**	**13 231**

27. Deposits from banks and loans from financial institutions

In thousands of BGN	31-December-2021	31-December-2020
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	7 294	12 521
Total loans from banks and financial institutions	**162 703**	**12 521**

As of 31 December 2021 the short-term loans to banks to the amount of BGN 155 409 thousand represent a liability under a repo deal with an unrelated party with repayment date 4 January 2022. The interest rate is negative -0.95%. The loan is collateralized by securities to the amount of BGN 189 896 thousand (see also Note 34(d)).

The Bank has received a long-term loan from the European Investment Fund under the programme "JEREMIE" for the purpose of granting preferential interest loans to 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 deposits received from related parties are disclosed in Note 38. The Bank has not had any defaults of principal or interest or other breaches with respect to its liabilities during the years 2021 and 2020.

28. Deposits from customers

In thousands of BGN	31-December-2021	31-December-2020
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	174 346	118 985
Demand deposits	2 056 293	2 161 936
In foreign currencies		
Term deposits	117 941	157 858
Demand deposits	937 038	1 093 377
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	638	3 138
Demand deposits	146 635	201 165
In foreign currencies		
Term deposits	844	787
Demand deposits	234 614	122 604
Total	**20 104 677**	**19 257 235**

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 38.

29. Lease liabilities

In thousands of BGN	31-December-2021	31-December-2020
With maturity of up to 1 year	6 661	7 114
With maturity from 1 to 5 years	13 603	14 452
With maturity over 5 years	1 029	2 335
Total lease liabilities	**21 293**	**23 901**

The changes in lease liabilities for the years ending 31 December 2021 and 2020 are presented below:

In thousands of BGN	2021	2020
As of 1 January	23 901	41 512
Non-cash changes:		
Increase due to new contracts	5 880	1 513
Increase as a result of merger of subsidiaries	-	22 185
Interest accrued	154	212
Changes from reassessment and modification	(1 110)	(31 863)
	4 924	(7 953)
Cash flows:		
Payments	(7 532)	(9 658)
	(7 532)	(9 658)
As of 31 December	**21 293**	**23 901**

30. Provisions

Movement in provisions during 2021

In thousands of BGN	Pension employment defined benefit obligations	Provisions for for litigation and others	Provisions for guarantees, letters of credit, loan commitments and factoring	Provisions for restructuring	Total
Opening balance as of 31 December 2020	12 575	36 030	37 273	742	86 620
Additions during the year	1 447	4 953	66 164	-	72 564
Reversal during the year	-	(3 755)	(71 137)	-	(74 892)
Amounts paid	(862)	-	-	(635)	(1 497)
Other movements	286	1	17	-	304
Closing balance as of 31 December 2021	**13 446**	**37 229**	**32 317**	**107**	**83 099**

Movement in provisions during 2020

In thousands of BGN	Pension employment defined benefit obligations	Provisions for for litigation and others	Provisions for guarantees, letters of credit, loan commitments and factoring	Provisions for restructuring	Total
Opening balance as of 31 December 2019	10 287	33 669	26 811	-	70 767
Effects from merger of subsidiaries	3 476	2 223	12 463	5 613	23 775
Additions during the year	1 786	4 328	84 679	-	90 793
Reversal during the year	-	(4 043)	(86 609)	(4 871)	(95 523)
Amounts paid	(1 189)	(147)	-	-	(1 336)
Other movements	(1 785)	-	(71)	-	(1 856)
Closing balance as of 31 December 2020	**12 575**	**36 030**	**37 273**	**742**	**86 620**

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

In thousands of BGN	2021	2020
Defined benefit obligations at 1 January	12 575	10 287
Effects from merger of subsidiaries	-	3 476
Benefits paid by the plan	(863)	(1 189)
Current and past service costs	1 462	1 776
Interest cost	66	88
Remeasurements:		
Actuarial losses/ (gains) from experience adjustments	524	(1 782)
Actuarial losses/ (gains) from changes in demographic assumptions	3	(58)
Actuarial gains from changes in financial assumptions	(321)	(23)
Defined benefit obligations at 31 December	**13 446**	**12 575**

Expense recognized in statement of profit or loss

In thousands of BGN	2021	2020
Current and past service costs	1 462	1 776
Interest on obligation	65	88
Actuarial (gains)/ losses	(80)	(78)
Total	**1 447**	**1 786**

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	2.00%	1.00%

31. Deferred tax liabilities

Deferred income taxes for 2022 and 2021 are calculated on all temporary differences under the balance sheet liability method using a tax rate of 10%.

Deferred income tax balances are attributable to the following items

	Assets		Liabilities		Net	
In thousands of BGN	2021	2020	2021	2020	2021	2020
Retirement benefit obligations under the Labour Code and other personnel liabilities	(3 465)	(3 035)	-	-	(3 465)	(3 035)
Business reorganisation	-	-	443	443	443	443
Fixed assets	-	-	24 682	20 982	24 682	20 982
Provisions for litigation and others	(3 535)	(3 455)	-	-	(3 535)	(3 455)
Unused annual leave and other	(1 149)	(1 725)	-	-	(1 149)	(1 725)
Net deferred tax (assets)/liabilities	**(8 149)**	**(8 215)**	**25 125**	**21 425**	**16 976**	**13 210**

Movement in deferred taxes during 2021

In thousands of BGN	Balance as of 31 December 2020	Recognised in the statement of profit or loss 2021	Charged directly to equity 2021	Balance as of 31 December 2021
Retirement benefit obligations under the Labour Code and other personnel liabilities	(3 035)	(430)	-	(3 465)
Business reorganisation	443	-	-	443
Financial assets	-	-	-	-
Fixed assets	20 982	(752)	4 452	24 682
Provisions for litigation and other liabilities	(3 455)	(80)	-	(3 535)
Unused annual leave and other	(1 725)	576	-	(1 149)
Total	**13 210**	**(686)**	**4 452**	**16 976**

Movement in deferred taxes during 2020

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

32. Other liabilities

In thousands of BGN	31-December-2021	31-December-2020
Money transfers for execution	40 139	26 064
Liabilities to personnel and management	25 064	25 131
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
Liabilities to suppliers	12 518	8 962
Liabilities for centralisation of State Budget with BNB	3 050	9 204
Liabilities to insurers	1 349	6 238
Dividend payment obligations	125	125
Deferred income	64	5 244
Liabilities under condition for financial asset refunding	40	67
Other	9 019	8 277
Total	**121 799**	**109 396**

33. 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 (see also Note 37). 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%

(b) Statutory and other reserve

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

(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 24). The deferred tax liability on the reserve recognized directly in equity amounts to BGN 4 452 thousand (Note 31).

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 30).

(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.

34. Contingent liabilities and commitments

(a) Off balance sheet liabilities and commitments

	31-December-2021	31-December-2020
In thousands of BGN		
Litigation against the Bank and other contingent liabilities	41 625	40 552
Bank guarantees and letters of credit		
in Bulgarian Leva	354 487	379 540
in foreign currencies	133 360	145 680
	487 847	**525 220**
Factoring agreement commitments		
In Bulgarian Leva	11 093	148 012
In foreign currencies	948	212 431
	12 041	**360 443**
Commitments for undrawn credit facilities		
in Bulgarian Leva	1 804 964	1 567 742
in foreign currencies	1 058 515	1 048 174
	2 863 479	**2 615 916**
Forward and spot deals - sell		
in Bulgarian Leva	1 396 050	853 695
in foreign currencies	6 462 235	7 521 124
	7 858 285	**8 374 819**
Other	7 477	4 573
Total	**11 270 754**	**11 921 523**

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 38.

(b) Contingent liabilities on guarantees and letters of credit

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

These commitments and contingent liabilities carry an off-balance sheet credit risk, with a provision for the proportion of the uncommitted commitment that is likely to be funded based on a credit conversion factor (Note 30).

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

The legal claims against DSK Bank and other contingent liabilities connected with legal proceedings amount to BGN 41 625 and BGN 40 552 thousand (principal and accrued interest) as of December 31, 2021 and 2020, respectively. For part of these legal claims the Bank's management believes that there is a probability of unfavourable outcome. The Bank considers probability of future cash outflows on other contingent liabilities as well as probabilty for increase of customers' claims against the Bank connected with payments on contracts for products and services provided by the Bank. Based on these assessments provisions at the total amount of BGN 37 229 thousand and BGN 36 030 thousand (Note 30) are allocated as at the end of 2021 and 2020, respectively.

(d) Assets pledged as collateral

As of 31 December 2021 and 2020 DSK Bank has pledged assets as collateral as follows:

In thousands of BGN	**31-December-2021**	**31-December-2020**
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 2020 securities to the total amount of BGN 317 375 thousand are pledged as collateral for funds due to the State Budget. The pledge is registered at the Bulgarian National Bank in favour of the Ministry of Finance under the Public Finance Act. As of 31 December 2021 securities measured at FVTOCI to the amount of BGN 189 896 thousand are pledged as collateral of repo deals; and the rest of the pledged securities are in favour of the State Budget (Note 27).

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 19(a)).

(e) Operating leases – the Bank as a lessor

The Bank has entered into operating lease agreements as a lessor, and recognised income from rentals under those agreements to the amount of BGN 2 877 thousand and BGN 2 228 thousand for 2021 and 2020, respectively (Note 10).

The table below provides a maturity breakdown of the undiscounted cash flow payments, which are to be received in the future by the Bank in its capacity as a lessor:

In thousands of BGN	31-December-2021	31-December-2020
In less than 1 year	1 233	1 322
Between 1 and 2 years	496	954
Between 2 and 3 years	294	284
Between 3 and 4 years	94	150
Between 4 and 5 years	25	29
Total undiscounted future lease payments	**2 142**	**2 739**

35. Cash and cash equivalents

In thousands of BGN	Note	31-December-2021	31-December-2020
Cash on hand	17	805 434	675 194
Balances with the Central Bank	17	3 064 086	2 970 049
Receivables from banks with original maturity up to 3 months		668 445	378 925
Total		**4 537 965**	**4 024 168**

36. Subsidiaries and associated companies

On January 15, 2019 DSK Bank finalized the transaction for acquisition of 99.74% of the capital of Expressbank AD and its subsidiaries.

On 30 April 2020 Expressbank AD was erased from the Commercial Register following of its merger into DSK Bank (see Note 37).

On 30 September 2020 Express Factoring was also erased from the Commercial Register following its merger into DSK Bank (see Note 37).

The investments in subsidiaries are presented below:

In thousands of BGN	31-December-2021 % ownership	31-December-2021 Carrying amount	31-December-2020 % ownership	31-December-2020 Carrying amount
DSK Tours EOOD*	100.00%	6 930	100.00%	7 137
DSK Rodina Pension Company AD	99.85%	14 973	99.75%	10 972
DSK Assets Management AD	66.00%	7 300	66.00%	7 300
DSK Leasing AD **	60.02%	1 962	60.02%	1 962
DSK Mobile EAD	100.00%	7 200	100.00%	7 200
DSK Dom EAD	100.00%	500	100.00%	500
OTP Factoring Bulgaria EAD	100.00%	37 620	100.00%	37 620
OTP Leasing EOOD	100.00%	49 725	100.00%	49 725
Regional Urban Development Fund AD	52.00%	208	52.00%	208
Total		**126 418**		**122 624**

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

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

As of 31 December 2021 and 2020 the cost of the investment of DSK Bank AD in Company for Cash Services AD, an associate of the Bank, is BGN 2 965 thousand, which represents 25% of the share capital of this entity. The net assets of Company for Cash Services AD as of 31 December 2021 amount to BGN 14 264 thousand (2020: 14 505 thousand).

As of 31 December 2021 the Bank performed a review for indications of impairment of its investments in subsidiaries and as a result, charged impairment of BGN 207 thousand on its investment in DSK Tours EOOD (Note 12).

37. Merger of subsidiaries

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

Merger of Expressbank

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

In accordance with the contact for transformation through merger of Expressbank into DSK Bank, an independent appraisal of the fair value of shares of Expressbank was performed for the purpose of determining the number of shares the former shareholders of Expressbank were entitled to receive in their capacity of shareholders of DSK Bank. The share exchange ratio determined by the appraisal was realized through issuance of new shares by DSK Bank to the former shareholders of Expressbank, as well as through cash payments. The increase of share capital of the Bank, as well as the merger transaction, were registered in the Commercial Register on 30 April 2020. The same date has been applied as the accounting date of the merger in the Bank's ledgers. The new shareholder's structure after the merger is discussed in Note 33.

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

In thousands of BGN	**30-April-2020**
Assets	
Cash and current accounts with the Central Bank and other banks	911 775
Derivative financial instruments	10 716
Loans and advances to banks	651 283
Loans and advances to customers	4 453 904
Investments	4 592
Current tax assets	4 234
Investments in subsidaries and associates	56 926
Right-of-use assets	22 201
Property, plant and equipment	97 908
Intangible assets	42 331
Goodwill recognized on acquisition of Expressbank in 2019	77 372
Other assets	1 550
Total assets	**6 334 792**
Liabilities	
Deposits from banks	31 649
Derivative financial instruments	10 100
Deposits from customers	5 053 461
Loans from banks and financial institutions	32 181
Lease liabilities	22 175

Provisions	24 827
Deferred tax liabilities	7 218
Other liabilities	28 709
Total liabilities	**5 210 320**
Net assets at the merger date	**1 124 472**
Investment as at the merge date	(1 075 302)
Effect from the merger credited to equity	**49 170**
including:	
Share capital	1 178
Legal and other reserve	25 939
Revaluation reserve of financial assets	11 057
Retained earnings	10 996

Merger of Express Factoring

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

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

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

38. Related party transactions

DSK Bank has a related party relationship with directors, executive officers, as well as with its subsidiaries and associates, the owner OTP Bank and the other companies within OTP Group.

The directors and executive officers are represented by the members of the Management Board and the Supervisory Board.

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:

As of, and for the year ending 31 December 2021:

In thousands of BGN	OTP Bank	Subsidiaries	Other OTP Group members	Associates	Directors and executive officers	Total
Income/ (Expenses)						
Interest income	148	1 089	3 553	-	2	4 792
Interest expense	(780)	-	-	-	-	(780)
Fees and commissions income	4	682	26	-	-	712
Fees and commissions expenses	(160)	(2 196)	-	-	-	(2 356)
Gains (losses) on trading activities	17 459	-	-	-	-	17 459
Net income from other financial instruments at FVTPL	15 758	-	-	-	-	15 758
Dividend income	-	25 842	-	300	-	26 142
Income from rentals	-	790	-	-	-	790
Other operating income	1 089	53	63	-	-	1 205
Hired services	-	161	-	-	-	161
Assets						
Current and deposit accounts - gross carrying amount	8 958	-	691 753	-	-	700 711
Derivative financial instruments	6 478	-	-	-	-	6 478
Loans granted to customers, receivables banks - gross carrying amount	195 338	1 079 629	-	-	144	1 275 111
Right of use assets - gross carrying amount	-	1 190	-	-	-	1 190
Other receivables	220	1 079	-	-	-	1 299
Liabilities						
Current and deposit accounts with DSK Bank	4 335	51 853	2	103	10 834	67 127
Derivative financial instruments	28 746	-	231	-	-	28 977
Other liabilities	-	1 473	-	-	-	1 473
Conditional liabilities						
Undrawn lines of credit and commercial factoring	1 600	79 973	-	-	360	81 933
Conditional liabilities for currency exchange contracts	1 591 540	-	113 736	-	-	1 705 276
Guarantees and letters of credit granted	-	2 573	16	-	-	2 589
Conditional receivables						
Conditional receivables for currency exchange contracts	1 627 218	-	113 438	-	-	1 740 656
Conditional receivables for financial guarantees	-	-	17	-	-	17

As of, and for the year ending 31 December 2020:

In thousands of BGN	OTP Bank	Subsidiaries	Other OTP Group members	Associates	Directors and executive officers	Total
Income/ (Expenses)						
Interest income	2 450	1 371	1 068	-	2	4 891
Interest expense	(1 045)	(6)	(104)	-	(1)	(1 156)
Fees and commissions income	2	91	24	-	-	117
Fees and commissions expenses	(215)	(2 535)	-	-	-	(2 750)
Gains (losses) on trading activities	89 457	-	-	-	-	89 457
Net income from other financial instruments at FVTPL	(2 883)	-	-	-	-	(2 883)
Dividend income	-	73 718	-	478	-	74 196
Income from rentals	-	954	-	-	-	954
Services income	-	33	-	-	-	33
Other operating income	880	-	15	-	-	895
Hired services	-	(13 093)	-	(3 753)	-	(16 846)
Assets						
Current and deposit accounts - gross carrying amount	6 038	-	786 314	-	-	792 352
Derivative financial instruments	29 418	-	-	-	-	29 418
Loans granted to customers, receivables banks - gross carrying amount	-	981 997	-	-	148	982 145
Bond issued by OTP Bank	166 238	-	-	-	-	166 238
Right of use assets - gross carrying amount	-	352	-	-	-	352
Other receivables	220	-	-	-	-	220
Liabilities						
Current and deposit accounts with DSK Bank	3 990	50 442	3	-	12 458	66 893
Derivative financial instruments	64 490	-	452	-	-	64 942
Other liabilities	424	1 532	-	-	-	1 956
Conditional liabilities						
Undrawn lines of credit and commercial factoring	1 600	70 142	-	-	350	72 092
Conditional liabilities for currency exchange contracts	2 290 094	-	92 787	-	-	2 382 881
Guarantees and letters of credit granted	-	2 826	-	-	-	2 826
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

DSK Bank has nostro accounts with OTP Bank denominated in EUR, USD, GBP, CHF and HUF with total balance as of 31 December 2021 to the amount of BGN 7 433 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.

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

As of 31 December 2021 DSK Bank 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.

The derivatives used for fair value hedge as of 31 December 2021 and 2020 are concluded with OTP Bank. The derivatives hedge the fair value of government bonds measured at FVTOCI. Additionally, at the previous reporting date, derivatives are also used to hedge reverse repo deals.

As of 31 December 2021 DSK Bank 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 34(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 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 DSK Bank 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 (Note 34(d).
- 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%.

The income on sale of non-performing loans to OTP Factoring Bulgaria for 2021 is BGN 92 thousand. There have been no sales of non-performing loans to OTP Factoring in 2020.

As of 31 December 2021 and 2020 DSK Bank has extended loans to related parties as follows:

- Credit line to OTP Leasing taken over from a merged subsidiary, which is denominated in EUR, amounting to BGN 743 215 thousand, granted on 27 November 2019 with maturity date 31 December 2023 and interest rate of 0.03% for BGN 449 841 thousand of the principal and 0.009% for BGN 293 374 thousand of the principal. The interest rate as of 31 December 2020 was 0.18%. As of the date of these financial statements the credit line is fully utilized;
- Credit line to OTP Leasing taken over from a merged subsidiary, which is denominated in EUR, amounting to BGN 78 233 thousand, granted on 27 November 2019 with maturity date 31 December 2023 and interest rate 0.23%. As of the date of these financial statements the credit line is fully utilized;
- Credit line to OTP Leasing taken over from a merged subsidiary, which is denominated in BGN, amounting to BGN 39 117 thousand, granted on 28 November 2019 with maturity date 31 December 2023 and interest rate 0.23%. As of 31 December 2021 and 2020 the credit line is fully utilized;
- Credit line to OTP Leasing denominated in EUR, amounting to BGN 101 703 thousand, granted on 24 April 2020 with maturity date 31 March 2024 and interest rate 0.29%. As of 31 December 2021 and 2020 the credit line is fully utilized;
- Credit line to OTP Leasing denominated in EUR, amounting to BGN 117 350 thousand, granted on 30 August 2021 with maturity date 31 August 2025 and interest rate 0.03%. As of 31 December 2021 the credit line is fully utilized.

Additionally, as of 31 December 2020 loans granted to related parties include the following balances:

- Credit line to OTP Leasing denominated in EUR, amounting to BGN 40 500 thousand, granted on 7 April 2020 with maturity date 12 February 2021 and interest rate 0.18%. As of 31 December 2020 the utilized amount is BGN 15 311 thousand;
- Credit line to OTP Leasing denominated in BGN, amounting to BGN 10 000 thousand, granted on 2 December 2011 with maturity date 2 December 2021 and interest rate 1.25%. As of 31 December 2020 the utilized amount is BGN 4 396 thousand.

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 Bank has received deposits from OTP Bank Group member banks 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 DSK Bank has the following intragroup balances of deposits received from subsidiaries and associates:

- Current accounts of group members denominated in BGN and EUR amounting to BGN 49 782 thousand;
- Term deposits of group members denominated in BGN amounting to BGN 2 174 thousand.

As of 31 December 2020 DSK Bank has the following intragroup balances of deposits received from subsidiaries and associates:

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

As of 31 December 2021 DSK Bank has the following intragroup off-balance sheet liabilities and commitments:

- DSK Bank has issued guarantees to group members amounting to BGN 2 589 thousand.
- The commitment of the Bank on unutilized credit lines extended to group members amounts to BGN 81 933 thousand.
- The commitment of the Bank on derivative deals with group members amounts to BGN 1 705 276 thousand.

As of 31 December 2020 DSK Bank has the following intragroup off-balance sheet liabilities and commitments:

- DSK Bank has issued guarantees to group members amounting to BGN 2 826 thousand, of which BGN 322 thousand of letters of credit.
- Commitments of the Bank under commercial factoring agreements are to the amount of BGN 5 604 thousand.
- The total contracted overdraft limit on current accounts of group members is to the amount of BGN 79 297 thousand. As of 31 December 2020 the unutilized part of the limit is BGN 63 987 thousand.
- The commitment of the Bank on unutilized credit lines extended to group members amounts to BGN 2 151 thousand.
- The commitment of the Bank on derivative deals with group members amounts to BGN 2 382 881 thousand.

The remuneration of the key management personnel for 2021 includes short-term benefits amounting to BGN 4 752 thousand, including share-based payments to the amount of BGN 1 091 thousand (Note 13).

The remuneration of the key management personnel for 2020 includes short-term and long-term benefits amounting to BGN 8 725 thousand.

39. Disclosures required by the Law on Credit Institutions

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

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

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

Below is quantitative data for the Bank's operations:

In thousands of BGN	**2021**	**2020**
Operating income	940 660	844 358
Pre-tax profit	434 055	205 856
Income tax expense	(40 466)	(12 820)
Equivalent number of full-time employees, average	5 255	4 967
Return on assets (net profit to total assets)	1.65%	0.92%
Government grants received	356	-

The quantitative data above is calculated on the basis of the separate 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.

40. Events after the end of 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 Bank is not to be able to recover in full the value of assets held in the affected countries (inl. cash at banks operating on the territory of Ukrain or Russia; loans granted to Russian or Ukranian 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 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 Ukranian customers is BGN 1 709 thousand.

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