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

2013

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 2013**	**31 December 2012**
Original own funds	**1 124 412**	**1 115 967**
Paid up capital	153 984	153 984
Reserves	960 330	960 214
Minority interests	18 107	6 428
Valuation differences in AFS debt securities	(2 482)	(1 549)
Funds for general banking risks	21 994	21 994
Intangible assets	(27 521)	(25 104)
Additional own funds	**81 220**	**257 168**
Revaluation reserves from premises used for banking activity	81 220	81 143
Subordinated Debt - maximum 50% of Original own funds	-	176 025
Deductions from original and additional own funds	**(84 460)**	**(88 637)**
Holdings in other credit and financial institutions amounting to more than 10% of their capital	(2 499)	(2 062)
Country-specific deductions from original and additional own funds	(2 562)	(2 473)
Specific provisions	(79 399)	(84 102)
Equal distribution of deductions		
Of which: from original own funds	(42 230)	(44 319)
Of which: from additional own funds	(42 230)	(44 319)
Total original own funds for general solvency purposes	**1 082 182**	**1 071 649**
Total additional own funds for general solvency purposes	**38 990**	**212 850**
Total own funds for solvency purposes	**1 121 172**	**1 284 498**
Surplus (+) / Deficit (-) of own funds compared to minimum requred	**324 921**	**482 035**

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 2013	31 December 2012
Solvency ratio (%)	16,90%	19,21%
Original own funds ratio (%)	16,31%	16,03%

OTP Financing Netherlands B.V. granted loan facility in the form of subordinated term debt. 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 this loan facility meets the requirements and granted permission to DSK Bank to include it in the capital for regulatory purposes. As of 31.12.2013 the loan is earlier repaid with Bulgarian National Bank permission. 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 2013

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 requirement**
	before Credit Risk Mitigation	**after Credit Risk Mitigation**		**0%**	**20%**	**35%**	**50%**	**75%**	**100%**		
Central governments and central banks	872 604	892 027	-	861 555	8	-	30 464	-	-	892 027	1 829
Regional governments or local authorities	11 053	11 053	(487)	-	9 260	-	-	-	1 306	10 566	379
Administrative bodies and non-commercial undertakings	1 897	1 843	(1)	-	-	-	-	-	1 842	1 842	221
Multilateral development banks	2 067	2 067	-	2 067	-	-	-	-	-	2 067	-
Institutions	894 155	902 550	-	-	16 662	-	852 461	-	33 427	902 550	55 559
Corporates	1 257 123	1 246 869	(53 232)	-	-	-	-	-	1 193 637	1 193 637	143 236
Retail	2 694 913	2 667 412	(114 542)	-	-	-	-	2 552 870	-	2 552 870	229 758
Exposures secured by mortgages on residential property	2 046 743	2 045 653	(11 784)	-	-	1 616 018	-	-	417 851	2 033 869	118 015
Exposures in default	1 510 673	1 510 673	(1 230 520)	-	-	-	176 171	-	103 982	280 153	23 048
Collective investment units	430	430	-	-	-	-	-	-	430	430	51
Other exposures	630 688	641 769	(4 931)	156 596	105 614	-	-	-	374 628	636 838	47 490
Total	**9 922 346**	**9 922 346**	**(1 415 497)**	**1 020 218**	**131 544**	**1 616 018**	**1 059 096**	**2 552 870**	**2 127 103**	**8 506 849**	**619 586**

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	-	15 642	-	15 642	-	-	-	-	-	15 642	-
Regional governments or local authorities	819	819	-	-	819	-	-	-	-	819	8
Administrative bodies and non-commercial undertakings	34	18	-	-	-	-	-	-	18	18	1
Institutions	7 732	11 545	-	-	56	-	9 279	-	2 210	11 545	405
Corporates	482 672	462 018	-	-	-	-	-	-	462 018	462 018	11 595
Retail	175 899	153 977	-	-	-	-	-	153 977	-	153 977	421
Exposures secured by mortgages on residential property	91 881	91 791	-	-	-	30 840	-	-	60 951	91 791	1 670
Other exposures	5 961	29 188	-	16 627	7 099	-	-	-	5 462	29 188	65
Total	**764 998**	**764 998**	**-**	**32 269**	**7 974**	**30 840**	**9 279**	**153 977**	**530 659**	**764 998**	**14 165**

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 requirement
	before Credit Risk Mitigation	after Credit Risk Mitigation		20%	50%	75%	100%		
Institutions	198	198	-	90	55	-	53	198	12
Corporates	223	223	-	-	-	-	223	223	27
Retail	6	6	-	-	-	6	-	6	-
Total	**427**	**427**	**-**	**90**	**55**	**6**	**276**	**427**	**39**

(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 2013 - 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 ≤ 1 month	-	-	-	0,00%	-
> 1 ≤ 3 months	-	60 768	-	0,30%	182
> 3 ≤ 6 months	-	37 873	-	0,60%	227
> 6 ≤ 12 months	-	-	-	1,05%	-
> 1 ≤ 2 (1,9 for coupon of less than 3%) years	151	3 467	9 758	1,88%	251
> 2 ≤ 3 (> 1,9 ≤ 2,8 for coupon of less than 3%) years	-	15 189	-	2,63%	399
> 3 ≤ 4 (> 2,8 ≤ 3,6 for coupon of less than 3%) years	15 009	83 323	-	3,38%	3 319
> 4 ≤ 5 (> 3,6 ≤ 4,3 for coupon of less than 3%) years	1 089	-	-	4,13%	45
> 5 ≤ 7 (> 4,3 ≤ 5,7 for coupon of less than 3%) years	9 345	7 444	-	4,88%	818
> 7 ≤ 10 (> 5,7 ≤ 7,3 for coupon of less than 3%) years	-	-	-	5,63%	-
> 10 ≤ 15 (> 7,3 ≤ 9,3 for coupon of less than 3%) years	-	-	-	6,75%	-
Total	**25 594**	**208 064**	**9 758**		**5 241**
Specific position risk					
Debt instruments under first category (0% capital requirement)	25 594	132 691	-	0,00%	-
Debt instruments under third category (8% capital requirement)	-	29 264	9 758	8,00%	4 683
Debt instruments under fourth category (12% capital requirement)	-	46 109	-	12,00%	8 300
Total	**25 594**	**208 064**	**9 758**		**12 983**
Capital requirements for each currency	**1 009**	**15 860**	**1 355**		**18 224**

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 2013 - 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	227	12,00%	27
Specific position risk			
Equities - other	227	12,00%	27
Positions in Collective investment units	1 402	48,00%	673
Capital requirements			**727**

- *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 2013

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	**317 284**	**315 480**	**1 804**	-
Currencies in second stage of EMU	-	-	-	
All other currencies (including CIUs treated as different currencies)	317 284	315 480	1 804	
Currency positions				
EUR**	3 727 914	2 068 483	1 659 431	
GBP	18 944	19 459	(515)	
SEK	836	728	108	
CHF	9 951	10 136	(185)	
Other EEA currencies***	239	41	198	
USD	286 661	284 615	2 046	
CAD	600	500	100	
JPY	13	1	12	
Other currencies (not EU)	40	-	40	

* 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, 2013 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 2013

In thousands of BGN

Banking activities	Gross income			Capital requirement
	2010	2011	2012	
Total banking activities subject to Basic Indicator Approach (BIA)	619 697	651 910	641 860	143 510

(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 2013

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	Caryying amount of the exposure	Number of exposures	Average amount of the exposure
Central governments and central banks	872 604	28	31 164	-	-	-
Regional governments or local authorities	10 566	14	755	819	5	164
Administrative bodies and non-commercial undertakings	1 896	11	172	34	3	11
Multilateral development banks	2 067	1	2 067	-	-	-
Institutions	894 353	68	13 152	7 732	14	552
Corporates	1 204 114	868	1 387	482 672	1 477	327
Retail	2 580 377	451 355	6	175 899	135 147	1
Exposures secured by mortgages on residential property	2 034 959	38 500	53	91 881	968	95
Exposures in default	280 153	183 380	2	-	-	-
Collective investment units	430	1	430	-	-	-
Other exposures	625 757	N/A	N/A	5 961	N/A	N/A
Total	**8 507 276**	**674 226**	**-**	**764 998**	**137 614**	**-**

(4.2) *Carying amount of exposures to credit risk broken down by significant geographic regions as of 31 December 2013*

In thousands of BGN

Exposure class	On balance sheet items					Off balance sheet items				
	Europe	Asia	North America	South America	Total	Europe	Africa	North America	South America	Total
Central governments and central banks	872 604	-	-	-	872 604	-	-	-	-	-
Regional governments or local authorities	10 566	-	-	-	10 566	819	-	-	-	819
Administrative bodies and non-commercial undertakings	1 896	-	-	-	1 896	34	-	-	-	34
Multilateral development banks	2 067	-	-	-	2 067	-	-	-	-	-
Institutions	889 780	13	4 560	-	894 353	7 732	-	-	-	7 732
Corporates	1 204 114	-	-	-	1 204 114	482 672	-	-	-	482 672
Retail	2 580 298	4	27	48	2 580 377	175 826	1	72	-	175 899
Exposures secured by mortgages on residential property	2 033 424	1 391	144	-	2 034 959	91 881	-	-	-	91 881
Exposures in default	280 114	37	-	2	280 153	-	-	-	-	-
Collective investment units	430	-	-	-	430	-	-	-	-	-
Other exposures	625 757	-	-	-	625 757	5 961	-	-	-	5 961
Total	**8 501 050**	**1 445**	**4 731**	**50**	**8 507 276**	**764 925**	**1**	**72**	**-**	**764 998**

(4.3) *Carying amount of exposures to credit risk broken down by industries as of 31 December 2013*

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	247 499	-	-	-	-	-	-	625 105	-	-	-	872 604
Regional governments or local authorities	10 566	-	-	-	-	-	-	-	-	-	-	10 566
Administrative bodies and non-commercial undertakings	-	-	-	-	-	-	-	-	-	-	1 896	1 896
Multilateral development banks	-	-	-	-	-	-	-	2 067	-	-	-	2 067
Institutions	-	-	-	-	-	-	-	894 353	-	-	-	894 353
Corporates	-	198 843	453 577	47 199	62 373	20 601	223 885	20 022	95 443	7 538	74 633	1 204 114
Retail	-	64	27 331	41 012	5 119	8 102	48 039	16	5 433	2 438 806	6 455	2 580 377
Exposures secured by mortgages on residential property	1 274	8 586	54 811	9 979	48 809	6 564	62 417	2 605	13 914	1 816 118	9 882	2 034 959
Exposures in default	-	28 840	6 435	1 290	7 510	3 840	17 476	47	2 546	206 065	6 104	280 153
Collective investment units	-	-	-	-	-	-	-	430	-	-	-	430
Other exposures	-	-	-	-	-	-	-	-	-	-	625 757	625 757
Total	**259 339**	**236 333**	**542 154**	**99 480**	**123 811**	**39 107**	**351 817**	**1 544 645**	**117 336**	**4 468 527**	**724 727**	**8 507 276**

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	819	-	-	-	-	-	-	-	-	-	-	819
Administrative bodies and non-commercial undertakings	-	-	-	-	-	-	-	-	-	-	34	34
Institutions	-	-	-	-	-	-	-	7 732	-	-	-	7 732
Corporates	-	2 018	394 972	19 445	11 950	2 637	36 722	5 712	915	31	8 270	482 672
Retail	-	-	14 390	8 040	1 211	935	6 209	-	132	144 569	413	175 899
Exposures secured by mortgages on residential property	-	429	31 396	950	14 655	649	12 452	-	-	30 117	1 233	91 881
Exposures in default	-	-	-	-	-	-	-	-	-	-	-	-
Collective investment units	-	-	-	-	-	-	-	-	-	-	-	-
Other exposures	-	-	-	-	-	-	-	-	-	-	5 961	5 961
Total	**819**	**2 447**	**440 758**	**28 435**	**27 816**	**4 221**	**55 383**	**13 444**	**1 047**	**174 717**	**15 911**	**764 998**

(4.4) *Carying amount of exposures to credit risk broken down by residual maturity as of 31 December 2013*

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	625 106	9 844	7 614	184 994	45 046	-	872 604	-	-	-	-	-	-	-
Regional governments or local authorities	190	363	2 653	6 131	1 229	-	10 566	39	-	490	290	-	-	819
Administrative bodies and non-commercial undertakings	359	16	65	1 426	30	-	1 896	-	-	19	15	-	-	34
Multilateral development banks	-	-	-	2 067	-	-	2 067	-	-	-	-	-	-	-
Institutions	857 253	406	3 267	33 427	-	-	894 353	46	44	7 032	2	608	-	7 732
Corporates	33 616	75 710	409 771	339 690	345 327	-	1 204 114	22 478	56 162	263 811	94 870	45 351	-	482 672
Retail	42 136	65 840	303 696	1 258 230	910 475	-	2 580 377	78 654	10 730	29 327	50 574	6 614	-	175 899
Exposures secured by mortgages on residential property	22 199	17 628	111 322	365 820	1 517 990	-	2 034 959	3 479	3 430	55 833	26 853	2 286	-	91 881
Exposures in default	300	1 993	6 203	16 565	255 092	-	280 153	-	-	-	-	-	-	-
Collective investment units	-	-	-	-	-	430	430	-	-	-	-	-	-	-
Other exposures	294 868	-	-	-	-	330 889	625 757	499	-	-	-	5 462	-	5 961
Total	**1 876 027**	**171 800**	**844 591**	**2 208 350**	**3 075 189**	**331 319**	**8 507 276**	**105 195**	**70 366**	**356 512**	**172 604**	**60 321**	**-**	**764 998**

(4.5) *Carying amount of exposures to credit risk broken down by periods past due as of 31 December 2013*

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	872 604	-	-	-	-	-	-	872 604	-	-
Regional governments or local authorities	8 867	1 699	-	-	-	-	-	10 566	819	819
Administrative bodies and non-commercial undertakings	1 893	3	-	-	-	-	-	1 896	34	34
Multilateral development banks	2 067	-	-	-	-	-	-	2 067	-	-
Institutions	894 353	-	-	-	-	-	-	894 353	7 732	7 732
Corporates	1 126 275	72 628	1 205	4 006	-	-	-	1 204 114	482 672	482 672
Retail	2 163 994	350 235	42 049	24 099	-	-	-	2 580 377	175 899	175 899
Exposures secured by mortgages on residential property	1 547 796	339 819	83 635	63 709	-	-	-	2 034 959	91 881	91 881
Exposures in default	-	-	-	-	33 735	63 704	182 714	280 153	-	-
Collective investment units	430	-	-	-	-	-	-	430	-	-
Other exposures	625 757	-	-	-	-	-	-	625 757	5 961	5 961
Total	**7 244 036**	**764 384**	**126 889**	**91 814**	**33 735**	**63 704**	**182 714**	**8 507 276**	**764 998**	**764 998**

(4.6) *Carying amount of exposures to credit risk broken down by level of credit quality as of 31 December 2013*

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	247 566	-	247 566	-
Central governments and central banks	Not rated	625 038	-	625 038	-
Central governments and central banks - total		**872 604**	**-**	**872 604**	**-**
Regional governments or local authorities	**Not rated**	**11 053**	**487**	**10 566**	**819**
Administrative bodies and non-commercial undertakings	**Not rated**	**1 897**	**1**	**1 896**	**34**
Multilateral development banks	**N/A**	**2 067**	**-**	**2 067**	**-**
Institutions	1	302	-	302	-
Institutions	2	10 921	-	10 921	44
Institutions	3	3 045	-	3 045	6 042
Institutions	4	840 967	-	840 967	1 646
Institutions	5	33 427	-	33 427	-
Institutions	Not rated	5 691	-	5 691	-
Institutions - total		**894 353**	**-**	**894 353**	**7 732**
Corporates	**Not rated**	**1 257 346**	**53 232**	**1 204 114**	**482 672**
Retail	**Not rated**	**2 694 919**	**114 542**	**2 580 377**	**175 899**
Exposures secured by mortgages on residential property	**Not rated**	**2 046 743**	**11 784**	**2 034 959**	**91 881**
Exposures in default	6	5 166	5 166	-	-
Exposures in default	Not rated	1 505 507	1 225 354	280 153	-
Exposures in default - total		**1 510 673**	**1 230 520**	**280 153**	**-**
Collective investment units	**Not rated**	**430**	**-**	**430**	**-**
Other exposures	**Not rated**	**630 688**	**4 931**	**625 757**	**5 961**
Total		**9 922 773**	**1 415 497**	**8 507 276**	**764 998**

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
- Business risk
- Risk of change in real estate prices

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), presented by two different approaches – according to DSK Bank's policy and based on the supervisory assessment (SREP). 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.

Stress test conduction

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 2013 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):

In thousands of BGN	**2013 Regulatory Capital**	**2013 ICAAP**	**2013 ICAAP SREP**
Own Funds for Solvency Purposes	**1 087 104**	**1 234 947**	**1 087 104**
Tier I Capital	**1 107 566**	**1 176 782**	**1 107 566**
Paid up capital and premium reserves	153 984	153 984	153 984
Reserves	960 214	1 029 430	960 214
Funds for general banking risks	21 994	21 994	21 994
Intangible assets	(26 144)	(26 144)	(26 144)
Deductions from Tier I capital	(2 482)	(2 482)	(2 482)
Tier II Capital	**81 220**	**81 220**	**81 220**
Revaluation reserves from premises	81 220	81 220	81 220
Deductions from Tier I and Tier II	**(101 682)**	**(23 055)**	**(101 682)**
Investments	(23 055)	(23 055)	(23 055)
Specific provisions	(78 627)	-	(78 627)

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	**2013 Regulatory Capital**	**2013 ICAAP**	**2013 ICAAP SREP**
Own Funds for Solvency Purposes	**1 087 104**	**1 234 947**	**1 087 104**
Tier I Capital	**1 056 725**	**1 165 255**	**1 056 725**
Risk-weighted assets	**6 644 613**	**6 721 854**	**6 720 275**
Credit risk	5 296 874	5 296 874	5 296 874
Position, foreign exchange and commodity risk	149 377	150 694	150 693
Operational risk	1 198 362	1 198 362	1 198 363
Other risks	-	75 924	74 345
Interest rate risk in Banking book	-	49 083	49 083
Reputation risk	-	26 841	25 262
Strategic risk	-	-	-
Solvency ratio (%)	16,36%	18,37%	16,18%
Original own funds ratio (%)	15,90%	17,34%	15,72%
Free Capital	289 750	428 325	280 671

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 2013.

In thousands of BGN

Risk profile - 2013	**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	635 625	-	-	635 625	635 625
2. Concentration risk	-	-	-	-	-
3. Market risk	17 925	158	158	18 083	18 083
4. Interest rate risk in Banking book	-	5 890	5 890	5 890	5 890
5. Operational risk	143 804	-	-	143 804	143 804
6. Liquidity risk	-	-	-	-	-
7. Other risks	-	3 221	3 031	3 221	3 031
Total	**797 354**	**9 269**	**9 079**	**806 623**	**806 433**
Effective minimal adequacy/risk assets ratio according to regulatory requirements	12,00%			12,14%	12,14%

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.

- 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. For that reason, 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 0.01% 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 2013 amounted to BGN 5 890 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 for 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 by 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 by 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 2009-2013. 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 2014 plan parameters, shows that there is no need the Bank to allocate an additional capital for strategic risk coverage.

- Additional capital for strategic risk

The business risk assessment is performed by complex modelling of the Bank's activity, based on assumptions that reflect to potential changes in the performance indicators, which according to the current circumstances have or most likely have significant impact on the profitability, liquidity and capital position of the Bank. The assessment is being accomplished through plan, forecast or stress test on the entire balance sheet and the income statement of the Bank. The main aspects of the assessment are:

➢ Overall assessment of the operational environment - analysis of the macroeconomic situation and market environment. The main aim is to define the parameters that should have or most likely have significant impact, as well as the opportunities for business development.

➢ Analysis of the possible development of the Bank's activity through assumptions, defined on the basis of the operational environment assessment and following the strategic objectives within these assumptions. Proper assessment of the sales dynamics, profitability, capital position, return on assets, and other key indicators for a certain period of time.

➢ Conduction of stress tests for business risk in accordance to the Stress test conduction methodology. Investigating the response of the operating profit and the key indicators of the Bank against possible negative changes in main factors.

The Bank believes that a lot of successful preventive measures are placed in order to reduce the business risk. At the same time, the results of the recently conducted stress tests on the Bank's overall activity and based on 2014 planned parameters, indicated lack of necessity for allocating an additional capital in order to cover any business risks for 2013.

- Additional capital for risk of change in real estate prices

The Bank assesses to what extend the available capital resource could cover the potential risk of decline in real estate market prices, without jeopardizing the adequate capital coverage of the other risks. The Bank's property represented less than 4% of total assets. The Bank regularly (annually) observes the current evaluation of the property's book value and verifies the need for reassessment. The positive revaluation is capital resource, while the negative provides a reduction of the capital resource, or a deduction after its exhaustion. The Bank monitors the dynamics of the real estate market and in case of negative trends indications, relies relevant assumptions in planning and forecasting process, and in conductions of stress tests in order to take the possible negative effects on the capital resources into account.

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	35 408
Corporate banking	3 801
Risk management	5 347
IT	4 515
Support and Service	15 954
Subsidiaries	10 535
Total	**75 560**

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 - 6 844 thousands of BGN / 100 persons;
  Variable annual remuneration - 5 419 thousands of BGN / 100 persons.

- the amount and form of variable remuneration is 3 906 thousands of BGN – cash and 1 513 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 2017 is 1 666 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