dskbank
otp group

Head Office
Financing and Planning Division

YEAR END DISCLOSURE

In connection with the requirements of
Art. 335 of Ordinance No. 8 on the Capital Adequacy
Of Credit Institutions

Consolidated

2012

DSK Bank EAD as the former State Savings Bank was incorporated on 2 March 1951 in Bulgaria as a centralised deposit accepting institution. Since 1998, when the Act on DSK transformation has been 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. Later the Bank receives a full banking license to operate as a commercial bank (by order No. 220882 of 26 September 2002 issued by the Bulgarian National Bank).

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

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

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

I. Capital Management and Capital Requirements of DSK Bank

Current consolidated disclosure is published according to art. 335 of Ordinance No. 8 of BNB on the Capital Adequacy of Credit Institutions (Ordinance 8). According to art. No. 335, par. 5 of Ordinance 8 an equivalent disclosure of non-disclosed here parts of Appendix 11 of the Ordinance is made in the Consolidated Financial Statements of the Bank.

The Management board of DSK Bank allocates the capital amongst various banking activities by maintaining a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. The Bank Asset and Liabilities Committee reviews the level and trend of credit, market and operational risks and their effects on capital levels on a regular basis. Together with OTP Bank Hungary the Bank Group's risk profile is assessed in order to determine whether the Bank Group holds sufficient capital against the various risks and to assess future capital requirement either for regulatory purposes or from the internal understanding for its risk profile coverage according to its strategy.

1. Regulatory Capital Requirements

Bulgarian National Bank as the local regulatory authority sets out the general requirements regarding the amount, elements and structure of the total own funds for solvency purposes and of the minimum capital requirements to cover the risks taken by DSK Bank Group (the Bank Group). Capital adequacy compliance is monitored by the regulator on a semi-annual basis.

The Authority requires each bank or banking group to hold the minimum amount of or above the sum total of the capital requirements for:

- credit and dilution risk in the banking book;
- position risk in the trading book;
- counterparty and settlement risk from the entire activity;
- exchange rate and commodity risk from the entire activity and
- operational risk from the entire activity.

(1) Regulatory capital

Total own funds for solvency purposes are managed into two tiers:

Tier I (Primary) capital: paid-up share capital, reserves accumulated from profits after taxation and financial instruments without term that fulfil specific conditions. The book value of intangible assets including good will and unrealised losses arising from the fair valuation of financial instruments held as available for sale are deducted.

Tier II (Additional): capital: revaluation reserves from premises used for banking activity and qualifying subordinated term debt capital and hybrid debt capital instruments.

Deductions from regulatory capital are: (1) holdings in other credit and financial institutions, which are not consolidated and are amounting to more than 10% of their capital, (2) participations held in insurance undertakings, reinsurance undertakings and insurance holding companies amounting to 20% or more than 20 % of their capital, (3) country-specific deductions: holdings in non-financial institutions, which are not consolidated and are amounting to more than 10 % of their capital and (4) specific provisions for credit risk according to Ordinance 9 of BNB on the evaluation and classification of risk exposures of banks and the allocation of specific provisions for credit risk.. The deductions are made 50 % from Tier I and 50 % from Tier II capital.

Bulgarian National Bank defines the scope of consolidation for regulatory purposes. DSK Bank group has fully consolidated the following subsidiaries: DSK Asset Management, DSK Rodina Pension Company, DSK BUL Project, DSK Tours and its subsidiary DSK Trans Security which provides services auxiliary to the main banking activities as per the Credit Institutions Act. Since 2012 DSK Bank includes in its consolidated financial statements OTP Factoring Bulgaria EAD. The Bank exercises control on operational activity without having any equity investment in the capital of the company. Equity consolidation is applied to the following associates: DSK Leasing and Cash Services Company.

Bulgarian National Bank sets out limits and ratios to regulatory capital and capital adequacy based on the guidelines developed by the Basel Committee and the European Community Directives. At any given time Tier II capital should not exceed Tier I capital. Tier II capital originating from hybrid debt capital instruments or subordinated term debt should not exceed 50% of Tier I capital.

(2) *Capital ratios*

Total own funds for solvency purposes

In thousands of BGN	**31 December 2012**	**31 December 2011**
Original own funds	**1 115 967**	**1 104 247**
Paid up capital	153 984	153 984
Reserves	960 214	960 686
Minority interests	6 428	1 242
Valuation differences in AFS debt securities	(1 549)	(2 745)
Funds for general banking risks	21 994	21 994
Intangible assets	(25 104)	(30 914)
Additional own funds	**257 168**	**306 316**
Revaluation reserves from premises used for banking activity	81 143	71 616
Subordinated Debt - maximum 50% of Original own funds	176 025	234 700
Deductions from original and additional own funds	**(88 637)**	**(52 753)**
Holdings in other credit and financial institutions amounting to more than 10% of their capital	(2 062)	(416)
Country-specific deductions from original and additional own funds	(2 473)	(2 410)
Specific provisions	(84 102)	(49 927)
Equal distribution of deductions		
Of which: from original own funds	(44 319)	(26 377)
Of which: from additional own funds	(44 319)	(26 376)
Total original own funds for general solvency purposes	**1 071 649**	**1 077 870**
Total additional own funds for general solvency purposes	**212 850**	**279 940**
Total own funds for solvency purposes	**1 284 498**	**1 357 810**
Surplus (+) / Deficit (-) of own funds compared to minimum requred	**482 035**	**575 480**

The Bank 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 6 %. The total capital adequacy ratio for

Bulgaria should be higher than 12 % while the Basel ratio level is 8 %.

Capital Ratios

	31 December 2012	31 December 2011
Solvency ratio (%)	19.21%	20.83%
Original own funds ratio (%)	16.03%	16.53%

OTP Financing Netherlands B.V. granted two loan facilities in the form of subordinated term debt. The loan granted on 19.12.2007 amounts to 200 million euro and the loan granted on 20.10.2008 amounts to 150 million euro. To qualify as Tier II capital the subordinated term debt should meet regulatory requirements set out in the local Ordinance for capital adequacy of the credit institutions. The Bulgarian National Bank confirmed that these loan facilities meet the requirements and granted permission to DSK Bank to include them in the capital for regulatory purposes. The Central Bank's permission for the first loan was given on 21 January 2008 therefore it was not included in the regulatory capital as of 31 December 2007. The first loan is repaid on 19.12.2012 and the second loan matures on 20.12.2016. Each year in the last 5 years to maturity the amount of term debt recognized in Tier II capital is reduced by 20 percent.

In order to determine the capital requirements for credit and market risks the Bank Group distinguishes its positions into Trading and Banking portfolios (books). The Trading portfolio consists of positions in financial instruments and commodities held either with trading intent or in order to hedge other elements in the trading book. Such positions are held intentionally for short-term resale and/or with the intent to benefit from actual or expected short-term price movements or to lock in arbitrage profits. The Banking portfolio consists of balance and off-balance positions which do not classify as Trading book positions.

(3) *Capital requirements*

(3.1) *Capital requirements for credit risk*

DSK Bank Group applies the standardized approach for calculating its risk-weighted assets for credit risk. The local regulator sets out the risk weights which are applied on the positions from the Banking book based on the external credit assessment of each asset. The risk-weighted assets should consist of: (a) risk-weighted on-balance sheet assets, (b) risk-weighted off-balance sheet equivalents, (c) OTC derivative instruments weighted for counter party risk and (d) Trading portfolio positions weighted for counter party risk.

Directive 2006/48/EC of the European Parliament lays out the general framework of the standardized approach based on the risk scores from external credit assessment institutions for each exposure. It also allows applying of national discretions determined by the local regulator.

For risk weight calculation of rated exposures the Bank Group uses external credit assessments of the following credit agencies: Standard & Poor's; Moody's and Fitch Ratings with strict observation of the requirements of Chapter Four "Standardised Approach", Section Five "Additional Criteria for Use of ECAIs Credit Assessments" from Ordinance 8. ECAIs assessments are used for the next exposure classes: central governments or central banks, multilateral banks and institutions.

For the purposes of credit risk mitigation the Bank Group uses Financial Collateral Simple Method. During the process of credit risk mitigation for the purposes of Ordinance 8 capital calculation the Bank Group recognises collaterals as follow: financial collaterals – debt securities and cash on deposits; pledged insurance policies of Bulgaria Export Insurance Agency; guarantees; secured by first line mortgage residential property insured in favour of the Bank.

The capital requirement for credit risk under the standardized approach is 12 %.

Exposures to credit and counterparty credit risk as of 31 December 2012

In thousands of BGN

Standardised Approach exposure class - On Balance sheet items	Original exposures before conversion factors		Impairment allowances	Breakdown of net exposure after impairment allowances by risk weights							Total net exposure after impairment allowances	Capital require-ment
	before Credit Risk Mitigation	after Credit Risk Mitigation		0%	20%	35%	50%	75%	100%	150%		
Central governments and central banks	715 337	762 309	-	728 726	7	-	33 576	-	-	-	762 309	2 015
Regional governments or local authorities	12 329	12 329	(434)	-	10 408	-	-	-	1 487	-	11 895	428
Administrative bodies and non-commercial undertakings	1 204	1 168	-	-	-	-	-	-	1 168	-	1 168	140
Multilateral development banks	7 146	7 146	-	7 146	-	-	-	-	-	-	7 146	-
Institutions	684 500	668 967	(1 090)	-	31 981	-	596 124	-	39 134	638	667 877	41 346
Corporates	1 451 895	1 426 425	(48 083)	-	-	-	-	-	1 378 342	-	1 378 342	165 401
Retail	2 704 821	2 682 854	(105 436)	-	-	-	-	2 577 418	-	-	2 577 418	231 968
Exposures secured by mortgages on residential property	2 161 363	2 160 774	(10 685)	-	-	1 698 394	-	-	451 695	-	2 150 089	125 536
Exposures in default	1 419 906	1 419 906	(1 123 427)	-	-	-	188 587	-	107 892	-	296 479	24 262
Collective investment units	416	416	-	-	-	-	-	-	416	-	416	50
Other exposures	608 248	624 871	(3 864)	119 142	135 634	-	-	-	366 231	-	621 007	47 203
Total	**9 767 165**	**9 767 165**	**(1 293 019)**	**855 014**	**178 030**	**1 698 394**	**818 287**	**2 577 418**	**2 346 365**	**638**	**8 474 146**	**638 349**

In thousands of BGN

Standardised Approach exposure class - Off Balance sheet items	**Original exposures before conversion factors**		**Impairment allowances**	**Breakdown of net exposure after impairment allowances and before credit conversion by risk weights**						**Total net exposure after impairment allowances**	**Capital requirement**
	before Credit Risk Mitigation	**after Credit Risk Mitigation**		**0%**	**20%**	**35%**	**50%**	**75%**	**100%**		
Central governments and central banks	-	16 843	-	16 843	-	-	-	-	-	16 843	-
Regional governments or local authorities	2 412	2 412	-	-	2 412	-	-	-	-	2 412	1
Administrative bodies and non-commercial undertakings	233	-	-	-	-	-	-	-	-	-	-
Institutions	6 561	10 602	-	-	1	-	5 401	-	5 200	10 602	473
Corporates	377 531	342 800	-	-	-	-	-	-	342 800	342 800	12 123
Retail	152 988	138 231	-	-	-	-	-	138 231	-	138 231	581
Exposures secured by mortgages on residential property	82 199	81 814	-	-	-	30 603	-	-	51 211	81 814	1 872
Other exposures	4 785	34 007	-	27 385	3 005	-	-	-	3 617	34 007	25
Total	**626 709**	**626 709**	**-**	**44 228**	**5 418**	**30 603**	**5 401**	**138 231**	**402 828**	**626 709**	**15 075**

To measure the exposure to counterparty risk for over-the-counter derivatives DSK Bank Group assesses a capital charge based on the current market value (current exposure) of each contract and an estimate of additional credit exposure (referred to as the add-on for potential future exposure) that may arise as a result of fluctuations in prices or rates. The current exposure of a derivative contract is the market value of the contract if that value is positive, or zero if the market value is zero or negative. The add-on for potential future exposure is estimated by multiplying the notional principal amount of the contract by a credit conversion factor that is determined by the remaining maturity and type of contract – in the case exchange rate contracts with maturity of up to one year are assigned 1 %.

In thousands of BGN

Exposures to Counterparty Credit Risk - Standardised Approach exposure class	Original exposures before conversion factors		Impairment allowances	Breakdown of net exposure after impairment allowances by risk weights			Total net exposure after impairment allowances	Capital require-ment
	before Credit Risk Mitigation	after Credit Risk Mitigation		50%	75%	100%		
Institutions	2 038	2 038	-	102	-	1 936	2 038	238
Corporates	16	16	-	-	-	16	16	2
Retail	4	4	-	-	4	-	4	-
Total	**2 058**	**2 058**	**-**	**102**	**4**	**1 952**	**2 058**	**240**

(3.2) *Capital requirements for market risk*

Risk-weighted assets for position risk on the Trading book and risk-weighted assets for exchange rate risk on both the Trading and the Banking books compile the risk-weighted assets for market risk.

- *Capital requirements for position risk*

Capital requirements for both general and specific risk in each currency are calculated for the Bank Group's debt securities, equities and investments in collective investment units (CIU) which are in the Trading portfolio of the Group.

To calculate the capital requirements for general position risk of debt securities, the Bank Group uses maturity approach where the net position in each debt instrument is assigned a risk weight depending on its residual term to maturity. Fixed-rate instruments shall be assigned on the basis of residual maturity, and variable-rate instruments – on the basis of the period until the next interest rate change.

To calculate the capital requirements for specific risk of debt securities, the Bank Group assigns the net position in each debt instrument a risk weight related to the instrument issuer, its external credit assessment and its residual term to maturity.

Capital requirements for position risks as of 31 December 2012 - traded debt instruments

In thousands of BGN

Market risk: Standardised Approach for position risks in traded debt instruments	BGN	EUR	USD	Risk weights	Capital requirements
General position risk. Maturity based approach					
$0 \leq 1$ month	233	1 259	-	0.00%	-
$> 1 \leq 3$ months	-	-	-	0.30%	-
$> 3 \leq 6$ months	-	-	-	0.60%	-
$> 6 \leq 12$ months	109	-	-	1.05%	1
$> 1 \leq 2$ (1,9 for coupon of less than 3%) years	573	-	37 096	1.88%	706
$> 2 \leq 3$ ($> 1{,}9 \leq 2{,}8$ for coupon of less than 3%) years	1 064	-	5 053	2.63%	161
$> 3 \leq 4$ ($> 2{,}8 \leq 3{,}6$ for coupon of less than 3%) years	-	1 389	-	3.38%	47
$> 4 \leq 5$ ($> 3{,}6 \leq 4{,}3$ for coupon of less than 3%) years	-	53 897	-	4.13%	2 223
$> 5 \leq 7$ ($> 4{,}3 \leq 5{,}7$ for coupon of less than 3%) years	2 022	6 515	-	4.88%	416
$> 7 \leq 10$ ($> 5{,}7 \leq 7{,}3$ for coupon of less than 3%) years	2 408	-	-	5.63%	136
$> 10 \leq 15$ ($> 7{,}3 \leq 9{,}3$ for coupon of less than 3%) years	-	-	-	6.75%	-
Total	**6 409**	**63 060**	**42 149**		**3 690**
Specific position risk					
Debt instruments under first category (0% capital requirement)	6 409	63 060	-	0.00%	-
Debt instruments under second category	-	-	5 053	1.60%	121
Debt instruments under third category (8% capital requirement)	-	-	37 096	8.00%	4 452
Total	**6 409**	**63 060**	**42 149**		**4 573**
Capital requirements for each currency	**274**	**2 588**	**5 401**		**8 263**

To calculate the capital requirements for general position risk, the group uses 12% risk weight assigned to the gross position in equities and 48% risk weight assigned to positions in CIU.

To calculate the capital requirements for specific risk of equities and CIU, a risk weight of 12% is assigned to the net position of the group.

Capital requirements for position risks as of 31 December 2012 - traded equities and CIU

In thousands of BGN

Market risk: Standardised Approach for position risks in traded equities - national market	Net long position	Risk capital charges - %	Capital requirements
General position risk			
Equities - other	179	12.00%	21
Specific position risk			
Equities - other	179	12.00%	21
Positions in Collective investment units	1 325	48.00%	637
Capital requirements			**679**

- *Capital requirements for exchange rate risk*

A capital charge for exchange rate risk for the positions in both the Trading and the Banking book is applied only when the net open currency position exceeds 2% of the regulatory capital.

Since 1999 Bulgaria introduced a Currency Board and the local currency the Bulgarian lev had been pegged to the euro. Therefore the positions in euro are not included in the calculation of net open currency position nor are subject to capital requirement

Capital requirements for foreign exchange risk as of 31 December 2012

In thousands of BGN

Market risk Standardised Approach to foreign exchange risk	All positions		Net positions	Capital requirement *
	Long	Short		
Total positions in non-reporting currencies	**265 629**	**263 149**	**2 480**	**-**
Currencies in second stage of EMU	-	-	-	
All other currencies (including CIUs treated as different currencies)	265 629	263 149	2 480	
Currency positions				
EUR**	3 814 940	2 307 873	1 507 067	
GBP	17 011	16 881	130	
SEK	179	158	21	
CHF	5 661	5 586	75	
Other EEA currencies***	366	92	274	
USD	242 267	240 261	2 006	
CAD	142	170	(28)	
JPY	3	1	2	

* when Net positions exceed 2% of Total Own Funds for Solvency Purposes
** EUR positions are not included in Net Position nor is subject to capital requirements
*** RON и HUF

- *As of December 31, 2012 the Bank Group doesn't calculate capital for settlement risk*

(3.3) Capital requirements for operational risk

DSK Bank Group applies the Basic Indicator Approach to calculate the capital requirement for operational risk. The Bank Group must hold capital for operational risk equal to the average over the three previous years of a fixed percentage (amounting to 15 %) of positive annual gross income. Gross income is defined as net interest income plus net non-interest income and gross of provisions for impairment losses and gross of operating expenses. The calculation should be based on audited financial data.

Capital requirements for operational risks as of 31 December 2012

In thousands of BGN

Banking activities	Gross income			Capital requirement
	2009	2010	2011	
Total banking activities subject to Basic Indicator Approach (BIA)	593 149	619 697	651 910	139 857

(4) ***Detailed disclosure for exposure classes allocation according to criterion defined in Appendix 11 of Ordinance 8. The disclosures are made without taking into account the effect of credit risk mitigation.***

(4.1) Average amount of exposures to credit risk as of 31 December 2012

In thousands of BGN

Exposure class	On balance sheet items			Off balance sheet items		
	Carying amount of the exposure	Number of exposures	Average amount of the exposure	Carying amount of the exposure	Number of exposures	Average amount of the exposure
Central governments and central banks	715 337	29	24 667	-	-	-
Regional governments or local authorities	11 895	16	743	2 412	10	241
Administrative bodies and non-commercial undertakings	1 204	8	151	233	3	78
Multilateral development banks	7 146	3	2 382	-	-	-
Institutions	685 448	96	7 140	6 561	13	505
Corporates	1 403 828	857	1 638	377 531	1 378	274
Retail	2 599 389	458 874	6	152 988	125 133	1
Exposures secured by mortgages on residential property	2 150 678	39 881	54	82 199	1 001	82
Exposures in default	296 479	163 342	2	-	-	-
Collective investment units	416	1	416	-	-	-
Other exposures	604 384	N/A	N/A	4 785	34	141
Total	**8 476 204**	**663 107**	**-**	**626 709**	**127 572**	**-**

(4.2) *Carying amount of exposures to credit risk broken down by significant geographic regions as of 31 December 2012*

In thousands of BGN

Exposure class	**On balance sheet items**					**Off balance sheet items**				
	Europe	**Asia**	**North America**	**South America**	**Total**	**Europe**	**Asia**	**North America**	**South America**	**Total**
Central governments and central banks	715 337	-	-	-	715 337	-	-	-	-	-
Regional governments or local authorities	11 895	-	-	-	11 895	2 412	-	-	-	2 412
Administrative bodies and non-commercial undertakings	1 204	-	-	-	1 204	233	-	-	-	233
Multilateral development banks	7 146	-	-	-	7 146	-	-	-	-	-
Institutions	674 651	3	10 794	-	685 448	6 561	-	-	-	6 561
Corporates	1 403 828	-	-	-	1 403 828	377 531	-	-	-	377 531
Retail	2 599 278	-	54	57	2 599 389	152 978	-	9	1	152 988
Exposures secured by mortgages on residential property	2 149 345	1 275	58	-	2 150 678	82 199	-	-	-	82 199
Exposures in default	296 090	389	-	-	296 479	-	-	-	-	-
Collective investment units	416	-	-	-	416	-	-	-	-	-
Other exposures	604 384	-	-	-	604 384	4 785	-	-	-	4 785
Total	**8 463 574**	**1 667**	**10 906**	**57**	**8 476 204**	**626 699**	**-**	**9**	**1**	**626 709**

(4.3) Carying amount of exposures to credit risk broken down by industries as of 31 December 2012

In thousands of BGN

Exposure class	On balance sheet items											
	Public Administration	**Real estate activities**	**Manufacturing**	**Agriculture and forestry**	**Construction**	**Transport and communicatios**	**Trade and services**	**Financial and insurance activities**	**Hotels and catering**	**Individuals**	**Other industry**	**Total**
Central governments and central banks	189 054	-	-	-	-	-	-	526 283	-	-	-	715 337
Regional governments or local authorities	11 895	-	-	-	-	-	-	-	-	-	-	11 895
Administrative bodies and non-commercial undertakings	-	-	-	-	-	-	-	-	-	-	1 204	1 204
Multilateral development banks	-	-	-	-	-	-	-	7 146	-	-	-	7 146
Institutions	-	-	-	-	-	-	-	685 448	-	-	-	685 448
Corporates	-	238 674	489 717	46 373	70 817	64 578	224 048	32 362	109 847	6 201	121 211	1 403 828
Retail	-	153	31 550	28 050	5 983	8 451	55 236	9	7 278	2 455 541	7 138	2 599 389
Exposures secured by mortgages on residential property	1 423	13 043	37 327	11 402	68 357	8 296	83 228	3 511	14 908	1 895 988	13 195	2 150 678
Exposures in default	-	5 894	10 693	1 467	18 644	4 113	21 820	49	2 941	226 337	4 521	296 479
Collective investment units	-	-	-	-	-	-	-	416	-	-	-	416
Other exposures	-	-	-	-	-	-	-	-	-	-	604 384	604 384
Total	**202 372**	**257 764**	**569 287**	**87 292**	**163 801**	**85 438**	**384 332**	**1 255 224**	**134 974**	**4 584 067**	**751 653**	**8 476 204**

In thousands of BGN

Exposure class	**Off balance sheet items**											
	Public Administration	**Real estate activities**	**Manufacturing**	**Agriculture and forestry**	**Construction**	**Transport and communicatios**	**Trade and services**	**Financial and insurance activities**	**Hotels and catering**	**Individuals**	**Other industry**	**Total**
Regional governments or local authorities	2 412	-	-	-	-	-	-	-	-	-	-	2 412
Administrative bodies and non-commercial undertakings	-	-	-	-	-	-	-	-	-	-	233	233
Institutions	-	-	-	-	-	-	-	6 561	-	-	-	6 561
Corporates	-	192	152 511	10 418	85 250	7 549	71 550	24 323	1 736	528	23 474	377 531
Retail	-	-	7 643	5 141	1 376	1 659	6 471	4	1 251	126 958	2 485	152 988
Exposures secured by mortgages on residential property	-	-	2 896	652	29 744	1 021	10 958	-	5 392	30 007	1 529	82 199
Exposures in default	-	-	-	-	-	-	-	-	-	-	-	-
Collective investment units	-	-	-	-	-	-	-	-	-	-	-	-
Other exposures	-	-	-	-	-	-	-	-	-	-	4 785	4 785
Total	**2 412**	**192**	**163 050**	**16 211**	**116 370**	**10 229**	**88 979**	**30 888**	**8 379**	**157 493**	**32 506**	**626 709**

(4.4) Carying amount of exposures to credit risk broken down by residual maturity as of 31 December 2012

In thousands of BGN

Exposure class	On balance sheet items							Off balance sheet items						
	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Without maturity	Total	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Without maturity	Total
Central governments and central banks	528 017	4 094	133	141 859	41 234	-	715 337	-	-	-	-	-	-	-
Regional governments or local authorities	234	1 197	1 938	6 304	2 222	-	11 895	-	375	692	1 345	-	-	2 412
Administrative bodies and non-commercial undertakings	350	619	145	90	-	-	1 204	-	233	-	-	-	-	233
Multilateral development banks	-	1	5 032	2 113	-	-	7 146	-	-	-	-	-	-	-
Institutions	640 723	3 340	41 385	-	-	-	685 448	1 646	-	15	4 363	537	-	6 561
Corporates	45 179	102 139	389 957	548 116	318 437	-	1 403 828	13 654	34 547	255 918	39 994	33 418	-	377 531
Retail	50 498	67 953	310 539	1 265 262	905 137	-	2 599 389	71 749	8 325	27 696	41 078	4 140	-	152 988
Exposures secured by mortgages on residential property	33 335	23 138	133 562	378 677	1 581 966	-	2 150 678	1 387	5 541	44 762	27 713	2 796	-	82 199
Exposures in default	1 797	567	4 102	4 886	285 127	-	296 479	-	-	-	-	-	-	-
Collective investment units	-	-	-	-	-	416	416	-	-	-	-	-	-	-
Other exposures	261 435	-	-	-	-	342 949	604 384	1 168	-	-	-	3 617	-	4 785
Total	**1 561 568**	**203 048**	**886 793**	**2 347 307**	**3 134 123**	**343 365**	**8 476 204**	**89 604**	**49 021**	**329 083**	**114 493**	**44 508**	**-**	**626 709**

(4.5) *Carying amount of exposures to credit risk broken down by periods past due as of 31 December 2012*

In thousands of BGN

Exposure class	On balance sheet items								Off balance sheet items	
	Not past due	Past due up to 30 days	Past due from 31 to 60 days	Past due from 61 to 90 days	Past due from 91 to 180 days	Past due from 181 to 360 days	Past due over 361 days	Total	Not past due	Total
Central governments and central banks	715 337	-	-	-	-	-	-	715 337	-	-
Regional governments or local authorities	8 363	3 532	-	-	-	-	-	11 895	2 412	2 412
Administrative bodies and non-commercial undertakings	1 053	151	-	-	-	-	-	1 204	233	233
Multilateral development banks	7 146	-	-	-	-	-	-	7 146	-	-
Institutions	685 448	-	-	-	-	-	-	685 448	6 561	6 561
Corporates	1 229 616	158 179	10 628	5 405	-	-	-	1 403 828	377 531	377 531
Retail	2 132 809	383 168	54 876	28 536	-	-	-	2 599 389	152 988	152 988
Exposures secured by mortgages on residential property	1 613 815	374 656	98 904	63 303	-	-	-	2 150 678	82 199	82 199
Exposures in default	-	-	-	-	53 634	41 191	201 654	296 479	-	-
Collective investment units	416	-	-	-	-	-	-	416	-	-
Other exposures	604 384	-	-	-	-	-	-	604 384	4 785	4 785
Total	**6 998 387**	**919 686**	**164 408**	**97 244**	**53 634**	**41 191**	**201 654**	**8 476 204**	**626 709**	**626 709**

(4.6) Carying amount of exposures to credit risk broken down by level of credit quality as of 31 December 2012

In thousands of BGN

Exposure class	Level of credit quality	On balance sheet items			Off balance sheet items
		Gross value	Impairment allowances	Nett value	
Central governments and central banks	3	189 054	-	189 054	-
Central governments and central banks	Not rated	526 283	-	526 283	-
Central governments and central banks - total		**715 337**	**-**	**715 337**	**-**
Regional governments or local authorities	**Not rated**	**12 329**	**434**	**11 895**	**2 412**
Administrative bodies and non-commercial undertakings	**Not rated**	**1 204**	**-**	**1 204**	**233**
Multilateral development banks	**N/A**	**7 146**	**-**	**7 146**	**-**
Institutions	1	967	-	967	-
Institutions	2	19 140	-	19 140	-
Institutions	3	31 261	-	31 261	4 915
Institutions	4	632 378	1 090	631 288	1 646
Institutions	6	638	-	638	-
Institutions	Not rated	2 154	-	2 154	-
Institutions - total		**686 538**	**1 090**	**685 448**	**6 561**
Corporates	**Not rated**	**1 451 911**	**48 083**	**1 403 828**	**377 531**
Retail	**Not rated**	**2 704 825**	**105 436**	**2 599 389**	**152 988**
Exposures secured by mortgages on residential property	**Not rated**	**2 161 363**	**10 685**	**2 150 678**	**82 199**
Exposures in default	6	5 158	5 158	-	-
Exposures in default	Not rated	1 414 748	1 118 269	296 479	-
Exposures in default - total		**1 419 906**	**1 123 427**	**296 479**	**-**
Collective investment units	**Not rated**	**416**	**-**	**416**	**-**
Other exposures	**Not rated**	**608 248**	**3 864**	**604 384**	**4 785**
Total		**9 769 223**	**1 293 019**	**8 476 204**	**626 709**

2. Internal Capital Adequacy Assessment Process (ICAAP)

The management of the Bank considers that the main part of the Bank group risk and its adequate coverage is concentrated in the Bank. The relative influence of the specific risks of the other subsidiaries from the group doesn't impact substantially the risk profile at group level as the consolidated capital adequacy ratios do not deviate significantly from those on individual basis. For these reasons it is accepted that the capital buffer allocated by the Bank can cover unexpected adverse changes in the risk position coverage at group level and the Bank doesn't prepare Internal Capital Adequacy Assessment on consolidated basis. The results of the ICAAP of the Bank are disclosed below.

DSK Bank identifies the following types of risk, specific for its risk profile:

- Credit risk
- Concentration risk
- Market risk
- Operational risk
- Interest rate risk in the banking portfolio
- Liquidity risk
- Reputational risk
- Strategic risk

The Bank's control and risk management has the following main goals:

- Achievement of the strategic goals of the Group in a way that ensures a reasonable balance between taken risks and realized earnings;
- The potential losses should be limited to an amount which the bank is capable of bearing without endangering its long-term development. This goal is realized through reporting expected losses related to occurred events, applying impairments to cover the expected losses, and inclusion of the expected losses in product pricing so that the latter reflects the risks and guarantees lasting returns. Correspondingly, the capital of the Bank has to be sufficient to provide protection against unexpected losses and at the same time to generate the planned return on capital;
- DSK Bank and OTP banking group are developing processes for risk management which correspond to the applicable regulatory requirements and follow the good banking practices;
- DSK Bank and OTP banking group follow a common and consistent risk management policy, which corresponds to the level of development of the banking group and is consistent with its size.

To guarantee the achievement of the main goals of the bank, systems and processes for risk identification, measurement, monitoring, and reporting have been developed. The existent risks are subject to ongoing control in order to ensure they are limited to expected and acceptable amounts.

(1) *Internal Strategy and Capital Plan*

The determination of the required ratios and levels of capital is a part of the annual planning process of the bank's operations and revision of its long-term strategy. The internal management and analysis of the capital adequacy aims to maintain an adequate amount of internal capital which corresponds to the risk profile of the bank and its quality of management through respective systems for risk management. The following principles should be followed:

- A transparent corporate structure which ensures effective and rational risk management;
- Clearly defined levels of reporting and distribution of the tasks and responsibilities;
- The entire risk management process in the bank is managed by the Management Board;
- Comprehensible and effective systems for risk control and internal control which are independent from the controlled activities;
- The effective internal control system consists of three independent functions – risk control, adherence to rules, and internal audit;
- Public announcement and transparency of the bank's operations;
- The Bank regulates the process of managing every significant type of risk with separate rules.

The plans for development of the capital base are consistent with the goals for development of the bank's activity and the acceptable levels of risk for achieving these goals. So far, the short- and long-term goals of the Bank have always been set within its current risk profile without predicting significant changes in the levels of influence of the separate risk components. This allows a relatively reliable assessment of the necessary development of the capital base and respective planning of an adequate capital position.

(2) *Capital Management*

The bank calculates the capital requirements during each process of planning, forecasting, or long-term strategic goal setting. The capital requirements result from the risk profile of the bank which will lead to achievement of the respective goals. The necessity of capital calculated according to regulatory requirements, as well as according to the Internal Capital Adequacy Assessment Process (ICAAP). The regulatory requirements shall be fulfilled with a reasonable reserve above the stipulated minimum. In case the ability to provide capital to cover the higher of the two (with a reasonable reserve above the minimum capital requirement according to the regulatory requirements or the result reached under ICAAP) is under question, the bank reviews its objectives and risk profile.

<u>Stress test conduction</u>

The Bank conducts stress tests which cover all significant risks in order to enable assessment and analysis of its willingness to meet negative impact of significant adverse changes in the risk components, which are beyond expectations during the normal planning process. In case of indicated threatening of the bank's financial stability, as a result of the conducted analysis, a decision for adequate measures is being taken.

During the stress test conduction the following main financial stability indicators are observed:

- *Capital adequacy and capital position*
- *Liquidity – defined as the ratio between liquid assets and the amount of the collected funds except for those collected from credit institutions.*
- *Dynamics of the profitability indicators – net interest income, income from banking activity before operating costs and risk costs, risk costs, profit*

As a result of the conducted calculations and stress tests, a conclusion could be made that the bank has sufficient capital to meet the regulatory requirements as well as a sufficient capital buffer to meet a more risk-sensitive environment. Although in the pessimistic scenario, profitability indicators deteriorated sharply, the bank's capital and liquidity position remains stable and the bank is ready to meet a sharp deterioration in the operating environment. In view of this, the stress tests results show that allocation of additional capital is not needed to cover unforeseen negative circumstances in the operational environment.

(3) Structure of the total capital resource of the Bank

The bank has the following structure of its capital resource as of the end of 2012 г. in accordance with Ordinance 8 of BNB, according to The Internal Methodology for Capital Assessment, as well as according to The Supervisory Assessment of BNB (SREP), which is a result of the conducted inspection and the made recommendations:

In thousands of BGN	**2012 Regulatory Capital**	**2012 ICAAP**	**2012 ICAAP SREP**
Own Funds for Solvency Purposes	**1 261 952**	**1 470 402**	**1 261 952**
Tier I Capital	**1 110 874**	**1 236 289**	**1 110 874**
Paid up capital and premium reserves	153 984	153 984	153 984
Reserves	960 214	1 085 629	960 214
Funds for general banking risks	21 994	21 994	21 994
Intangible assets	(23 769)	(23 769)	(23 769)
Deductions from Tier I capital	(1 549)	(1 549)	(1 549)
Tier II Capital	**257 168**	**257 168**	**257 168**
Revaluation reserves from premises	81 143	81 143	81 143
Subordinated Debt	176 025	176 025	176 025
Deductions from Tier II capital	-	-	-
Deductions from Tier I and Tier II	**(106 090)**	**(23 055)**	**(106 090)**
Investments	(23 055)	(23 055)	(23 055)
Specific provisions	(83 035)	-	(83 035)

According to the approved policy of the bank, for the purposes of internal capital analysis, tier-one capital includes the current year profit up to the moment at which, after the year end, the General Assembly will make a decision regarding its distribution, inclusion in tier-one capital for regulatory purposes or retention in retained earnings from previous years.

For comparison, in the calculation of the capital base according to the supervisory assessment the profit for current year is not included in tier I capital.

Other difference between the calculated capital recourse in accordance to the supervisory assessment and according to The Bank's policy is the inclusion of specific provisions, calculated according to Ordinance 9 of BNB as a capital base deduction in accordance to supervisory assessment.

The parameters of capital adequacy are as following:

In thousands of BGN	**2012 Regulatory Capital**	**2012 ICAAP**	**2012 ICAAP SREP**
Own Funds for Solvency Purposes	**1 261 952**	**1 470 402**	**1 261 952**
Tier I Capital	**1 057 829**	**1 224 762**	**1 057 829**
Risk-weighted assets	**6 680 922**	**6 911 744**	**6 911 744**
Credit risk	5 467 131	5 465 125	5 465 125
Position, foreign exchange and commodity risk	67 497	72 127	72 127
Operational risk	1 146 294	1 146 294	1 146 294
Other risks	-	228 198	228 198
Interest rate risk in Banking book	-	200 000	200 000
Reputation risk	-	28 198	28 198
Strategic risk	-	-	-
Solvency ratio (%)	18.89%	21.27%	18.26%
Original own funds ratio (%)	15.83%	17.72%	15.30%
Free Capital	460 241	640 752	432 302

The Bank has a stable and adequate capital position which allows coverage of the risks arising from its operations. The Bank foresees a capital buffer compared to both the regulatory requirements for capital adequacy and the necessary capital base obtained as a result of internal capital adequacy assessment. This capital buffer is a result mainly of the followed policy for capitalization of profit from previous years, as well as a reasonable risk management and risk appetite determination in the activity, as a result of which the bank has also a sufficiently stable position of tier-one capital.

Capital requirements and ratios for 2012.

In thousands of BGN

Risk profile - 2012	**Regulatory Capital Requirement**	**Additional capital according to ICAAP**	**Additional capital according to ICAAP SREP**	**Total Capital Required ICAAP**	**Total Capital Required ICAAP SREP**
1. Credit risk	656 055	-	-	656 055	656 055
2. Concentration risk	-	-	-	-	-
3. Market risk	8 100	555	555	8 655	8 655
4. Interest rate risk in Banking book	-	24 000	24 000	24 000	24 000
5. Operational risk	137 556	-	-	137 556	137 556
6. Liquidity risk	-	-	-	-	-
7. Other risks	-	3 384	3 384	3 384	3 384
Total	**801 711**	**27 939**	**27 939**	**829 650**	**829 650**
Effective minimal adequacy/risk assets ratio according to regulatory requirements	12.00%			12.42%	12.00%

In line with the adopted by the regulator in Bulgaria more conservative approach regarding the capital adequacy requirements, which, as it was seen in the last years, allows forming reasonable buffers for meeting unexpected adverse changes in the operating environment, the bank sets also for internal assessment of the capital more conservative limit of minimum capital requirement, with which to cover the risk component, and namely equal to the regulatory of 12%.

(4) Additional capital under ICAAP

- Additional capital for credit risk

The Bank considers that currently it is not advisable to use elements of the IRB approach for internal analysis of the capital adequacy as this may lead to underestimation of the capital coverage needs. Because of this, at the current moment, the standardized approach is considered appropriate for calculation of the necessary capital according to ICAAP.

The management of the bank considers that the risk profile of the portfolio has an adequate coverage of the allocated capital for credit risk according to the regulatory requirements and there is no need of additional capital coverage, exceeding the regulatory maximum.

- Additional capital for concentration risk

The Bank considers that it maintains a high level of preventive and follow-up measures for restricting and managing the concentration risk, which in addition to the high level of provision coverage of the assets represents an additional buffer also regarding the concentration risk. In view of this, the bank considers that it is not necessary to allocate additional capital for concentration risk.

- Additional capital for currency risk

In accordance with the adopted interbank rules, the currency positions are monitored on a daily basis. Additionally, an independent of the business unit calculates and reports the condition of the positions and the risk of the positions as a whole for the Bank. The level of currency risk is measured through VaR models. The model is back-tested regularly and the results are reported to the management of the bank periodically.

The additional capital that the Bank allocates according to the calculations regarding the level of currency risk is lower than 0.04% from the capital base.

- Additional capital for interest rate risk in the banking portfolio

The capital requirements for this type of risk are determined from the result obtained from a standard deviation (shock) of the interest rates on the separate currencies within +/-200 b.p. The sensitivity of the different time intervals is calculated on the basis of the modified duration given a profitability level of 5%. In the Rules for interest rate risk management of the Bank, a limit has been set regarding the effect of the standard shock. The reduction of the capital from this shock shall not exceed 20% of the bank's equity.

Taking into consideration the asset and liability structure, the management considers that the proposed standard shock determines adequately the level of interest rate risk of the bank and the result should be used for determining the required capital. The necessary capital for 2012 amounted to 24 000 thousand.

- Additional capital reserve for liquidity risk

The bank considers that the capital is not an adequate tool for covering the liquidity risk.

- Additional capital for operational risk

The bank uses an approach for assessment of the necessary capital for operational risk under ICAAP, based on the following: actual damages suffered, self-assessment of the risk, scenario analyses and external events. In compliance with the Guidelines on the Application of the Supervisory Review Process, wherein there is a requirement banks to maintain a level of capital not lower than the minimum required capital, DSK Bank determines the amount of the regulatory capital as an amount of the capital for operational risk under ICAAP.

- Additional capital for reputational risk

As a result of the reputational risk management (incl. adequate management through existing rules and procedures separately for every risk that could be influenced by reputational events, as well as the relations between these risks) and the calculated on this basis corrected sensitivity ratio, the bank calculates a total corrected sensitivity ratio based on different weights with which every risk could influence the total risk profile of the bank (in accordance with the accepted understanding for the character of the risk profile of the bank). The total corrected sensitivity ratio is the percentage from the tier-one capital with which the bank increases the minimum required capital for the purposes of reputational risk coverage. In view of these assessments regarding the reputational risk, the bank determines 0.28% from the tier-one capital for additional capital requirement for reputational risk coverage.

- Additional capital for strategic risk

As a result of the strategic risk management and the observed historic deviation from the strategic goals, the bank calculates a sensitivity ratio. The dynamics of the profit and capital adequacy is observed, as the deviations from the long-term strategic goals as well as from the annually planned, are determined.

According to last data, the sensitivity ratio regarding the profit is negative, mainly due to the adverse influence of macroeconomic environment during the years 2008-2012. On the other hand, the sensitivity ratio regarding the capital adequacy is positive. This proves the adequate management of the activity in an environment of strongly unfavourable external influence and the ability of the bank to maintain its stability, covering its strategic risk with its ongoing processes and flexible response based on timely management decisions and measures. The balance between both ratios as well as the results from the latest conducted stress tests regarding the overall activity of the bank based on 2013 plan parameters, shows that there is no need the bank to allocate an additional capital for strategic risk coverage.

II. Remuneration Policy and Practices

1. Remuneration Policy of the Bank Group

The taking decision process is in accordance with the Remuneration Policy Rules of the Bank and the Bank Group, developed and applied keeping the OTP Bank standards. The rules are accepted from the Management Board and approved from the Supervisory Board of DSK Bank.

The most important principle of the Bank Group Remuneration Policy is that the rate of performance-based remuneration – subject to the preliminary and subsequent evaluation of risks – is linked to realization level of the targets at bank group/bank and individual level.

The performance appraisal among the persons belonging to the scope of the Remuneration Policy is based on individual agreements. The performance expectations are defined by bank group/bank/affiliate, organizational, manager and position level within a pre-defined benchmark structure and/or target tasks considering the differences arising from the nature of the various banking organizations' activity.

The Remuneration Policy stipulates differentiated income levels conforming to the value of the jobs and based on classifications. The remuneration comprises fixed and performance-based remuneration. The fact that the amount of the fixed remuneration for the persons belonging to the scope of the Policy is high enough to provide compensation for the professional work and is in line with the level of education, ranking, the required level of experience and skills, and the relevant business sector ensures the enforcement of a flexible remuneration policy.

At the level of DSK Bank Group the performance appraisal connected to performance-based remuneration takes place on the basis of the return on risk-adjusted capital (RORAC). The ratio is calculated on the basis of the figures of those Bank Group member affiliates, operating as group members, which belonged to the circle of consolidation throughout the appraised fiscal year for controlling purposes.

As a general rule the performance remuneration based on performance appraisal for the persons belonging to the scope of the Remuneration Policy takes place uniformly in the form of cash bonus and shares, in the proportion of 50-50%.

As a general rule 60% of the performance-based remuneration specified for individual level for the persons belonging to the scope of the Remuneration Policy shall be deferred.

The main criteria for defining the personal scope of the Remuneration Policy are as follow:

- position, seniority within the corporate hierarchy;
- individual and collective decision-making authority linked to position;
- nature and complexity of the activity performed;
- degree and regularity of the supervision ensuring the performance of the pursued activity;
- business model of the business lines where he/she is active;
- respective market environment, labour market competitive position and local laws, and other local regulations.

The ratio of the fixed and performance-based remuneration connected to the various positions of additional persons belonging to the scope of the Remuneration Policy is established, based on the subject to the collective consideration of the aspects below:

- performance appraisal system and method of defining the risk levels;

- length of the deferred appraisal and payment period, and of the retention period;
- the structure of the organizational unit / Bank Group member affiliate, nature and complexity of its activity;
- position of the employees within the organizational hierarchy, and risk assumption/decision-making levels allocated to the various positions.

2. *Total remuneration broken down by business area of the Bank is as follow:*

In thousands of BGN

Retail banking	33 142
Corporate banking	3 753
Risk management	4 874
IT	4 578
Support and Service	14 961
Subsidiaries	11 523
Total	**72 831**

3. *Aggregate quantitative information on remuneration of the persons referred to in Article 2, items 1, 2 and 4 of BNB Ordinance No. 4 of 2010 on the Requirements on the Remuneration in Banks:*

- the amount of remuneration for the financial year split into fixed and variable remuneration, and the number of beneficiaries:

  Fixed annual remuneration - 6 461 thousands of BGN / 100 persons;
  Variable annual remuneration - 5 701 thousands of BGN / 100 persons.

- the amount and form of variable remuneration is 4 117 thousands of BGN – cash and 1 584 thousands of BGN – options for shares from mother-bank and for account of mother-bank;
- the amount of outstanding deferred remuneration that are to be paid till 2016 is 1 900 thousands of BGN;
- there is no amount of deferred remuneration awarder during the financial year paid out and reduced through performance adjustments;
- there is no amount of new sign-on and severance payment made during the financial year.

Violina Marinova
Chief Executive Director

Dorothea Nikolova
Executive Director