DSK Bank AD

Consolidated Financial Statements

For the year ended 31 December 2022,

report on the management and activity,

declaration of corporate governance,

non-financial declaration

and independent auditors' report

Contents:

DSK GROUP
Report on the Management and Activity
of DSK Bank AD and the Companies of the Group for the year ending
31 December 2022

General information about the Group

DSK Bank AD - the parent company

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

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

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

As of December 31, 2022 the consolidated financial statements of DSK Group include DSK Bank AD and its subsidiaries (commonly referred to as the Group).

Companies in the Group

As at the end of 2022 the Group consists of DSK Bank AD, 10 subsidiaries and one associate.

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

- PIC DSK Rodina — BGN 14.973 million (99.85%);
- DSK Tours - in liquidation — BGN 6.930 million (100%);
- DSK Trans Security is 100% owned by DSK Bank AD
- DSK Asset Management — BGN 1.325 million (66%);
- DSK Leasing AD — BGN 1.962 million (60.02%)
    - In 2022 DSK Operative Leasing and DSK Auto Leasing EOOD were merged in DSK Leasing AD which is their universal successor.
- OTP Leasing EOOD — BGN 49.725 million (100%)
- dsk Ventures EAD (DSK Mobile EAD) — BGN 7.200 million (100%)
- DSK Dom EAD — BGN 0.500 million (100%)
- OTP Factoring Bulgaria EAD — BGN 37.620 million (100%)
- Regional Urban Development Fund AD — BGN 0,208 million (52%).

On 05 September 2022 the decision of the Bank as a sole owner of DSK Tours EOOD to terminate the entity and to start a liquidation procedure was filed in the Trade register of Republic of Bulgaria. The liquidation term is 8 months, effective as of the date of the publishing of the invitation to the creditors. As of the date of this financial statement the liquidation procedure has not been completed.

DSK Bank holds investments in associated companies as follows:

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

DSK Group

Macroeconomic environment

In 2022, the world economy was once again affected by numerous force majeure circumstances, most of which will continue to affect 2023. Initially, Covid-19 shocked the world and plunged it into a deep recession, and then the sharp recovery of economies severely hampered trade channels and supplies. As a result of these shocks, there was a shortage of productive resources and this contributed to an increase in the prices of final goods and services. The beginning of 2022 was marked by a new global factor - the war in Ukraine, which further strengthened the already started inflationary pressure.

The energy crisis that has emerged in Europe in the fallout of the Russian invasion of Ukraine and all of the economic uncertainties that have emerged as a result continue to dominate the economic outlook for the entire continent, including Bulgaria. In 2022, it became clear that the war would most likely last much longer than initially expected (possibly for years) and the implications of the geopolitical and economic "divorce" between the EU and Russia would have more serious and long-term consequences than expected. The jeopardizing of Europe's energy security has also further exacerbated already existing inflationary trends and has caused a full-blown inflationary crisis, with inflation reaching its greatest levels for the past two to three decades, across all EU member states. Additional uncertainty due to the sanctions imposed by the EU on Russia lead to the danger of a complete or partial suspension of Russian gas to the European economy. This further increases the pressure on energy prices. Bulgaria is not directly dependent on Russian gas, which accounts for 10-15% of the country's total energy mix. The total annual consumption of the country is 3 billion cubic meters, which is an amount that can be secured relatively easily, especially as one-third of the gas supply to Bulgaria is already provided by Azerbaijan through the new IGB pipeline with Greece. The biggest economic risk that a Russian gas shutoff poses for Bulgaria is indirect, through the impact that it can have on key trading partners like Germany and Italy. Bulgarian economy is a small and open and Germany accounts for 15% of Bulgarian export. If a key trade partners like Germany enters into a recession due to a lack of Russian gas deliveries, this will have a significant negative impact on Bulgaria as well. As a continuation of the topic, inflationary pressure continues to weigh on Bulgarian business. The annual inflation (measured by Consumer Price Indices) at the end of December 2022 is 17% and in the first months of 2023 shows the first signs of decreasing. This is mainly due to lower prices of energy products, while other consumer groups such as food and beverages, part of the consumer basket continue to record significant annual growth. The labor market continues to report record low unemployment rates, while employment is rising. The annual unemployment rate (average) as of December 2020 is 4.3% and decreasing on an annual basis by 100 bps. This largely makes this market less sensitive to GDP dynamics. Businesses continue to have difficulty finding staff, especially qualified ones. As of December 2022, the number of unemployed decreased by 4 thousand on an annual basis and reached 154 thousand people.

According to the preliminary data of the National Statistical Institute for the produced gross domestic product at the third quarter in 2022 marks an annual real growth of 2.9% compared to a year ago. The balance of the consolidated fiscal program at the end of 2022 is negative and amounts to BGN 1 347 million (minus 0.9% of expected GDP). By end-December 2022 government debt totaled BGN 36 126 million in nominal terms, including domestic debt of BGN 10 965 million and external debt of BGN 25 160 million. In the government debt structure, at the end of the period, domestic debt amounts to 30%, and external debt – to 70%. Direct investment in the country increased by 4.7% for the period January-November 2022 compared to the same period of the previous year and amounted to EUR 1 527 million (1.9% of expected GDP).

The banking system in the country ends in 2022 with nearly BGN 2.1 billion in profit, which compared to a year ago increased by 47%. Despite the inflation, uncertainty and rising interest rates on lending products, banks in Bulgaria remain stable, capitalized and highly liquid. Lending activity in 2022 remains stable, with significant growth in housing lending on an annual basis (18%). Due to the deterioration of the macroeconomic environment, risk cost remained relatively at the high level like year ago and amounts BGN 586 million (0.7% of total customer exposures). Non-performing loans (day-past-due above 90 days) decreased during the year and by the end of 2022 accounted for 2.8% of the total loan portfolio of banks.

Summary

DSK Bank reported the highest annual nominal growth of its total assets and, by the end of 2022, climbed to the leadership position in the banking system. Also, 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 total loans with a market share of 20.9%, remains the share compared to a year ago. In terms of total deposits, the Bank also leads position in the banking system of the country with a market share of 18.6% compared to a year ago, when the share was 17.8%. Despite maintaining a leading position in deposit products, in 2022 the Bank continues to apply adopted 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.

For 2022 DSK Group reports a profit after tax to the amount of BGN 563.7 million.

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

The Cost-to-Income as of December 2022 of the Group is 39.1%, 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 2022 DSK Bank continues to offer traditional lending and deposit products for the households and retain their leading position in this segment.

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

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

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

The Bank offers investment services on the account of customers complying with Markets in Financial Instruments Act and the respective legal acts on its implementation as Ordinance № 38 from 21.05.2020 on the requirements to the activities of the investment intermediaries and Ordinance № 58 from 28.02.2018 of the Financial supervision commission (FSC) on the requirements for protection of the financial instruments and the monetary funds of clients, for management of products and offering or receiving of remunerations, commissions, other pecuniary or non- pecuniary benefits, as well as the approved internal rules related to those regulatory acts.

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

The performance of the administrative functions is strictly monitored (particularly those related to the interaction with external parties). Procurement is ensured for the entire branch network, whereas most of the supplier contracts are centralized and the orders, supplies and the respective expenses are closely monitored by the Head Office. Reports and other obligations toward external authorities and regulatory bodies are prepared and delivered timely and the compliance with all legislative requirements is monitored by Strategy, finance and data management division, Legal directorate and Compliance department. The operational risk is monitored and regular reports are prepared and submitted to the Operational risk management committee measuring the events and the realized losses and the corresponding potential losses, as well as proposing measures for limiting of the operational risk.
In 2022, the companies included in DSK Group did not have any research and development activities.

General information about the Management and the Structure of the Group

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

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

As of December 31, 2021 DSK Bank AD was managed by a Supervisory Board and a Management Board respectively with the following members:

Supervisory Board

László Bencsik - Chairman of SB
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
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 Management Board, the personal changes in 2022 were as follows:

As of 28.10.2022, Yuriy Genov. has been deregistered as members of the MB Yuriy Genov.

Changes as follows on 28.10.2022:

The date of the term of Tamas Hák-Kovács is 3 (three) years as from the date of his entry in the commercial register and the register of NGOs as a member of the Management Board. For DIANA DECHEVA MITEVA and BOYAN FILIPOV STEFOV the term expires on 28.10.2023. For Dorothea Nikolaeva Nikolova-Iltcheva the term is 3 (three) years as from the date of her entry in the commercial register and the register of NGOs as a member of the Management Board for Slaveyko Lyubomirov Slaveykov, Arnaud Rene Julien Leclair and Mihail Roumenov Komitsky the term expires on 25.03.2025.
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 – deleted circumstance
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 2022, DSK Bank has no contracts under Art. 240b of the Commerce Act with members of the Management Board.

The total remuneration received by the management of DSK Bank during the year was in accordance with management contracts and amounted to BGN 6.8 million.

The total remuneration received by the management of DSK Group during the year was in accordance with management contracts and amounted to BGN 9.2 million.

Participation of Management and Supervisory Board members of DSK Bank in the share capital as of 31.12.2022

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

The participation of the Management Board members of DSK Bank in management and supervisory bodies of other companies by the end of 2022, as representatives of DSK Bank is as follows:

Name	Company	Position
Tamas Hak-Kovacs	DSK Leasing AD BORIKA AD dsk Ventures EAD	Member of SB Member of BD Member of BD
Diana Miteva	DSK Dom EAD PIC DSK Rodina AD	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
Mihail Komitsky	DSK Leasing AD OTP Leasing EOOD	Chairperson of MB 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 2022 DSK Bank AD has 8 regional centers, 49 financial centers, 22 business centers and zones, 93 branches, 129 bank offices.

The management bodies of the other companies in the Group as of end of 2022 are as follows:

PIC DSK Rodina AD

Two-tier management system.

Management Board

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

Supervisory Board

Violina Marinova Spasova,
Choba Nagy,
Yanaki Sevastiyanov Yanakiev

The total remuneration received by the management during the year was in accordance with management contracts and amounted to BGN 0.87 million.

DSK Tours EOOD - in liquidation

The company is represented by Lazarina Mitkova Pencheva in the capacity of liquidator of the company, entered in Comersial Register on 05.09.2022..

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

DSK Trans Security EAD

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

Momchil Lyubomirov Momchilov,
Tsvetoslav Naidenov Dimov,
Zhivko Minchev Minchev

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

dsk Ventures EAD (DSK Mobile EAD)

One-tier management system.

Board of Director

Tamas Hak-Kovacs
Borislav Georgiev Borislavov

Peter Benjo.
DSK Mobile EAD changes its name to dsk Ventures EAD, as of the date of entry of the change in the Commercial Register, namely on 11.11.2022.

The management system of the company changes from two-tiered to one-tiered with the Board of Directors consisting of Tamash Hak-Kovach, Petar Benyo, Borislav Georgiev Borislavov, as of the entry of the changes in the Commercial Register, namely on 11.11.2022.

The total remuneration received by the management during the year was in accordance with management contracts and amounted to BGN 0.17 million.

OTP Factoring Bulgaria EAD

One-tier management system.

Board of Directors

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

On 13 September 2022 the Agreement for transformation by merger of OTP Factoring Bulgaria into DSK Bank has been duly announced at the Commercial Register.

DSK Dom EAD

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

Diana Decheva Miteva,
Veselin Hristov Petrov,
Dimitar Aleksandrov Aleksandrov,
László Dobák

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

On 07/04/2022, Rózsa Dévényi was deregistered from Commercial Register as a member of the Board of Directors and Mr. László Dobák was entered as member of the Board of Directors.

The total remuneration received by the management during the year was in accordance with management contracts and amounted to BGN 0.20 million.

DSK Leasing AD

Two - tier management system.

Management Board

Krum Ivanov Krumov,
Mihail Rumenov Komitsky,
Borislav Veselinov Matakiev

On 15/02/2022, Kostadin Dimitrov Karadzov was deregistered from Commercial Register as a member of the Board of DirectorsOn 30.08.2022, the mandate of the members of the Management Board was extended until 01.09.2025.

Supervisory Board

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

„DSK Auto Leasing" EOOD has been transferred by merging to „DSK. Leasing AD" and „DSK Auto Leasing" EOOD shall be terminated without liquidation. The merger was entered to the Commercial Register on 21 January 2022.
OTP Insurance broker EOOD
The company is represented by the manager Vladimir Georgiev Ralchev.

On 28.02.2022 Vladimir Georgiev Ralchev has been entered as manager into the commercial registered

DSK Operating Leasing EOOD has be transferred by merging to „DSK. Leasing AD" and DSK Operating Leasing EOOD shall be terminated without liquidation. The merger was entered to the Commercial Register on 25 November 2022.

DSK Asset Management AD

Two - tier management system.

Management Board

Petko Krustev Krustev,
Dorothea Nikolaeva Nikolova,
Svetoslav Spasov Velinov

Supervisory Board

Gabor Fazekas,
László Gyorgy Gáti,
Boyan Filipov Stefov,
Ivaylo Penev Hadjiev

On 1st July 2022 Benedek Balázs Köves was dismissed as member of the Supervisory Board.

The total remuneration received by the management during the year was in accordance with management contracts and amounted to BGN 0.46 million.

OTP Leasing EOOD

The company is represented by the director Mihail Rumenov Komitsky.

The total remuneration received by the management during the year was in accordance with management contracts and amounted to BGN 0.43 million.

Regional Urban Development Fund AD

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

Ivan Velinov Dragomirov
Alis Kirkor Magardichyan
Kamen Marinov Kolchev
Momchil Lyubomirov Momchilov
Anatoli Vladev Belchev

On 17th March 2022 Anastasia Dimitrova Chorbadjieva and Martin Mihaylov Zaimov were dismissed as members of the Board of Directors and Alis Kirkor Magardichyan and Ivan Velinov Dragomirov have been elected as members of the Board of Directors was registered.

The total remuneration received by the management during the year was in accordance with management contracts and amounted to BGN 0.14 million.

Financial result and profitability

Financial indicators of the Group

For the year 2022 DSK Group reports profit before tax to the amount of BGN 623.3 m and increased by 34.8% compared to 2021 mainly as a result higher interest income and higher fee and commission income. Lower impairment allowances also contributed for the good performance.

The profit after tax amounted to BGN 563.7 million.

The net interest income was BGN 780.8 m. and increased compared to 2021 by BGN 167.7 m or 27% mainly as a result of higher interest income (BGN 170.5 m) as the interest income on loans increased by BGN 73.9 million and the interest income on loans and advances to banks increased by BGN 95.8 million. The interest expenses increased year-on-year by BGN 2.9 million mainly as a result of higher interest expenses on loans from banks and financial institutions.

The net non-interest income for 2022 amounted to BGN 402.7 million (a slight decrease of BGN 1.7 million compared to 2021), which is mainly as a result of the net foreign exchange loss. Net fee and commission income amounted to BGN 351.1 million and increased by BGN 47 million compared to 2021.

The operational expenses (including staff costs, depreciation, services and utilities) amount to BGN 463.1 m and increased by BGN 35.7 million or 8% on annual basis.

The impairment allowances on financial assets were BGN 104.7 million in 2022 and decreased compared to 2021 (by BGN 26.1 million or 20%).

The average headcount of DSK Group by the end of 2022 is 5 985 (as of 31 of December 2021: 6 052).

The assets per employee ratio is BGN 4.85 m by the end of 2022. The profit per 1 employee is BGN 94.2 thousand.

Balance sheet indicators of the Group

The total assets of the DSK Group amounted to BGN 29 051.7 m as of 31 of December 2022 and increased by 4 534.6 m (or 18.5%) compared to end of 2021.

The market share of the Bank as of 31 December 2022 in the total banking assets in the country was 18.6% (as of December 2021: 18.0%).

The gross loan portfolio (customer loans and advances) of DSK Group as of 2022 end amounted to BGN 16 134.7 m and reported an annual growth of 12.2%., mainly as a result of the increase of company portfolio.

The loans to individuals at gross book value before impairment amounted to BGN 9 808.3 m as of 31 December 2022 and increased compared to previous year by BGN 840.7 million.

The market share of the Bank in terms of household loans was 29.1% by the end -2022 (2021: 30.4%), as in consumer loans (incl. non-residential mortgage loans) and overdrafts was 37.4% (40.1% in 2021), and in housing – 23.2% (23.9% in 2021). The market share of non-financial companies as of December 2022 was 13.5% compared to 12.9% in 2021.

The wholesale loans (incl. budget loans) at gross book value before impairment amounted to BGN 6 326.4 m and reported YoY increase by 16.8%.

The impairment of the loan portfolio (customer loans and advances) as of 31.12. 2022 was BGN 733 m (as of 31.12.2021: BGN 1 018 m).

Total customer deposits amount to BGN 23 902,8 m by end of 2022 and report an annual growth of 19.2%.

BGN 17 986,7 m are deposits from individuals which is 11.5% growth compared to 2021.

The market share of the Bank in terms of household deposits as at the end of 2022 was 24.2% and increases compared to 2021 (23.7%).

Company deposits (incl. budget) amounted to BGN 5 074,9 million as at the end of 2022 and increased significantly (by 41.8%) compared to 2021.

Deposits from financial institutions amounted to BGN 841,2 million, and grew by BGN 498.1 million compared to 2021.

Capital adequacy

DSK Group constantly maintains a level of total capital adequacy, sufficient to cover the risks from its activity and to comply with the regulatory requirements. As at 31 December 2022 the total capital adequacy ratio on consolidated basis was 20.39%. In 2022 the Group provided BGN 182.4 million free capital above the SREP capital requirement and capital guidance and the combined capital buffer, incl. capital conservation buffer (BGN 399.1 million), systemic risk buffer (BGN 478.9 million), O-SII buffer (BGN 159.6 million) and the specific for the institution countercyclical buffer (BGN 151.7 million).

Credit risk

In the context of the war in Ukraine crisis the identification and measurement of credit risk had to address the specific situation of clients and their capabilities to replace respective clients or suppliers from the area of the military conflict. DSK Bank monitors 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 of a given loan, 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).

The main credit risk to which the Group is exposed results from the granted loans to clients. As of the end of the year, the gross loan portfolio of the Group comprised loans to households (60.8%) and company loans (incl. budget) (39.2%). Within household loans the credit risk is well allocated between consumer loans (49.6%) and mortgage loans.

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

The coverage ratio (ratio of coverage of the total loan portfolio from expected credit loss impairment) as of December 2022 was as follows:
Total loan portfolio – 4.5%

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 – 16.7%
- Stage 3 – 62.6%

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 2022 the credit performing exposures including those with increased credit risk (classified in stage 1 or stage 2) were 96.4%.

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

Liquidity risk

Liquidity risk occurs as a result of the necessity to provide general funding for the DSK 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.

In order to monitor and manage its liquidity risk, the Bank uses various regulatory, group, internal and market indicators.

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

As a result of the implementation of Currency Board in Bulgaria, the Bulgarian currency rate to the euro is fixed at 1.95583. The national reporting currency is the Bulgarian lev therefore the 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 in the trading portfolio on maximum open positions – intraday and overnight 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 and performance of P&L and VaR limits, and EUR structural Open FX position of the Bank 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 in the trading portfolio via MRP system. 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.

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.

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 operational decisions are taken that are not assigned to the competence of the Management Board or other bodies and measures for mitigation/elimination of operational risks, are planned. 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 ORMC are then forwarded to the MB of the Bank with a proposal for decisions to be taken based on these reports that are within its powers.

The responsibility for the development of the Operational risk management system is assigned to Operational Risk Management Section 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 "process owners", 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 Section.

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 Section 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 the annual Supervisory Review and Evaluation Process (SREP), 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 2022 in DSK Banking Group, 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.

Risk Management (hedging)

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

Detailed information is presented in the annual financial statement.

Investment program

The investments of DSK Group during the year amounted to BGN 36.9 million, in comparison to BGN 39.4 million for the prior period. The investments in information technology were BGN 21.5 million, as their share in the total investments of the Bank was 58% (for 2021 this share was 48%).

PIC DSK Rodina AD

Pension Insurance Company DSK Rodina is licensed for performing activities on supplementary social insurance. It has registered and manages four pension insurance funds – Universal Pension Fund, Occupational Pension Fund, Voluntary Pension Fund and Voluntary Pension Fund under Occupational Schemes and two payment funds – Lifelong pension fund "DSK-Rodina" and Fund for term payments "DSK-Rodina".

For the year 2022 DSK Rodina reported a profit after tax of BGN 15.7 million (2021: BGN 20 million). The revenues from the management funds amounted to BGN 36.4 million, which represented a slight decrease of 5% compared to the previous year.

At the end of 2022 the number of the insured individuals reached 937 thousand, which was an increase of 7.1% compared to 2021. The net assets managed by the company rose to BGN 3 727.3 million, growing by 1.5% year-on-year. As of December 2022 DSK Rodina reached a market share in terms of number of insured individuals of 18.97% and 19.32% in terms of net managed assets (2021: respectively 18.03% and 18.76%).

OTP Leasing EOOD

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

The company is among the leading companies on the leasing market in Bulgaria, despite the increased competitive environment. The net financial lease portfolio of OTP Leasing at the end of 2022 amounted to BGN 1 348.1 million (2021: BGN 1 066.2 million). The realized profit for 2022 stood at BGN 14.3 million (2021: BGN 12.9 million). The rise compared to the previous year was driven by higher interest income.

DSK Leasing AD

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

In 2022, the company continued to serve mainly its customers under existing contracts, with the new business being taken over mainly by the subsidiary OTP Leasing.

For the reporting period DSK Leasing Group realized a profit after tax amounting to BGN 5.2 million (2021: 5.5 million), as the reported decrease was a result of more reintegrated provisions in 2021 compared to 2022.

OTP Factoring Bulgaria EAD

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

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

On 13 September 2022 the DSK Bank announced its plan for transformation of its subsidiary OTP Factoring Bulgaria EAD through merging in DSK Bank.

As at the end of 2022 the company reported a profit after tax amounting to 15.7 million (2021: BGN 13.0 million).

DSK Trans Security EAD

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

The reported financial result was a profit standing at BGN 0.13 million (2021: BGN 0.36 million). The y-o-y decrease was driven mainly by higher operating expense.

The investment in DSK Trans Security EAD has been sold after the end of the reporting period.

DSK Tours EOOD

The company is in the process of being liquidated.

In 2022 DSK Tours reported profit after tax amounting to BGN 1 million.

DSK Asset Management AD

As of the end of 2022, "DSK Asset Management" manages sixteen funds. This number includes "DSK Alternative 1" - a short bonds fund; “DSK Standard” and “DSK Euro Active” (bond funds), “DSK Balance” (balanced fund), “DSK Global Defensive Companies”, “DSK Growth” and “DSK Global Companies” (equity funds), “DSK Stability - European equities", "DSK Stability - German equities", "DSK Stability - European equities 2", "DSK Stability - European equities 3" (capital-protected funds). Since 2018, the Company managed "DSK Dynamics" - a fund follows a flexible "Absolute Return" investment strategy. The Company also manages "DSK-OTP Premium Mix" fund, which invests mainly in other funds, managed by "OTP Fund Management". The Company's product range also includes three Target-date funds - "DSK Horizon 2030", "DSK Horizon 2035", "DSK Horizon 2040". They are designed to manage clients' investments to achieve specific financial goals over a predetermined time horizon (for example - retirement, children's education, etc.) without restricting withdrawals before the target date.

The reported profit after tax of the company for 2022 amounted to BGN 0.67 million (2021: BGN 0.41 million).

The total amount of managed assets at the end of the year is BGN 289.5 million (2021: BGN 363.4 million).

dsk Ventures EAD (DSK Mobile EAD)

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

The company started operating activity in 2020.

DSK Mobile EAD changes its name to dsk Ventures EAD, as of the date of entry of the change in the Commercial Register, namely on 11.11.2022.

The entity operates through a Viber chatbot covering online card payments for parking zones, pilot launched within Burgas Municipality

The reported net financial result as of 31.12.2022 was a loss amounting to BGN 0.53 million (2021: BGN 0.27 million).

DSK Dom EAD

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

DSK Dom has a wide network of representatives throughout the country (1 350 as of December 2022) offering its clients a broad range of housing and mortgage loans.

The realized profit after tax of DSK Dom for 2022 was BGN 0.89 million (2021: 0.72 million).

Regional Urban Development Fund AD

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

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

The realized financial result in 2022 was a profit amounting to BGN 0.67 million (2021: BGN 0.73 million).

Associates

__Cash Services Company AD__

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

The company reported a profit after tax for 2022 amounting to BGN 1.68 million (2021: BGN 0.97 million).

Audit remuneration

The joint and independent financial audit of the annual financial statements of DSK Group for 2022 has been conducted by the registered auditors Ernst & Young Audit OOD and AFA OOD.

The accrued amounts (BGN 1.7 million) for the services provided by the independent auditors are the following:

- independent financial audit - BGN 1.67 million;
- other services, non-related to audit – BGN 0.07 million.

Events after the reporting period

On 13 January 2023 a change in the members of the Management Board is registered at the Trade register according to which Diana Miteva is released as a member of the Management Board. Thus, the Management Board of the Bank as at the date of the current financial report is represented by the other members disclosed in Note 1 of the financial statement.

On 01 February 2023 the Bank sold 100% of the share capital of its subsidiary DSK Trans Security EAD at the price of BGN 3 865 thousand (see also Note 19 of the financial statement). The shares were acquired by an associated entity of the Bank (Cash Services Company) and as a result the effective share of the Bank in the capital of DSK Trans Security EAD is 25%.

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

Major goals for 2023:

The management of the Bank has defined the following priorities for the business year 2023:

- Transforming the operational model of working stepping on strong ownership mindset and customer experience aiming to achieve business results;
- To dominate our markets through innovations;
- Largest and most efficient distribution network;
- Focusing on rebalancing the composition of the customer base with focus on young professionals and big cities.

The major goals of the companies from the Group in 2023 are as follows:

DSK Rodina – in 2023 the company plans to be among the leading companies on the pension insurance market. DSK Rodina expects to strengthen its market positions, increasing its market shares in terms of number of insured and assets under management. Expanding sales across all funds and sustainably increasing sales from transfer by tablets, a device and a tool that facilitate sales and decrease the transfer cost per 1 person.

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

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

DSK Leasing - in 2023 the company will continue to serve its clients mainly on existing contracts, as the new business is taken over mainly by the subsidiary company OTP Leasing.

DSK Asset Management – in 2023 the activity of the company will be accomplished in accordance with its main targets: growth of the assets under management in Mutual funds; stable and sustainable price increases of the funds units; increasing investor interest in collective investment schemes by implementing marketing and awareness campaigns.

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

dsk Ventures – In 2023 the company will focus on improving the service and increasing the volumes of bank card ticket purchase transactions per the City Mobility Center contract. The company is willing to perform a PoC (Proof of concept), for development of the City by DSK application.

Regional Urban Development Fund – regarding the resource and fulfillment of its commitments under UDF North financial instrument, in 2023 the efforts will be focused on contacting of total amount of contingent loan and faster disbursement of funds to final borrowers. The company will monitor the development of its UDF North and JESSICA portfolio and fulfillment of obligations of its borrowers.

The Report on the Management and the Activity of DSK Bank AD and the Companies of the Group for 2022 is approved by the Management Board with protocol №6 from 10.03.2023.

Tamas Hak-Kovacs
Chief Executive Officer

Slaveyko Slaveykov
Executive Director

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

1. Information as per Art.100n, para.8, item 1, letter "a"

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

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

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

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

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

The established internal control framework of DSK Bank AD ensures:

a. the performance of efficient and effective operations;

b. reasonable fulfilment of activity;

c. appropriate detection, measurement and mitigation of the risks the Bank is exposed to;

d. reliability of the financial and non-financial information and reporting;

e. 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 Division**, which main tasks are related to: maintaining an adequate policy for risk taking 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; assessment and monitoring of environmental, social and governance related risks (ESG risks).

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 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.

For ensuring proper management of the ESG risks, the Bank had implemented ESG Risk Management Framework in Loan Origination and Monitoring, based on which classifies each credit transaction of a business client depending on the client's activity and the maturity of the transaction.

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 to 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 Management 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.

Compliance Regulatory Department 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 Department 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 field;

The Anti-Money Laundering and Countering the Financing of Terrorism Unit (AMLCFT) is a second level of control and defence that ensures the identification, measurement and management of the money laundering and terrorist financing risk that DSK Bank may incur as a result of non-compliance with applicable laws, regulations, supervisory requirements and guidelines, codes of conduct, international standards and guidelines, as well as applicable group policies and regulations in the field.

The AMLCFT Unit has been designated as the specialized service unit within the meaning of Art. 106 of the AML Act and is managed by the Head of the "AMLCFT" Department, to whom the managment body in its management function has assigned the role of an employee in a senior management position under Art. 106 of the AML Act and the role of an compliance officer responsible in the field of prevention of money laundering and terrorist financing, in the meaning of p. 4.2 of guidelines EBA/GL/2022/05 from 14.06.2022

The AMLCFT Unit organizes, coordinates, manages and supervises the activities related to the prevention of money laundering and financing of terrorism in DSK Bank, in accordance with the above-mentioned national, international and group legal framework.

The AMLCFT Unit provides methodical assistance and controls the activities of DSK Bank's subsidiaries, instructing them on measures to eliminate inconsistencies in the field of prevention of money laundering and terrorist financing.

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, Audit Committee, 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/2021/05 and EBA/GL/2021/06 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/2021/06 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/2021/05 and EBA/GL/2021/06 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 overall supervision on the legality and expediency of the banking activity and the work of the executive bodies.
- Monitors the implementation of the decisions of the General Shareholders' Meeting and the Management Board.
- Elects and dismisses the members of the Management Board and defines their renumeration and mandate. The changes in the membership of the Management Board shall not be acted upon without the prior approval of the BNB.
- Approves the decisions of the Management Board for election and dismissal of the Chairman and the Deputy chairman (if elected), the Chief executive officer and the Executive directors.
- Approves the strategic and annual business plan and the budget of the Bank.
- Approves decisions for commence or cease activity within the granted banking license.
- Calls meetings of the General Shareholders' Meeting and the Management Board.
- Reviews and submits for approval to the General Shareholders' Meeting the annual financial statements, the report for the Bank and the proposal of the Management Board for the allocation of profit.
- Approves decisions of the Management Board on fundamental changes in the organizational and management structure of the Bank, specified in the Governance Rules and opening and closing down branches within the meaning of the Commercial Act.
- Approves decisions for the establishment of other funds in addition to the mandatory ones and for determining the conditions for the use of such funds.
- Elects among its members, the members of the Nomination Committee, the Risk Committee and the Remuneration Committee, and adopts their rules of procedure. The rules of procedure shall govern, inter alia, the role, composition and the functions of each of the committees and a procedure for the exchange of information and reports between the relevant committee, the Supervisory and Management Board and other stakeholders.
- Approves the Rules of procedure of the Management Board.
- Approves the income policy rules of the Bank and the Banking group, adopts the Remuneration Policy and supervises its application.

- Approves the adoption of fundamental internal rules and policies, if provided for in the Governance rules.
- Approves the Environmental, Social and Governance (ESG) Strategy.
- Approves decisions on granting internal loans if provided by law or internal regulations of the Bank.
- Approves decisions for establishment of companies.
- Approves decisions on the acquisition and disposal of shares of the Bank in banks and other companies held for investment purposesas specified in the Bank's Governance Rules.
- Reviews and approves the quarterly reports of the Management Board on its activities, including on changes to the organizational and management structure of the Bank made during the reporting period.
- At its discretion, requests from the Management Board information or reports on each issue relevant to the activities of the Bank.
- Performs other functions as provided for by law, the Articles of Association, the Governance rules and other internal regulations of the Bank and shall give an opinion on any issue referred to it by the General Shareholders' Meeting.

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

- Makes decisions in respect of carrying out the Bank's policies and represents the Bank.
- Makes decisions for commence or cease activity within the granted banking license.
- Prepares the strategic and annual business plan and budget of the Bank.
- Makes decisions for the election and dismissal of the Chairman and any Deputy Chairman (if elected) of the Management Board, the Chief Executive Officer and Executive directors.
- Reviews the quarterly financial statements of the Bank and signs off and submits the annual financial statement for approval to the General Shareholders' Meeting through the Supervisory Board.
- Proposes through the Supervisory Board to the General Shareholders' Meeting a method for allocation of profit by determining the part payable to the Reserves fund and other funds, as well as the part payable as dividend or to be used for capital increase.
- Proposes to the General Shareholders' Meeting the selection of two auditing companies, to conduct joint audit of the Bank's annual financial statements and of the supervisory statements, determined by the BNB.
- Adopts Rules of procedure of the Management Board.
- Is responsible for the adequate and effective internal governance and adopts internal regulations and policies for the Bank's activities, including but not limited to:
- 1) for the organisation and procedures of internal audit;
- 2) for avoidance of conflicts of interest;
- 3) for ensuring the integrity of the accounting and financial reporting systems;
- 4) for ensuring the financial and operational controls and compliance with the law and relevant standards.
- Adopts internal rules regulating the individual and collective suitability assessments of the members of the Management Board and Supervisory Board and of the persons holding key positions in the Bank. The regulations also provide rules on the composition and continuity of the members of the boards.
- Is responsible for the establishment of corporate culture and values in DSK Bank, which fosters responsible and ethical behaviour, by adopting the relevant internal acts.
- Is responsible for exercising effective control over the senior executives, subordinated direct to the Chief Executive Officer and to the Heads of Divisions.
- Approves the credit risk policy and methods for management of credit risk, the methodologies for determination of risk-taking limits and for evaluation of risk exposures.
- Adopts the Environmental, Social and Governance (ESG) Strategy.
- Makes decisions on changes of the organisational and management structure of the Bank, consisting of opening and/or closing of fundamental and/or independent units in the Bank`s structure and opening and closing down branches within the meaning of the Commercial Code.
- Determines the levels of risk appetite and risk tolerance.
- Oversees effectively the decisions of the Assets and Liabilities Committee regarding the liquidity risk management.

- Reviews the quarterly reports of the Assets and Liabilities Committee and approves the quarterly evaluation of liquidity, foreign exchange rate, interest rate, market and operational risks.
- Approves the liquidity management policy as well as the liquidity management plan in the event of a liquidity crisis.
- Approves the Internal liquidity adequacy analysis (ILAA).
- Approves the Internal capital adequacy analysis (ICAA), which presents the adequacy of the regulatory and internal capital to cover the risks related to the Bank's activity.
- Makes decisions on granting internal loans, large loans and other loans if provided by law or internal regulations of the Bank.
- Makes decisions on obtaining of loans and credit lines by the Bank and placement of collateral, incl. for third parties.
- Adopts the planning methodologies and planning process, and of controlling principles.
- Approves the income policy rules of the Bank and the Banking group.
- Oversees the process of disclosure and communications with external stakeholders and competent authorities.
- Makes decisions for establishment of companies, for the acquisition and disposal of shares and stakes in companies.
- Makes decisions to exercise the rights attaching to the Bank's participation in companies, concerning increase and decrease of the capital, transformation, termination of the activity and liquidation of the company.
- Makes decisions for appointment of a procurator.
- Makes decisions for establishment of other funds in addition to the mandatory ones and determines the conditions for the use of such funds.
- Reports on its activity at least once quarterly to the Supervisory Board, including on changes to the organisational and management structure of the Bank, made during the reporting period.
- Reports forthwith to the Chairman of the Supervisory Board all the circumstances that may be reasonably considered to have a significant impact on the Bank or its operations.
- Makes any other decisions to the Bank's activity as provided for by law, the Articles of Association, the Governance Rules or any other internal regulations of the Bank or if it considers for necessary to make such decisions and they are not within the exclusive competence of the General Shareholders' Meeting or the Supervisory Board.

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

- Informs the Management Board for the results of the statutory audit and clarifies in what way the statutory audit has contributed to the reliability of the financial report, as well as the Audit Committee's role in this process;
- Supervises the process of financial reporting and provides recommendations and proposals in order to guarantee its effectivity;
- Supervises the effectivity of the internal audit system, the risk management system and internal audit activity as regards the financial reporting in the bank, including considering the impact of environmental, social and governance risks;
- Supervises the statutory audit of the annual individual and consolidated financial statements by taking into consideration the findings and conclusions of the Commission for Public Supervision of the Registered Auditors in relation to the inspections of the registered auditor's work made, aiming at ensuring its quality;
- Inspects and supervises the independence of the registered auditors in accordance with statutory requirements, including the expediency of the provision to the bank of non-prohibited non-audit services, by providing approval in advance for the conclusion of contracts for such services with the registered auditor;
- Notifies the Commission for Public Supervision of the Registered Auditors and the Management Board of the bank within 7 days following each approval given for the conclusion of contracts for non-prohibited non-audit services and each approval given in accordance with Art. 66, para. 3 of the Independent Financial Audit Act;
- Is responsible for the procedure of selection of the registered auditors, which shall jointly conduct independent financial audit of the annual individual and consolidated financial statements of the Bank, and to recommend the General Shareholders' Meeting their appointments, respectively to postpone withdrawal of registered auditor;
- Reports its activity to the General Shareholders' Meeting;
- Draws up and presents to the Commission for Public Supervision of the Registered Auditors until 31 May an annual report of its activities.
- Recommends to the Management Board to propose to the General Shareholders' Meeting the early dismissal of each of the registered auditors if there are reasonable grounds for their dismissal.
- Performs other functions specified in the Statute of the Committee.

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 on the Bank's overall current and future strategy and 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** performs selection of nominees 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 take 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** implements control over the management of assets and liabilities of the Bank aiming at achieving maximum return in line with the approved by the Management Board budget targets and risk appetite, 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 Bank's investment program and large expenses for maximum return on investments, 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 bundles of products and services while optimising their profitability for the Bank with the goal of satisfying the clients' needs, maintaining leadership positions, increasing the Bank's competitiveness, and increasing the 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 the decision-making in connection with ensuring the optimal risk-benefit balance in line with the strategy of the Bank on lending to larger corporate clients and with regulating of the state and counterparty risk, which the Bank assumes when concluding deals 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 management and restructuring of 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 overall activities of the Bank, as its operation is detailed in the Governance Rules and Rules of Procedure of the Data and Analytics Committee of DSK Bank AD.

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

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

DSK Bank ensures the diversity in way of:

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

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

Tamás Hák-Kovács
Chief Executive Director

Slaveyko Slaveykov
Executive Director

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

PURPOSE

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

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

STRATEGY

Facing the challenges of the environment – geopolitical risks associated with the war in Ukraine, internal instability related to changing political dynamics, inflation, increasing interest rates, strong competition and increasing regulatory requirements, combined with internal pain points, our ambition is to transform the Bank Group with the aim to accomplish the business strategy while continuously improving financial results.

The strategy is built on four pillars for future development:

Protect – preserve the Group's current position on the market by balancing the sales force focus between sales and increasing the quality of the customer experience, by optimizing internal processes and focusing staff on more high value- added activities, and by ensuring common goals for all employees of the Group.

Grow – Focus on rebalancing the composition of the customer base targeting young professionals and big cities. Transform the operational model of working stepping on strong ownership mindset and customer experience, aiming to achieve business results, including both increasing the profitability of the organization and meeting regulatory targets as NPE ratio.

Digitaliseise- 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".

Comply- Prepraring for potential Euro adoption; ESG – integration into governance, risk management, business strategy, remuneration and pricing, Diversity-focus on gender representation, diversity and inclusion in all levels of the Group.

ORGANIZATIONAL STRUCTURE, INFRASTRUCTURE, PRODUCTS

DSK Bank (hereinafter, the Bank) is a subsidiary of OTP Bank Nyrt., Hungary, which is the majority shareholder of the Bank and holds 99.9 % of the equity. OTP Bank is the biggest provider of financial services in Hungary and a regional market leader for Central and South-east Europe.

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

POLICIES APPLIED IN REGARD TO THE MAIN AND AUXILIARY ACTIVITIES

Client Services

The focus on the client is of key importance for DSK Bank Group activity. Generally DSK Bank Group has well established traditions for measuring the satisfaction of its banking clients. Since 2020, the Group has been using an innovative metric to measure the customer experience, which allows the customer to rate the service immediately after a service has been provided or a visit to a branch. This approach guarantees transparency and provides an opportunity to take immediate action to improve the customer experience when using the Group's products and services. The Group uses Transactional NPS (Net Promoter Score) – a leading global indicator for measuring customer experience. Transactional NPS has increased in 2022 compared to 2021, thus marking the second year in a row with a higher level of service quality at the Group's branches. This result confirms the high level of service quality and positive experience that our customers receive.

DSK Bank Group continues to work for **improving the client services**. Following the trends of the recent years and mainly the reorientation of a numerous part of transactions to machine and electronic channels, as well as based on local legislation related to consumer loan act pre-contractual information and advice for the most appropriate financial products and services customer needs, the Bank Group has successfully implemented a New service model in a hole branch network for mass customers which 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 specialist. The model is an additional instrument to ensure better customer experience and effective management of customer flow in the branches.

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

MODERN PRODUCTS AND SERVICE CHANNELS

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

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

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

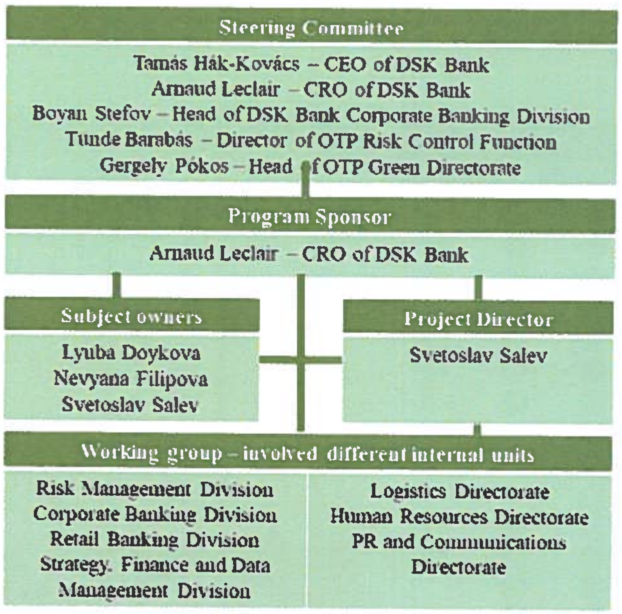
INTERNAL PROGRAMS AND INNOVATION INITIATIVES

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

SUSTAINABLE DEVELOPMENT AND CORPORATE SOCIAL RESPONSIBILITY

Climate and Environmental risks

In Q4 2021 DSK Bank Group commenced a project named ECO in order to set the foundations of a systemic management of environmental risks within DSK Bank 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.



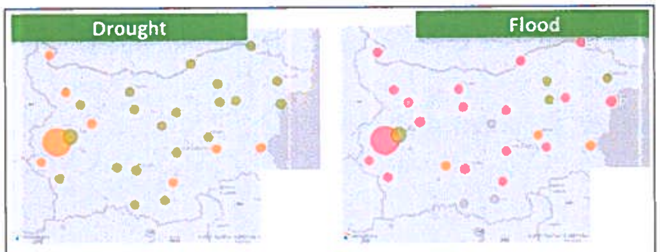
Roles and responsibilities in the existing structure:

- ✓ Steering Committee is the key governing body of the project
- ✓ Project sponsor provides guidance and requirements, monitors the project progress and reviews the deliverables
- ✓ Project Director manages the day to day project work, performs technical project work and produces deliverables
- ✓ Subject owners are responsible for execution of the tasks related to the ECB's regulatory expectations
- ✓ Working group may vary depending on the project scope and tasks. WG members perform technical project work and produce deliverables in three main streams:
  - ❖ Regulatory expectations
  - ❖ Business opportunities
  - ❖ Own operations

At the end of 2022, a new structural unit was established within the Risk Management Division – Sustainable Development Section, directly subordinated to the line executive director. The unit's mission is to ensure sustainable business development by implementing the ESG strategy of DSK Bank Group regarding ESG decisions and management of the resulting risks. The existence of the structural unit does not terminate the activity of the Steering Project Committee, which remains focused on monitoring and implementation of the initially set priorities.

During 2022, the implementation of regulatory requirements and ECB guidelines for managing climate and environmental risks remained the main project theme.

Based on the methodology adopted by the Management Board, in 2022 the Bank carried out materiality assessment of the impact of climate and environmental risks on the risks traditionally inherent to the banks. For the purpose of this assessment climate-risk materiality is defined as the sensitivity of traditional risk types (credit risk, liquidity risk, operational risk, etc.) and related key risk indicators (KRIs) to the impact of climate and environmental changes. KRIs are derived from the Risk Appetite Framework of the Bank Group and are considered based on their input components. Sensitivity is therefore assessed at component level. To assess the components' sensitivity, the transmission channels are considered for each of the traditional risk types, split by climate transition risk channels, climate physical risk channels and environmental risk channels. Considering the limitations of available data, the method is based on expert assessment supported by portfolio analytics (e.g. exposure by segments, sectors, geographical distribution of collaterals, etc.). With such quantification support experts and senior managers assessed the sensitivity of KRI components on short-, mid-, and long term, using Low to High scale, and documenting the articulated assessment rationale. Based on these inputs the method derives KRI level and risk category level materiality assessment on a 5-step scale from Low to High materiality. Materiality level of Medium to High shows that the impact of climate related and environmental risks on the Bank Group's risk profile is material over the respective time horizon. This way the outcome of the assessment leads to the conclusion that DSK Bank's Group is materially exposed to climate related and environmental risks in the long-term perspective (i.e. more than 5 years).



Графично разпределение на портфейла с географско отчитане на климатични рискове – засушаване и наводнение

Risk Appetite Framework Segmentation	Materiality scoring			Impacted by		
	ST (<1y)	MT (<5y)	LT (>5y)	Climate Physical	Climate Transition	Environmental
Credit risk						
Non-PI portfolio						
Retail mortgage loans						
Retail consumer loans						
Leasing portfolio						
Sovereigns&Counterparties						
Operational risk						
Market Risk						
Liquidity Risk						
IRRBB						
Reputational risk						
Strategic risk						
RE Prices change risk						
Concentration risk						

Materiality definition
Sensitivity of traditional risk types and related KRIs within the Risk Appetite Framework to the impact of C&E risks.
C&E materiality scoring calibration:
Low: KRI is not expected to be impacted by C&E risks to a notable degree
Med-Low: KRI is expected to be impacted by C&E risks to a small degree, which, however, doesn't impact the KRI's level significantly. KRI risk profile level is expected to stay unchanged
Medium: KRI is expected to be impacted by C&E risks to a degree that its value approaches the next risk profile level's threshold value
Med-High: KRI is expected to be impacted by C&E risks to a degree that its value crosses the next risk profile level's threshold value
High: KRI is expected to be impacted by C&E risks and the KRI risk profile level is expected to change by more than 1 notch higher than the risk appetite in place as of December 2021.

The potential impact of climate and environmental risks on short term is limited, as physical climate risks are not expected to deteriorate rapidly and the likelihood of a significant impact of transition risks on the customer profiles is small in the time horizon of one year.

On mid- and long term, acute and chronic physical risks can significantly affect the business environment in which the Bank operates, e.g. through physical damage to customer assets caused by floods, and thus adversely impacting the capacity of the borrowers to meet their obligations while also affecting collateral values (where applicable). Transition risk is the main negative factor which has influenced the assessment of materiality on long term. This risk can lead to further worsening of corporate credit portfolio quality by affecting more tangibly certain economic sectors with high ESG risk, and indirectly, by rising unemployment and reducing the wages of employees working in those industries – the retail banking segment also. The most significant potential impact of climate and environmental risks on long term can be expected on the quality of leasing portfolio due to tightened regulations in the field of vehicles carbon emissions, increasing production and operation costs (e.g. fuel prices), as well as scarcity of certain natural resources used in car electronics.

In addition to credit risk, the potential impact of climate and environmental risks on the long term was assessed as Medium also on: operational risk (e.g. system disruption and physical damage to banking assets as a result of climate events), reputational risk (e.g. customer dissatisfaction in case of impossible access to bank premises and ATMs due to natural disasters) and strategic risk (e.g. significant increase of capital requirements and reducing profitability).

DSK Bank Group takes actions and implements adequate measures to limit the impact of climate and environmental risks on traditional banking risks depending on their type, e.g. through active financing of green projects, inclusion of ESG factors in the evaluation of real estate accepted by the Bank as collateral (new requirement introduced in 2022), asset insurance, digitization of products and services, inclusion of physical risks in the business continuity plan, etc., and the materiality assessment is taken into account upon updating strategic plans to adapt to market changes related to climate risks.

In 2023, the methodology will be reviewed and further refined by supplementing with additional quantitative elements when determining the final assessment.

In 2022, the Bank's participation in the Climate Stress Test of ECB indicated some lag in terms of data availability related to assessment of ESG risks. The relevant process to eliminate the lag is already prepared, the refinement of IT system is launched and effective client data collection is expected to begin in 2023 - carbon emissions of business customers who report the relevant data, and energy efficiency certificates of real estate accepted as collateral for loans in all customer segments.

In 2022, the first ESG strategy of DSK Bank Group was established. The document is adopted by the Management Board and approved by the Supervisory Board, clearly demonstrating the commitment of governing bodies to monitor and manage ESG risks. The Strategy outlines the DSK Group's plans to position itself as a leader on the Bulgarian banking market in terms of sustainable financing, supporting its clients in transition to low-carbon economy. The second pillar is related to the Group's striving to reduce its own carbon emossions. Specific goals are set by the Strategy until the end of 2025.

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. Supervisory Board of the Bank is the body that approves the ESG strategy.

The Bank's management is regularly informed about the credit portfolio quality through a special monthly report, which includes, among many other risk indicators, the distribution of exposures by ESG categories at client and transaction level, by segment (corporate clients, small business). The data in the report is presented chronologically (from August 2021), which allows tracking trends in the indicators' evolution. This information is also reported monthly to the Corporate Credit Risk Committee of the Management Board, and on a quarterly basis to the Risk Committee of the Supervisory Board. In order to regularly monitor the progress in implementation of the targets set by ESG strategy, from the beginning of 2023, quarterly reporting of relevant data to the Management Board will be introduced. This way, constant flow of consistent and up-to-date information is ensured, which is considered in the strategic and management decisions of the Bank's governance bodies. Social responsibility is one of the six main objectives set in the Group's Risk strategy for 2023-2025, and ESG factors in risk management are one of the strategic focus programs for the next three-year period.

Specific performance criteria are determined for 2023 annual 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.

Own GHG emissions

OTP Group has set 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.

With the adopted in 2022 ESG strategy, DSK Group has set specific targets for emissions from own operations, and namely:

- Reduction of DSK Bank Group's GHG emissions (Scope 1 and 2) by 15% compared to reported emissions for 2021, by the end of 2025;

to reach net carbon neutrality in its own operations (Scope 1 and 2) by the end of 2025.

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

Energy consumption within the organisation (GJ)

	DSK Bank standalone, without Expressbank	DSK Bank standalone, with Expressbank	DSK Bank Group	DSK Bank Group
	2019	2020	2021**	2022
Natural gas	0	3890	5441	3815
Car fuel mineral	5579,17	4861,87	19508,78	18789,42
Total non-renewable fuel sources	5579,17	8751,87	24949,78	22604,42
Car fuel biogen *	0	0	1158,41	1137,10
Total renewable fuel sources	0	0	1158,41	1137,10
Electricity	62870,40	88480,80	83091,60	78402,60
District heating	3342	6830	10062	6665
Total indirect energy purchased	66212,40	95310,80	93153,60	85067,60
Total energy consumption	**71791,57**	**104062,67**	**119261,80**	**108809,12**
Total energy consumption per capita	**18,59**	**23,19**	**21,38**	**19,98**

** Car fuel biogen consumption collected separately since 2021*

Scope 1 and Scope 2 CO2e emissions (t)

	DSK Bank standalone, without Expressbank	DSK Bank standalone, with Expressbank	DSK Bank Group	DSK Bank Group
	2019	2020	2021**	2022
Direct (Scope 1)	**748,05**	**985,02**	**2091,38**	**2108,06**
from motor vehicles mineral	415,84	360,83	1459,60	1399,10
from the use of natural gas	0	218,62	305,78	211,96
from air conditioning	332,21	405,57	326	497
Indirect (Scope 2)				
Indirect location-based	**7766,88**	**9455,47**	**9052,06**	**9117,25**
from electricity	7631,59	9130,97	8574,82	8801,13
from district heating	135,28	324,49	477,24	316,12
Indirect market-based	**7773,51**	**9470,46**	**9066,14**	**9117,25**
from electricity	7638,23	9145,97	8588,90	8801,13
from district heating	135,28	324,49	477,24	316,12
Total (Scope 1 + 2) location-based	**8514,93**	**10440,48**	**11143,45**	**11225,31**
Total (Scope 1 + 2) market-based	**8521,57**	**10455,48**	**11157,52**	**11225,31**
Biogenic CO2e emissions	0	0	83	81
Per-capita location-based	**2,21**	**2,33**	**2,00**	**2,06**
Per capita market-based	**2,21**	**2,33**	**2,00**	**2,06**

***Some figures for 2021 have been recast as a consequence of restatement, the main one - district heating consumption and related GHG emissions. For historical data published in the past, please refer to the 2021 Non-financial Declaration.*

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.

In 2022, we managed to significantly reduce the total energy consumption (roughly by 9% compared to 2021) and to achieve improvement in performance across all its elements. Reduction in the car fuel consumption (by nearly 4%) reflects our efforts made to improve the ratio between diesel and petrol cars in the car fleet, as well as the investment in purchasing 13 new hybrid cars in 2022. The replacement of gas boilers with air-conditioning installations in some buildings led to reduction of natural gas consumption by nearly 30%. In terms of electricity consumption, the decrease is almost 6% which became possible thanks to the implemented Heating, Ventilation and Air-conditioning systems (HVAC) and Building Management Systems in some of our main HQ buildings, as well as to virous internal initiatives with a focus on the topic, e.g. conducting campaigns among employees and organizing a competition between the branches and HQ units dedicated to the responsible consumption of electricity.The district heating reduction (by nearly 34%) is related to one of the largest HQ buildings in Sofia and comes from cutting out two floors (approx. 2 000 m2) out of district heating supply (replaced by air-conditioning system) as well as reducing the heating units while much of the staff in the building was working 50 % at home office in the beginning of 2022.

A slight increase (below 1%) is reported in the total Scope 1 and Scope 2 carbon emissions which, in the direct emissions, is due to the equipment of air conditioning installations (freon), and, in the indirect emissions – to the use of updated (higher) emission factors upon calculating CO2e emissions from purchased electricity.

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

As a part of the ongoing efforts to reduce our carbon footprint, in November 2021 DSK Bank Group launched a procedure for design and installation of photovoltaic plants on the roof of three DSK Bank's buildings in Sofia and Stara Zagora. The plants have already been installed and will start generating electricity in 2023.

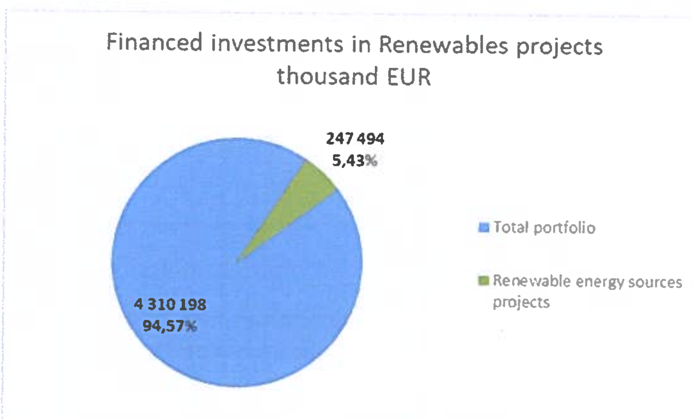
A procedure for energy efficiency audit of own buildings was also effectively launched. Three of the large buildings located in Sofia and Stara Zagora were audited, and measures for improving the energy efficiency and the energy class of the respective buildings were prescribed. Currently, three more buildings are under such audit – in Sofia, Varna and Burgas, and the assessment of another 7 buildings in Sofia, Varna and other smaller locations is at a preparatory stage, for which a prescription of energy-saving measures is also expected.

Responsible financing

ESG strategy sets ambitious goals for sustainable financing to be achieved by the end of 2025:

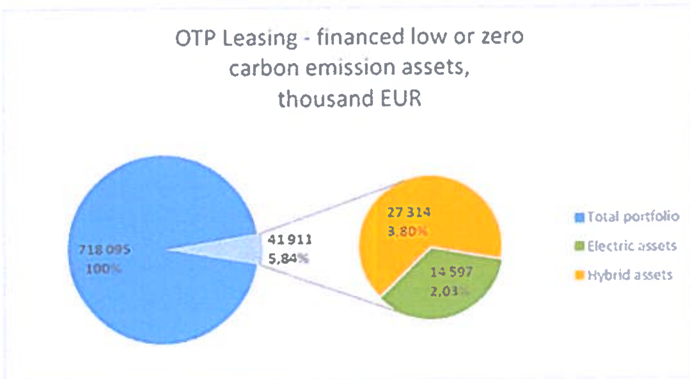
- DSK Bank to reach 344 MEUR volume of new loans for renewable energy production projects;
- DSK Bank to reach 56 MEUR volume of new green bond eligible loans for real-estate projects;
- OTP Leasing to reach 35% share of new leased passenger cars with hybrid engine or fully electric motor;
- DSK Bank to reach 48 MEUR volume of new retail mortgage and housing loans for purchase of residential assets with energy efficiency class B or better.

In 2022 we continued to support our business customers through financing renewable energy source projects, to ensure smooth transition to a low-carbon economy.



At the end of 2022, the financed projects for energy production from renewable sources amounted to 247.5 MEUR and formed more than 5% of the total credit portfolio of business clients. The number of these active loans is 183, including both large projects with the aim of trading the produced energy, as well as smaller projects of companies aiming for energy independence by building small plants to meet their own electricity needs.

Bulgaria is still in the beginning of its transition period and the leasing financing of zero-emission or low-emission assets is not at full speed. If in 2021 only about 1% of the portfolio of OTP Leasing (~ 9 MEUR) was for financing electric vehicles, then at the end of 2022 the share of such assets is already over 2% (~ 14.5 MEUR). The financing of cars with a hybrid engine also continues actively, with the total share of low-emission vehicles exceeding 5% of the leasing portfolio.



Our intention is to continue the efforts for providing sustainable business solutions to our clients and responding to society's needs by responsible financing. Green Loan Framework adopted at OTP Group level is being updated and refined, and in 2023 it will also cover DSK Bank Group. Through the tools available in the Framework, the Bank will be able to assess credit exposures against the criteria of various classification systems for sustainable finance - EU Taxonomy and Climate Bond Initiative.

At the end of 2022, the Bank launched a promotional campaign to finance the purchase of real estate with a high class of energy efficiency - class A+, A or B.

Scenario analysis and stress testing

In January 2022, OTP Group has made calculations based on the developed own stress test framework. The purpose of this framework is to measure the impact of climate risk on the corporate portfolio of individual banks within the Group of OTP Bank, incl. DSK Bank. The measurement is based on a sensitivity analysis compared to the average sensitivity of banks included in the ECB's 2021 stress test on the impact of climate risk. This analysis shows that by 2050, under the worst climate scenario (hot house), annual losses will rise by up to 16 basis points compared to the scenario of planned transition to a climate neutral economy.

Based on the self-assessment, carried out in 2022, of the impact of climate change on operational risk, by using a common methodology of OTP Group, the obtained result for DSK Bank is amounting to approx. 0.2% of the capital.

In parallel, in 2022 the Group of OTP Bank was also focused on shorter stress test horizons. Under the approach used for these horizons, the DSK Bank's share of new non-performing loans is multiplied by 106.3% in the prudential stress test, which is an add-on specific to the climate risk associated with a transition to a climate-neutral economy.

ESG Risk assessment and monitoring

By adopting the ESG Risk Management Framework in loan origination and monitoring, we embed ESG risks in our credit assessment. The Group applies ESG risk categories on client and on transaction level. Assignment of the risk categories is based on the main business activity of the client and the tenor of the transaction considering the environmental and social impact of the related sectors.

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

a) Low ESG risk: Industries that typically involve business activities with minimal or no adverse environmental and social impacts;
b) Medium ESG risk: Industries that typically involve business activities with specific environmental and social impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures and international best practice. Potential adverse environmental impacts on human populations or environmentally important areas are less adverse than those of Medium-High and High ESG risk.
c) Medium-High ESG risk: Industries that typically involve business activities with High ESG risks in nature but are considered important in reaching long-term sustainable social balance and economic growth in emerging markets.

d) High ESG risk: Industries that typically involve business activities with significant adverse environmental and social impacts that are sensitive, diverse, or unprecedented. A potential impact is considered sensitive, if it may be irreversible (such as loss of a major natural habitat), affect vulnerable groups or ethnic minorities, involve involuntary displacement and resettlement, or affect significant cultural heritage sites.

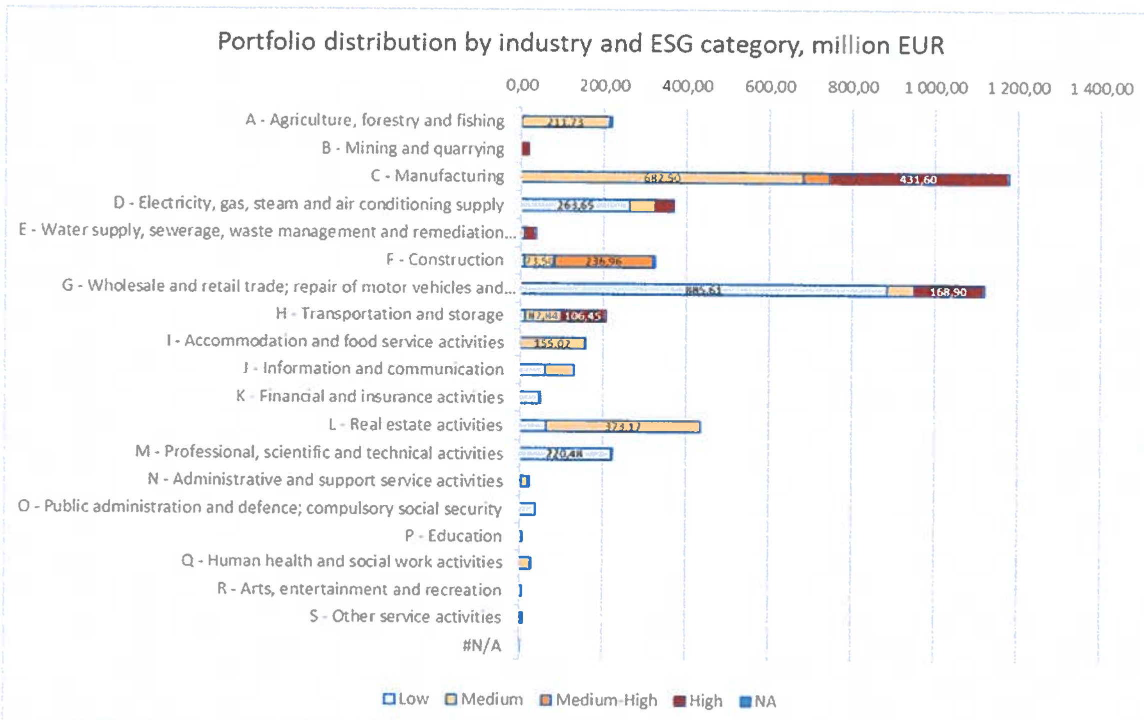
To determine the ESG risk category of transactions, two factors should be considered: the ESG risk category of the client as indicated above and the (residual) length of the transaction determined according to ESG Transaction Risk Matrix. The length of the transaction is determined as follows:

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

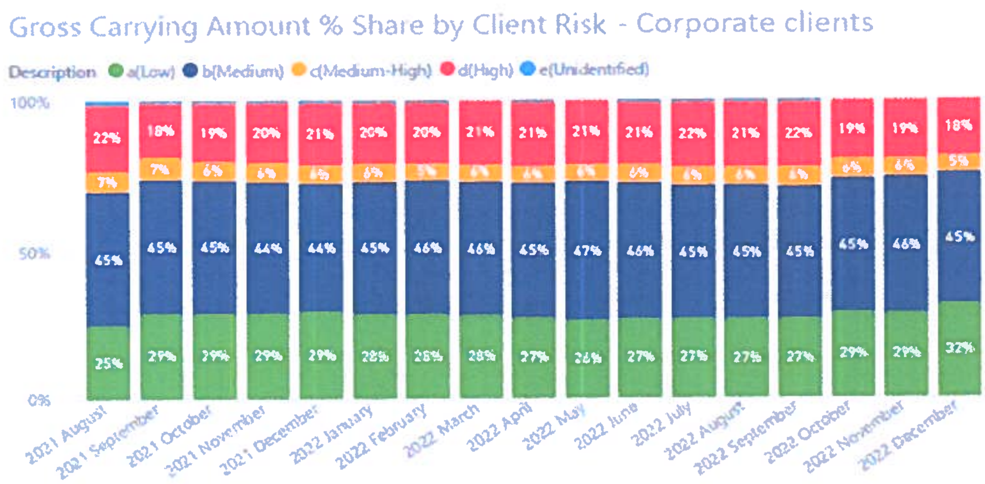
b) Medium-term: residual maturity is more than 1 year, but equal to or less than 5 years;

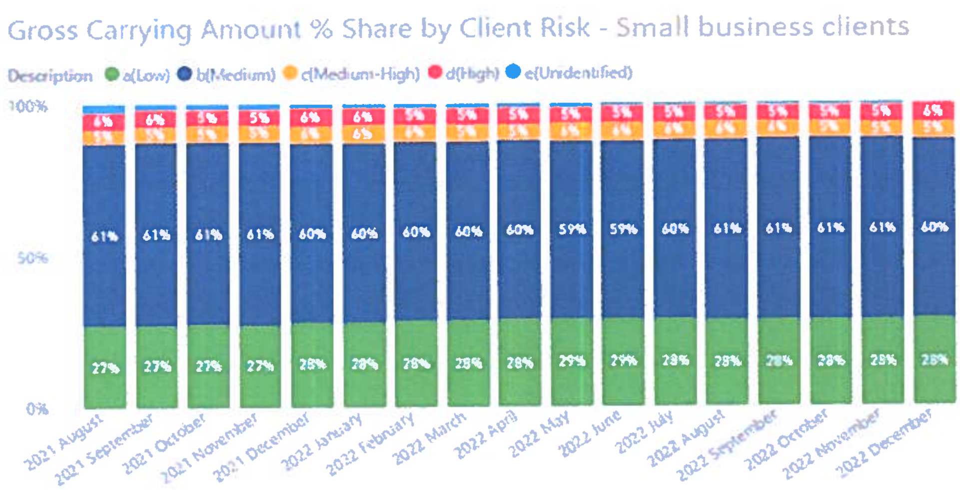
c) Long-term: residual maturity is more than 5 years.

By applying this assessment, the share of portfolio with high ESG risk is clearly visible, and this allows to highlight the sensitive economic activities and transactions to focus the ESG strategy on them:



The evolution of loan portfolio by ESG categories is monitored monthly, the data are reported to various units and collective bodies in the Bank. The reported data for 2022 correspond to the Group's commitment to further improve the portfolio quality with regard to ESG risk.





The distribution by client risk in the Small Business segment remains unchanged, while in the Corporate Clients segment the trend for increasing the low-risk customers and reducing the high-risk ones is clearly visible.

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

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

Our Group requires – and verifies – compliance with applicable environmental regulations in lending. At the time of the internal approval of a project financing 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. ESG clauses are gradually being introduced into contracts with clients. The first segment with ESG clauses in place is Specialized Finance, and the range of segments and clients will continue to expand. 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.

In the operational risk management, we have strengthened the assessment of ESG risks in the scenario analyses by analyzing a separate scenario related to climate change, and we have also started to indicate the risks affected by ESG in both the risk control self-assessment and the loss database. In 2022, one more KRI was established for monitoring the number of incidents caused by damages to physical assets as result of natural disasters.

In accordance with the requirements of Sustainable Finance Disclosure Regulation (SFDR), OTP Group has developed an investment risk management policy for all group members that provide portfolio management and investment advisory services. Based on that, both DSK Bank and its subsidiary DSK Asset Management have fulfilled the requirements and have applied a policy on integration of sustainability risks in the investment decision-making and investment advice processes, as part of the overall risk management framework. In order to measure and assess sustainability risks, DSK Bank Group uses ESG ratings and data provided by an external data provider, as well as publicly available information. When assessing the sustainability risks on financial instruments and portfolios, the Group uses three sustainability risk categories - Low, Medium and High, with the following interpretation:

a) Low: This category reflects good or excellent ESG performance and high level of transparency in the public disclosure of ESG data. These investments have minimal or low environmental and social risks and impacts;

b) Medium: Reflects satisfactory ESG performance and moderate transparency in public disclosure of ESG data. These investments have limited environmental and social risks and impacts that can be easily prevented or mitigated through appropriate action plans and measures;

c) High: Reflects poor ESG performance and insufficient transparency in the public disclosure of ESG data. These investments require a more complex risk assessment.

The statement on the integration of sustainability risks and the adverse effects of investment decisions on sustainability factors (PAIs) is available on the website of DSK Bank, resp. - of DSK Asset Management. According to the SFDR Regulatory Technical Standards, the first report for the reference period 1 January – 31 December 2022, with the PAIs value, shall be published by 30 June 2023, in order to help our customers make their investment decisions and consider any principal adverse impacts over time.

ESG Risk Appetite Statement

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

Based on the ESG Risk Management Framework in Loan Origination and Monitoring, DSK Bank Group further incorporates ESG risks 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.

Within the framework of ESG strategy, a Key Risk Indicator (KRI) was also included for monitoring the share of newly approved loans with High ESG risk to corporate clients in the total volume of newly approved loans. In 2022, the indicator's value was tracked for information only, with 6% reported result, and starting from 2023, the indicator will also be included in the Risk Appetite Framework.

Key Performance Indicators (KPIs)

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

According to Art.10, para 3 of the Delegated Regulation supplementing the Taxonomy Regulation (EU) 2021/2178, we disclose information related to the Green Asset Ratio (GAR) calculation, and in particular for Y2022 – the exposure to taxonomy-eligible activities of our customers, based on reference date 31 December 2022:

Indicator	Proportion by Gross carrying amount
Eligible proportion /GAR asset	16.30%
Non-eligible proportion /GAR asset	30.94%
Proportion of on-demand inter-bank loans /GAR asset	10.08%
Proportion of derivatives /GAR asset	0.34%
Proportion of non-NFRD undertakings /GAR asset	30.11%
Proportion of trading portfolio /Total asset	0.17%
Proportion to central gov., etc. /Total asset	22.07%

For calculating the exposures to taxonomy-eligible economic activities (Eligible proportion), exposures to counterparties in the banking book relevant for the NFRD and retail exposures (limited to loans secured by residential property, home improvement loans and motor vehicle finance) were considered.

To determine the eligible NFRD companies in the corporate loan portfolio in relation to the mitigation and adaptation objectives of the Taxonomy Regulation, the exposures to all stock exchange listed companies with more than 500 employees were identified and their NACE codes were matched with the eligibility category of the NACE code list defined by the EU Taxonomy.

The same examination is valid for the debt securities issued by non-financial corporations. They participate in the indicator with a zero value as we don't have such exposures.

For retail exposures, only residential mortgage loans were taken into account. Portfolio screening was performed against the complete list of categories under EU Taxonomy. Based on the available data and considering the relevant products offered by DSK Bank, only exposures that can be fully identified as covering the objectives were included in the eligible proportion calculation.

For retail motor vehicle finance (purchase, lease or operational lease), identification of exposures for vehicles of categories M1, N1, L was performed by considering only those with a start date after 12 July 2020 (the date of application of the disclosure requirements).

We make constant efforts for enlarging and improving the contents of our disclosures related to climate and environmental risk in view of the evolving regulatory requirements, supervisory expectations as well as the needs of our clients and other market participants. After ensuring availability of necessary data, we will advance our further disclosures by adding comprehensive information on Scope 3 financed emmissions, portfolio exposure to other environmental risks (such as water stress, biodiversity loss, resource scarcity and pollution), etc.

Protection of natural resources

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

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

At the end of 2021, 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 $ 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.

The result by the end of 2022 is over 60,000 issued bank cards. In addition, for greater engagement of current and future users, the Group and Mastercard are adding a local cause - in partnership with the Sofia Zoo. The two organizations support the zoo's conservation program to protect endangered wildlife species.

Charity events with the participation of the employees

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

In 2022 the Group employees took part in various events that combined running, cycling and charity. In October for the first time our colleagues took part in Sofia Bike Relay, the first ever corporate cycling relay organized by Begach Running Club. The event is for charity and 30 percent of the entry fees are donated to various causes. Again, in October our colleagues ran for Business Run Plovdiv. In June traditionally, our employees took part in Business Run and Run2Gether.

Support for cultural projects and town development projects

In 2022 DSK Bank Group contributed to the development of local projects for culture and urban development. Together with the Regional Fund for Urban Development, DSK Bank co-financed three objects from the cultural infrastructure of Razgrad municipality. The regional library "Prof. Boyan Penev", the Ethnographic Museum and the "Ilia Burnev" School of Music at the community center "Development 1869". The goal of the venture is to transform them into modern and attractive cultural and educational centers.

A number of building modernization activities are planned within this project. In the Regional Library "Prof. Boyan Penev" it is planned to build a new pavement around the building, internal thermal insulation of the premises, replacement of windows, heating installation and lighting fixtures, as well as repair of the roof. It is also planned to set aside a hall for holding cultural events, equipped with new sound equipment, as well as to set aside a specialized "teen" area in the reading room.

In the Ethnographic Museum, Razgrad municipality intends to install thermal insulation on the roof and external waterproofing at the base of the building, replace the lighting fixtures with energy-saving ones, as well as carry out repair and landscaping activities with the aim of ennobling the inner courtyard. Part of the allocated funding will be used for the purchase of a 3D printer for making souvenirs, a canvas for a 3D corner for photos and for the purchase of ceremonial traditional costumes as a symbol of the cultural and historical heritage of Razgrad. After the renovation, it is planned to expand the range of tourist attractions for museum visitors, such as organizing ethnic-style photo sessions or organizing cultural and tourist events in a hall specially equipped with new sound systems for the purpose.

Funding under the project will also be used to renovate the "Ilia Burnev" music school at the "Development 1869" National Community Center. It is planned to replace internal windows, complete painting of walls and ceilings, repair in sanitary facilities, installation of waterproofing on the basement floor, repair of roof and replacement of lighting fixtures with energy-saving ones. A new pavement will be laid in front of the building and a platform lift for disabled people will be installed.

New sound recording and audio reproduction equipment is about to be purchased. The new equipment will be used to create a class for children at the Sound Direction School. The technique will also be used by the other formations in the community center - choir, ballet school, dance studio, urban song group. The three sites are centers with active social functions, and after the implementation of the project, the preferential prices for children and pensioners in the library and the ethnographic museum will be preserved. The modernization of these three centers of culture will contribute to the development of cultural and social life in Razgrad Municipality, as well as to the transformation of the city into an attractive place to live.

In 2022, the Regional Fund for Urban Development, together with DSK Bank, co-financed the construction and installation activities for the renovation of the "Katya Popova" concert hall in the city of Pleven. The project will ensure the introduction of energy efficiency measures, repair of the roof and existing sanitary facilities, replacement of installations, linings, flooring and seats in the concert hall. New sound equipment and stage control equipment are to be installed.

To ensure an accessible architectural environment, the construction of an external elevator, a special platform between the floors, as well as the creation of special viewing places in the hall is planned.

The renovation of the building will create a prerequisite for enriching the cultural program of the municipality and the repertoire of the Pleven Philharmonic, as well as for holding events of an international nature in the city. Its implementation will increase the attractiveness of cultural events among citizens and encourage the participation of people from all social groups in the life of the city.

In 2022, DSK Bank Group continued its own socially responsible project for the improvement of the urban environment "City as its people". The initiative once again aimed to make the capital a better place to live, as well as draw attention to the problem of active lifestyles in the city. The second edition of the campaign transformed a municipal basketball court in Sofia. Once again, we worked with an established Bulgarian graffiti artist to transform the playground into a work of street art.

The site was chosen because the financial institution wanted to draw attention to the topic of abandoned sites and active lifestyles in an urban environment.

The artist Nikolay Petrov – Glow, who transformed the playground with 950 sq.m. area and turned it into colourful mosaic of figures, shared that the name he gave to its artwork in relation to the "City as its people" project is Good Game. The working period is 10 days and the renewal include overall refreshing of the terrain. "Good Game represents a dynamic colour game in which the two major tonalities are opposed to each other – warm versus cold, and they symbolize the battle between two teams on the terrain. The artwork underlines the specific features of the playground and unites the adjoining elements of the field – baskets and boards, penalty area and center, as well as the area with two tennis tables" – said Nikolay Petrov – Glow.

Support for other social projects

DSK Bank Group continues its partnership with the BCause Foundation, and the foundation's activities are aimed at developing the donation culture, policies in the field of donations and social investments, etc. In 2022, the Group implemented a campaign together with BCause to help refugees from Ukraine, as a result of the war that broke out. Funds collected were distributed by the foundation's team to the most pressing needs in locations across the country. The Group also organizes an internal donation campaign among employees to help colleagues from OTP Ukraine.

In September, together again with BCause, the Group's employees made a donation to provide timely support to the affected people from the flooded villages in the Karlovo region. In addition, the Group's regional team, in partnership with the Ministry of Interior and the Municipality of Karlovo, is assisting customers from the region who have lost their identity documents or debit cards during the disaster.

Financial education and innovations

In 2022 DSK Bank Group continued its educational initiatives Calm on the Internet with a new campaign We know, that you know, but… dedicated to raising consumer awareness of safe banking and safe use of the Internet. The campaign again was aimed not only at the Group's customers, but also at all those who use online financial and other services. The purpose of the initiative is to present in a simple and understandable way the main highlights of safe online banking and Internet browsing.

Within the campaign a special page was used https://dskbank.bg/препоръки-за-сигурност – together with social media activations in different bank channels in combination of paid digital ads in order to reach greater audiences.

Early children development

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

In 2022 we continued to share our time and knowledge with the kids from SOS Children's Villages. For Easter, we held a workshop with the children and employees of the Group in one of the organization's centers in the village of Dren. And towards the end of the summer, we organized a photo contest for the children to challenge their creativity and show us through their lens the beauty of this season. Of course, the competition was of a competitive nature - the authors of the three best photographs won prizes.

In 2022, over BGN 675 thousand in the form of donations were accumulated through the different banking channels.

We didn't go without awards this year either. The Group is for another year the largest corporate donor and partner of the association.

DSK Bank Group in its capacity of an employer

DSK Bank Group in its capacity of an employer Personal and leadership qualities are very important for the Group to move forward. And so is the diversity of professionals working in the Group. This is the focus set by the Group in 2022 was to further establish the Group as a great employer and a campaign clearly setting our Employee Value Proposition (EVP) and a campaign that follows "Everyone is looking for employees, we are looking for people". A special focus was placed on the Group offering multiple career paths and opportunities, transforming itself towards collaborative mixed teams that work flexibly towards a common goal. The strategic vision of the campaign includes overall initiatives and visualizations of Group employees, because we believe that employees are the best recommendation for every employer. The Group regularly participates in different career forums, which is another connection of the institution with young talents and proven professionals. "DSK New beginning" program is active in 2022 and is focused on the most common Group position – clients relationship expert, providing mobility and structured training program for new colleaguesp the internship program and our overall campaign aimed at IT and digital professionals.

In 2022, the focus was digital training for new and current employees. We have created a Digital Academy, which is open for application to all employees and offers professional training at a high IT and Data level

In 2022, the main goal for the Group was digitization. In this regard, the focus of the presentation of the Group as an employer was on its positioning in front of IT specialists. The company invested resources in developing a corporate profile on the DEV.BG platform, which focuses on finding IT talent. The Group is also a regular participant in various career forums, which are another connection of the institution with young talents and established professionals. Such an opportunity is the Group's internship program.

Ethics Code and Anti-Corruption Policy

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

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

In addition, the Ethics Code of the Group defines the clear principles and requirements for the employees and the partners of the Bank, as 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 Group and the Policy for corruption prevention are publicly accessible on DSK Bank official website.

AWARDS

Last year DSK Bank Group has won several awards.

At the beginning of 2022, the CEO of DSK Bank, Tamas Hak-Kovach, was awarded the "Team Lead of the year" award.

Shortly afterwards, the head of the Human Resources team, Radoslava Krosneva, was awarded the "HR Manager of the Year" award.

In February, DSK Bank was awarded by "24 Chasa" with the Business Honoris Causa award for its long-term support to SOS Children's Villages.

In April, the corporate social responsibility campaign "City as its people" was awarded in the PR Digital category at the IAB Mixx Awards.

May brought us a Green Oscar for the Mastercard Wildlife Impact Debit Card.

Again in May, the "City as its People" project won another award in the "Digital Communications" category, this time from the Bulgarian PR Association PR Prize competition. And our subsidiary DSK-Rodina won the prize for the most dynamically developing pension insurance company.

In June, for the sixth time, we were awarded the "Most Generous and Significant Corporate Partner" award by SOS Children's Villages Bulgaria.

2022 brought many international honors to DSK Bank. The British magazine "Euromoney" recognized the bank as the "Best Bank in Bulgaria" for 2022, and also in the categories "Market Leader - Digital Solutions", "Market Leader in Corporate Social Responsibility" and "Market Leader in Corporate banking'. Another prestigious international edition - Global Finance also recognized the bank as the best service provider related to foreign exchange operations in Bulgaria.

The Executive Director of DSK Bank until the end of 2022 and the Chairman of the Board of the Association of Banks in Bulgaria, Diana Miteva, was awarded the "Banker of the Year" award for maintaining and successfully stimulating the high level of trust in clients.

Tamás Hák-Kovács
Chief Executive Director

Slaveykо Slaveykov
Executive Director

Statutory Audit Firm # 108
Ernst & Young Audit OOD
Polygraphia Office Center
47A, Tsarigradsko Shose Blvd., floor 4
1124 Sofia, Bulgaria

Statutory Audit Firm # 015
AFA OOD
38, Oborishte str.
1504 Sofia, Bulgaria

Independent auditors' report

To the shareholders of

"DSK BANK" AD

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of "DSK Bank" AD and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit and loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Basis for Opinion

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

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Key Audit Matters

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

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

Key audit matter	How our audit addressed the key audit matter
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 consolidated financial statements.	
Loans and advances to customers represent a significant part (55%) of the total assets of the Group as at 31 December 2022 with aggregate gross carrying amount of BGN 16 134 701 thousand and accumulated loss allowance of BGN 733 006 thousand. The Group 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 Group's Management to exercise a significant degree of judgment due to the increased level of complexity, specifically with respect to quantifying expected credit losses as disclosed in Note 4(c). The key inputs and areas of judgement in the assessment of expected credit losses	In this area, our audit procedures included, among others: • We obtained an understanding of the Group's impairment policy and process of determining the loss allowance for loans and advances to customers, including the models applied for calculation of ECL on collective and individual basis as well as whether the key assumptions and judgments used therein are in accordance with the requirements of IFRS 9. • We reviewed and assessed the adequacy and the consistency of application of the methodology and models used by the Group to identify loan losses in accordance with IFRS 9 requirements. • We obtained an understanding and assessed the key internal controls at

are related to the development of quantitative and qualitative criteria for • identification of significant increase of credit risk (SICR) criteria for staging of loans to customers (Stage 1: Exposures with no SICR, Stage 2: Exposures with SICR but no objective evidence for impairment and Stage 3: Exposures with objective evidence for impairment); • determining the probability of default/loss (PD/PL), the loss given default or loss (LGD/LGL) and the exposure at default or loss (EAD); • incorporating forward looking information (FLI) of macro-economic factors considering multiple scenarios in ECL estimation. A higher degree of estimation uncertainty is inherent in calculating ECLs for loans and advances to customers in Stages 1 and 2, assessed for impairment collectively in view of the Group's availability of sufficient and adequate historical data from internal and external sources for back testing and calibrating the PD and LGD estimates in the impairment model. In addition, the Management is required to apply significant management judgment in determining ECLs for loans and advances to customers which are assessed for impairment individually depending on the customer's risk category and the credit product used, ranges of possible scenarios based on their outcomes for timing and amount of cash flows from future collections, including from the sale of respective collaterals. In 2022 the social and economic consequences from the continuing crisis increased the estimation uncertainty of the ECL measurement. The Group has addressed the significant uncertainties from the consequences due to the expected deterioration of the macro-economic indicators via reassessing used in the model	entity level with respect to the development and application of the impairment models, including the model documentation and the update frequency and reasonableness of the parameters and macro indicators applied. • We obtained an understanding and performed a walk-through of the processes and the key internal controls over the monitoring and loan loss allowance estimation of loans to corporate and retail clients in accordance with the requirements of IFRS 9 focusing on additional monitoring procedures and the result from the measures applied by the Group based on the specific consequences from the expected deterioration of the macro-economic indicators 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 key controls over the monitoring and assessment for impairment of loans and advances from customers' processes. • Involving our credit experts, we have performed independent calculation, involving our credit risk experts, of the parameters applied in the loss allowance models and performed review of the calculation logic for compliance with Group's impairment calculation models. For a sample of loans from different risk categories we have recalculated the amount of impairment based on the relevant input data. • Involving our credit experts, we analysed and assessed he adequacy of management judgments, involving our credit risk experts, in relation to

macro-economic indicators and the assumptions that influence the determination the assumptions for probability of default (PD), the scenarios used in calculation of the ECL and enhancing its credit risk monitoring procedures to distinguish the cases/indications that are related to long-term financial difficulties of the borrowers from those that represent temporary liquidity difficulties. Due to the significance of the loans and advances to customers as an item in the Bank's consolidated financial statements, and the complexity of the specific models and calculations, the large number of significant judgments and the inherent high degree of estimation uncertainty involved in the impairment model under IFRS 9, we have considered this matter as a key audit matter.	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 Group's loan portfolio and the availability of the internal historical and forward-looking information for parameters development. In addition, we assessed for reasonableness the PD/PL and LGD/LGL calculations by examining support for the key assumptions used and data sources, including for consideration of the available historic information on the impacts arising from expected deterioration of the macro-economic indicators. • We performed tests of details and analyses, on a sample basis, of loans and advances to customers, for which the Group has not identified objective evidence of impairment, in order to assess their adequate classification in the respective risk category (phase) by the Group. • For a risk-based sample of loans and advances from customers that are subject to individual impairment assessment by the Group and focusing on those with the most significant potential impact on the consolidated financial statements (phase 3), we specifically assessed the Group's assumptions and judgments on the classification of these based on the criteria defined by the Group and the expected future cash flows, including the realizable value of collateral based on our own understanding and available market information including the impact from the consequences of the deterioration of the macro-economic indicators.

	• 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 Group's assumptions on 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.

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

We are jointly and severally responsible for the performance of our audit and for the expressed by us audit opinion as per the requirements of the IFAA applicable in Bulgaria. In accepting and executing the joint audit engagement, in connection with which we report hereby, we also have followed the Guidance on Performing a Joint Audit issued on 13 June 2017 by the Institute of Certified Public Accountants in Bulgaria and the Commission for Public Oversight of Statutory Auditors in Bulgaria.

Report on Other Legal and Regulatory Requirements

Additional Matters to be Reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, described above in the *Information Other than the Consolidated Financial Statements and Auditor's Report Thereon* section, in relation to the consolidated management report, including the corporate governance statement of the Group and the consolidated non-financial declaration , we have also performed the procedures added to those required under ISAs in accordance with the Guidelines on New and Expanded Auditor's Reports and Auditor's Communication of the professional organisation of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA). These procedures refer to testing

the existence, form and content of this other information to assist us in forming opinions about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and in the Public Offering of Securities Act applicable in Bulgaria.

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

Based on the procedures performed, our opinion is that:

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

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

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

— Ernst & Young Audit OOD and AFA OOD were appointed as statutory auditors of the consolidated financial statements of "DSK Bank" AD (the Bank) for the year ended 31 December 2022 by the general meeting of shareholders held on 31 March 2022 for a period of one year.
— The audit of the consolidated financial statements of the Group for the year ended 31 December 2022 represents second total uninterrupted statutory audit engagement for that group carried out by Ernst & Young Audit OOD and sixth total uninterrupted statutory audit engagement for that group carried by AFA OOD.
— We hereby confirm that the audit opinion expressed by us is consistent with the additional report, provided to the audit committee of the Bank, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.

- We hereby confirm that we have not provided the prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act.
- We hereby confirm that in conducting the audit we have remained independent of the Group.

Audit Firm Ernst & Young Audit OOD:	Audit Firm AFA OOD:
Milka Natcheva-Ivanova	Renny Iordanova
Legal Representative and	Legal Representative and
Registered Auditor in charge of the audit	Registered Auditor in charge of the audit

Sofia, Bulgaria

16 March 2023

Consolidated statement of profit or loss
For the year ended 31 December 2022

In thousands of BGN	Note	2022	2021
Interest income		799 032	628 510
Interest expense		(18 216)	(15 344)
Net interest income	4	**780 816**	**613 166**
Fee and commission income		404 765	347 079
Fee and commission expense		(53 676)	(42 957)
Net fee and commission income	5	**351 089**	**304 122**
Net trading income	6	29 284	24 883
Net income from other financial instruments at FVTPL	7	(3 930)	17 377
Net gains from realisation of financial assets measured at amortised cost	8	20 846	22 314
Net (loss)/gain from foreign exchange		(25 587)	16 876
Other operating income, net	9	30 991	18 804
Operating income		**1 183 509**	**1 017 542**
Impairment losses on financial assets, net	10	(104 700)	(130 792)
Impairment gain on non-financial assets, net	11	2 928	689
Net income from provisions	31	4 242	2 164
Personnel expenses	12	(210 572)	(188 222)
Depreciation and amortisation	13	(61 907)	(63 740)
Other expenses	14	(190 666)	(175 441)
Share of profit of associates, accounted for using the equity method	38	423	240
Profit before tax		**623 257**	**462 440**
Income tax expense	15	(59 596)	(45 903)
Profit for the year		**563 661**	**416 537**
Profit for the year attributable to:			
Owners of the parent		560 993	413 804
Non-controlling interest		2 668	2 733

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

The consolidated financial statements are authorised for issue from the Management Board and signed on behalf of DSK Bank AD on 10 March 2023.

Tamás Hák-Kovács
Chief Executive Director

L. PENCHEVA

Slaveyko Slaveykov
Executive Director

Consolidated financial statements on which we have issued audit report dated 16 March 2023

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

Consolidated statement of comprehensive income
For the year ended 31 December 2022

In thousands of BGN	**2022**	**2021**
Profit for the year	**563 661**	**416 537**
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	(83 845)	(18 472)
Loss on revaluation of hedging instruments	(2 067)	-
Income tax related to OCI items that may be reclassified subsequently to profit or loss	12 911	3 286
	(73 001)	(15 186)
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	(31)	882
Revaluation of land and buildings	(2 303)	44 521
Remeasurements of net defined benefit liability	2 573	(299)
Income tax related to OCI items that will not be reclassified subsequently to profit or loss	258	(4 489)
	497	40 615
Other comprehensive income for the year, net of tax	**(72 504)**	**25 429**
Total comprehensive income	**491 157**	**441 966**
Attributable to:		
Owners of the parent	488 489	439 233
Non-controlling interest	2 668	2 733

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

The consolidated financial statements are authorised for issue from the Management Board and signed on behalf of DSK Bank AD on 10 March 2023.

Tamás Hák-Kovács
Chief Executive Director

L. PENCHEVA

Slaveyko Slaveykov
Executive Director

Consolidated financial statements on which we have issued audit report dated 16 March 2023

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

Consolidated statement of financial position
As at 31 December 2022

In thousands of BGN	Note	31-December-2022	31-December-2021
Assets			
Cash and current accounts with the Central Bank and other banks	16	5 797 316	3 959 884
Financial assets held for trading	17	50 482	143 362
Derivative financial instruments	17	108 819	33 459
Investments at fair value through profit or loss	21	3 502	6 538
Investments at fair value through other comprehensive income	21	1 195 102	1 725 597
Loans and advances to banks	18	2 629 263	1 915 161
Net receivables from finance lease	19	1 360 625	1 100 802
Loans and advances to customers	20	15 401 695	13 366 816
Investments at amortised cost	21	1 611 753	1 492 728
Current tax assets		11 614	10 076
Investments in associates	38	3 989	3 566
Goodwill	22	78 547	78 547
Investment property	23	18 968	19 411
Right-of-use assets	24	18 755	22 199
Property, plant and equipment	25	442 603	454 121
Intangible assets	26	78 024	79 290
Deferred tax assets	32	452	437
Other assets	27	240 201	105 081
Total assets		**29 051 710**	**24 517 075**
Liabilities			
Deposits from banks	28	60 186	255 502
Derivative financial instruments	17	95 927	43 629
Deposits from customers	29	23 902 795	20 052 824
Loans from banks and financial institutions	28	684 298	203 554
Current tax liabilities		371	492
Lease liabilities	30	17 821	20 793
Provisions	31	75 904	83 462
Deferred tax liabilities	32	19 539	17 819
Other liabilities	33	185 301	140 842
Subordinated debt	34	225 431	-
Total liabilities		**25 267 573**	**20 818 917**

L. PENCHEVA

Consolidated financial statements on which we have issued audit report dated 16 March 2023

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

Consolidated statement of financial position (continued)

As at 31 December 2022

In thousands of BGN	Note	**31-December-2022**	**31-December-2021**
Shareholder's equity			
Share capital	35	1 328 660	1 328 660
Reserves	35	1 818 013	1 893 583
Retained earnings		630 968	461 194
Equity attributable to the owners of the parent		**3 777 641**	**3 683 437**
Non-controlling interest		6 496	14 721
Total shareholder's equity		**3 784 137**	**3 698 158**
Total liabilities and shareholder's equity		**29 051 710**	**24 517 075**

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

The consolidated financial statements are authorised for issue from the Management Board and signed on behalf of DSK Bank AD on 10 March 2023.

Tamás Hák-Kovács
Chief Executive Director

L. PENCHEVA

Slaveyko Slaveykov
Executive Director

Consolidated financial statements on which we have issued audit report dated 16 March 2023

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

Consolidated statement of cash flows
For the year ended 31 December 2022

In thousands of BGN	Note	2022	2021
Cash flow from operating activities			
Profit before taxation		623 257	462 440
Adjustments for:			
Impairment losses on financial assets, net	10	104 700	130 792
Impairment (gain)/ loss on non-financial assets, net	11	(2 928)	(689)
Depreciation and amortization	13	61 907	63 740
Net gains from operations with investments		(25 354)	(42 260)
Net losses/ (gains) from foreign exchange		25 587	(16 876)
Net interest income	4	(780 816)	(613 166)
Dividend income	9	(4 010)	(598)
Share of profit of associates		(423)	(240)
Net reversal of provisions		(4 242)	(2 164)
Other non cash changes		(1 289)	9 011
Net cash flow used in operating activities before movements in operating assets and liabilities		**(3 611)**	**(10 010)**
Movements in operating assets			
Decrease/ (increase) in securities held for trading		87 215	(81 472)
(Increase)/ decrease in loans and advances to banks		(1 308 781)	790 060
Increase in loans and advances to customers		(2 097 418)	(1 388 137)
Increase in finance lease receivables		(259 823)	(113 479)
(Increase)/ decrease in other assets		(75 553)	32 679
Movements in operating liabilities			
(Decrease)/ increase in deposits from banks		(195 317)	218 606
(Decrease)/ increase in loans from banks and financial institutions		(146 013)	149 453
Increase in deposits from customers		3 795 806	761 808
Increase in other liabilities		43 687	24 362
Cash generated from operations		**(159 808)**	**383 870**
Interest received		791 723	652 359
Interest paid		(13 422)	(9 978)
Tax paid		(46 304)	(38 773)
Payments to own pension funds and other pension companies		(696)	-
Net cash flow from operating activities		**571 493**	**987 478**

L. PENCHEVA

Consolidated financial statements on which we have issued audit report dated 16 March 2023

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

Consolidated statement of cash flows (continued)
For the year ended 31 December 2022
(continued)

In thousands of BGN	Note	2022	2021
Cash flow from investing activities			
Acquisition of property, plant and equipment, and intangible assets		(53 401)	(48 678)
Sales of property, plant and equipment, and intangible assets		10 230	2 252
Purchase of securities		(301 485)	(1 558 483)
Sale of securities		580 318	1 135 240
Dividends received		756	898
Net cash flow from/(used in) investing activities		**236 418**	**(468 771)**
Cash flow from financing activities			
Long-term bank loans and subordinated debt received		948 578	-
Repayment of long-term bank loans		(97 792)	-
Dividends paid		(404 337)	(158)
Repayment of the lease liabilities	30	(7 702)	(7 597)
Net cash flow from/(used in)financing activities		**438 747**	**(7 755)**
Net increase in cash and cash equivalents		**1 246 658**	**510 952**
Effect of foreign exchange rate changes		1 571	2 644
Cash and cash equivalents at the beginning of the year	37	**4 552 357**	**4 038 761**
Cash and cash equivalents at the end of the year	37	**5 800 586**	**4 552 357**

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

The consolidated financial statements are authorised for issue from the Management Board and signed on behalf of DSK Bank AD on 10 March 2023.

Tamás Hák-Kovács
Chief Executive Director

Slaveyko Slaveykov
Executive Director

L. PENCHEVA

Consolidated financial statements on which we have issued audit report dated 16 March 2023

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

Consolidated statement of changes in equity for the year ended 31 December 2022

In thousands of BGN	Share capital	Statutory and other reserves	Revaluation reserve - land and buildings	Revaluation reserve from financial assets	Defined benefit pension reserve	Share-based payment reserve	Retained earnings	Total Equity attributable to the owners of the parent	Non-controlling interest	Total equity
Balance as of 1 January 2021	**1 328 660**	**1 511 407**	**113 374**	**48 830**	**(4 734)**	**-**	**245 244**	**3 242 781**	**12 231**	**3 255 012**
Total comprehensive income										
Profit for the year	-	-	-	-	-	-	413 804	413 804	2 733	416 537
Other comprehensive income	-	-	40 069	(14 341)	(299)	-	-	25 429	-	25 429
Total comprehensive income	**-**	**-**	**40 069**	**(14 341)**	**(299)**	**-**	**413 804**	**439 233**	**2 733**	**441 966**
Transfer of revaluation reserve from land and buildings, net of tax	-	-	(1 557)	-	-	-	1 557	-	-	-
Transfer of share-based payment reserve	-	-	-	-	-	1 361	-	1 361	-	1 361
Distribution of profit for reserves	-	197 659	-	-	-	-	(197 659)	-	-	-
Distribution of dividends	-	-	-	-	-	-	-	-	(185)	(185)
Increase of investments in subsidiaries	-	32	-	-	-	-	26	58	(58)	-
Other movements	-	4	-	-	1 778	-	(1 778)	4	-	4
Balance as of 31 December 2021	**1 328 660**	**1 709 102**	**151 886**	**34 489**	**(3 255)**	**1 361**	**461 194**	**3 683 437**	**14 721**	**3 698 158**
Total comprehensive income										
Profit for the year	-	-	-	-	-	-	560 993	560 993	2 668	563 661
Other comprehensive income	-	-	(2 072)	(73 005)	2 573	-	-	(72 504)	-	(72 504)
Total comprehensive income	**-**	**-**	**(2 072)**	**(73 005)**	**2 573**	**-**	**560 993**	**488 489**	**2 668**	**491 157**
Transfer of revaluation reserve from land and buildings, net of tax	-	-	(3 388)	-	-	-	3 388	-	-	-
Transfer of share-based payment reserve	-	-	-	-	-	(574)	574	-	-	-
Distribution of profit for reserves	-	1 592	-	-	-	-	(1 592)	-	-	-
Distribution of dividends	-	-	-	-	-	-	(393 589)	(393 589)	(10 893)	(404 482)
Other movements	-	(696)	-	-	-	-	-	(696)	-	(696)
Balance as of 31 December 2022	**1 328 660**	**1 709 998**	**146 426**	**(38 516)**	**(682)**	**787**	**630 968**	**3 777 641**	**6 496**	**3 784 137**

The consolidated statement of changes in equity is to be read together with the Notes from 1 to 41 forming part of the consolidated financial statements.

The consolidated financial statements are authorised for issue from the Management Board and signed on behalf of DSK Bank AD on 10 March 2023.

Tamás Hák-Kovács
Chief Executive Director

L. PENCHEVA

Slaveyko Slaveykov
Executive Director

Consolidated financial statements on which we have issued audit report dated 16 March 2023

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

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, DSK Bank EAD (The "Bank") was transformed into a commercial bank and is allowed to conduct all the transactions stated in art.1 par.2 from the Banking Law in force as of the date of transformation. Later the Bank receives a full banking license to operate as a commercial bank by order No.220882 of 26 September 2002 issued by the Bulgarian National Bank.

The Bank is a joint-stock company registered with the Trade Register of Republic of Bulgaria with UIC 121830616. The head office and registered address is 19 Moskovska str., Oborishte district, Sofia.

The majority shareholder of the Bank is OTP Bank Nyrt, registered in Republic of Hungary, holding 99.91% of the capital of DSK Bank AD as at 31 December 2022 and 31 December 2021.

The Bank has a two-tier system – Management Board and Supervisory Board.

As of 31 December 2022 those charged with governance are the Supervisory Board and the Audit Committee.

As of 31 December 2022 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.

As of 31 December 2022 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, Boyan Stefov and Dorothea Nikolova – Members of the Management Board and Executive Directors; Mihail Komitski– Member of the Management Board and Head of division. Changes in the structure of the Management Board after the end of the reporting period are disclosed in Note 41.

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 2022 the Audit Committee is composed of: Chairman Dragomir Vuchev; members - Zoltan Tuboly and Daniela Petrova.

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

(b) Going concern

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

(c) Impact of the war in Ukraine on the financial reporting

As a result of the COVID-19 pandemic in 2020, 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. In addition, the geopolitical situation significantly worsened after the invasion of Russia in Ukraine on February 24, 2022. The war continues to evolve and is increasingly affecting gloabal economic and financial markets and exacerbating ongoing economic challenges, caused earlier by COVID-19. Key consequences of the war include supply-chains disruptions, increasing inflation, commodity deficit and fluctuations of raw materials prices, volatility of currencies, damage and loss of assets, increased energy costsand other. Overall economic uncertainty affects all economic subjects regardless of whether they have direct exposures in Russia and Ukraine such as assets, markets or partners. Political sanctions are being imposed and they hinder travelling, trade, international payment transactions, access to and management of own cash and cash equivalents and other assets. The challenges before the financial reporting range over multiple subjects including validity of the going concern assumption; future cash flows forecast; fair value measurement; significant estimates and judgements; recoverability of assets and expected credit allowences; classification of assets and liabilities as current and non-current in the statement of financial position; reclassification of financial assets and liabilities resulting from change in the business model adopted; need of disclosures related to restrictions over assets, for example cash blocked as a result of sanctions imposed; modification of lease contracts; effectiveness of hedging relationships; restructuring; etc.

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

(d) Statement of compliance and representation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) effective from 1 January 2022 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 Group presents its statement of financial position in order of liquidity of the assets and liabilities.

(e) Basis of measurement

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

(f) Functional and presentation currency

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

(g) Comparative information

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

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

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

Consolidated statement of financial position

Deferred tax assets and liabilities of the entities within the consolidation scope have been offset in the consolidated statement of financial position until the end of 2021. The Group revised this presentation in order to achieve better compliance with offsetting requirements of IAS 12 *Income taxes*. The net deferred tax assets and liabilities of each entity of the Group are recalculated and as a result an amount of BGN 437 thousand as at 31 December 2021 has been transferred from deferred tax liabilities to deferred tax assets in the consolidated statement of financial position.

Consolidated statement of cash flows

Reclassifications in the consolidated statement of cash flows for 2021 are presented in these consolidated financial statements in order to improve the presentation of cash flows from investing activities. The following reclassifications are made:

- Acquisitions of investments in securities, net amounting to BGN 423 243 thousand are presented gross as Purchase of securities amounting to BGN 1 558 483 thousand and Sale of securities amounting to BGN 1 135 240 thousand;
- Acquisition of property, plant and equipment, and intangible assets, net amounting to BGN 46 426 thousand are presented gross as Acquisition of property, plant and equipment, and intangible assets amounting to BGN 46 678 thousand and Sales of property, plant and equipment, and intangible assets amounting to BGN 2 252 thousand.

The reclassifications of comparative information described above have not led to any change in the net cash flows from investing activities for 2021.

(h) Use of estimates and judgements

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

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

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

Impact of the war in Ukraine on estimates and judgements

As described in Note 1c above, as a result of the heightened uncertainty on a global scale associated with the war in Ukraine, 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 Group 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 the war and the recent economic downturn, significant measurement uncertainty exists in determining ECLs, especially regarding key inputs used in the model.

Determination of control over investment and pension funds

The Group manages a number of investment funds through DSK Asset Management AD which has licenses issued by the Financial Supervision Commission of Republic of Bulgaria to organize and manage these funds. In order to determine whether it controls the investment funds, the Group usually focuses on the assessment of the aggregate economic interests of the Group in the fund (comprising any carried interest and expected management fees) and the investors' rights to remove the fund manager. For all funds managed by the Group, the investors are not able to vote to remove the fund manager without a reason, and the Group's aggregate economic interest is insignificant. As a result, the Group has concluded that it acts as agent for the investors in all cases, and therefore has not consolidated these funds.

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

Determining control over companies with no equity participation

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

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

Expected credit losses from financial assets

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

In addition, a new source of uncertainty and increased risk related to first line effects (directly affected clients), as well as second line effects (indirectly affected clients – for example suppliers or clients of directly affected clients of the Bank or its subsidiaries) emerged with the start of the war in Ukraine in February 2022 for the credit institutions. The supplies interrupted by the military conflict have led to rise in prices of commodities in Europe, sharply increased prices of energy suppliers and added an inflation pressure over the European economies.

In order to reflect the possible and expected effects of this geopolitical crisis, the Group of OTP Bank has reviewed the macroeconomical forecasts and their probability (weights regarding estimates of expected credit allowances, respectively). The review led to valuation of expected higher probability of default, and higher expected loss of collectively impaired loan portfolio, respectively (increase with approx.. 1.4%).

The estimate of the expected credit losses from government bonds at fair value through other comprehensive income and government bonds at amortised cost is based on a model which includes the credit rating and the probability of default of the respective country. The probability of default of the Russian Federation in the current period has been increased to 100% resulting in significant increase in the expected credit losses of Russian securities held by the Bank and their reclassification in Stage 3.

Accounting for acquisition of subsidiaries

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

Fair value of financial instruments, not traded on active markets

In case when fair values of financial assets and liabilities in the statement of financial position cannot be obtained from active markets, these are defined through different measurement techniques using models. The basic data for these models is extracted from indicators observed where possible on financial markets; otherwise assumptions are made for establishing of fair values. These assumptions take in consideration factors related to liquidity, volatility for long – term derivatives and discount ratios, pre – term repayments and probabilities of default for asset – backed securities (Note 3 (f)). The past 2022 year was marked by the war between Russia and Ukraine. Inflation was a key topic. Central banks increased unprecedently the key interest rates and it is expected that this policy will be continued in 2023 as well. Central banks are not expected to decrease key interest rates in 2023. 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. The inflation is expected to decrease gradually and the interest rates to reach stable levels.

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 25). The appraisers use appropriate valuation methods and techniques using observable market data, to the extent such data is readily available and accessible. When there are significant non-observable inputs in the valuation model, the fair value will be sensitive to any changes of those inputs. As a result of analysis performed as at 31 December 2022, the management has concluded that the uncertainty at the real estate market caused by the spread of the COVID-19 has passed away. In addition, the real estate market prices have not been impacted significantly by the military conflict in Ukraine. Still, the future impact of the war on the real estate market, if any, is unknown. If such impact was known and had been taken into consideration in performing the fair value appraisal, the results might have differed from those incorporated in these financial statements.

Provisions for litigation settlements

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

Impairment of goodwill and intangible assets

In order to determine the recoverable amount of goodwill and the intangible assets recognized in business combinations, the Group uses models, incorporating future cash flows and a number of assumptions, including discount rates, customer churn rate, useful life of intangible assets, etc. For the future cash flows, the Group uses the budgets approved by management which reflect current and expected market conditions. While the COVID-19 pandemic seems to be under control to a great extent, the geopolitical situation related to the war in Ukraine is unpredictable and raises significant uncertainty as to the reasonableness of judgements used in determining the recoverable amount of goodwill and intangible assets, as well as the eventual need for impairment.

(i) Basis of consolidation

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

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

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

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

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

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

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

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

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

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

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

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

(1) *Accounting for business combinations*

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

a. identifying the acquirer;

b. determining the acquisition date;

c. recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; and

d. recognising and measuring goodwill or a gain from a bargain purchase.

Recognition principles

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

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

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

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

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

Goodwill

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

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

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

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

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

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

(3) *Subsidiaries*

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

As of 31 December 2022 and 2021 DSK Bank has the following fully consolidated subsidiaries:

	Main activity	Ownership interest %	
		31-Dec-2022	31-Dec-2021
DSK Tours EOOD – in liquidation	Tour operator and agent	100.00%	100.00%
DSK Rodina Pension Company AD	Pension fund management	99.85%	99.85%
DSK Asset Management AD	Investment scheme management	66.00%	66.00%
DSK Trans Security EAD *	Incasso, transport and security of cash	100.00%	100.00%
DSK Leasing AD **	Finance lease	60.02%	60.02%
dsk Ventures EAD (former DSK Mobile EAD)	Marketing, development and implementation of information systems	100.00%	100.00%
DSK Dom EAD	Credit intermediary	100.00%	100.00%
OTP Factoring Bulgaria EAD	Factoring of receivables	100.00%	100.00%
OTP Leasing EOOD	Finance lease	100.00%	100.00%
Regional Urban Development Fund AD	Financing of urban development projects	52.00%	52.00%

The investment in DSK Trans Security EAD has been sold after the end of the reporting period (see also Note 41).

As at 31 December 2021 DSK Leasing AD owns 100 % of the share capital of: DSK Auto Leasing EOOD, DSK Operative Leasing EOOD and OTP Insurance Broker EOOD. In 2022 DSK Operative Leasing and DSK Auto Leasing EOOD were merged in DSK Leasing AD which is their universal successor.

The name of DSK Mobile EAD has been changed to dsk Ventures EAD, effective as of 11 November 2022.

On 05 September 2022 the decision of the Bank as a sole owner of DSK Tours EOOD to terminate the entity and to start a liquidation procedure was filed in the Trade register of Republic of Bulgaria. The liquidation term is 8 months, effective as of the date of the publishing of the invitation to the creditors. As of the date of this financial statement the liquidation procedure has not been completed.

On 13 September 2022 the DSK Bank announced its plan for transformation of its subsidiary OTP Factoring Bulgaria EAD through merging in DSK Bank. The purpose of the merge is to form an integrated process of collection of all bad debts in the Bank's portfolio; to simplify the structure facilitating this process; to optimize administrative and operating costs. As of the date of this financial statement the restructuring procedure has not been completed.

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

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

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

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

(5) *Associates*

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

DSK Bank owns 25% of the equity in Cash Services Company and has significant influence over the financial and operating policies of the company (Note 38).

2. Significant accounting policies

(a) Interest income and expenses recognition

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

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

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

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

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

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

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

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

(b) Foreign currency transactions

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

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

(c) Fees and commissions

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

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

Performance obligations and revenue recognition policies

Fee type	Nature and timing of satisfaction of performance obligations, and the significant payment terms	Revenue recognition under IFRS
Fees and commissions related to payment transactions	The Group provides to its customers a variety of services, related to withdrawals and depositing funds into bank accounts, payments in local and foreign currency, according to which different fees are applied. In the case of transaction – based fees (for example in the case of cash withdrawal either a POS/ATM payment fee or a fee for cash withdrawal in the Group`s offices is charged, etc.) the fee is due immediately after the transaction takes place or once per month. The fee is usually defined in % of the transaction amount with a pre – defined fixed minimum amount. For services resulting in bank transfer of money, the fee is charged when the transaction takes place. These fees are defined in fixed amount or in %. The Group performs a regular pricing review of applicable fees and commissions.	Transaction-based fees are charged when the transaction takes places or monthly at the end of the month.
Fees and commissions related to credit deals	The Group offers a number of account management services for both retail and companies, also provides its clients with various types of credit cards charged at differentiated levels. Fees related to these services are mainly connected with account management, credit card issuing, annual bank card fees and other fees for usual account services. Annual bank card fees are defined as fixed amount depending on the card type. The Group performs a regular pricing review of applicable fees and commissions.	Fees for current account management services are on a monthly basis. Fees on one – off services are charged at the moment of service delivery.

Fee type	Nature and timing of satisfaction of performance obligations, and the significant payment terms	Revenue recognition under IFRS
Fees and commissions related to deposit deals	The Group offers a wide range of account management services to both individuals and enterprises, for which respective fees are charged, in addition they are provided with various debit cards charged differently.	Fees for current account management services are on a monthly basis.
	Fees related to these services are mainly connected with account opening and closing fees, management fees, online banking, debit card issuing, monthly fees for debit card services and other fees for usual account services. Fees for current account management services are charged to the customer on a monthly basis. They are usually fixed to an amount depending on the package program or the category of the client. Monthly and annual fees on bank cards are set in fixed amount. They depend on the type of the bank card. Fees for one – off services of occasional type are charged in the moment the client makes use of the service. These fees can be fixed or determined in %. The Group regularly reviews applied fees.	Fees on one – off services are charged at the moment of service delivery.
Other fees and commissions	Fees reported in the "Other fees" category are fees for safekeeping of money or valuables in the safe boxes of the public treasury issuing of bank certificate, issuing of bank reference, photocopies of documents, etc.	Long – term service fees related to the period the client takes benefit of this service.
	These fees concern long – term services provision (bank safekeeping) or one – off administrative services.	One – off fees are charged on the moment of service delivery.
	Fees and deductions related to asset management of DSK Rodina are reported in this category. They include fees from security contributions, initial charges, investment fees and others.	Revenues are recognized along the time, as the contract progress is measured on the basis of time elapsed (on a linear basis - monthly).
	Fees and deductions related to asset management of Group Funds are fixed in % and are defined according to the local legal requirements and the rules of procedure of the respective pension fund.	

(d) Net trading income

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

(e) Government grants

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

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

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

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

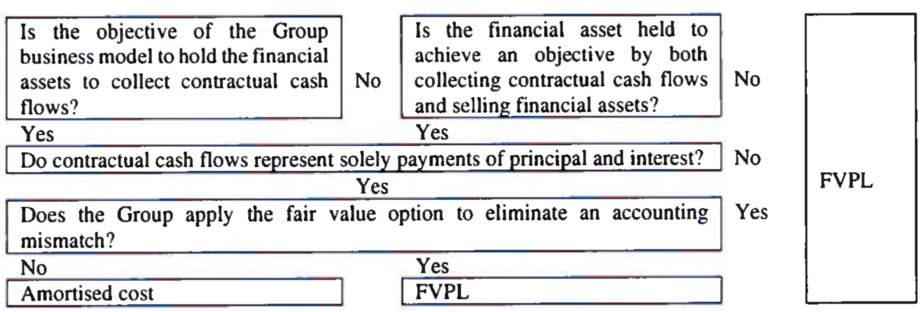
The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

(f) Financial instruments

(1) Classification

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

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



Business model for financial assets management

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

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

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

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

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

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

(2) *Recognition*

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

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

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

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

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

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

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

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

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

(3) *Initial measurement*

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

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

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

(4) *Subsequent measurement*

Amortised cost measurement

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

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

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

Fair value measurement

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

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

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

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

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

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

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

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

Fair value measurement through other comprehensive income

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

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

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

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

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

Fair value measurement through profit or loss

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

(5) *Derecognition*

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

The Group takes decision for full write-off of financial asset when it is: classified as "loss" and entirely impaired. Uncollectable are receivables that cannot be collected due to legal obstacles or the applicable collection methods are economically unjustified, the criteria for classification of the receivable as uncollectable are regulated in detail in internal rules and include, but are not limited to:

- Missing debtor and cases equated to lack of debtor (the borrower is deceased with no heirs, or heirs, up to the second row including, who have made a denial of heritage, as well as in case of legal entities which have been deleted from the commercial registers or in liquidation, bankruptcy and insolvency proceedings but no property is available to satisfy the claims of the Bank and there are no other liable persons, against whom an execution may be initiated);
- The contract for the credit risk, assumed by the Bank, cannot be found;
- The prescription period for the claim has expired;
- Criteria based on an economic assessment of the collectability or practical impossibility for collection of the receivable (receivables for which the collection methods are economically unjustified, small amount, etc.);

If any of the criteria for uncollectable receivables under the rules exist, the receivable shall be classified as uncollectable and the On-balance and Off-Balance sheet accounting shall be terminated. In specific cases it is possible a decision to be taken for Off-Balance accounting to be remained.

Write off from the On-balance sheet of receivables and posting Off-balance is performed when are not classified as uncollectable, but are not expected to be fully recovered, and in case of collateralized receivables it is substantiated that the collateral cannot be enforced, i.e. the liquidation cash flow thereof is 0.

Write off from the On-balance sheet is applied for receivables that are fully impaired for credit risk.

According to the assessment of the potential recovery of a receivable, the write off from the On-balance sheet of the receivable, following a write-off decision, may be realized as follows:

1. A full write-off from the On-balance sheet reporting - accounting operation, in which the total On-balance sheet exposure of the receivable is written off;
2. A partial write-off of the On-balance sheet reporting - accounting operation, whereby only part of the On-balance sheet exposure of the receivable is written off.

A partial write-off from the On-balance sheet reporting is performed under the following condition:

Based on analysis of the individual exposure, a statistical analysis of a portfolio of risk exposures or an analysis based on criteria approved by a competent authority, there is an expectation that part of the risk exposure shall not be collected (neither from the debtor's cash flow nor through enforcement proceedings in respect to the collateral).

The amount of the risk exposure, which is subject to a partial write-off, is defined as the difference between the book value of the gross balance sheet exposure and the maximum amount, which may be collected under the relevant risk exposure. Partial write off can only be accounted for up to the maximum recovery. The maximum recovery is the maximum amount, that can be collected for the relevant risk exposure defined as the recovery amount under the most optimistic scenario over a reasonable period of time (5-10 years).

Depending on the type of the exposure, the Bank applies the following three methods for setting of the amounts subject to a partial write-off:

1. Method of assessment and analysis based on statistical observations or criteria (applied to exposures of personal individuals for which there is no immovable property as collateral);

2. Method of individual assessment and analysis;

3. Individual assessment and analysis method, based on the criteria defined by a competent authority for loans included in a package.

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

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

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

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

(6) *Offsetting*

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

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

(7) *Impairment of financial assets*

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

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

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

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

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

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

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

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

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

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

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

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

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

(8) *Reclassification*

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

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

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

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

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

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

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

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

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

(9) Modification

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

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

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

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

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

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

(10) Purchased credit-impaired financial assets

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

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

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

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

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

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

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

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

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

(g) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash balances on hand and cash deposited with the Central Bank, nostro accounts, and short term highly liquid receivables from banks with original maturity of up to three months, gross of impairment.

(h) Financial assets and liabilities held for trading

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

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

(i) Non-current assets classified as held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense. The criteria for held for sale classification is regarded as met only when the sale is highly probable, and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position. Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss.

(j) 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.

(k) Derivatives

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

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

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

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

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

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

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

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

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

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

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

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

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

(l) Loans and advances

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

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

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

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

Non-recourse factoring receivables

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

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

Recourse factoring receivables

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

(n) Property, plant and equipment

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

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

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

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

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

	%
Buildings	1-4
Leasehold improvements	2-34
Machines and equipment	8-50
Motor cars	12,5-25
Vehicles (without motor cars)	10-25
Computers, according to their class and useful life	15-50
Fixtures and fitting and other depreciable fixed assets	15-50

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

Assets are depreciated from the date they are brought into use. The expected useful lives of property, plant and equipment are reviewed at the end of each reporting period and in case of significant deviations from expected term of use of the assets, the useful life is revised perspectively.

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

(o) Investment property

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

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

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

(p) Intangible assets

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

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

The annual rates of amortization are as follows:

	%
Computer software, according to class and useful life	20- 50
Assets acquired in business combinations	35

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

(q) Impairment of non-financial assets

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

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

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

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

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

An impairment loss in respect of goodwill is not reversed.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Minimum lease payments

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

Initial and subsequent measurement

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

(s) Assets acquired from collaterals

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

(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 Group for which there is uncertainty in terms of timing and amount of future expenses necessary for settlement of the liability.

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

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

- A reliable measurement can be performed of the amount of liability.

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

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

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

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

(v) Capital and reserves

(1) Share capital

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

(2) Reserves

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

More information for the Group's reserves is provided in Note 35.

(w) Deposits

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

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

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

(x) Contingent liabilities

Contingent liabilities are:

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

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

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

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

(2) Defined benefit plans

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

The Group has obligation to pay certain amounts to each employee who retires with the Group in accordance with Art.222, § 3 of the Labour Code in Bulgaria. According to these regulations in the LC, when a labour contract of a company's employee, who has acquired a pension right, is ended, the Group is obliged to pay compensations amounted to two gross monthly salaries. In case the employee's length of service in the company, or in the group to which the company belongs, equals to or is greater than 10 or more years, as at retirement date, then the compensation amounts to six gross monthly salaries. If the employee has been working continuously for DSK Bank for certain period the Collective Labour Contract adopts the next compensations: 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. As at the reporting date the Management of the Group estimates the approximate amount of the potential expenditures for every employee based on a calculation performed by a qualified actuary using the projected unit credit method. The estimated amount of the current year obligation and the main assumptions, on the base of which the estimation of the obligation has been made, is disclosed to the financial statements in Note 31.

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

(3) *Termination benefits*

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

(4) *Short-term employee benefits*

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

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

(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.

(bb) 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 16 Leases: Covid-19-Related Rent Concessions beyond 30 June 2021, adopted by the EU on 30 August 2021 (effective for annual periods beginning on or after 1 April 2021);
- 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 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 various standards due to "Improvements to IFRSs (cycle 2018 -2020)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IAS 41 and IFRS 16) 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).

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

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

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

- Amendments to IAS 1 Presentation of Financial Statements: Disclosure of Accounting policies adopted by the EU on 02 March 2022 (effective for annual periods beginning on or after 1 January 2023);
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates, adopted by the EU on 02 March 2022 (effective for annual periods beginning on or after 1 January 2023);
- IFRS 17 Insurance Contracts, including Amendments to IFRS 17, adopted by the EU on 19 November 2021 (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, adopted by the EU on 7 May 2021 (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, adopted by the EU on 9 December 2021 (effective for annual periods beginning on or after 1 January 2023).

New Standards and amendments to the existing Standards issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretations, which have not yet been adopted by EU as at the date of approval of these financial statements:

- Amendments to IAS 1 Presentation of Financial Statements: *Classification of Liabilities as Current or Non-current* (effective for annual periods beginning on or after 1 January 2024);
- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investmnts in Associates and Joint Ventures: *Sales or contributions of assets between an investor and its associate or joint venture* (the effective date has been postponed for indefinite time);
- Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback ((effective for annual periods beginning on or after 1 January 2024)).

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

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

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

3. Risk management disclosures

Structure and functions of the Risk Management Unit

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

Risk Management Division:

- Credit risk - Corporate Clients Directorate having functions related to approval of exposures to corporate and small and medium-sized (SME) clients until 1 October 2021, and afterwards – solely corporate clients depending on the specified competencies, while maintaining low level of credit risk as well as functions related to ongoing monitoring of business clients. After 1 October 2021 a part of the SME clients are re-directed to the Corporate Clients – Middle Market segment, and the rest – to the Small Business Segment;
- Credit risk – Individual Clients Directorate, having functions related to maintaining of adequate mechanisms of assessment, monitoring and management of credit risk, and approving loan applications based on an acceptable level of risk, in the Individuals and Small 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 ensured on the basis of automatical checks;
- Collateral Validation Department having functions related to approval of valuation and revaluation of real estate;
- General Policy and Risk Management Directorate having functions related to management of the counterparty, market and operational risk, and the credit risk policy, through adequate controls and methodologies, delivery of the regulatory reporting regarding the assumed risk and improvement of the risk management and risk reporting practices;
- Credit Control and Administration Department having functions related to implementation of credit utilization control of business clients.

Collection Division:

- The Collection Division was established in 2020 with the purpose to achieve a better segregation of duties between loan origination, risk monitoring and collection and restructuring. In line with the OTP Group decision, based on recommendation from the Hungarian National Bank, the collection activity (which was previously hosted under the Risk Management Division) moved from May 1st 2020 into a newly established Collection Division. The Head of the Collection Division is also a member of the Management Board. In accordance with the ECB Guidance to banks on non-performing loans, the Collection Division is operationally independent from the units responsible for loan origination and classification. The division includes 4 units responsible for different segments of non-performing loans, namely: individuals; legal entities; real estate representing collateral on non-performing loans; and a unit engaged with management and regulatory reporting, preparing also operational reports and analyses related to non-performing loan management.

- In order to improve the efficiency of the collection activity, in the last quarter of 2021, a project was started to unify the processes of collection of receivables in DSK Bank and the subsidiary OTP Factoring Bulgaria by merging the structures for the operational work of problem loans in different stages of management. This process was successfully completed in 2022 and was implemented as a standard work process in both companies, with staff from both companies operating in unified structures and a common management model was established by consolidating best practices and experiences.

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

(a) Liquidity risk

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

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

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

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

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

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

Residual contractual maturities of liabilities as of 31 December 2022

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	Without maturity
Liabilities								
Deposits from banks	**60 186**	**60 186**	40 553	-	-	19 633	-	-
Derivative financial instruments	**95 927**	**95 927**	12 054	52 591	28 587	1 401	1 294	-
Deposits from customers	**23 902 795**	**23 902 891**	22 187 175	590 098	1 080 097	45 521	-	-
Loans from banks and financial institutions	**684 298**	**685 939**	-	4	-	476 174	209 761	-
Current tax liabilities	**371**	**371**	105	251	15	-	-	-
Lease liabilities	**17 821**	**18 389**	715	1 371	5 100	10 852	351	-
Provisions	**75 904**	**75 904**	18 999	3 272	33 832	18 260	385	1 156
Deferred tax liabilities	**19 539**	**19 539**	-	80	628	18 831	-	-
Other liabilities	**185 301**	**185 301**	111 788	7 137	19 266	44 018	2 795	297
Subordinated debt	**225 431**	**227 498**	-	-	-	-	227 498	-
Total liabilities	**25 267 573**	**25 271 945**	**22 371 389**	**654 804**	**1 167 525**	**634 690**	**442 084**	**1 453**
Unused loan commitments	-	2 938 586	1 503 298	106 557	1 031 148	227 357	4 128	66 098
Total liabilities and commitments	25 267 573	**28 210 531**	**23 874 687**	**761 361**	**2 198 673**	**862 047**	**446 212**	**67 551**

Residual contractual maturities of 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	Without maturity
Liabilities								
Deposits from banks	**255 502**	**255 497**	243 459	-	-	12 038	-	-
Derivative financial instruments	**43 629**	**43 629**	5 751	6 796	27 271	3 682	129	-
Deposits from customers	**20 052 824**	**20 053 074**	17 998 572	752 145	1 247 780	54 577	-	-
Loans from banks and financial institutions	**203 554**	**205 190**	149 703	175	564	13 897	40 851	-
Current tax liabilities	**492**	**492**	172	51	269	-	-	-
Lease liabilities	**20 793**	**21 067**	891	1 250	3 672	14 215	1 039	-
Provisions	**83 462**	**84 021**	1 293	4 143	30 685	46 903	379	618
Deferred tax liabilities	**17 819**	**17 819**	-	-	-	17 819	-	-
Other liabilities	**140 842**	**141 383**	106 483	10 763	22 452	926	320	439
Total liabilities	**20 818 917**	**20 822 172**	**18 506 324**	775 323	**1 332 693**	**164 057**	**42 718**	**1 057**
Unused loan commitments	-	2 845 327	150 242	293 959	1 513 168	485 258	402 700	-
Total liabilities and commitments	**20 818 917**	**23 667 499**	**18 656 566**	**1 069 282**	**2 845 861**	**649 315**	**445 418**	**1 057**

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

Maturity table of assets and liabilities as of 31 December 2022

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	**5 797 316**	5 797 316	-	-	-	-	-
Trading financial assets	**50 482**	-	2 113	74	41 337	6 958	-
Derivative financial instruments	**108 819**	15 265	37 979	52 734	1 475	1 366	-
Investments at fair value through profit or loss	**3 502**	2 908	-	-	-	-	594
Investments at fair value through other comprehensive income	**1 195 102**	53 228	134 224	119 502	780 456	107 692	-
Loans and advances to banks	**2 629 263**	1 597	205 190	481 818	1 940 658	-	-
Net receivables from finance lease	**1 360 625**	42 501	69 507	306 483	911 118	31 016	-
Loans and advances to customers	**15 401 695**	359 222	618 589	3 431 147	5 276 011	5 716 726	-
Investments at amortised cost	**1 611 753**	-	47 559	127 090	658 103	779 001	-
Current tax assets	**11 614**	11 288	-	326	-	-	-
Investments in associates	**3 989**	-	-	-	-	-	3 989
Goodwill	**78 547**	-	-	-	-	-	78 547
Investment property	**18 968**	-	-	-	-	-	18 968
Right-of-use assets	**18 755**	26	54	547	1 137	-	16 991
Property, plant and equipment	**442 603**	41	82	4 565	17 138	2 073	418 704
Intangible assets	**78 024**	2	4	2 252	9 417	4	66 345
Deferred tax assets	**452**	-	-	452	-	-	-
Other assets	**240 201**	162 994	4 264	38 777	34 117	29	20
Total assets	**29 051 710**	**6 446 388**	**1 119 565**	**4 565 767**	**9 670 967**	**6 644 865**	**604 158**
Derivatives assets							
Trading:	76 483						
Outflow		(359 848)	(319 884)	(387 473)	(109 715)	-	-
Inflow		361 269	323 839	408 871	110 845	-	-
Hedge accounting:	32 336						
Outflow		(9)	(73)	(97)	-	-	-
Inflow		237	268	508	-	-	-
Total derivatives	**108 819**	**1 649**	**4 150**	**21 809**	**1 130**	**-**	**-**
Liabilities							
Deposits from banks	**60 186**	40 553	-	-	19 633	-	-
Derivative financial instruments	**95 927**	12 054	52 591	28 587	1 401	1 294	-
Deposits from customers	**23 902 795**	22 187 113	590 089	1 080 078	45 515	-	-
Loans from banks and financial institutions	**684 298**	-	4	-	475 053	209 241	-
Current tax liabilities	**371**	105	251	15	-	-	-
Lease liabilities	**17 821**	715	1 319	4 875	10 565	347	-
Provisions	**75 904**	18 999	3 272	33 832	18 260	385	1 156
Deferred tax liabilities	**19 539**	-	80	628	18 831	-	-
Other liabilities	**185 301**	111 788	7 137	19 266	44 018	2 795	297
Subordinated debt	**225 431**	-	-	-	-	225 431	-
Total liabilities	**25 267 573**	**22 371 327**	**654 743**	**1 167 281**	**633 276**	**439 493**	**1 453**
Unused loan commitments	-	1 503 298	106 557	1 031 148	227 357	4 128	66 098
Total liabilities and commitments	**25 267 573**	**23 874 625**	**761 300**	**2 198 429**	**860 633**	**443 621**	**67 551**

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
Derivatives liabilities							
Trading:	75 183						
Outflow		(228 856)	(198 835)	(342 532)	(61 292)	-	-
Inflow		306 339	194 482	324 071	60 500	-	-
Hedge accounting:	20 744						
Outflow		-	(424 963)	-	-	-	-
Inflow		-	391 166	-	-	-	-
Total derivatives	**95 927**	**77 483**	**(38 150)**	**(18 461)**	**(792)**	**-**	**-**

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	**3 959 884**	3 958 650	-	1 234	-	-	-
Trading financial assets	**143 362**	4	25 762	38 017	69 818	9 761	-
Derivative financial instruments	**33 459**	5 346	7 102	16 363	4 537	111	-
Investments at fair value through profit or loss	**6 538**	-	-	-	-	-	6 538
Investments at fair value through other comprehensive income	**1 725 597**	3 754	385 439	35 551	902 879	378 480	19 494
Loans and advances to banks	**1 915 161**	304 018	641 920	769 460	199 753	-	10
Net receivables from finance lease	**1 100 802**	39 602	61 103	276 267	703 572	20 258	-
Loans and advances to customers	**13 366 816**	352 433	521 726	2 793 760	4 557 437	5 140 400	1060
Investments at amortised cost	**1 492 728**	1 401	12 838	168 846	638 756	670 887	-
Current tax assets	**10 076**	9 933	-	143	-	-	-
Investments in associates	**3 566**	-	-	-	-	-	3 566
Goodwill	**78 547**	-	-	-	-	-	78 547
Investment property	**19 411**	-	-	-	-	-	19 411
Right-of-use assets	**22 199**	29	58	602	42	-	21 468
Property, plant and equipment	**454 121**	30	61	274	1 997	9 094	442 665
Intangible assets	**79 290**	-	-	1	2 482	9 934	66 873
Deferred tax assets	**437**	-	-	-	437	-	-
Other assets	**105 081**	43 235	12 824	9 968	33 941	4 606	507
Total assets	**24 517 075**	**4 718 435**	**1 668 833**	**4 110 486**	**7 115 651**	**6 243 531**	**660 139**
Derivatives assets							
Trading:	33 013						
Outflow		(671 472)	(439 262)	(334 723)	(349 467)	-	-
Inflow		710 656	595 202	344 996	354 311	4 677	-
Hedge accounting:	446						
Outflow		(74 255)	(268 183)	(260 321)	-	-	-
Inflow		74 255	268 183	260 321	-	-	-
Total derivatives	**33 459**	**39 184**	**155 940**	**10 273**	**4 844**	**4 677**	**-**

Consolidated financial statements on which we have issued audit report dated 16 March 2023

In thousands of BGN	Carrying amount	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Without maturity
Liabilities							
Deposits from banks	**255 502**	243 464	-	-	12 038	-	-
Derivative financial instruments	**43 629**	5 751	6 796	27 271	3 682	129	-
Deposits from customers	**20 052 824**	17 998 522	752 099	1 247 651	54 552	-	-
Loans from banks and financial institutions	**203 554**	149 720	9	59	12 915	40 851	-
Current tax liabilities	**492**	172	51	269	-	-	-
Lease liabilities	**20 793**	883	1 239	3 541	14 099	1 031	-
Provisions	**83 462**	1 293	4 143	30 685	46 903	379	59
Deferred tax liabilities	**17 819**	-	-	-	17 819	-	-
Other liabilities	**140 842**	106 483	10 763	21 911	926	320	439
Total liabilities	**20 818 917**	18 506 288	775 100	1 331 387	162 934	42 710	498
Unused loan commitments	-	150 242	293 959	1 513 168	485 258	402 700	-
Total liabilities and commitments	**20 818 917**	**18 656 530**	**1 069 059**	**2 844 555**	**648 192**	**445 410**	**498**
Derivatives liabilities							
Trading:	30 680						
Outflow		(355 500)	(411 137)	(344 543)	(142 792)	(4 677)	-
Inflow		710 656	595 202	344 996	354 312	4 677	-
Hedge accounting:	12 949						
Outflow		-	(149 635)	-	-	-	-
Inflow		-	149 635	-	-	-	-
Total derivatives	**43 629**	**355 156**	**184 065**	**453**	**211 520**	-	-

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

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

- demand deposits from customers are expected to remain stable or increase;
- Residential and non-residential mortgage loans to individuals have average original contractual maturity of 23 years but as the main part of these loans are with equal annuity payments the average effective maturity is 14 years. In addition the customers more often take the advantage of full or partial early repayment option which according to the law is without penalty payment after the first year of the contract. For these reasons the average effective maturity of the loans is additionally decreased with up to 6 years in view of actual observed volume of earlier repayments during 2022.

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

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

(b) Market risk

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

Exposure to market risk is managed in accordance with risk limits set by the competent authority.

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

The Group holds trading assets for which it is able to manage the risk. As presented in the table below, the credit quality of the maximum credit exposure, based on Moody`s credit ratings, is good, therefore management believes that the exposure to market risk of the assets held for trading is not significant:

In thousands of BGN	**31-December-2022**	**31-December-2021**
Government bonds		
Rated Baa1	48 132	99 367
Rated Baa3	2 350	23 710
Rated Ba1	-	20 285
Total	**50 482**	**143 362**

(1) Interest rate risk

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

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

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

The Group manages the interest rate risk in its trading book and limits the risk level through defining limits for interest rate sensitivity (BPV limits) by currencies, time periods and issuers, as well as VaR (Value at Risk) limits.

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

Exposure to interest rate risk as of 31 December 2022

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	**52 188**	**-**	**-**	**-**	**-**	**5 745 128**	**5 797 316**
Fixed rate	703	-	-	-	-	-	703
Floating rate	51 485	-	-	-	-	-	51 485
Non-interest bearing	-	-	-	-	-	5 745 128	5 745 128
Trading financial assets	**-**	**2 113**	**74**	**38 412**	**9 883**	**-**	**50 482**
Fixed rate	-	2 113	74	38 412	9 883	-	50 482
Derivative financial instruments	**12 085**	**29 556**	**31 653**	**-**	**-**	**35 525**	**108 819**
Floating rate	12 085	29 556	31 653	-	-	-	73 294
Non-interest bearing	-	-	-	-	-	35 525	35 525
Investments at fair value through profit or loss	**-**	**-**	**-**	**-**	**-**	**3 502**	**3 502**
Non-interest bearing	-	-	-	-	-	3 502	3 502
Investments at fair value through other comprehensive income	**32 745**	**138 567**	**121 261**	**200 922**	**678 775**	**22 832**	**1 195 102**
Fixed rate	32 745	138 567	121 261	200 922	678 775	-	1 172 270
Non-interest bearing	-	-	-	-	-	22 832	22 832
Loans and advances to banks	**1 607**	**205 190**	**481 818**	**1 940 648**	**-**	**-**	**2 629 263**
Fixed rate	1 593	205 190	481 818	1 940 648	-	-	2 629 249
Floating rate	14	-	-	-	-	-	14
Non-interest bearing	-	-	-	-	-	-	-
Net receivables from finance lease	**42 454**	**69 413**	**306 061**	**339 186**	**603 511**	**-**	**1 360 625**
Fixed rate	5 332	8 590	38 253	43 241	77 840	-	173 256
Floating rate	37 122	60 823	267 808	295 945	525 671	-	1 187 369
Loans and advances to customers	**14 506 852**	**38 619**	**322 927**	**107 969**	**342 458**	**82 870**	**15 401 695**
Fixed rate	27 204	37 746	311 997	103 065	314 039	-	794 051
Floating rate	14 479 648	873	10 930	4 904	28 419	-	14 524 774
Non-interest bearing	-	-	-	-	-	82 870	82 870
Investments at amortised cost	**2 280**	**52 704**	**129 503**	**55 695**	**1 371 571**	**-**	**1 611 753**
Fixed rate	2 280	52 704	129 503	55 695	1 371 571	-	1 611 753
Total interest sensitive assets	**14 650 211**	**536 162**	**1 393 297**	**2 682 832**	**3 006 198**	**5 889 857**	**28 158 557**
Fixed rate	69 857	444 910	1 082 906	2 381 983	2 452 108	-	6 431 764
Floating rate	14 580 354	91 252	310 391	300 849	554 090	-	15 836 936
Non-interest bearing	-	-	-	-	-	5 889 857	5 889 857

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
Deposits from banks	**24 302**	**-**	**-**	**-**	**-**	**35 884**	**60 186**
Fixed rate	4 568	-	-	-	-	-	4 568
Floating rate	19 734	-	-	-	-	-	19 734
Non-interest bearing	-	-	-	-	-	35 884	35 884
Derivative financial instruments	**7 185**	**22 593**	**9 430**	**-**	**-**	**56 719**	**95 927**
Floating rate	7 185	22 593	9 430	-	-	-	39 208
Non-interest bearing	-	-	-	-	-	56 719	56 719
Deposits from customers	**22 168 734**	**588 103**	**1 078 050**	**30 245**	**14 735**	**22 928**	**23 902 795**
Fixed rate	1 584 292	588 103	1 078 050	30 245	14 735	-	3 295 425
Floating rate	20 584 442	-	-	-	-	-	20 584 442
Non-interest bearing	-	-	-	-	-	22 928	22 928
Loans from banks and financial institutions	**371 659**	**260 147**	**-**	**-**	**-**	**52 492**	**684 298**
Fixed rate	-	-	-	-	-	-	-
Floating rate	371 659	260 147	-	-	-	-	631 806
Non-interest bearing	-	-	-	-	-	52 492	52 492
Lease liabilities	**618**	**1 126**	**4 712**	**4 709**	**6 656**	**-**	**17 821**
Fixed rate	268	519	2 086	1 747	2 387	-	7 007
Floating rate	350	607	2 626	2 962	4 269	-	10 814
Subordinated debt	**-**	**-**	**-**	**-**	**225 431**	**-**	**225 431**
Fixed rate	-	-	-	-	-	-	-
Floating rate	-	-	-	-	225 431	-	225 431
Non-interest bearing	-	-	-	-	-	-	-
Total interest sensitive liabilities	**22 572 498**	**871 969**	**1 092 192**	**34 954**	**246 822**	**168 023**	**24 986 458**
Fixed rate	1 589 128	588 622	1 080 136	31 992	17 122	-	3 307 000
Floating rate	20 983 370	283 347	12 056	2 962	229 700	-	21 511 435
Non-interest bearing	-	-	-	-	-	168 023	168 023

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	**85 731**	**-**	**-**	**-**	**-**	**3 874 153**	**3 959 884**
Fixed rate	2 699	-	-	-	-	-	2 699
Floating rate	83 032	-	-	-	-	-	83 032
Non-interest bearing	-	-	-	-	-	3 874 153	3 874 153
Trading financial assets	**-**	**25 575**	**37 941**	**16 571**	**63 275**	**-**	**143 362**
Fixed rate	-	25 575	37 941	16 571	63 275	-	143 362
Derivative financial instruments	**3 240**	**6 828**	**259**	**-**	**-**	**23 132**	**33 459**
Floating rate	3 240	6 828	259	-	-	-	10 327
Non-interest bearing	-	-	-	-	-	23 132	23 132
Investments at fair value through profit or loss	**-**	**-**	**-**	**-**	**-**	**6 538**	**6 538**
Non-interest bearing	-	-	-	-	-	6 538	6 538
Investments at fair value through other comprehensive income	**-**	**379 556**	**32 366**	**291 246**	**1 002 935**	**19 494**	**1 725 597**
Fixed rate	-	379 556	32 366	291 246	1 002 935	-	1 706 103
Non-interest bearing	-	-	-	-	-	19 494	19 494
Loans and advances to banks	**304 018**	**641 930**	**769 460**	**199 753**	**-**	**-**	**1 915 161**
Fixed rate	304 018	641 930	769 460	199 753	-	-	1 915 161
Net receivables from finance lease	**38 329**	**61 153**	**276 492**	**286 701**	**438 127**	**-**	**1 100 802**
Fixed rate	5 126	7 671	35 080	37 099	58 506	-	143 482
Floating rate	33 203	53 482	241 412	249 602	379 621	-	957 320
Loans and advances to customers	**12 358 247**	**36 971**	**134 346**	**331 157**	**420 204**	**85 891**	**13 366 816**
Fixed rate	27 314	36 736	133 052	292 801	417 847	-	907 750
Floating rate	12 330 933	235	1 294	38 356	2 357	-	12 373 175
Non-interest bearing	-	-	-	-	-	85 891	85 891
Investments at amortised cost	**-**	**9 970**	**165 859**	**182 997**	**1 133 902**	**-**	**1 492 728**
Fixed rate	-	9 970	165 859	182 997	1 133 902	-	1 492 728
Total interest sensitive assets	**12 789 565**	**1 161 983**	**1 416 723**	**1 308 425**	**3 058 443**	**4 009 208**	**23 744 347**
Fixed rate	339 157	1 101 438	1 173 758	1 020 467	2 676 465	-	6 311 285
Floating rate	12 450 408	60 545	242 965	287 958	381 978	-	13 423 854
Non-interest bearing	-	-	-	-	-	4 009 208	4 009 208

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
Deposits from banks	**230 716**	**-**	**-**	**-**	**-**	**24 786**	**255 502**
Fixed rate	218 587	-	-	-	-	-	218 587
Floating rate	12 129	-	-	-	-	-	12 129
Non-interest bearing	-	-	-	-	-	24 786	24 786
Derivative financial instruments	**2 369**	**12 844**	**5 388**	**-**	**-**	**23 028**	**43 629**
Floating rate	2 369	12 844	5 388	-	-	-	20 601
Non-interest bearing	-	-	-	-	-	23 028	23 028
Deposits from customers	**18 014 925**	**727 725**	**1 240 680**	**36 232**	**18 325**	**14 937**	**20 052 824**
Fixed rate	1 797 508	727 725	1 240 680	36 232	18 325	-	3 820 470
Floating rate	16 217 417	-	-	-	-	-	16 217 417
Non-interest bearing	-	-	-	-	-	14 937	14 937
Loans from banks and financial institutions	**155 409**	**7 294**	**-**	**-**	**-**	**40 851**	**203 554**
Fixed rate	155 409	-	-	-	-	-	155 409
Floating rate	-	7 294	-	-	-	-	7 294
Non-interest bearing	-	-	-	-	-	40 851	40 851
Lease liabilities	**882**	**1 221**	**4 781**	**5 300**	**8 609**	**-**	**20 793**
Fixed rate	503	581	2 029	2 174	2 895	-	8 182
Floating rate	379	640	2 752	3 126	5 714	-	12 611
Total interest sensitive liabilities	**18 404 301**	**749 084**	**1 250 849**	**41 532**	**26 934**	**103 602**	**20 576 302**
Fixed rate	2 172 007	728 306	1 242 709	38 406	21 220	-	4 202 648
Floating rate	16 232 294	20 778	8 140	3 126	5 714	-	16 270 052
Non-interest bearing	-	-	-	-	-	103 602	103 602

The equity instruments measured at fair value through other comprehensive income (Note 21), are presented as non-interest bearing assets in the tables above.

The non-interest bearing deposits from customers include mostly deposits for guarantees, letters of credit, etc.

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

The Group manages the interest rate risk in the banking book (IRRBB) in accordance with the requirements of the European Banking Authority (EBA/GL/2018/02). The Bank measures the exposure to the IRRBB by calculating two main indicators – change in the net interest income (earning based indicator) and change in the economic value of equity (value-based indicator) under the interest rate scenarios specified in the EBA guidelines. They represent the sensitivity of DSK Bank`s earnings and equity to market interest rates changes. . In calculating the indicators the Group makes business assumptions, including product characteristics, behavioral characteristics, early repayment, valuation ratios and modelling of deposits. The Bank has approved a rsk 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 2022				
As at 31 December	2 178	(108 900)	87 410	(151 225)
31 December 2021				
As at 31 December	11 796	(23 882)	94 784	46 564

Interest rate benchmark reform

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

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

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

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

The exposure of the Group towards LIBOR benchmarks as of 31 December 2022 is the following:

Currency	Index	Type of exposure	Amount in original currency (`000)	Amount in BGN (`000)
USD	USD LIBOR	Corporate exposures	41 253	75 647
USD	USD LIBOR	Interest rate swaps	127 000*	232 881

*notional value

(2) *Exchange rate risk*

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

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

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

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

The statistics of the model for 2022 and 2021 are as follows:

In thousands of BGN	**2022**	**2021**
At 31 December	157	11
Average for the period	31	23
Maximum for the period	213	600
Minimum for the period	2	1

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

For monetary assets and liabilities denominated in foreign currencies that are not hedged, the Group manages the net exposure by buying and selling foreign currencies at spot rates when considered appropriate, keeping approved limits for open currency position. Exposure to exchange rate risk arising from transactions, to which the Group applies hedge accounting according to IFRS 9, is not significant. Analysis of the hedged items and hedging instruments is provided in Note 17.

(c) Credit risk

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

Significant increase in credit risk

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

In the context of the war in Ukraine crisis the identification and measurement of credit risk had to address the specific situation of clients and their capabilities to replace respective clients or suppliers from the area of the military conflict. DSK Bank monitors 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 of a given loan, 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). A significant increase of credit risk may be determined based on the behavior model which uses up-to-date information on account history, status of the loans in the Central Credit Registry, etc.).

As of 31 December 2022, the management determined the corporate segment exposures with significant increase in credit risk due to one or more of the following major factors:

- ✓ suspended by Gasprom gas supplies for Bulgaria and other countries where significant suppliers or buyers which are clients of the Bank operate;
- ✓ disruptions in the supply chains;
- ✓ increase in the prices of resources and energy, together with a case-by-case assessment of the borrower's financial position (including rating assessment of the client);
- ✓ increase in interest rates (mainly in corporate exposures) together with a case-by-case assessment of the borrower's financial position and its capability to keep serving the debt without concessions from the side of the Bank.

In the retail segment the assessment is based on behavioral models.

Unlikeliness-to-pay assessment

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

The Group applies the new definition of default in accordance with EBA/ GL/2016/07; EBA/RTS/2016/06; (EU) 2018/1845 as of 1 January 2021 As of 1 January 2021 the objective criterion for default is based on the number of consecutive days for which there is a past due amount above a materiality threshold. Apart from the objective criterion for the number of consecutive days and a past due amount above a materiality threshold, in accordance with the guidance of EBA, the Bank performs an unlikeliness-to-pay assessment based on additional factors (distraints, restructuring with a significant change in NPV of an asset, individual judgement in case of corporate exposures). As a result of a review of the effectiveness of the criterion based on the presence of distraints on accounts of individuals, in July 2022 DSK Bank made the criterion more precise and thus its effectiveness (measured through the share of loans classified as default which consequently reach 90 consecutive days overdue for a significant amount) increased almost 7 times (up to ~70%). The change had an effect mainly in October when consumer loans for BGN 26 mln in total and mortgage loans for approx.. BGN 21 mln in total were transferred from exposures in default to performing exposures.

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

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

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

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

- Application PD models

The purpose of the 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 Businss segment;
  - Corporate clients- non-standard SMEs and corporate customers.

- Behavioural PD model

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

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

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

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

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

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

- Expert model

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

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

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

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

The key inputs used for measuring ECL are:

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

These figures are generally derived from internally developed statistical models within OTP Group and historical data and they are adjusted to reflect probability-weighted forward-looking information.

PD/PL is an estimate of the likelihood of default or loss over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical migration models, and assessed using tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD/PL.

LGD/LGL is an estimate of the financial loss arising on the fact that a receivable is classified as receivable in default or loss. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral and other sources of repayment. The LGD/LGL models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realisation of collateral, cross-collateralisation and seniority of claim, cost of realisation of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

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

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

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 2022 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 2021, the most optimistic scenario weight increased from 50% to 60% as at 31 December 2022. The weight of the severe stress scenario remained unchanged at 20%.

- In case only the optimistic scenario would apply, ECL would be 14.4% lower than the actual for 31 December 2022.
- In case only the baseline stress scenario would apply, ECL would be 7.2% lower than the actual for 31 December 2022.
- In case only the severe stress scenario would apply, ECL would be 35.9% higher than the actual for 31 December 2022.

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 in correlation towards the financial asset receivable if it has an impact on the probability of a default occurring (for example, loan-to-value ratios).

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

Credit quality

The Group monitors credit risk per class of financial instrument.

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

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

	31-December-2022	**31-December-2021**
In thousands of BGN		
Concentration by sector		
Central bank	4 830 982	3 064 020
Other banks	2 691 742	2 005 567
Total	**7 522 724**	**5 069 587**
Concentration by region		
Europe	7 507 594	5 050 583
North America	14 243	6 910
Asia	355	11 753
Australia	532	341
Total	**7 522 724**	**5 069 587**

The concentration of credit risk as of 31 December 2022 is represented by the carrying amount of the largest exposure to one commercial bank, decreased with the collateral received which amounts to BGN 1 485 918 thousand (2021: 682 628 thousand).

Loans and advances to customers at amortised cost

In thousands of BGN	31-December-2022	31-December-2021
Concentration by sector		
Retail:		
Mortgages	4 826 539	4 122 632
Other retail loans	4 525 101	4 088 568
Corporate:		
Agriculture and forestry	352 331	308 847
Construction	284 019	203 762
Financial and insurance activities	70 033	43 614
Hotels and catering	227 721	279 509
Manufacturing	2 141 900	1 849 743
Real estate activities	645 548	513 983
State Budget	53 956	55 591
Trade and services	1 210 566	1 219 045
Transport and communications	481 394	373 579
Other industry sectors	582 587	307 943
Total	**15 401 695**	**13 366 816**
Concentration by region		
Europe	15 372 386	13 343 520
North America	11 319	7 612
Asia	13 120	11 379
Africa	4 439	3 922
Australia	102	281
South America	329	102
Total	**15 401 695**	**13 366 816**

As of 31 December 2022, 5% of the carrying amount of loans to corporate clients is concentrated in one client (2021: 4%).

The exposure to the top 5 retail clients amounts to 0.15% and 0.18% of the carrying amount of loans to clients in the retail segment as of 31 December 2022 and 2021, respectively. Such exposures are fully collateralised.

Finance lease receivables

In thousands of BGN	31-December-2022	31-December-2021
Concentration by sector		
Retail:		
Households	290 723	241 723
Corporate:		
Agriculture and forestry	139 522	111 897
Construction	97 392	88 257
Financial activities	4 027	1 827
Hotels and catering	7 798	5 396
Manufacturing	116 154	82 515
Real estate activities	7 238	5 758
Trade and services	252 014	212 774
Transport and communications	351 117	276 001
Administrative and Support Service Activities	65 813	49 167
Other industry sectors	28 827	25 487
Total	**1 360 625**	**1 100 802**
Concentration by region		
Europe	1 360 625	1 100 802
Total	**1 360 625**	**1 100 802**

As of 31 December 2022 the largest exposure to one customer has a carrying amount of BGN 46 020 thousand (2021: 32 158 thousand), which represents 3% of the total net receivables under finance leases (2021: 3%).

Investments in securities

In thousands of BGN	31-December-2022	31-December-2021
Concentration by sector		
Investments in instruments measured at fair value through other comprehensive income		
Government bonds	1 172 270	1 706 103
Equity instruments	22 832	19 494
Investments in instruments mandatory measured at fair value through profit or loss		
Equity instruments	905	902
Corporate debt securities	2 597	5 636
Investments in instruments measured at amortized cost		
Government bonds	1 611 753	1 492 728
Total	**2 810 357**	**3 224 863**

Concentration by region

Europe	2 538 279	2 949 883
North America	125 120	127 433
Asia	146 958	147 547
Total	**2 810 357**	**3 224 863**

The carrying amount of the Group's investments in securities represents the assets' maximum exposure to credit risk.

As of 31 December 2022 and 2021 the government bonds include BGN 1 397 839 thousand and BGN 1 711 155 thousand, respectively, issued by one issuer.

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

Loan commitments and financial guarantee contracts

In thousands of BGN	31-December-2022	31-December-2021
Concentration by sector		
Retail:		
Collateralised by mortgage	108 894	100 522
Other retail loans	387 734	360 932
Corporate:		
Agriculture and forestry	90 241	69 652
Construction	331 221	285 660
Financial and insurance activities	29 885	31 843
Hotels and catering	13 888	17 534
Manufacturing	1 020 538	1 012 518
Real estate activities	184 515	245 677
State Budget	96 885	64 683
Trade and services	1 059 753	883 087
Transport and communications	71 575	152 838
Other industry sectors	75 947	105 656
Total	**3 471 076**	**3 330 602**
Concentration by region		
Europe	3 462 494	3 329 796
North America	39	223
Asia	8 364	457
Africa	81	94
Oceania	24	24
South America	74	8
Total	**3 471 076**	**3 330 602**

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 Group's credit risk exposure per class of financial asset, stage and internal credit rating used by the Group for monitoring and management of credit risk, without considering the effects of any collateral or other credit enhancements. Unless specifically indicated, financial assets are presented at their carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively. Municipalities and public-sector entities (PSE) are reported separately as they are assessed by means of expert models different from the statistical models used for the rest of the clients.

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

	31-December-2022			**31-December-2021**
In thousands of BGN	**Stage 1**	**Stage 2**	**Total**	**Stage 1**
Grades 1-3: Low risk	4 864 976	-	4 864 976	3 816 825
Grades 4-6: Moderate risk	2 670 781	-	2 670 781	1 262 894
Grades 7-8: Increased risk	301	288	589	146
Grade 9: High risk	7 175	-	7 175	-
Total gross carrying amount	**7 543 233**	**288**	**7 543 521**	**5 079 865**
Loss allowance	(20 789)	(8)	(20 797)	(10 278)
Carrying amount	**7 522 444**	**280**	**7 522 724**	**5 069 587**

Loans and advances to customers at amortised cost

	31-December-2022				
In thousands of BGN	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Grades 1-3: Low risk	6 179 152	71 717	-	618	6 251 487
Grades 4-6: Moderate risk	5 518 970	374 175	-	706	5 893 851
Grades 7-8: Increased risk	545 474	499 485	-	713	1 045 672
Grade 9: High risk	3 070	154 301	-	979	158 350
Grade 10: Default	-	-	553 793	27 569	581 362
Municipality, PSE	57 674	-	-	-	57 674
Not rated	1 968 366	177 878	-	61	2 146 305
Total gross carrying amount	**14 272 706**	**1 277 556**	**553 793**	**30 646**	**16 134 701**
Loss allowance	(153 339)	(213 391)	(346 676)	(19 600)	(733 006)
Carrying amount	**14 119 367**	**1 064 165**	**207 117**	**11 046**	**15 401 695**

31-December-2021

In thousands of BGN	Stage 1	Stage 2	Stage 3	POCI	Total
Grades 1-3: Low risk	4 324 723	18 757	-	283	4 343 763
Grades 4-6: Moderate risk	5 020 125	511 862	-	1 023	5 533 010
Grades 7-8: Increased risk	718 928	664 798	-	1 267	1 384 993
Grade 9: High risk	3 354	134 103	-	818	138 275
Grade 10: Default	-	-	916 260	37 373	953 633
Municipality, PSE	56 104	2 103	-	-	58 207
Not rated	1 903 608	69 165	-	221	1 972 994
Total gross carrying amount	**12 026 842**	**1 400 788**	**916 260**	**40 985**	**14 384 875**
Loss allowance	(126 814)	(221 058)	(650 866)	(19 321)	(1 018 059)
Carrying amount	**11 900 028**	**1 179 730**	**265 394**	**21 664**	**13 366 816**

Finance lease receivables

31-December-2022

In thousands of BGN	Stage 1	Stage 2	Stage 3	POCI	Total
Grades 1-3: Low risk	984 534	58 945	-	-	1 043 479
Grades 4-6: Moderate risk	266 309	36 001	511	-	302 821
Grade 10: Default	-	-	48 152	2 187	50 339
Total gross carrying amount	**1 250 843**	**94 946**	**48 663**	**2 187**	**1 396 639**
Loss allowance	(6 756)	(5 933)	(21 408)	(1 917)	(36 014)
Carrying amount	**1 244 087**	**89 013**	**27 255**	**270**	**1 360 625**

31-December-2021

In thousands of BGN	Stage 1	Stage 2	Stage 3	POCI	Total
Grades 1-3: Low risk	759 368	48 723	-	-	808 091
Grades 4-6: Moderate risk	222 141	71 058	803	-	294 002
Grade 10: Default	-	-	28 801	2 954	31 755
Total gross carrying amount	**981 509**	**119 781**	**29 604**	**2 954**	**1 133 848**
Loss allowance	(7 083)	(14 949)	(9 163)	(1 851)	(33 046)
Carrying amount	**974 426**	**104 832**	**20 441**	**1 103**	**1 100 802**

Investments in securities measured at fair value through other comprehensive income

In thousands of BGN	31-December-2022 Stage 1	Stage 3	Total	31-December-2021 Stage 1
Grades 1-3: Low risk	822 890	-	822 890	1 367 699
Grades 4-6: Moderate risk	366 032	-	366 032	357 898
Grade 10: Default	-	6 180	6 180	-
Total fair value	**1 188 922**	**6 180**	**1 195 102**	**1 725 597**
Loss allowance	(4 293)	(2 111)	(6 404)	(3 088)

Investments in securities measured at amortized cost

In thousands of BGN	31-December-2022 Stage 1	Stage 3	Total	31-December-2021 Stage 1
Grades 1-3: Low risk	1 141 959	-	1 141 959	1 251 766
Grades 4-6: Moderate risk	428 687	-	428 687	243 837
Grade 10: Default	-	70 931	70 931	-
Total gross carrying amount	**1 570 646**	**70 931**	**1 641 577**	**1 495 603**
Loss allowance	(5 592)	(24 232)	(29 824)	(2 875)
Total carrying amount	**1 565 054**	**46 699**	**1 611 753**	**1 492 728**

Loan commitments and financial guarantee contracts

In thousands of BGN	31-December-2022 Stage 1	Stage 2	Stage 3	Total
Grades 1-3: Low risk	1 283 510	1 529	-	1 285 039
Grades 4-6: Moderate risk	1 474 758	100 292	-	1 575 050
Grades 7-8: Increased risk	104 578	8 973	-	113 551
Grade 9: High risk	7	541	-	548
Grade 10: Default	-	-	1 967	1 967
Municipality, PSE	96 973	-	-	96 973
Not rated	391 112	6 836	-	397 948
Total amount committed	**3 350 938**	**118 171**	**1 967**	**3 471 076**
Loss allowance	(34 879)	(10 998)	(311)	(46 188)

In thousands of BGN	31-December-2021 Stage 1	Stage 2	Stage 3	Total
Grades 1-3: Low risk	1 202 495	4 453	-	1 206 948
Grades 4-6: Moderate risk	1 260 300	41 304	-	1 301 604
Grades 7-8: Increased risk	279 599	19 751	-	299 350
Grade 9: High risk	276	3 452	-	3 728
Grade 10: Default	-	-	11 201	11 201
Municipality, PSE	63 953	79	-	64 032
Not rated	441 803	1 936	-	443 739
Total amount committed	**3 248 426**	**70 975**	**11 201**	**3 330 602**
Loss allowance	(23 714)	(4 590)	(3 997)	(32 301)

The next table summarizes the loss allowance and provisions by type of exposure as of 31 December 2022 and 2021:

Loss allowance or provision by type of exposure

In thousands of BGN	**31-December-2022**	**31-December-2021**
Cash at banks	(2 270)	(365)
Loans and advances to banks at amortised cost	(18 527)	(9 913)
Loans and advances to customers at amortised cost	(733 006)	(1 018 059)
Receivables from finance lease	(36 014)	(33 046)
Securities at fair value through other comprehensive income and securities at amortised cost	(9 885)	(5 963)
Loan commitments and financial guarantee contracts	(46 188)	(32 301)
Total	**(845 890)**	**(1 099 647)**

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 2022 and 2021.

Movement of the gross carrying amount and expected credit loss of cash at banks and loans and advances to banks at amortised cost

	2022						2021	
In thousands of BGN	**Stage 1 Gross carrying amount**	**ECL**	**Stage2 Gross carrying amount**	**ECL**	**Total Gross carrying amount**	**ECL**	**Stage1 Gross carrying amount**	**ECL**
As at 1 January	**5 079 865**	**(10 278)**	**-**	**-**	**5 079 865**	**(10 278)**	**5 466 111**	**(5 969)**
Transfer to stage 2	(274)	2	274	(2)	**-**	**-**	-	-
Increases due to change in credit risk	-	-	-	(6)	**-**	**(6)**	-	-
New financial assets originated or purchased	4 390 902	(20 376)	14	-	**4 390 916**	**(20 376)**	2 097 412	(10 226)
Financial assets that have been derecognised	(1 927 260)	9 913	-	-	**(1 927 260)**	**9 913**	(2 483 658)	5 969
Foreign exchange differences	-	(50)	-	-	**-**	**(50)**	-	(52)
As at 31 December	**7 543 233**	**(20 789)**	**288**	**(8)**	**7 543 521**	**(20 797)**	**5 079 865**	**(10 278)**

Movement of the gross carrying amount and expected credit loss of loans and advances to customers at amortised cost

	2022									
	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	**12 026 842**	**(126 814)**	**1 400 788**	**(221 058)**	**916 260**	**(650 866)**	**40 985**	**(19 321)**	**14 384 875**	**(1 018 059)**
Transfer to stage 1	317 587	(38 906)	(290 102)	27 924	(27 485)	10 982	-	-	-	-
Transfer to stage 2	(297 150)	3 802	377 616	(43 064)	(80 466)	39 262	-	-	-	-
Transfer to stage 3	(56 977)	790	(81 433)	20 438	138 410	(21 228)	-	-	-	-
Increases due to change in credit risk	-	(20 010)	-	(59 762)	-	(101 249)	-	(6 923)	-	(187 944)
Decreases due to change in credit risk	-	63 495	-	66 001	-	33 677	-	3 718	-	166 891
Write-offs	-	-	-	-	(350 753)	350 753	(2 814)	2 814	(353 567)	353 567
New financial assets purchased or originated	5 721 086	(57 641)	266 262	(25 172)	88 940	(40 075)	5 321	-	6 081 609	(122 888)
Financial assets that have been derecognised	(3 438 682)	21 945	(395 575)	21 302	(131 113)	32 068	(12 846)	112	(3 978 216)	75 427
As at 31 December	**14 272 706**	**(153 339)**	**1 277 556**	**(213 391)**	**553 793**	**(346 676)**	**30 646**	**(19 600)**	**16 134 701**	**(733 006)**

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	**10 602 209**	**(103 503)**	**1 481 442**	**(190 358)**	**1 000 933**	**(693 390)**	**63 954**	**(34 196)**	**13 148 538**	**(1 021 447)**
Transfer to stage 1	360 460	(45 638)	(348 533)	40 401	(11 927)	5 237	-	-	-	-
Transfer to stage 2	(474 339)	4 988	513 329	(22 521)	(38 990)	17 533	-	-	-	-
Transfer to stage 3	(58 334)	654	(114 779)	19 807	173 113	(20 461)	-	-	-	-
Increases due to change in credit risk	-	(10 003)	-	(88 948)	-	(225 894)	-	(5 060)	-	(329 905)
Decreases due to change in credit risk	-	60 531	-	27 626	-	113 058	-	16 100	-	217 315
Write-offs	-	-	-	-	(133 344)	133 344	-	-	(133 344)	133 344
New financial assets purchased or originated	5 084 127	(51 612)	231 682	(31 644)	84 790	(35 697)	2 503	-	5 403 102	(118 953)
Financial assets that have been derecognised	(3 487 281)	17 769	(362 353)	24 579	(158 315)	55 404	(25 472)	3 835	(4 033 421)	101 587
As at 31 December	**12 026 842**	**(126 814)**	**1 400 788**	**(221 058)**	**916 260**	**(650 866)**	**40 985**	**(19 321)**	**14 384 875**	**(1 018 059)**

Movement of the gross carrying amount and expected credit loss of finance lease receivables

	2022									
	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	**981 509**	**(7 083)**	**119 781**	**(14 949)**	**29 604**	**(9 163)**	**2 954**	**(1 851)**	**1 133 848**	**(33 046)**
Transfer to stage 1	47 160	(4 748)	(38 311)	2 744	(8 849)	2 004	-	-	-	-
Transfer to stage 2	(45 615)	384	48 822	(1 310)	(3 207)	926	-	-	-	-
Transfer to stage 3	(5 462)	51	(35 771)	9 028	41 233	(9 079)	-	-	-	-
Increases due to change in credit risk	-	-	-	-	-	(4 471)	-	(485)	-	(4 956)
Decreases due to change in credit risk	-	5 044	-	174	-	305	-	-	-	5 523
Write-offs	-	-	-	-	(636)	636	(419)	419	(1 055)	1 055
New financial assets originated or purchased	434 228	(3 655)	3 753	(1 808)	(5 192)	(3 701)	(220)	-	432 569	(9 164)
Financial assets that have been derecognised	(160 977)	3 251	(3 328)	188	(4 290)	1 135	(128)	-	(168 723)	4 574
As at 31 December	**1 250 843**	**(6 756)**	**94 946**	**(5 933)**	**48 663**	**(21 408)**	**2 187**	**(1 917)**	**1 396 639**	**(36 014)**

	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	**863 313**	**(6 132)**	**115 928**	**(9 395)**	**32 912**	**(11 345)**	**7 747**	**(2 989)**	**1 019 900**	**(29 861)**
Transfer to stage 1	67 522	(7 463)	(59 587)	4 525	(7 935)	2 938	-	-	-	-
Transfer to stage 2	(69 822)	649	72 013	(1 284)	(2 191)	635	-	-	-	-
Transfer to stage 3	(6 899)	81	(8 523)	1 135	15 422	(1 216)	-	-	-	-
Write-offs	-	-	-	-	-	-	(752)	752	(752)	752
New financial assets originated or purchased	466 478	(3 656)	29 645	(2 459)	4 631	(1 652)	-	-	500 754	(7 767)
Financial assets that have been derecognised	(339 083)	9 438	(29 695)	(7 471)	(13 235)	1 477	(4 041)	386	(386 054)	3 830
As at 31 December	**981 509**	**(7 083)**	**119 781**	**(14 949)**	**29 604**	**(9 163)**	**2 954**	**(1 851)**	**1 133 848**	**(33 046)**

Movement of the fair value and expected credit loss of investments in securities measured at fair value through other comprehensive income

	2022						**2021**	
	Stage 1		**Stage 3**		**Total**		**Stage 1**	
	Fair value	**ECL**	**Fair value**	**ECL**	**Fair value**	**ECL**	**Fair value**	**ECL**
In thousands of BGN								
As at 1 January	**1 725 597**	**(3 088)**	-	-	**1 725 597**	**(3 088)**	**2 002 223**	**(3 575)**
Transfer to stage 3	(7 371)	10	7 371	(10)	-	-	-	-
Increases due to change in credit risk	-	(1 915)	-	(2 101)	-	**(4 016)**	-	(230)
Decreases due to change in credit risk	-	53	(1 191)	-	**(1 191)**	**53**	-	288
Fair value net change	(120 544)	-	-	-	**(120 544)**	-	36 090	-
New financial assets originated or purchased	3 162	-	-	-	**3 162**	-	652 784	(172)
Financial assets that have been derecognised	(411 922)	647	-	-	**(411 922)**	**647**	(965 500)	601
As at 31 December	**1 188 922**	**(4 293)**	**6 180**	**(2 111)**	**1 195 102**	**(6 404)**	**1 725 597**	**(3 088)**

Movement of the gross carrying amount and expected credit loss of investments in securities carried at amortised cost

	2022						2021	
	Stage 1		Stage 3		Total		Stage 1	
In thousands of BGN	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
As at 1 January	**1 495 603**	**(2 875)**	**-**	**-**	**1 495 603**	**(2 875)**	**579 231**	**(1 136)**
Transfer to stage 3	(68 788)	95	68 788	(95)	-	-	-	-
Increases due to change in credit risk	-	(2 311)	-	(24 137)	-	(26 448)	-	(158)
Decreases due to change in credit risk	-	113	-	-	-	113	-	121
Net change in the amortised cost	13 010	-	2 143	-	15 153	-	29 227	(51)
New financial assets originated or purchased	306 935	(899)	-	-	306 935	(899)	905 615	(1 651)
Financial assets that have been derecognised	(176 114)	285	-	-	(176 114)	285	(18 470)	-
As at 31 December	**1 570 646**	**(5 592)**	**70 931**	**(24 232)**	**1 641 577**	**(29 824)**	**1 495 603**	**(2 875)**

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

	2022							
	Stage 1		Stage 2		Stage 3		Total	
In thousands of BGN	Outstanding exposure	ECL	Outstanding exposure	ECL	Outstanding exposure	ECL	Outstanding exposure	ECL
As at 1 January	**3 248 426**	**(23 714)**	**70 975**	**(4 590)**	**11 201**	**(3 997)**	**3 330 602**	**(32 301)**
Transfer to stage 1	30 982	(4 150)	(22 373)	1 223	(8 609)	2 927	-	-
Transfer to stage 2	(128 927)	1 144	129 391	(1 274)	(464)	130	-	-
Transfer to stage 3	(8 535)	76	(1 092)	48	9 627	(124)	-	-
Increases due to change in credit risk	-	(11 519)	-	(8 355)	-	(125)	-	(19 999)
Decreases due to change in credit risk	-	11 664	-	2 070	-	117	-	13 851
New loan commitments originated or purchased	1 789 757	(12 839)	94 353	(1 445)	184	(14)	1 884 294	(14 298)
Financial assets that have been derecognised	(1 580 765)	4 459	(153 083)	1 325	(9 972)	775	(1 743 820)	6 559
As at 31 December	**3 350 938**	**(34 879)**	**118 171**	**(10 998)**	**1 967**	**(311)**	**3 471 076**	**(46 188)**

2021

In thousands of BGN	Stage 1 Outstanding exposure	ECL	Stage 2 Outstanding exposure	ECL	Stage 3 Outstanding exposure	ECL	Total Outstanding exposure	ECL
As at 1 January	**3 343 318**	**(27 691)**	**89 259**	**(5 432)**	**9 505**	**(4 040)**	**3 442 082**	**(37 163)**
Transfer to stage 1	42 683	(2 573)	(41 394)	2 146	(1 289)	427	-	-
Transfer to stage 2	(54 024)	320	55 212	(807)	(1 188)	487	-	-
Transfer to stage 3	(2 113)	14	(368)	25	2 481	(39)	-	-
Increases due to change in credit risk	-	(3 793)	-	(2 035)	-	(607)	-	(6 435)
Decreases due to change in credit risk	-	12 458	-	2 489	-	189	-	15 136
New loan commitments originated or purchased	1 718 776	(9 483)	39 190	(2 001)	8 273	(2 573)	1 766 239	(14 057)
Financial assets that have been derecognised	(1 800 214)	7 034	(70 924)	1 025	(6 581)	2 159	(1 877 719)	10 218
As at 31 December	**3 248 426**	**(23 714)**	**70 975**	**(4 590)**	**11 201**	**(3 997)**	**3 330 602**	**(32 301)**

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-2022		31-December-2021	
In thousands of BGN	**Gross carrying amount**	**Loss allowance**	**Gross carrying amount**	**Loss allowance**
0-30 days	15 684 474	(443 751)	13 597 828	(441 395)
31-60 days	81 433	(28 598)	90 231	(31 182)
61-90 days	39 001	(16 775)	70 463	(30 147)
91-180 days	54 209	(30 443)	62 300	(33 329)
More than 181 days	275 584	(213 439)	564 053	(482 006)
Total	**16 134 701**	**(733 006)**	**14 384 875**	**(1 018 059)**

Modified and forborne loans

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

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

In thousands of BGN	31-December-2022	31-December-2021
Amortised cost before modification of financial assets modified during the period	81 553	343 059
Amortised cost after modification of financial assets modified during the period	92 971	329 485

The tables below show the gross carrying amount of previously modified financial assets for which loss allowance has changed to 12mECL measurement during the period:

31-December-2022	**Gross carring amount**	**Corresponding ECL**
In thousands of BGN		
Facilities that have cured since modification and are now measured using12mECL (Stage 1)	12 377	73
Facilities that reverted to (Stage 2/3) LTECL having once cured	33 722	12 377

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

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

31-December-2022		**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	**7 651 033**	193 348	6 091	**199 439**	44 088	10 939	**55 027**	**254 466**	**3.33%**
Consumer lending	**4 866 356**	20 026	53 941	**73 967**	40 078	111 019	**151 097**	**225 064**	**4.62%**
Residential mortgages	**4 941 964**	37 462	7 794	**45 256**	80 683	18 432	**99 115**	**144 371**	**2.92%**
Total	**17 459 353**	**250 836**	**67 826**	**318 662**	**164 849**	**140 390**	**305 239**	**623 901**	**10.87%**

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	**4 683 631**	24 805	44 886	**69 691**	87 907	120 894	**208 801**	**278 492**	**5.95%**
Residential mortgages	**4 284 033**	41 296	7 548	**48 844**	103 389	20 449	**123 838**	**172 682**	**4.03%**
Total	**15 421 046**	**306 073**	**58 293**	**364 366**	**253 898**	**155 855**	**409 753**	**774 119**	**14.98%**

The forbearance ratio is calculated as total forborne loans divided by the gross carrying amount of loans and advances to customers.

31-December-2022	**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	199 439	55 027	**254 466**	51 806	35 778	**87 584**
Consumer lending	73 967	151 097	**225 064**	23 114	97 008	**120 122**
Residential mortgages	45 256	99 115	**144 371**	5 091	54 666	**59 757**
Total	**318 662**	**305 239**	**623 901**	**80 011**	**187 452**	**267 463**

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	208 801	**278 492**	20 422	154 055	**174 477**
Residential mortgages	48 844	123 838	**172 682**	6 523	70 970	**77 493**
Total	**364 366**	**409 753**	**774 119**	**93 725**	**264 403**	**358 128**

Mortgage lending

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

	31-December-2022		31-December-2021	
In thousands of BGN	**Gross carrying amount**	**Loss allowance**	**Gross carrying amount**	**Loss allowance**
LTV ratio				
Less than 50%	884 758	(4 884)	621 285	(5 748)
51-70%	1 239 757	(7 203)	907 456	(9 294)
71-90%	1 601 864	(9 412)	1 531 384	(16 097)
91-100%	723 321	(3 847)	660 995	(5 973)
More than 100%	346 673	(3 879)	354 342	(5 266)
Total	**4 796 373**	**(29 225)**	**4 075 462**	**(42 378)**

Credit impaired - mortgage lending

	31-December-2022		31-December-2021	
In thousands of BGN	**Gross carrying amount**	**Loss allowance**	**Gross carrying amount**	**Loss allowance**
LTV ratio				
Less than 50%	35 527	(16 967)	45 231	(21 321)
51-70%	33 806	(15 128)	43 957	(19 949)
71-90%	24 945	(12 494)	47 655	(22 634)
91-100%	7 443	(3 899)	14 082	(7 694)
More than 100%	43 869	(37 711)	57 646	(47 425)
Total	**145 590**	**(86 199)**	**208 571**	**(119 023)**

Loan commitments - Mortgage lending

In thousands of BGN	31-December-2022 Amount committed	31-December-2022 Loss allowance	31-December-2021 Amount committed	31-December-2021 Loss allowance
LTV ratio				
Less than 50%	13 776	(47)	12 837	(72)
51-70%	10 176	(33)	7 082	(12)
71-90%	9 431	(34)	7 902	(21)
91-100%	5 915	(24)	3 440	(2)
More than 100%	69 596	(388)	69 261	(485)
Total	**108 894**	**(526)**	**100 522**	**(592)**

Assets obtained by taking possession of collateral

In 2022 the Group acquired real estate, collateral for loans amounting to BGN 4 550 thousand (2021: BGN 2 534 thousand). The Group'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 Group's policy, and capped to the gross carrying amount of the respective loans collateralised, as well as the amortised cost of loans that have no collateral.

Loans and advances to banks and customers by type of collateral

In thousands of BGN	31-December-2022	31-December-2021
Secured by mortgages	5 442 165	4 900 485
Cash collateral	60 941	67 795
Government securities	416 618	219 386
Other types of collateral*	7 533 709	7 173 085
Without collateral	10 224 789	7 103 989
Total	**23 678 222**	**19 464 740**

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

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

Repurchase agreements

	31-December-2022		31-December-2021	
	Carrying amount	**Collateral**	**Carrying amount**	**Collateral**
In thousands of BGN				
Advances to banks	416 618	442 736	235 711	222 840
Total	**416 618**	**442 736**	**235 711**	**222 840**

(d) Operational risk

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

The management of operational risk at the Group is coordinated by Operational Risk Management Committee (ORMC), which is a permanent consultative body subordinated to the Management Board (MB) and involves the heads of the major units of Group'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 operational decisions are taken that are not assigned to the competence of the Management Board or other bodies and measures for mitigation/elimination of operational risks, are planned. 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 ORMC are then forwarded to the MB of the Group with a proposal for decisions to be taken based on these reports that are within its powers.

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

The Group has a system for identification and management of operational risk designed and implemented according to the OTP Bank model. It operates by gathering data for the operational events occurred within the Group, analysis of the potential consequences from occurrence of future events and reporting to Management about the level of operational risk on a regular basis. The information is declared by the so-called "process owners", who are employees at managerial positions at the Head office, in the branch network and at the Bank's subsidiaries. These employees are responsible for the management of operational risk in their units, following the decentralized approach of operational risk management in OTP Group.

Potential risks shall be reviewed as part of the business processes and for this reason they shall have to be identified in the self-assessment of the Group's units, these risks shall be classified on the basis of the standardized taxonomy of operational risks annually. The methodology for identification of potential risks is based on a decentralized assessment performed by experts in the various sections/ units of the Group, who are supported by the expertise of the Operational Risk Management Section.

As part of this process, the so-called scenario analyses are prepared, aimed to evaluate the potential effects on the financial position of the Group and the Group's processes, at a certain change in the risk factors associated with probable occurrence of an event with catastrophic consequences.

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

The Group has a Business Continuity Plan for reaction in the event of unexpected circumstances, which purpose is to guarantee the recovery for the most important business processes to the preliminary defined level based on the Group's needs. The Plan's efficiency is tested annually in order to determine the readiness of the Group to respond in times of crisis and to ensure continuity of the Group's operations. The test results are reported to the MB of the Group.

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 Group 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 Section for further evaluation and analysis. For the preparation of the evaluation, the Risk Self-Assessment Forms shall be used. In cases when IT systems are implemented, the assessment shall be made by the unit(s) which has (have) defined the business requirements of the development.

The National Bank of Hungary and Bulgarian National Bank Joint Decision which approved the Group to apply the Advanced Measurement Approach for the capital calculation purposes on the individual and also on the consolidated basis has been in force since 31 March 2014. On its ground, the required regulatory capital for operational risk is calculated centrally by OTP Banking Group, and its adequacy is verified annually in the process of the Internal Capital Adequacy Analysis. In addition, an internal methodology for performing stress tests has been developed and applied, which assesses the adequacy of the allocated capital for operational risk of the Group.

Annually, the Group 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 Group 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 the annual Supervisory Review and Evaluation Process (SREP), 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 2022 in DSK Banking Group, 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.

(e) Capital Management

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

(1) Regulatory capital

The Group's regulatory capital as at 31 December 2022 and 31 December 2021 is represented by the Tier I capital which consists of the following major elements:

- ordinary share capital;
- regulatory and other reserves;
- deductions for intangible assets adjusted with the accumulated prudential amortization of software and other regulatory adjustments relating to items that are included in equity or assets but are treated differently for capital adequacy purposes.

In addition, the Group adds to the Tier I capital part of the expected credit loss provisions in order to mitigate the impact of the IFRS 9 implementation. This is a temporary measure introduced by Decision of the BNB Management Board from 15 May 2020 which expires on 31 December 2024.

CRD IV defines the scope of consolidation for regulatory purposes.

- All entities within the scope of the these consolidated financial statements (see also Note 1(i)3) are consolidated for regulatory purposes under the full consolidation method;
- The associated company Cash Services Company AD is valued under the equity method.

According to Art. 468 of Regulation (EU) 575/2013, when calculating the Tier I capital credit institutions are allowed to exclude the discounted amounts of unrealized profits or losses accumulated since 31 December 2019, accounted for as "changes in fair value of debt instruments measured at fair value in other comprehensive income" in the statement of the financial position, corresponding to exposures to central governments , regional governments or local authorities. In the calculation of the capital adequacy for the forth quarter DSK Bank takes part in the last stage of the implementation of this temporary treatment of the unrealized profits and losses measured at fair value in other comprehensive income which is valid until 31 December 2022. On 31 October 2022 the Council of the EU introduced a proposal for prolongation of implementation of this treatment till 31 December 2025.

The Group calculates the total capital adequacy (the 'Basel ratio') as a ratio between total own funds for solvency purposes and the total of the risk-weighted assets for credit, market and operational risks. Tier I capital adequacy is the ratio between the Tier I capital and the risk-weighted assets and should be higher than 12.96%, buffers including. The total capital adequacy ratio should be higher than 17.25%, buffers including.

(2) *Capital ratios*

Total own funds for solvency purposes

In thousands of BGN	**Basel III 2022**	**Basel III 2021**
Tier 1 capital	3 255 656	3 366 271
Common equity Tier 1 capital	3 255 656	3 366 271
Additional Tier 1 capital (AT1)	-	-
Tier 2 capital	-	-
Own funds	**3 255 656**	**3 366 271**
Credit risk capital requirement	1 224 049	1 093 565
Market risk capital requirement	2 931	3 482
Operational risk capital requirement	50 212	61 238
Total requirement regulatory capital	**1 277 192**	**1 158 285**
Surplus of total capital	**1 978 464**	**2 207 986**
CET1 capital ratio (%)	20.39%	23.25%
Capital adequacy ratio (%)	**20.39%**	**23.25%**

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

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

By complying with the provisions of Bulgarian National Bank (BNB) Regulation 8 the Group holds Capital conservation buffer of common equity Tier I equivalent to 2.5% of the amount of the total risk weighted exposures. With the same Regulation Bulgarian National Bank introduces a requirement for the capital systemic risk buffer. In 2022, the buffer is 3% of risk-weighted exposures. The Group holds its specific countercyclical capital buffer. The assessment of the buffer depends on the level of the reference indicator that BNB announces quarterly. High levels of credit activity lead to increase of the level of this macroprudential instrument, applicable to credit risk exposures in Bulgaria from 0.5% to 1%., in force since 01 October 2022. The countercyclical capital buffer is expected to reach 1.5% in 2023, effective as of 01 January 2023, and to increase subsequently with 0.5% reaching 2%, effective as of 01 October 2023. The countercyclical capital buffer specific for the Group as of December 31, 2022 is 0.95%. The capital requirements are also increasing by introducing other systemically important institutions buffer, which BNB has calculated at 1.00% of the total risk exposures of the Bank for 2022.

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, in 2022 the Group is required to maintain additional capital requirement of 1.8%, distributed between Tier I capital 75% and 56.25% from the common equity Tier I . A Pillar 2 Guidance of 2% is defined and due to the COVID-19 related measures introduced by the European Central Bank, the credit institutions are allowed to operate under this guideline until 31 December 2022. In 2023 DSK Bank is required to maintain additional capital Pillar 2 Requirement of 1.94% and capital Pillar 2 Guidance of 1.75%.

(f) Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in the accounting policy. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The fair values of financial assets and financial liabilities which are traded on active markets and for which market information is available are based on quoted market prices or closing prices. The use of real market prices and information reduces the necessity for management assessment and assumptions as well as the uncertainty related to the determination of the fair value. The availability of real market prices and information varies depending on the products and markets and changes based on the specific events and the general financial markets environment. For part of the other financial instruments (Level 2) the Group defines fair value using a measurement method based on net present value (NPV). The calculation of the NPV is based on market yield curves and credit spreads where it is required for the corresponding instrument. The aim of the measurement methods is to define the fair value which reflects the value of the financial instrument as of the reporting date, which would have been defined by direct market players.

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

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

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-2022				
Assets				
Trading financial assets	50 482	-	-	50 482
Derivative financial instruments	-	108 819	-	108 819
Investments at fair value through profit or loss	594	311	2 597	3 502
Investments at fair value through other comprehensive income	1 172 298	9 639	13 165	1 195 102
Total	**1 223 374**	**118 769**	**15 762**	**1 357 905**
Liabilities				
Derivative financial instruments	-	95 927	-	95 927
Total	**-**	**95 927**	**-**	**95 927**
31-December-2021				
Assets				
Trading financial assets	143 362	-	-	143 362
Derivative financial instruments	40	33 419	-	33 459
Investments at fair value through profit or loss	597	305	5 636	6 538
Investments at fair value through other comprehensive income	1 706 131	6 474	12 992	1 725 597
Total	**1 850 130**	**40 198**	**18 628**	**1 908 956**
Liabilities				
Derivative financial instruments	-	43 629	-	43 629
Total	**-**	**43 629**	**-**	**43 629**

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 2022

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	5 797 316	-	-	**5 797 316**	**5 797 316**
Loans and advances to banks	-	2 629 263	-	**2 629 263**	**2 629 263**
Net receivables from finance lease	-	-	1 360 625	**1 360 625**	**1 360 625**
Loans and advances to customers	-	-	15 451 173	**15 451 173**	**15 401 695**
Investments at amortised cost	1 611 753	-	-	**1 611 753**	**1 611 753**
Liabilities					
Deposits from banks	-	60 186	-	**60 186**	**60 186**
Deposits from customers	-	23 902 799	-	**23 902 799**	**23 902 795**
Loans from financial institutions	-	684 298	-	**684 298**	**684 298**
Lease liabilities	-	17 821	-	**17 821**	**17 821**
Subordinated debt	-	225 431	-	**225 431**	**225 431**

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	3 959 884	-	-	**3 959 884**	**3 959 884**
Loans and advances to banks	-	1 915 161	-	**1 915 161**	**1 915 161**
Net receivables from finance lease	-	-	1 098 640	**1 098 640**	**1 100 802**
Loans and advances to customers	-	-	13 442 073	**13 442 073**	**13 366 816**
Investments at amortised cost	1 492 728	-	-	**1 492 728**	**1 492 728**
Liabilities					
Deposits from banks	-	255 502	-	**255 502**	**255 502**
Deposits from customers	-	20 052 902	-	**20 052 902**	**20 052 824**
Loans from financial institutions	-	203 554	-	**203 554**	**203 554**
Lease liabilities	-	20 793	-	**20 793**	**20 793**

The fair value of cash at banks, loans and advances to banks, and loans and deposits from banks is approximately equal to their carrying value because of their short-term maturity.

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

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

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

4. Net interest income

In thousands of BGN	**2022**	**2021**
Interest income		
Loans and advances to banks	101 054	5 275
Loans and advances to customers	659 631	585 708
Investments at fair value through other comprehensive income	17 775	23 401
Investments at amortised cost	17 604	10 334
Deposits from banks (negative interest)	1 115	959
Deposits from customers (negative interest)	1 853	2 833
Total	**799 032**	**628 510**
Interest expense		
Deposits from banks	(4 388)	(70)
Deposits from customers	(1 431)	(925)
Loans from banks and financial institutions	(5 954)	(15)
Lease liabilities	(139)	(154)
Subordinated debt	(511)	-
Cash with the Central Bank (negative interest)	(1 482)	(1 712)
Loans and advances to banks (negative interest)	(4 187)	(12 306)
Loans and advances to customers (negative interest)	(124)	(162)
Total	**(18 216)**	**(15 344)**
Net interest income	**780 816**	**613 166**

5. Net fee and commission income

In thousands of BGN	**2022**	**2021**
Fee and commission income		
In Bulgarian Leva		
Payment and settlement transactions	114 588	89 872
Credit related deals	32 693	28 558
Deposit related deals	95 234	93 966
Mutual and pension funds management	45 175	40 876
Other	47 283	41 542
	334 973	**294 814**
In foreign currencies		
Payment and settlement transactions	37 775	28 874
Credit related deals	9 759	8 237
Deposit related deals	8 008	7 482
Other	14 250	7 672
	69 792	**52 265**
Total	**404 765**	**347 079**
Fee and commission expense		
In Bulgarian Leva	(45 191)	(36 491)
In foreign currencies	(8 485)	(6 466)
Total	**(53 676)**	**(42 957)**
Net fee and commission income	**351 089**	**304 122**

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

6. Net trading income

In thousands of BGN	**2022**	**2021**
Foreign exchange trading	57 323	31 916
Net interest income from securities held for trading	573	(683)
Securities trading and revaluation	(6 238)	(1 473)
Net income derivarives revaluation	(22 321)	(4 884)
Ineffective hedge net gain	(53)	7
Total	**29 284**	**24 883**

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

In thousands of BGN	**2022**	**2021**
Loss on hedged assets	(10 351)	(15 282)
Gain on hedging instruments	10 298	15 289
Hedge ineffectiveness recognised immediately in profit or loss	**(53)**	**7**

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

Additional information about the hedging is provided in Note 17.

7. Net income from other financial instruments at FVTPL

In thousands of BGN	**2022**	**2021**
Debt instruments	(413)	17 245
Equity instruments	(3 517)	132
Total	**(3 930)**	**17 377**

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

In thousands of BGN	**2022**	**2021**
Collection of previously written-off loans and receivables	14 470	11 974
Sale of financial assets	6 376	10 340
Total	**20 846**	**22 314**

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

9. Other operating income, net

In thousands of BGN	2022	2021
Operating lease	6 171	4 601
Government grants	6 071	358
Net gain / (loss) on disposal of non-financial assets	4 474	(1 082)
Dividends	4 010	598
Rental fees of investment property	1 604	1 474
Income from security and cash collection	2 078	822
Other services	1 348	3 917
Card operators	472	293
Net gain/(loss) from government bonds measured at fair value through other comprehensive income	434	(128)
Income from tourist services	14	78)
Other	4 315	7 873
Total	**30 991**	**18 804**

10. Impairment losses on financial assets, net

In thousands of BGN	2021	2020
Impairment loss on loans and factoring agreements, net	(72 834)	(134 434)
Impairment loss on securities	(30 021)	(1 106)
Impairment loss on loans and receivables from banks, net	(10 463)	(4 257)
Impairment gain on POCI	9 503	9 299
Impairment loss on other assets, net	(885)	(294)
Total	**(104 700)**	**(130 792)**

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

In thousands of BGN	*Note*	2022	2021
Impairment loss on tangible assets	*25*	(1 392)	(5 849)
Reversal of impairment on inventory		-	344
Reversal of impairment on collaterals acquired		4 320	6 194
Total		**2 928**	**689**

The impairment gain on acquired collaterals is reflected in the carrying amount of those assets (Note 27).

12. Personnel expenses

In thousands of BGN	2022	2021
Wages and salaries	169 803	154 674
Social security contributions	37 825	30 749
Cash-settled share-based payments	1 167	1 091
Other	1 777	1 708
Total	**210 572**	**188 222**

The average number of full-time employees of the Group is 5 985 for 2022 and 6 052 for 2021.

13. Depreciation and amortisation

In thousands of BGN	*Note*	2022	2021
Investment property	*23*	443	443
Right-of-use assets	*24*	7 675	7 999
Property, plant and equipment	*25*	28 163	25 758
Intangible assets	*26*	25 626	29 540
Total		**61 907**	**63 740**

14. Other expenses

In thousands of BGN	2022	2021
Hired services	101 766	106 396
Guarantee Funds contributions	52 764	39 882
Materials	23 191	16 554
Expenses related to short-term leases	4 226	3 940
Expense relating to leases of low value assets	2 064	1 829
Other expenses	6 655	6 840
Total	**190 666**	**175 441**

The fees accrued for the services provided by the independent financial auditors' of the Group for 2022 include statutory audit fees to the amount of BGN 1 669 thousand and fees for other non-audit related services to the amount of BGN 71 thousand. (2021: BGN 1 416 thousand and BGN 46 thousand, respectively).

15. Income tax expense

In thousands of BGN	2022	2021
Current tax expense	(58 085)	(46 743)
Deferred tax (expense)/ benefit related to origination and reversal of temporary tax differences	(1 511)	840
Total	**(59 596)**	**(45 903)**

In thousands of BGN	2022	2021
Accounting profit	623 257	462 440
Income tax using the statutory corporate tax rate	(62 326)	(46 244)
Allowance for tax paid in foreign tax jurisdictions	790	375
Write-off of deferred tax assets	(85)	-
Income tax for previous years	(31)	-
Tax on permanent tax differences	2 056	(34)
Income tax expense	**(59 596)**	**(45 903)**
Effective tax rate	9.56%	9.93%

Current taxes are calculated using a tax rate of 10% for 2022 and 2021.

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

In thousands of BGN	31-December-2022	31-December-2021
Cash on hand	903 855	805 458
Current accounts with the Central Bank	4 832 951	3 064 086
Current accounts with other banks	62 780	90 705
Less impairment loss allowances	(2 270)	(365)
Total	**5 797 316**	**3 959 884**

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

The current account with the Central Bank is used for direct participation in the money and securities markets and for settlement purposes as well as for keeping funds for Group's participation in the Guarantee Mechanism of the System Processing Card-based Payment Transactions. Balances with the Central Bank also cover the minimum required reserves amounting to BGN 1 906 544 thousand and BGN 1 563 810 thousand as of 31 December 2022 and 2021, 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. For the years ended 31 December 2022 and 2021 the reported interest expenses due to excess reserve amount to BGN 1 367 thousand and BGN 1 495 thousand, respectively, and are presented on line "Cash with the Central Bank (negative interest)" of Note 4.

The accumulated impairment as of 31 December 2022 amounting to BGN 2 270 thousand includes BGN 1 978 thousand of impairment of cash held at the Central Bank and BGN 292 thousand of impairment of cash at other banks.

The accumulated impairment as of 31 December 2021 amounting to BGN 365 thousand includes BGN 66 thousand of impairment of cash held at the Central Bank and BGN 299 thousand of impairment of cash at other banks.

Cash at OTP Group member banks is disclosed in Note 39.

17. Financial assets held for trading and derivative financial instruments

In thousands of BGN	31-December-2022	31-December-2021
Government securities – Republic of Bulgaria denominated in Bulgarian Leva	33 842	57 008
Government securities – Republic of Bulgaria denominated in foreign currencies	14 290	86 354
Foreign issuers' debt securities denominated in foreign currencies	2 350	-
Total	**50 482**	**143 362**

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, 2022 between 0.00% and 4.00% (2021: between 0.00% and 4.00%) and government securities denominated in EUR earn interest between 0.375% and 3.125% (2021: between 1.875% and 3.125%).

As of 31 December 2022 government securities issued by foreign governments comprise securities denominated in EUR which earn interest as of December 31, 2022 between 2.375% and 2.875% (2021: between 0.45% and 3.875%).

Derivative financial instruments as of 31 December 2022

	Carrying value		Notional amount
	Assets	Liabilities	
In thousands of BGN			
Derivatives held for trading			
Interest rate swaps	40 957	39 207	975 555
Foreign exchange contracts	21 106	20 036	1 406 784
Commodity swaps	14 420	15 940	626 962
Total	**76 483**	**75 183**	**3 009 301**
Derivatives used as fair value hedging instruments			
Interest rate swaps	32 336	-	493 202
Foreign exchange contracts	-	20 744	391 166
Total	**32 336**	**20 744**	**884 368**
Total derivative financial instruments	**108 819**	**95 927**	**3 893 669**

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**

The derivative transactions with OTP Group are disclosed in Note 39.

The fair value hedge contracts as of 31 December 2022 are two types: 1) interest rate swaps, used to hedge interest rate risk, and 2) foreign exchange swaps used to hedge foreign currecy risk. The hedged items are government bonds and repurchase agreements over government bonds carried at FVTOCI whose carrying amount as of 31 December 2022 is BGN 883 645 thousand.

The fair value hedge contracts as of 31 December 2021 are interest rate swaps used to hedge interest rate risk. The contracts are concluded with OTP Bank (see also Note 39). The hedged items are government bonds carried at FVTOCI, whose carrying amount as of 31 December 2021 is BGN 646 842.

In thousands of BGN	**2022**	**2021**
Gain from changes in fair value used for calculating hedge ineffectiveness for the year (Note 7)	33 774	14 931
Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item as at year end	(29 619)	10 351

The following table shows the average interest rates and the average FX rate of the Bank's hedging instruments used as of 31 December 2022 and 31 December 2021:

В хиляди лева	**31 December 2022**	**31 December 2021**
Interest rate swaps		
Notional amount	493 202	602 759
Average fixed rate	0.992%	0.974%
Average float rate	3.180%	(0.184%)
Foreign exchange contracts		
Notional amount	391 166	-
Average EUR/HUF rate	411	-

The Group believes that it is not exposed to a significant exchange rate risk in relation to hedged items as well as hedging instruments, as there are no open positions as of 31 December 2022 due to the deals concluded and strategy applied (approved by OTP Group). The strategy applied covers the possible exchange rate risks arising from the transactions which the Bank enters into. The results from hedging transactions in accordance with IFRS 9 are reported in the Statement of Profit or Loss in lines "Interest income", " Net (loss)/gain from foreign exchange" and " Net trading income".

18. Loans and advances to banks

(a) Analysis by type

In thousands of BGN	31-December-2022	31-December-2021
Deposits with domestic and foreign banks		
In Bulgarian Leva	1 000	1 000
In foreign currencies	2 213 492	1 683 947
Encumbered assets (Note 36(d))	16 666	4 415
Loans under repurchase agreements	416 618	235 711
Other receivables	14	1
Less impairment loss allowances	(18 527)	(9 913)
Total	**2 629 263**	**1 915 161**

(b) Geographical analysis

In thousands of BGN	31-December-2022	31-December-2021
Domestic banks	9 404	2 326
Foreign banks	2 619 859	1 912 835
Total	**2 629 263**	**1 915 161**

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

The loans and advances to banks – related parties are disclosed in Note 39.

19. Net receivables from finance lease

In thousands of BGN	31-December-2022	31-December-2021
Gross receivables from finance lease	1 488 192	1 180 932
Unrealized financial income	(91 553)	(47 084)
Net minimum lease payments	**1 396 639**	**1 133 848**
Impairment	(36 014)	(33 046)
Net receivables from finance lease	**1 360 625**	**1 100 802**

Net receivables from finance leases are allocated as follows:

In thousands of BGN	31-December-2022	31-December-2021
With maturity of up to 1 year	429 033	387 477
With maturity from 1 to 5 years	935 024	725 500
With maturity over 5 years	32 582	20 871
Impairment	(36 014)	(33 046)
Net receivables from finance lease	**1 360 625**	**1 100 802**

20. Loans and advances to customers

In thousands of BGN	31-December-2022	31-December-2021
Individuals		
In Bulgarian Leva		
Consumer loans	4 847 382	4 640 544
Housing and mortgage loans	4 718 636	4 010 941
In foreign currencies		
Consumer loans	18 974	43 088
Housing and mortgage loans	223 327	273 092
Companies		
In Bulgarian Leva		
Working capital loans	1 692 484	1 510 541
Investment loans	1 329 891	1 182 413
Advances to clients under local and international factoring	180 983	134 710
In foreign currencies		
Working capital loans	984 794	891 734
Investment loans	2 007 798	1 532 301
Advances to clients under local and international factoring	76 315	105 169
State Budget		
In Bulgarian Leva	48 630	53 640
In foreign currencies	5 487	6 702
Less impairment loss allowances	(733 006)	(1 018 059)
Total loans and advances to customers	**15 401 695**	**13 366 816**

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 2022 are in the following range: receivables from individuals from 0.05% to 40.35%; receivables from companies from 0.23% to 22.00%; receivables from the State Budget from 1.00% to 5.378%.

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 bad debts sold to unrelated parties have a gross carrying amount of BGN 10 074 thousand and BGN 18 277 thousand for 2022 and 2021, respectively, and had been fully impaired when written-off.

The loans derecognized on account of accumulated impairment amount to BGN 258 356 thousand and BGN 113 943 thousand for 2022 and 2021, respectively, including BGN 234 879 thousand and BGN 68 993 thousand of loans written off partially.

21. Investments in securities

In thousands of BGN	**31-December-2022**	**31-December-2021**
Investments in instruments measured at fair value through other comprehensive income		
Equity instruments	22 832	19 494
Government debt securities	1 178 674	1 709 191
Less impairment loss allowances	(6 404)	(3 088)
Total investments in instruments measured at fair value through other comprehensive income	**1 195 102**	**1 725 597**
Investments in instruments mandatory measured at fair value through profit or loss		
Equity instruments	905	902
Corporate debt securities	2 597	5 636
Total investments in instruments mandatory measured at fair value through profit or loss	**3 502**	**6 538**
Investments in instruments measured at amortized cost		
Government debt securities	1 641 577	1 495 603
Less impairment loss allowances	(29 824)	(2 875)
Total investments in instruments measured at amortized cost	**1 611 753**	**1 492 728**
Total	**2 810 357**	**3 224 863**

Investments measured at FVTOCI include government bonds issued by central governments denominated in BGN with an applicable interest rate in the range between 0.0% and 4.00% (2021: 0.01% and 5.00%); denominated in EUR with an interest rate ranging between 0.375% and 5.75% (2021: 0.375% and 5.75%) and denominated in USD with an interest rate ranging between 2.00% and 5.85% (2021: 1.625% and 6.75%).

Investments measured at amortised cost include securities issued by central governments denominated in BGN with interest rate ranging between 0.0% and 3.20% (2021: 0.0% and 0.50%); denominated in EUR with interest rate ranging between 0.0% and 5.75% (2021: 0.0% and 5.75%) and denominated in USD with an interest rate ranging between 1.5% and 6.00% (2021: 2.125% and 6.00%).

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 36(d).

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

22. Goodwill

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

In thousands of BGN	31-December-2022	31-December-2021
Expressbank AD	77 372	77 372
DSK Rodina Pension Company AD	1 175	1 175
Total	**78 547**	**78 547**

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

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

As of 31 December 2022 the Group performed a test for impairment of goodwill allocated to the combined bank using a model whose key inputs are the cash flows of the combined bank for a three-year period. Based on the actual financial performance for the 11 months to November 2022 and the financial preliminary estimations for December 2022, the Group prepared a medium-term cash flow forecasts for the period 2023-2025. In preparing the calculations, the Group considered the actual worldwide economic situation, the expected economic growth for the following years, their possible effects on the financial sector, the plans for growing, which result from these, and the expected changes of the mentioned factors.

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

Present value calculation with the FCF method

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

Present value calculation with the EVA method

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

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

	2023	2024	2025
Discount rate	5.20%	5.20%	5.20%
Risk premiun	6.00%	6.00%	6.00%

Calculation of terminal value:

Long-term discount rate	5.20%
Long-term risk premium	6.00%
Long-term risk growth rate	3.00%

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

The calculated recoverable amount under both methods exceeds the carrying amount of net assets of DSK Group, being the cash-generating unit for the purposes of the test, by approximately 15%. As a result, management has concluded that goodwill is not impaired as of 31 December 2022.

23. Investment property

In thousands of BGN	31-December-2022	31-December-2021
Cost		
Balance as of 01 January	22 512	22 512
Balance as of 31 December	**22 512**	**22 512**
Depreciation		
Balance as of 01 January	3 101	2 658
Charge for the period	443	443
Balance as of 31 December	**3 544**	**3 101**
Net book value	**18 968**	**19 411**

The fair value of the investment property determined by independent licensed external appraisers as of 31 December 2022 and 2021, is BGN 19 571 thousand and 19 523 thousand, respectively.

The last valuation of the investment property is determined according to independent appraisers' report dated 21 November 2022. The appraisers have used two valuation methods, namely the comparative value method (market analogy method) and the income method.

Under the market analogy approach, market prices of similar (analogous) assets are used, adjusted for the specifics of the investment property being valued. The analogous items are similar or identical to the ones being valued in terms of location, construction and stage of completion.

The income approach reflects the capability of assets to generate rental income. The appraisal is based on the average market rents for similar properties, adjusted for possible losses from vacancies or uncollectible rents, housing costs, major repairs, taxes and charges and other costs. The major factors used in the model for adjusting the gross annual income are the following:

Operating costs, taxes, charges	5.00%
Loss of rentals risk	7.00%
Capitalisation rate	7.50%

The fair value of the property is the weighted average of the values determined by both methods. The fair value is categorised as Level 3 in the fair value hierarchy as per IFRS 13.

24. Right-of-use assets

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

In thousands of BGN	**Land, buildings and equipment**	**Vehicles**	**Total**
Cost			
Balance as of 31 December 2021	**37 090**	**4 012**	**41 102**
Additions due to new contracts	2 338	96	2 434
Derecognition due to expired contracts	(2 856)	(1 520)	(4 376)
Changes from reassessment and modification	252	(82)	170
Balance as of 31 December 2022	**36 824**	**2 506**	**39 330**
Depreciation			
Balance as of 31 December 2021	**17 052**	**1 851**	**18 903**
Depreciation for the period	7 569	106	7 675
Derecognition due to expired contracts	(2 840)	(1 285)	(4 125)
Changes from reassessment and modification	(1 777)	(101)	(1 878)
Balance as of 31 December 2022	**20 004**	**571**	**20 575**
Net book value 31 December 2022	**16 820**	**1 935**	**18 755**
Net book value 31 December 2021	**20 038**	**2 161**	**22 199**

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	**37 949**	**4 178**	**42 127**
Additions due to new contracts	4 258	810	5 068
Derecognition due to expired contracts	(1 321)	(717)	(2 038)
Changes from reassessment and modification	(3 796)	(259)	(4 055)
Balance as of 31 December 2021	**37 090**	**4 012**	**41 102**
Depreciation			
Balance as of 31 December 2020	**13 988**	**1 800**	**15 788**
Depreciation for the period	6 987	1 012	7 999
Derecognition due to expired contracts	(1 321)	(717)	(2 038)
Changes from reassessment and modification	(2 602)	(244)	(2 846)
Balance as of 31 December 2021	**17 052**	**1 851**	**18 903**
Net book value 31 December 2021	**20 038**	**2 161**	**22 199**
Net book value 31 December 2020	**23 961**	**2 378**	**26 339**

25. Property, plant and equipment

Movement of property, plant and equipment during the year 2022

In thousands of BGN	Land and buildings	IT equipment	Office equipment	Other equipment	Assets under operative leasing	Total
Cost or revalued amount						
Balance as of 31 December 2021	**582 856**	**108 870**	**98 100**	**12 741**	**19 399**	**821 966**
Additions	238	904	39	12 308	15 332	28 821
Disposals	(12 841)	(7 532)	(4 094)	(1 361)	(3 757)	(29 585)
Transfers	2 107	6 458	2 425	(10 990)	-	-
Revaluation increase	(1 313)	-	-	-	-	(1 313)
Impairment charge	(865)	-	-	-	-	(865)
Balance as of 31 December 2022	**570 182**	**108 700**	**96 470**	**12 698**	**30 974**	**819 024**
Depreciation						
Balance as of 31 December 2021	**186 727**	**83 522**	**84 574**	**7 389**	**5 633**	**367 845**
Charge for the period	10 598	8 589	4 915	335	3 726	28 163
Disposals	(7 355)	(7 561)	(3 821)	(568)	(1 799)	(21 104)
Revaluation increase	990	-	-	-	-	990
Impairment charge	824	-	-	(297)	-	527
Balance as of 31 December 2022	**191 784**	**84 550**	**85 668**	**6 859**	**7 560**	**376 421**
Net book value 31 December 2022	**378 398**	**24 150**	**10 802**	**5 839**	**23 414**	**442 603**
Net book value 31 December 2021	**396 129**	**25 348**	**13 526**	**5 352**	**13 766**	**454 121**

Movement of property, plant and equipment during the year 2021

In thousands of BGN	Land and buildings	IT equipment	Office equipment	Other equipment	Assets under operative leasing	Total
Cost or revalued amount						
Balance as of 31 December 2020	**506 766**	**102 786**	**96 260**	**18 314**	**18 768**	**742 894**
Additions	8 007	420	225	10 807	9 828	29 287
Disposals	(10 188)	(2 700)	(737)	(2 811)	(9 197)	(25 633)
Transfers	2 853	8 364	2 352	(13 569)	-	-
Revaluation increase	76 337	-	-	-	-	76 337
Impairment charge	(919)	-	-	-	-	(919)
Balance as of 31 December 2021	**582 856**	**108 870**	**98 100**	**12 741**	**19 399**	**821 966**
Depreciation						
Balance as of 31 December 2020	**145 697**	**78 792**	**79 640**	**8 373**	**7 778**	**320 280**
Charge for the period	9 691	7 414	5 515	313	2 825	25 758
Disposals	(5 407)	(2 684)	(581)	(1 297)	(4 970)	(14 939)
Revaluation increase	31 816	-	-	-	-	31 816
Impairment charge	4 930	-	-	-	-	4 930
Balance as of 31 December 2021	**186 727**	**83 522**	**84 574**	**7 389**	**5 633**	**367 845**
Net book value 31 December 2021	**396 129**	**25 348**	**13 526**	**5 352**	**13 766**	**454 121**
Net book value 31 December 2020	**361 069**	**23 994**	**16 620**	**9 941**	**10 990**	**422 614**

"Land and buildings" includes leasehold improvements to the amount of BGN 1 712 thousand and BGN 2 661 thousand as of 31 December 2022 and 2021, respectively.

In "Other equipment" are included property, plant and equipment under construction and acquisition of property plant and equipment to the amount of BGN 4 826 thousand and BGN 4 510 thousand as of 31 December 2022 and 2021, respectively.

As of 31 December 2022, the gross carrying amount of fully depreciated property, plant and equipment that are still in use in the course of the Group's activities is as follows: buildings: to the amount of BGN 378 thousand, leasehold improvements: to the amount of BGN 8 638 thousand; IT equipment: to the amount of BGN 47 102 thousand, office equipment: to the amount of BGN 62 539 thousand, other equipment: to the amount of BGN 5 023 thousand.

As of 31 December 2021, the gross carrying amount of fully depreciated property, plant and equipment that are still in use in the course of the Group's activities is as follows: buildings: to the amount of BGN 432 thousand, IT equipment: to the amount of BGN 50 071 thousand, office equipment: to the amount of BGN 59 653 thousand, other equipment: to the amount of BGN 5 082 thousand.

A market analysis of the fair values of land and buildings was performed by licensed appraisers as at 31 December 2022 based on data provided by the Bank and other public information sources. For the purposes of the analysis, a research of the real estate market has been performed and offers and actual market transactions concluded for the respective districts of the location of the assets have been reviewed. As a result of the market analysis properties with a carrying amount sifnificantly differing from the market prices have not been identified.

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 rate of return and the adjusting coefficients used, and may vary, in case these coefficients are decreased or increased.

26. Intangible assets

Movement of intangible assets during 2022

In thousands of BGN	Intangible assets	Assets recognized in business combinations	Assets in the process of acquisition	Total
Cost				
Balance as of 31 December 2021	191 708	86 588	8 780	287 076
Additions	320	-	24 140	24 460
Disposals	(27 458)	-	(98)	(27 556)
Transfers	11 052	-	(11 052)	-
Balance as of 31 December 2022	**175 622**	**86 588**	**21 770**	**283 980**
Amortization				
Balance as of 31 December 2021	150 847	56 939	-	207 786
Charge for the period	16 819	8 807	-	25 626
Disposals	(27 456)	-	-	(27 456)
Balance as of 31 December 2022	**140 210**	**65 746**	**-**	**205 956**
Net book value 31 December 2022	**35 412**	**20 842**	**21 770**	**78 024**
Net book value 31 December 2021	**40 861**	**29 649**	**8 780**	**79 290**

Movement of intangible assets during 2021

In thousands of BGN	**Intangible assets**	**Assets recognized in business combinations**	**Assets in the process of acquisition**	**Total**
Cost				
Balance as of 31 December 2020	180 419	86 588	8 411	275 418
Additions	474	-	17 828	18 302
Disposals	(6 585)	-	(59)	(6 644)
Transfers	17 400	-	(17 400)	-
Balance as of 31 December 2021	**191 708**	**86 588**	**8 780**	**287 076**
Amortization				
Balance as of 31 December 2020	139 799	44 518	-	184 317
Charge for the period	17 119	12 421	-	29 540
Disposals	(6 071)	-	-	(6 071)
Balance as of 31 December 2021	**150 847**	**56 939**	**-**	**207 786**
Net book value 31 December 2021	**40 861**	**29 649**	**8 780**	**79 290**
Net book value 31 December 2020	**40 620**	**42 070**	**8 411**	**91 101**

As of 31 December 2022 and 2021, the gross carrying amount of fully amortized intangible assets (licenses and software) that are still in use in the course of the Group's activities is to the amount of BGN 96 620 thousand and BGN 109 466 thousand, respectively.

27. Other assets

In thousands of BGN	31-December-2022	31-December-2021
Temporary accounts with clients	132 094	30 723
Deferred expenses	33 736	25 973
Clearing and bank settlement assets	37 288	12 797
Receivables for fees	12 281	11 929
Advances to suppliers	9 933	9 934
Materials, spare parts	7 103	4 241
Acquired collaterals	6 475	4 446
VAT refundable	3 775	6 366
Shortages of assets	2 990	3 494
Receivables from litigation	2 433	1 835
Depository accounts	660	1 242
Receivables from insurers	26	24
Other assets	8 213	8 213
Impairment	(16 806)	(16 136)
Total	**240 201**	**105 081**

Depository accounts represent temporary balances to secure transactions with securities.

The accumulated impairment of other assets is mostly attributable to receivables for fees, receivables from litigation and writs, as well as shortages of assets. The movement of impairment for 2022 and 2021 is the following:

In thousands of BGN	2022	2021
Opening balance	**16 136**	**16 055**
Charge for the year	2 591	1 048
Release for the year	(1 706)	(1 098)
Written-off	(255)	65
Foreign exchange differences	40	66
Closing balance	**16 806**	**16 136**

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

In thousands of BGN	31-December-2022	31-December-2021
Deposits from banks		
Current accounts	40 554	26 008
Deposits	19 632	229 494
Total deposits from banks	**60 186**	**255 502**
Loans from banks		
Short term loans	5 169	155 409
Loans from financial institutions		
Long term loans	679 129	48 145
Total loans from banks and financial institutions	**684 298**	**203 554**

The Group has received a long-term loan from the European Investment Fund under the programme "JEREMIE" for the purpose of granting preferential interest loans to SMEs. As of 31 December 2022 and 2021 the BGN equivalent of the outstanding balance of the loan is BGN 5 169 thousand and BGN 7 294 thousand, respectively.

As of 31 December 2022 the interest rate on BGN 1 592 thousand of the balance is 1.91% and the interest rate on the remaining amount of BGN 3 577 thousand is 1.71%.

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 2022 the long-term loans to the amount of BGN 626 637 thousand represent funds received from the parent company to meet the minimum requirements for equity and eligible liabilities (see Note 39).

The Group has received financing from the Fund Manager of Financial Instruments in Bulgaria (FMFIB) under operating agreements with the purpose of providing finance to ultimate beneficiaries for urban development projects. The Group is entitled to receive a fee for managing the funds, which is determined on the basis of extended, and repaid, funds to, and from, the ultimate recipients of those funds. As of 31 December 2022, the Group's liability under the financing agreements is long-term and is BGN 52 492 thousand (2021: BGN 40 851 thousand), including BGN 21 541 thousand (2021: BGN 18 436 thousand) due for repayment in June 2035 and BGN 30 951 thousand (2021: BGN 22 415 thousand) with a term of repayment equal to the longest term contracted with an ultimate beneficiary plus three months. The financing is non-interest bearing for the Group.

As of 31 December 2021 short-term loans from banks to the amount of BGN 155 409 thousand represent a liability under a repo deal with an unrelated party with maturity date 4 January 2022. The interest rate is negative -0.95%. The loan is collateralized with securities to the amount of BGN 189 896 thousand (see също Note 36(d)).

The deposits received from related parties are disclosed in Note 39.

The Group has not had any defaults of principal or interest or other breaches with respect to its liabilities during the years 2022 and 2021.

29. Deposits from customers

In thousands of BGN	31-December-2022	31-December-2021
Individuals		
Term deposits	3 290 400	3 793 317
Demand deposits	14 696 304	12 338 631
Companies		
Term deposits	196 450	290 473
Demand deposits	4 560 015	2 982 902
State Budget		
Term deposits	50 370	48 063
Demand deposits	268 030	256 317
Financial institutions		
Term deposits	1 936	1 162
Demand deposits	839 290	341 959
Total	**23 902 795**	**20 052 824**

The interest rates on deposits as at 31 December 2022 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% to 2%.

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 deposits received from related parties are disclosed in Note 39.

30. Lease liabilities

In thousands of BGN	31-December-2022	31-December-2021
With maturity of up to 1 year	7 394	7 164
With maturity from 1 to 5 years	10 080	12 600
With maturity over 5 years	347	1 029
Total lease liabilities	**17 821**	**20 793**

The changes in lease liabilities for the years ending 31 December 2022 and 2021 are presented below:

In thousands of BGN	2022	2021
As of 1 January	20 793	24 393
Non-cash changes:		
Increase due to new contracts	2 434	5 068
Interest accrued	139	154
Changes from reassessment and modification	2 157	(1 225)
	4 730	3 997
Cash flows:		
Payments	(7 702)	(7 597)
	(7 702)	(7 597)
As of 31 December	**17 821**	**20 793**

31. Provisions

Movement in provisions during 2022

In thousands of BGN	Pension employment defined benefit obligations	Provisions for litigation and others	Provisions for guarantees, letters of credit, loan commitments and factoring	Provisions for restructuring	Total
Opening balance as of 31 December 2021	13 774	37 280	32 301	107	83 462
Additions during the year	1 369	2 024	96 186	21	99 600
Reversal during the year	(30)	(21 375)	(82 330)	(107)	(103 842)
Amounts paid	(1 077)	(459)	-	-	(1 536)
Other movements	(2 574)	763	31	-	(1 780)
Closing balance as of 31 December 2022	**11 462**	**18 233**	**46 188**	**21**	**75 904**

Movement in provisions during 2021

In thousands of BGN	Pension employment defined benefit obligations	Provisions 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	12 889	36 091	37 163	742	86 885
Additions during the year	1 539	4 961	66 164	-	72 664
Reversal during the year	(30)	(3 755)	(71 043)	-	(74 828)
Amounts paid	(922)	(18)	-	(635)	(1 575)
Other movements	298	1	17	-	316
Closing balance as of 31 December 2021	**13 774**	**37 280**	**32 301**	**107**	**83 462**

The decrease in provisions for litigation in 2022 is caused mainly by reversal of provision amounting to BGN 18 200 thousand related to a legal case for which the management has assessed that the outcome would be favourable for the Bank. In addition, the final decision for the case, which is in favour of the Bank and is not subject to appeal, has been published after the end of the reporting period and confirms the assessment of the management as at the reporting date.

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

In thousands of BGN	2022	2021
Defined benefit obligations at 1 January	13 774	12 889
Benefits paid by the plan	(1 077)	(923)
Current service costs	1 594	1 521
Past service costs	(69)	41
Interest cost	89	2
Remeasurements:		
Actuarial losses/ (gains) from experience adjustments	1 711	564
Actuarial losses/ (gains) from changes in demographic assumptions	(129)	4
Actuarial gains from changes in financial assumptions	(4 431)	(324)
Defined benefit obligations at 31 December	**11 462**	**13 774**

Expense recognised in profit or loss

In thousands of BGN	2022	2021
Current service costs	1 594	1 521
Past service costs	(69)	(25)
Interest on obligation	89	67
Actuarial gains	(275)	(54)
Total	**1 339**	**1 509**

Actuarial assumptions

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

	2022	2021
Discount rate at 31 December	6.00%	0.60%
Future salary increases	4.00%	2.25%

32. Deferred tax assets and liabilities

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and current tax liabilities, related to income taxes levied by the same tax and the Group intends to settle these current tax assets and liabilities on a net basis. An analysis of the Group's deferred tax assets and liabilities is presented below:

	Deferred tax assets		Deferred tax liabilities	
In thousands of BGN	2022	2021	2022	2021
Retirement benefit obligations under the Labour Code and other personnel liabilities	(158)	(158)	(3 467)	(3 594)
Business reorganisation	-	-	443	443
Financial assets	(11)	(7)	-	-
Fixed assets	(39)	(53)	24 897	25 785
Provisions for litigation and others	(62)	(8)	(1 667)	(3 635)
Unused annual leave and other	(182)	(211)	(667)	(1 180)
Total	**(452)**	**(437)**	**19 539**	**17 819**

Movement in deferred taxes during 2022 and 2021

In thousands of BGN	Note	Deferred tax assets	Deferred tax liabilities
Balance as of 1 January 2021		(484)	14 254
Deferred tax expense/(income)	15	47	(887)
Charged directly to equity	35 (c)	-	4 452
Balance as of 31 December 2021		**(437)**	**17 819**
Deferred tax expense/(income)		(439)	1 950
Charged directly to equity	15	-	(230)
Transferred to current tax assetsи	35 (c)	424	-
Balance as of 31 December 2022		**(452)**	**19 539**

33. Other liabilities

In thousands of BGN	31-December-2022	31-December-2021
Money transfers for execution	81 476	40 139
Liabilities to personnel and management	31 513	29 683
Obligations under unilaterally terminated contracts	25 898	17 578
Liabilities to suppliers and customers	20 032	20 138
Liabilities for centralisation of State Budget with BNB	4 538	3 065
Initial installments received under finance leases	4 160	4 035
VAT and other tax payables	2 258	1 396
Liabilities to insurers	1 490	1 349
Dividend payment obligations	423	279
Reserve for lifelong pension guarantee and voluntary pension reserve	285	280
Deferred income	115	251
Liabilities to customers related to purchase and repurchase of investments in mutual funds	53	12 853
Liabilities under condition for financial asset refunding	40	40
Other	13 020	9 756
Total	**185 301**	**140 842**

34. Subordinated debt

On 21 December 2022 the Bank received a loan from OTP Bank amounting to EUR 115 000 thousand with maturity term of 10 years. The main purpose of the loan is to reinforce the Bank's resources in order to improve capital adequacy. Therefore, the loan is classified as a Pillar 2 instrument and is presented as a subordinated debt. The interest rate applied is 3-month EURIBOR plus a mark-up and it amounts to 9.081% as at 31 December 2022. The maturity date is 21 December 2032 and the interest is due quarterly. The closing balance as at 31 December 2022 includes principal nad interests amounting to BGN 224 920 thousand and BGN 511 thousand, respectively (see also Note 39).

35. Share capital and reserves

(a) Face value of registered shares

As of 31 December 2022 and 2021 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 2022 and 2021.

The ultimate shareholders with over 5% stake of OTP Bank as of 31 December 2022 are as follows:

Name	Number of shares	Ownership	Voting rights
Hungarian Oil and Gas Company (MOL)	24 000 000	8.57%	8.58%
Groupama Group	14 258 161	5.09%	5.10%

(b) Legal and other reserve

Legal and other reserve includes statutory reserve according to local regulation and profits transferred reserves according to decisions of the General Meeting of Shareholders. Legal and other reserves in the consolidated statement of changes in equity include also the specialized reserves created under the provisions of the Social Security Code, which are used by DSK Rodina Pension Company AD to cover its obligations to individuals with additional pension insurance.

(c) Revaluation reserves

(1) Revaluation reserve – land and buildings

The properties revaluation reserve arises on the revaluation of land and buildings according to the revaluation model as per IAS 16. Such reserve is reported in the Statement of changes in equity net of deferred tax. Items of other comprehensive income included in the properties revaluation reserve will not be reclassified subsequently to profit or loss.

A decrease amounting to BGN 2 303 thousand is accounted for for the year ending 31 December 2022 and an increase of BGN 44 521 thousand is accounted for as at 31 December 2021, gross of tax, as a result of a revaluation of land and buildings carried out as at 31 December 2021 (Note 25). The deferred tax effects on the reserve recognized directly in equity amount to BGN 230 thousand and BGN 4 452 thousand, respectively (Note 32).

For the years ending 31 December 2022 and 2021, revaluation reserve of land or buildings sold, net of deferred tax to the amount of BGN 1 557 thousand and BGN 1 557 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;
- Current tax 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.

No tax arising from the changes attributable to the hedged risk, expected credit losses or foreign exchange gains or losses on equity instruments, has been reported directly in equity.

(d) Defined benefit pension reserve

The defined benefit pension reserve is comprised of actuarial gains and losses arisen on actuarial valuation of the retirement benefits performed by a licensed actuary as at the end of each reporting period (Note 31).

(e) Share-based payment reserve

The share-based payment reserve is related to performance-based remunerations accrued by the Bank in previous periods, which are to be settled by equity instruments of the parent company.

According to the Remuneration Policy, certain members of the key management personnel are entitled to a performance-based bonus. The scope of persons eligible for such a bonus is defined based on the significance of the position both at OTP Group level and local level, and its significance for risk management.

Performance is measured against goals and criteria defined in separate agreements with the respective persons.

The performance-based remuneration is settled through cash and equity instruments at a ratio of 50:50. A part of the remuneration can be deferred for a maximum period of 5 years.

Until the end of 2020, the equity-settled part of the performance-based remuneration for the scoped-in staff members, was in the form of real shares of OTP Bank. Since 1 January 2021, the shares granted to the eligible staff members are only virtual, meaning that the remuneration is still linked to the price of OTP Bank shares, however it is cash-settled.

The number of shares to be granted to each eligible person is determined as the ratio of the amount of share-based payment and the price of OTP Bank shares. The share price is determined by the Supervisory Board of OTP Bank within 10 days before settlement of the performance-based remuneration, based on the average of the daily prices of the ordinary shares issued by OTP Bank quoted at the Budapest Stock Exchange on the three trading days preceding the day of the decision.

36. Contingent liabilities and commitments

(a) Off balance sheet liabilities and commitments

In thousands of BGN	**31-December-2022**	**31-December-2021**
Litigation against the Group and other contingent liabilities	21 562	41 625
Bank guarantees and letters of credit		
In Bulgarian Leva	389 232	354 066
In foreign currencies	143 258	131 209
	532 490	**485 275**
Factoring agreement commitments		
In Bulgarian Leva	23 865	11 093
In foreign currencies	2 689	948
	26 554	**12 041**
Commitments for undrawn credit facilities		
In Bulgarian Leva	2 004 114	1 817 760
In foreign currencies	907 918	1 015 526
	2 912 032	**2 833 286**
Forward and spot deals - sell		
In Bulgarian Leva	220 921	1 396 050
In foreign currencies	3 560 840	6 462 235
	3 781 761	**7 858 285**
Other	6 045	7 477
Total	**7 280 444**	**11 237 989**

Consolidated financial statements on which we have issued audit report dated 16 March 2023

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

The off-balance sheet liabilities and commitments to related parties are disclosed in Note 39.

(b) Contingent liabilities on guarantees and letters of credit

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

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

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

The Legal claims against the Group and other commitment liabilities connected with legal proceedings amount to BGN 21 562 thousand and BGN 41 625 thousand (principal and accrued interest) as of December 31, 2022 and 2021, respectively. For part of these legal claims the Group's management believes that there is a probability of unfavourable outcome. The Group considers probability of future cash outflows on other contingent liabilities as well as probabilty for increase of customers' claims against the Group connected with payments on contracts for products and services provided by the Group. Based on these assessments provisions at the total amount of BGN 18 233thousand and BGN 37 280 thousand (Note 31) are allocated as at the end of 2022 and 2021, respectively.

(d) Assets pledged as collateral

As of 31 December 2022 and 2021 the Group has pledged assets as collateral as follows:

In thousands of BGN	**31-December-2022**	**31-December-2021**
Securities measured at FVTOCI	-	277 596
Securities measured at amortised cost	409 766	223 857
Financial assets at amortised cost	17 268	4 415
Total	**427 034**	**505 868**

As of 31 December 2022 the securities are pledged at the Bulgarian National Bank in favour of the Ministry of Finance as collateral for funds due to the State Budget 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 securities are pledged at the Bulgarian National Bank in favour of the Ministry of Finance for funds due to the State Budget (Note 28).

As of 31 December 2022 DSK Bank has pledged deposits collateralising derivative deals with OTP Bank amounting to BGN 602 thousand (2021: BGN 525 thousand) and with other foreign banks amounting to BGN 16 666 thousand (2021: BGN 3 890 thousand) (see also Note 18(a)).

(a) Operating leases – the Group as a lessor

The Group has entered into operating lease agreements as a lessor, and recognised income from rentals under those agreements to the amount of BGN 6 171 thousand and BGN 2 823 thousand for 2022 and 2021, respectively (Note 9).

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

In thousands of BGN	31-December-2022	31-December-2021
In less than 1 year	5 821	4 155
Between 1 and 2 years	5 042	3 296
Between 2 and 3 years	5 110	2 338
Between 3 and 4 years	5 051	2 042
Between 4 and 5 years	3 390	1 929
More than 5 years	103	-
Total undiscounted future lease payments	**24 517**	**13 760**

37. Cash and cash equivalents

In thousands of BGN	*Note*	31-December-2022	31-December-2021
Cash on hand	*16*	903 855	805 458
Balances with Central Bank	*16*	4 832 951	3 064 086
Receivables from banks with original maturity up to 3 months		63 780	682 813
Total		**5 800 586**	**4 552 357**

38. Associates

As of 31 December 2021 and 2020 the Group exercises significant influence over Company for Cash Services AD, in which it holds 25% of the share capital.

The net assets of the associate are as follows:

Net asset value

In thousands of BGN	31-December-2022	31-December-2021
Cash Services Company AD	15 954	14 264

The table below shows the carrying amount of the associate and the share in its profit for the years ending 31 December 2022 and 2021:

In thousands of BGN	**31-December-2022**	**31-December-2021**
Carrying amount of interests in associates	3 989	3 566
Share of:		
Profit from continuing operations	423	240

In addition, as disclosed in Note 41, the control over the subsidiary DSK Trans Security AD has been transferred to Cash Services Company AD after the end of the reporting period.

39. Related party transactions

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

The Group has a related party relationship with its its directors and executive officers, its subsidiaries and associates and the other companies within OTP Bank Group. The directors and executive officers are represented by the members of the Management Board and the Supervisory Board of the Bank, as well as the managing directors of the Bank's subsidiaries.

The related party transactions are based on contractual terms and conditions.

The related party transactions and balances as of and for the years ended 31 December 2022 and 2021 are as follows:

As of, and for the year ending 31 December 2022:

In thousands of BGN	OTP Bank	Other OTP Group members	Directors and executive officers	Total
Incomes/ (Expenses)				
Interest income	89 124	7 485	-	96 609
Interest expense	(7 219)	(240)	-	(7 459)
Fees and commissions income	5	31	-	36
Fees and commissions expenses	(304)	(11)	-	(315)
Gains (losses) on trading activities	13 512	-	-	13 512
Net income from other financial instruments at FVTPL	-	-	-	-
Other operating income	1 250	42	-	1 292
Assets				
Current and deposit accounts gross carrying amount	3 106	5 840	-	8 946
Derivative financial instruments	75 303	-	-	75 303
Loans granted to customers, receivables banks gross carrying amount	1 938 961	692 149	1 661	2 632 771
Other receivables	649	-	-	649
Liabilities				
Current and deposit accounts with DSK Bank	1 655	4	13 386	15 045
Derivative financial instruments	42 919	1 181	-	44 100
Other liabilities	2 571	-	-	2 571
Loans received	626 637	-	-	626 637
Subordinated debt	225 431	-	-	225 431
Conditional liabilities				
Undrawn lines of credit and commercial factoring	1 600	-	1 006	2 606
Conditional liabilities for currency exchange contracts	1 980 894	21 275	-	2 002 169
Guarantees and letters of credit granted	-	16	-	16
Conditional receivables				
Conditional receivables for currency exchange contracts	2 080 134	19 558	-	2 099 692
Conditional receivables for financial guarantees	-	16	-	16

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

In thousands of BGN	OTP Bank	Other OTP Group members	Directors and executive officers	Total
Incomes/ (Expenses)				
Interest income	148	3 553	38	3 739
Interest expense	(780)	-	-	(780)
Fees and commissions income	4	26	-	30
Fees and commissions expenses	(160)	-	-	(160)
Gains (losses) on trading activities	17 459	-	-	17 459
Net income from other financial instruments at FVTPL	15 758	-	-	15 758
Other operating income	1 089	63	-	1 152
Assets				
Current and deposit accounts - gross carrying amount	8 962	691 753	-	700 715
Derivative financial instruments	6 478	-	-	6 478
Loans granted to customers, receivables banks - gross carrying amount	195 338	-	1 983	197 321
Other receivables	220	-	-	220
Liabilities				
Current and deposit accounts with DSK Bank	4 335	2	13 470	17 807
Derivative financial instruments	28 746	231	-	28 977
Conditional liabilities				
Undrawn lines of credit and commercial factoring	1 600	-	832	2 432
Conditional liabilities for currency exchange contracts	1 591 540	113 736	-	1 705 276
Guarantees and letters of credit granted	-	16	-	16
Conditional receivables				
Conditional receivables for currency exchange contracts	1 627 218	113 438	-	1 740 656
Conditional receivables for financial guarantees	-	17	-	17

As of 31 December 2022 the Group has nostro accounts with OTP Bank denominated in EUR, USD, GBP, CHF and HUF with total balance to the amount of BGN 3 106 thousand and impairment thereon amounting to BGN 27 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 2022 to the amount of BGN 5 840 thousand and impairment thereon amounting to BGN 46 thousand.

As of 31 December 2021 the Group has nostro accounts with OTP Bank denominated in EUR, USD, GBP, CHF and HUF with total balance to the amount of BGN 7 437 thousand and impairment thereon amounting to BGN 17 thousand. The Bank has nostro accounts with other OTP Bank Group members denominated in RON, RUB, HRK and RSD with total balance as of 31 December 2021 to the amount of BGN 3 890 thousand.

As of 31 December 2022 the Group has the following intragroup derivative deals:

- Interest rate swaps with OTP Bank Group members – assets BGN 71 405 thousand, liabilities BGN 0 thousand, notional amount BGN 931 770 thousand;
- Derivative deals for foreign exchange with OTP Bank Group members - assets BGN 121 thousand, liabilities BGN 32 324 thousand, notional amount BGN 848 644 thousand;
- Commodity swap deals with OTP Bank Group members - assets BGN 3 777 thousand, liabilities BGN 11 776 thousand, notional amount BGN 350 001 thousand.

As of 31 December 2021 the Group has the following intragroup derivative deals:

- Interest rate swaps with OTP Bank Group members – assets BGN 2 531 thousand, liabilities BGN 15 059 thousand, notional amount BGN 1 248 886 thousand;
- Derivative deals for foreign exchange with OTP Bank Group members - assets BGN 3 875 thousand, liabilities BGN 3 154 thousand, notional amount BGN 459 333 thousand;
- Commodity swap deals with OTP Bank Group members - assets BGN 72 thousand, liabilities BGN 10 764 thousand, notional amount BGN 109 657 thousand.

The derivatives used for fair value hedge as of 31 December 2022 and 2021 are concluded with OTP Bank. The derivatives hedge the fair value of government bonds measured at FVTOCI. As at 31 December 2022 the derivatives hedge repo deals on government bonds measured at FVTOCI as well.

As of 31 December 2022 the Group has the following intragroup loans and advances to banks:

- Deposits blocked in connection with derivative deals with OTP Bank denominated in EUR and USD amounting to BGN 602 thousand (Note 34(d);
- Deposits at OTP Bank denominated in BGN, EUR, USD, GBP at total amount of BGN 1 521 741 thousand with original maturity of up to 2 years and maturity dates between 30 January 2023 and 24 June 2024. The interest rates vary between 2.29% and 14.07%;
- Deposit accounts with OTP BANKA SRBIJA A.D.NOVI SAD denominated in EUR amounting to BGN 692 149 thousand with maturity of up to 1 year and maturity dates between 8 February 2023 and 31 July 2023. The interest rates vary between 0.71% and 9.18%;
- A receivable under repo deal with OTP Bank denominated in HUF to the amount of BGN 416 618 thousand with original maturity of over 1 year, repayment date 22 April 2026 and interest rate of 15.03%.

As of 31 December 2021 the Group has the following intragroup loans and advances to banks:

- Deposits blocked in connection with derivative deals with OTP Bank denominated in EUR and USD amounting to BGN 525 thousand (Note 36(d);
- Short-term deposit at OTP Bank to the amount of BGN 1 000 thousand with maturity date 4 January 2022 and a negative interest rate of -0.43%;
- Deposit accounts with OTP BANKA SRBIJA A.D.NOVI SAD denominated in EUR amounting to BGN 687 863 thousand with maturity of up to 1 year and maturity dates between 31 March 2022 and 30 October 2022. The interest rates vary between 0.16% and 0.86%;
- A receivable under repo deal with OTP Bank in EUR, to the amount of BGN 195 338 thousand with original maturity of over 1 year and repayment date 25 August 2023. It is with a negative interest rate of -0.35%.

The deposits received from OTP Bank Group members represent loro accounts with DSK Bank denominated in BGN and EUR with total balance as of 31 December 2022 and 2021 to the amount of BGN 1 659 thousand and BGN 4 337 thousand, respectively.

As of 31 December 2022 the Bank has received loans from OTP Bank to the amount of EUR 320 000 (BGN 625 866 thousand). The purpose of the loans is to meet the minimum requirements for equity and eligible liabilities. The interest rate applied is 3-month EURIBOR plus a mark-up. As at 31 December 2022 the weighted average interest rate on the loans is 5.36%. The repayment term for EUR 240 000 thousand of the loans granted is in 2027 and the remainder amount of EUR 80 000 thousand is due in 2028. The closing balance includes interest accrued amounting to BGN 772 thousand with maturity till the end of March 2023.

As of 31 December 2022 the Bank has received a loan from OTP Bank amounting to EUR 115 000 thousand classified as subordinated debt (see Note 34).

As of 31 December 2022 the Group has the following intragroup off-balance sheet liabilities and commitments:

- DSK Bank has issued guarantees to OTP group members amounting to BGN 16 thousand.
- The commitment of the Bank on derivative deals with OTP group members amounts to BGN 2 002 169 thousand.

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

- DSK Bank has issued guarantees to OTP group members amounting to BGN 17 thousand.
- The commitment of the Bank on derivative deals with OTP group members amounts to BGN 1 705 276 thousand.

As of 31 December 2022 and 2021 an overdraft of BGN 1 600 thousand has been granted on a current account of OTP Bank, which has not been utilised as of those dates.

The remuneration of the key management personnel for 2022 includes short-term and long-term benefits amounting to BGN 9 206 thousand (2021: BGN 7 051 thousand), including share-based payments to the amount of BGN 953 thousand (2021: BGN 1 091 thousand) (Note 12).

40. Disclosures required by the Law on Credit Institutions

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

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

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

Below is quantitative data for the Group's operations:

In thousands of BGN	**2022**	**2021**
Operating income	1 183 509	1 017 542
Pre-tax profit	623 257	462 440
Income tax expense	(59 596)	(45 903)
Equivalent number of full-time employees, average	5 985	6 052
Return on assets (net profit to total assets)	2.11%	1.74%
Government grants received	6 071	358

The quantitative data above is calculated on the basis of the consolidated financial statements.

The total assets used to determine the return on assets, is the average of assets for four quarters.

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

41. Events after the reporting period

On 13 January 2023 a change in the members of the Management Board is registered at the Trade register according to which Diana Miteva is released as a member of the Management Board. Thus, the Management Board of the Bank as at the date of the current consolidated financial report is represented by the other members disclosed in Note 1.

On 01 February 2023 the Bank sold 100% of the share capital of its subsidiary DSK Trans Security EAD at the price of BGN 3 865 thousand. The shares were acquired by an associated entity of the Bank (see Note 38) and as a result the effective share of the Bank in the capital of DSK Trans Security EAD is 25%.

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