

YEAR END DISCLOSURE
DSK Bank Group

According to
Regulation 575/2013 on prudential requirements for
credit institutions and investment firms

DSK Bank EAD as the former State Savings Bank was incorporated on 2 March 1951 in Bulgaria as a centralised deposit accepting institution. In 1998 DSK has been transferred into a commercial bank through the Act on DSK transformation 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 Part eight of Regulation 575/2013 on prudential requirements for credit institutions and investment firms (the Regulation). According to art. 434 of the Regulation an equivalent disclosure of non-disclosed here parts is made in the Financial Statements of the Bank published on official web page.

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. In cooperation with OTP Bank Hungary the Bank's risk profile is assessed in order to determine whether the Bank Group allocates 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

As of 31.12.2014 r. the Bank Group has to maintain the minimum amount of or above the sum total of the capital requirements for:

- 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.

- Capital Buffers, required from Bulgarian National Bank according to the Regulation:
 - Capital conservation buffer - 2,5 % of total risk exposure;
 - Systemic risk buffer - 3 % of total risk exposure.

(1) **Regulatory capital**

Total own funds are the sum of common equity tier I capital, additional tier I capital and tier 2 capital, reduced by specific deductions according to Transitional provisions of Regulation 575/2013 and Transitional and final provisions of Ordinance No. 7 of BNB on organisation and risk management of banks.

The scope of Regulatory consolidation of DSK Bank Group is as follow:

- Fully consolidated are the following subsidiaries: DSK Asset Management, DSK Rodina Pension Company, DSK BUL Project, DSK Leasing Group, 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 Cash Services Company.

(2) **Capital ratios**

Total own funds

| | Basel III 2014 | Basel III Estimated 2013 | Basel II As Reported 2013 |
|--|---------------------------|---|--|
| <i>In thousands of BGN</i> | | | |
| Common equity Tier 1 capital | | | |
| Ordinary share capital | 153 984 | 153 984 | 153 984 |
| Reserves | 982 208 | 982 324 | 982 324 |
| Minority interest | - | - | 18 107 |
| <i>Deductions from Common equity Tier 1 capital</i> | | | |
| Intangible assets | (29 999) | (26 346) | (26 346) |
| Goodwill accounted for as intangible asset | (1 175) | (1 175) | (1 175) |
| Accumulated other comprehensive income | (673) | (2 482) | (2 482) |
| CET1 instruments of financial sector entities where the institution has a significant investment | - | (1 500) | (1 249) |
| Qualifying holdings outside the financial sector | - | - | (1 281) |
| Tier 2 instruments of financial sector entities where the institution does not have a significant investment | (23 036) | - | - |
| Specific provisions | - | - | (39 700) |
| | <u>1 081 309</u> | <u>1 104 805</u> | <u>1 082 182</u> |
| Tier 2 capital | | | |
| Accumulated other comprehensive income | 63 730 | 64 976 | 81 220 |
| <i>Deductions from Tier 2 capital</i> | | | |
| CET1 instruments of financial sector entities where the institution has a significant investment | - | (999) | (1 250) |
| Qualifying holdings outside the financial sector | - | - | (1 281) |
| Tier 2 instruments of financial sector entities where the institution does not have a significant investment | (34 553) | - | - |
| Specific provisions | - | - | (39 699) |
| | <u>29 177</u> | <u>63 977</u> | <u>38 990</u> |
| Own funds | <u>1 110 486</u> | <u>1 168 782</u> | <u>1 121 172</u> |

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. The total capital adequacy ratio should be higher than 13.5 % and the adequacy of Tier I capital should be higher than 11.5 % with capital buffers included.

Capital Ratios

| | 31-Dec-2014 | 31-Dec-2013 |
|------------------------------|--------------------|--------------------|
| Solvency ratio (%) | 18,05% | 16,90% |
| Original own funds ratio (%) | 17,58% | 16,31% |

(3) **Reconciliation between balance sheet items used to calculate own funds and regulatory own funds**

| Balance sheet items included in regulatory capital estimation | Amount in Financial Statement | Amount for regulatory purposes |
|--|--|---|
| Assets | | |
| Available for sale investments | 57 589 | (57 589) |
| Of which - holdings of the T2 instruments of financial sector entities where the institution does not have a significant investment in those entitles - amount above 10% threshold | 57 589 | (57 589) |
| Intangible assets | 31 174 | (31 174) |
| Capital and Reserves | | |
| Ordinary Shares | 153 984 | 153 984 |
| Retained earnings | 304 530 | - |
| General and other reserve | 982 208 | 982 208 |
| Other comprehensive income | 96 297 | 63 057 |
| of which - negative fair value of available for sale investments | (673) | (673) |
| of which - positive fair value of available for sale investments | 7 598 | - |
| of which - positive fair value of tangible assets | 89 372 | 63 730 |
| Total own funds | <u>1 537 019</u> | <u>1 110 486</u> |

(4) *Capital instruments' main features*

| Capital instruments' main features template (1) | | |
|--|---|------------------------------|
| 1 | Issuer | DSK Bank EAD |
| 2 | Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement) | BG1100050001 |
| 3 | Governing law(s) of the instrument | Bulgarian |
| Regulatory treatment | | |
| 4 | Transitional CRR rules | Common equity Tier I capital |
| 5 | Post-transitional CRR rules | Common equity Tier I capital |
| 6 | Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated | Solo & Consolidated |
| 7 | Instrument type (types to be specified by each jurisdiction) | Ordinary Shares |
| 8 | Amount recognised in regulatory capital (currency in million, as of most recent reporting date) | BGN 154 m. |
| 9 | Nominal amount of instrument | BGN 10 |
| 9a | Issue price | 100% |
| 9b | Redemption price | 100% |
| 10 | Accounting classification | Shareholders' equity |
| 11 | Original date of issuance | 26.Jan.99 |
| 12 | Perpetual or dated | Perpetual |
| 13 | Original maturity date | No maturity |
| 14 | Issuer call subject to prior supervisory approval | Yes |
| 15 | Optional call date, contingent call dates, and redemption amount | N/A |
| 16 | Subsequent call dates, if applicable | N/A |
| Coupons / dividends | | |
| 17 | Fixed or floating dividend/coupon | Floating |
| 18 | Coupon rate and any related index | N/A |
| 19 | Existence of a dividend stopper | No |
| 20a | Fully discretionary, partially discretionary or mandatory (in terms of timing) | mandatory |
| 20b | Fully discretionary, partially discretionary or mandatory (in terms of amount) | mandatory |
| 21 | Existence of step up or other incentive to redeem | N/A |
| 22 | Noncumulative or cumulative | N/A |
| 23 | Convertible or non-convertible | N/A |
| 24 | If convertible, conversion trigger (s) | N/A |
| 25 | If convertible, fully or partially | N/A |
| 26 | If convertible, conversion rate | N/A |
| 27 | If convertible, mandatory or optional conversion | N/A |
| 28 | If convertible, specify instrument type convertible into | N/A |
| 29 | If convertible, specify issuer of instrument it converts into | N/A |
| 30 | Write-down features | N/A |
| 31 | If write-down, write-down trigger (s) | N/A |
| 32 | If write-down, full or partial | N/A |
| 33 | If write-down, permanent or temporary | N/A |
| 34 | If temporary write-down, description of write-up mechanism | N/A |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | N/A |
| 36 | Non-compliant transitioned features | No |
| 37 | If yes, specify non-compliant features | N/A |

(5) *Disclosure according to Annex VI of Implementing Regulation (EU) 1423/2013*

Transitional own funds disclosure template

| Common Equity Tier 1 capital: instruments and reserves | | (A) AMOUNT AT DISCLOSURE DATE | (B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) No 575/2013 |
|--|--|-------------------------------|---|---|
| 1 | Capital instruments and the related share premium accounts | 153 984 | 26 (1), 27, 28, 29, EBA list 26 (3) | N/A |
| | of which: Instrument type 1 Ordinary Shares | 153 984 | EBA list 26 (3) | N/A |
| | of which: Instrument type 2 | - | EBA list 26 (3) | N/A |
| | of which: Instrument type 3 | - | EBA list 26 (3) | N/A |
| 2 | Retained earnings | - | 26 (1) (c) | N/A |
| 3 | Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards) | 86 588 | 26 (1) | N/A |
| 3a | Funds for general banking risk | 982 208 | 26 (1) (f) | N/A |
| 4 | Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1 | - | 486 (2) | N/A |
| | Public sector capital injections grandfathered until 1 January 2018 | - | 483 (2) | N/A |
| 5 | Minority Interests (amount allowed in consolidated CET1) | - | 84, 479, 480 | N/A |
| 5a | Independently reviewed interim profits net of any foreseeable charge or dividend | - | 26 (2) | N/A |
| 6 | Common Equity Tier 1 (CET1) capital before regulatory adjustments | 1 222 780 | | N/A |
| Common Equity Tier 1 (CET1) capital: regulatory adjustments | | | | |
| 7 | Additional value adjustments (negative amount) | - | 34, 105 | N/A |
| 8 | Intangible assets (net of related tax liability) (negative amount) | (31 174) | 36 (1) (b), 37, 472 (4) | N/A |
| 9 | Empty Set in the EU | | | |
| 10 | Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount) | - | 36 (1) (C), 38, 472 (5) | N/A |
| 11 | Fair value reserves related to gains or losses on cash flow hedges | - | 33 (a) | N/A |
| 12 | Negative amounts resulting from the calculation of expected loss amounts | - | 36 (1) (d), 40, 159, 472 (6) | N/A |
| 13 | Any increase in equity that results from securitised assets (negative amount) | - | 32 (1) | N/A |
| 14 | Gains or losses on liabilities valued at fair value resulting from changes in own credit standing | - | 33 (b) | N/A |
| 15 | Defined-benefit pension fund assets (negative amount) | - | 36 (1) (e), 41, 472 (7) | N/A |
| 16 | Direct and indirect holdings by an institution of own CET1 instruments (negative amount) | - | 36 (1) (f), 42, 472 (8) | N/A |

| | | | | |
|-----------|--|------------------|--|------------|
| 17 | Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount) | - | 36 (1) (g), 44, 472 (9) | N/A |
| 18 | Direct and indirect holdings by the institution of the CET1 Instruments of financial sector entities where the Institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount) | - | 36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10) | N/A |
| 19 | Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | - | 36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11) | N/A |
| 20 | Empty Set in the EU | | | |
| 20a | Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative | - | 36 (1) (k) | N/A |
| 20b | of which: qualifying holdings outside the financial sector (negative amount) | - | 36 (1) (k) (i), 89 to 91 | N/A |
| 20c | of which: securitisation positions (negative amount) | - | 36 (1) (k) (ii) 243 (1) (b) 244 (1) (b) 258 | N/A |
| 20d | of which: free deliveries (negative amount) | - | 36 (1) (k) (iii), 379 (3) | N/A |
| 21 | Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions In 38 (3) are met) (negative amount) | - | 36 (1) (c), 38, 48 (1) (a), 470, 472 (5) | N/A |
| 22 | Amount exceeding the 15% threshold (negative amount) | - | 48 (1) | N/A |
| 23 | of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities | - | 36 (1) (I), 48 (1) (b), 470, 472 (11) | N/A |
| 24 | Empty Set in the EU | | | |
| 25 | of which: deferred tax assets arising from temporary differences | - | 36 (1) (c), 38, 48 (1) (a), 470, 472 (5) | N/A |
| 25a | Losses for the current financial year (negative amount) | - | 36 (1) (a), 472 (3) | N/A |
| 25b | Foreseeable tax charges relating to CET1 items (negative amount) | - | 36 (1) (I) | N/A |
| 26 | Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment | - | | N/A |
| 26a | Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468 | (74 242) | | N/A |
| | Of which: available for sale instruments - filter for unrealised loss 1 | 538 | 467 | N/A |
| | Of which: available for sale instruments - filter for unrealised gain 1 | (7 598) | 468 | N/A |
| | Of which: tangible assets - filter for unrealised gain 2 | (79 663) | 468 | N/A |
| 26b | Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR | 12 481 | 481 | N/A |
| | Of which: ... | - | 481 | N/A |
| 27 | Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount) | (36 055) | 36(1)(j) | N/A |
| 28 | Total regulatory adjustments to Common equity Tier 1 (CET1) | (141 471) | | N/A |
| 29 | Common Equity Tier 1 (CET1) capital | 1 081 309 | | N/A |

| Additional Tier 1 (AT1) capital: instruments | | | | |
|--|---|----------|--|-----|
| 30 | Capital instruments and the related share premium accounts | - | 51, 52 | N/A |
| 31 | of which: classified as equity under applicable accounting standards | - | | N/A |
| 32 | of which: classified as liabilities under applicable accounting standards | - | | N/A |
| 33 | Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1 | - | 486 (3) | N/A |
| | Public sector capital injections grandfathered until 1 January 2018 | - | 483 (3) | N/A |
| 34 | Qualifying Tier 1 capital included in consolidated AT1 capital (Including minority Interests not Included in row 5) issued by subsidiaries and held by third parties | - | 85, 86, 480 | N/A |
| 35 | of which: instruments issued by subsidiaries subject to phase out | - | 486 (3) | N/A |
| 36 | Additional Tier 1 (AT1) capital before regulatory adjustments | - | | N/A |
| Additional Tier 1 (AT1) capital: regulatory adjustments | | | | |
| 37 | Direct and indirect holdings by an Institution of own AT1 Instruments (negative amount) | - | 52 (1) (b), 56 (a), 57, 475 (2) | N/A |
| 38 | Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount) | - | 56 (b), 58, 475 (3) | N/A |
| 39 | Direct and indirect holdings of the AT1 instruments of financial sector entities where the Institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount) | - | 56 (c), 59, 60, 79, 475 (4) | N/A |
| 40 | Direct and indirect holdings by the Institution of the AT1 instruments of financial sector entities where the institution has a significant Investment In those entitles (amount above the 10% threshold net of eligible short positions) (negative amount) | - | 56 (d), 59, 79, 475 (4) | N/A |
| 41 | Regulatory adjustments applied to additional tier 1 In respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts) | - | | N/A |
| 41a | Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013 | (36 055) | 472, 472(3)(a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a) | N/A |
| | Of which - intangible assets | (23 999) | | |
| | Of which - holdings of the T2 instruments of financial sector entities where the institution does not have a significant investment in those entitles - amount above 10% threshold | (11 518) | | |
| | f which - holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities | - | | N/A |
| | Of which - additional filters | (538) | | |
| 41b | Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013 | - | 477, 477 (3), 477 (4) (a) | N/A |

| | | | | |
|--|--|------------------|---------------------------------|------------|
| | Of which items to be detailed line by line, e.g. Reciprocal cross holdings in Tier 2 instruments, direct holdings of non-significant investments In the capital of other financial sector entities, etc. | - | | N/A |
| 41c | Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR | - | 467, 468, 481 | N/A |
| | Of which: ... possible filter for unrealised losses | - | 467 | N/A |
| | Of which: ... possible filter for unrealised gains | - | 468 | N/A |
| | Of which: ... | - | 481 | N/A |
| 42 | Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount) | - | 56 (e) | N/A |
| 43 | Total regulatory adjustments to Additional Tier 1 (AT1) capital | (36 055) | | N/A |
| 44 | Additional Tier 1 (AT1) capital | 0 | | N/A |
| 45 | Tier 1 capital (T1 = CET1 + AT1) | 1 081 309 | | N/A |
| Tier 2 (T2) capital: instruments and provisions | | | | |
| 46 | Capital instruments and the related share premium accounts | - | 62, 63 | N/A |
| 47 | Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2 | - | 486 (4) | 0 |
| | Public sector capital injections grandfathered until 1 January 2018 | - | 483 (4) | 0 |
| 48 | Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties | - | 87, 88, 480 | 0 |
| 49 | of which: instruments issued by subsidiaries subject to phase out | - | 486 (4) | 0 |
| 50 | Credit risk adjustments | - | 62 (c) & (d) | 0 |
| 51 | Tier 2 (T2) capital before regulatory adjustments | - | | N/A |
| Tier 2 (T2) capital: regulatory adjustments | | | | |
| 52 | Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount) | - | 63 (b) (i), 66 (a), 67, 477 (2) | 0 |
| 53 | Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount) | - | 66 (b), 68, 477 (3) | 0 |
| 54 | Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | (57 589) | 66 (C), 69, 70, 79, 477 (4) | 0 |
| 54a | Of which new holdings not subject to transitional arrangements | - | | 0 |
| 54b | Of which holdings existing before 1 January 2013 and subject to transitional arrangements | 23 036 | | 0 |
| 55 | Direct and indirect holdings by the Institution of the T2 instruments and subordinated loans of financial sector entities where the Institution has a significant Investment in those entities (net of eligible short positions) (negative amount) | - | 66 (d), 69, 79, 477 (4) | 0 |
| 56 | Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts) | - | | 0 |

| | | | | |
|-----------------------------------|--|------------------|--|------------|
| 56a | Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013 | - | 472, 472(3)(a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a) | 0 |
| | Of which items to be detailed line by line, e.g. Material net interim losses, Intangibles, shortfall of provisions to expected losses etc. | - | | 0 |
| 56b | Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013 | - | 475, 475 (2) (a), 475 (3), 475 (4) (a) | 0 |
| | Of which items to be detailed line by line, e.g. reciprocal cross holdings in at1 Instruments, direct holdings of non significant investments in the capital of other financial sector entities, etc. | - | | 0 |
| 56c | Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR | 63 730 | 467, 468, 481 | 0 |
| | Of which: ... possible filter for unrealised losses | - | 467 | 0 |
| | Of which: unrealised profit of tangible assets | 63 730 | 468 | 0 |
| | Of which: ... | - | 481 | 0 |
| 57 | Total regulatory adjustments to Tier 2 (T2) capital | 29 177 | | 0 |
| 58 | Tier 2 (T2) capital | 29 177 | | N/A |
| 59 | Total capital (TC = T1 + T2) | 1 110 486 | | N/A |
| 59a | Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013(i.e. CRR residual amounts) | - | | N/A |
| | Of which: ... items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc) | - | 472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b) | N/A |
| | Of which: ... items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.) | - | 475, 475 (2) (b), 475 (2) (c), 475 (4) (b) | N/A |
| | Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own t2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc.) | - | 477, 477 (2) (b), 477 (2) (c), 477 (4) (b) | N/A |
| 60 | Total risk weighted assets | 6 151 365 | | N/A |
| Capital ratios and buffers | | | | |
| 61 | Common Equity Tier 1 (as a percentage of risk exposure amount) | 17,58% | 92 (2) (a), 465 | N/A |
| 62 | Tier 1 (as a percentage of risk exposure amount) | 17,58% | 92 (2) (b), 465 | N/A |
| 63 | Total capital (as a percentage of risk exposure amount) | 18,05% | 92 (2) (c) | N/A |
| 64 | Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount) | 5,50% | CRD 128, 129, 130 | N/A |
| 65 | of which: capital conservation buffer requirement | 2,50% | | N/A |
| 66 | of which: countercyclical buffer requirement | 0,00% | | 0 |
| 67 | of which: systemic risk buffer requirement | 3,00% | | N/A |

| | | | | |
|--|---|--------|--|-----|
| 67a | of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer | 0,00% | CRD 131 | N/A |
| 68 | Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount) | 13,08% | CRD 128 | N/A |
| 69 | [non relevant in EU regulation] | | | |
| 70 | [non relevant in EU regulation] | | | |
| 71 | [non relevant in EU regulation] | | | |
| Capital ratios and buffers | | | | |
| 72 | Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions) | - | 36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4) 66 (c), 69, 70, 477 (4) | N/A |
| 73 | Direct and indirect holdings by the institution of the CET 1 Instruments of financial sector entities where the Institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions) | 0 | 36 (1) (i), 45, 48, 470, 472 (11) | N/A |
| 74 | Empty Set in the EU | | | |
| 75 | Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions In Article 38 (3) are met) | - | 36 (1) (c), 38, 48, 470, 472 (5) | N/A |
| Applicable caps on the inclusion of provisions in Tier 2 | | | | |
| 76 | Credit risk adjustments Included In T2 in respect of exposures subject to standardized approach (prior to the application of the cap) | - | 62 | N/A |
| 77 | Cap on Inclusion of credit risk adjustments in T2 under standardised approach | - | 62 | N/A |
| 78 | Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap) | - | 62 | N/A |
| 79 | Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach | - | 62 | N/A |
| Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022) | | | | |
| 80 | Current cap on CET1 instruments subject to phase out arrangements | - | 484 (3), 486 (2) & (5) | N/A |
| 81 | Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities) | - | 484 (3), 486 (2) & (5) | N/A |
| 82 | Current cap on AT1 instruments subject to phase out arrangements | - | 484 (4), 486 (3) & (5) | N/A |
| 83 | Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities) | - | 484 (4), 486 (3) & (5) | N/A |
| 84 | Current cap on T2 instruments subject to phase out arrangements | - | 484 (5), 486 (4) & (5) | N/A |
| 85 | Amount excluded from T2 due to cap (excess over cap after redemptions and maturities) | - | 484 (5), 486 (4) & (5) | N/A |

(6) *Capital requirements*

(6.1) *Capital requirements for credit risk*

DSK Bank Group applies the standardized approach for calculating its risk-weighted assets for credit risk. For this purpose the Bank Group multiplies its Banking book positions by risk weights fixed from the Regulation or BNB

when there is possibility for local regulator's discretion, based on the external credit assessment of each asset issuer. The risk-weighted assets should consist of: (1) risk-weighted on-balance sheet assets, (2) risk-weighted off-balance sheet equivalents, (3) OTC derivative instruments weighted for counter party risk and (4) Trading portfolio positions weighted for counter party risk.

For risk weighted 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 the Regulation. ECAIs assessments are used for the next exposure classes: central governments or central banks, multilateral banks and institutions.

In the table below are represented the amounts of credit risk exposures, risk weighted assets and capital requirements – with counterparty risk included.

In thousands of BGN

| Standardised Approach exposure class | Original exposures | | | RWA | Capital requirement |
|---|---------------------------------------|---|--------------------------------------|------------------|---------------------|
| | before Credit Risk Mitigation and CCF | average amount of exposures before Credit Risk Mitigation and CCF | after Credit Risk Mitigation and CCF | | |
| Central governments and central banks | 649 310 | 901 104 | 1 945 249 | 15 152 | 1 212 |
| Regional governments or local authorities | 7 094 | 9 374 | 6 724 | 1 345 | 108 |
| Public sector entities | 4 876 | 13 980 | 2 827 | 670 | 54 |
| Multilateral development banks | 2 012 | 2 058 | 2 012 | - | - |
| Institutions | 2 220 777 | 1 386 040 | 960 610 | 536 486 | 42 919 |
| Corporates | 1 198 379 | 1 083 187 | 859 494 | 857 368 | 68 589 |
| Retail | 2 744 632 | 2 700 418 | 2 518 253 | 1 861 265 | 148 901 |
| Exposures secured by mortgages on immovable property | 2 940 277 | 2 924 785 | 2 746 350 | 1 591 432 | 127 315 |
| Exposures in default | 305 419 | 334 678 | 305 419 | 321 180 | 25 694 |
| Exposures in the form of units or shares in collective investment undertakings ('CIUs') | 438 | 466 | 438 | 438 | 35 |
| Equity exposures | 8 784 | 8 626 | 8 784 | 8 784 | 703 |
| Other exposures | 779 823 | 657 737 | 801 533 | 443 358 | 35 469 |
| Total | 10 861 821 | 10 022 453 | 10 157 693 | 5 637 478 | 450 999 |

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 thousands of BGN

| Exposures to Counterparty Credit Risk - Standardised Approach exposure class | Original exposures before conversion factors | | RWA | Capital requirement |
|---|---|---------------------------------|--------|------------------------|
| | before Credit Risk Mitigation | after Credit Risk Mitigation | | |
| Institutions | 18 087 | 18 087 | 10 533 | 843 |
| Corporates | 247 | 247 | 247 | 20 |
| Retail | 1 129 | 1 129 | 847 | 68 |
| Total | 19 463 | 19 463 | | 931 |

For the purposes of credit risk mitigation the Bank Group applies Financial Collateral Simple Method. During the process of credit risk mitigation for the purposes of capital calculation the Bank Group recognises collaterals as follow: financial collaterals - debt securities and cash on deposits; guarantees; secured by first line mortgage residential property insured in favour of the Bank Group and commercial property.

In thousands of BGN

| Exposure class | Exposures before Credit Risk Mitigation and CCF | Exposures covered by eligible financial collateral | Exposures covered by guarantees |
|--|---|--|---------------------------------------|
| Central governments and central banks | 649 310 | - | - |
| Regional governments or local authorities | 7 094 | - | - |
| Public sector entities | 4 876 | 2 031 | - |
| Multilateral development banks | 2 012 | - | - |
| Institutions | 2 220 777 | 1 258 518 | - |
| Corporates | 1 198 379 | 40 826 | 175 |
| Retail | 2 744 632 | 9 943 | 51 642 |
| Exposures secured by mortgages on immovable property | 2 940 277 | 1 806 | 679 |
| Exposures in default | 305 419 | - | - |
| Exposures in the form of units or shares in collective investment undertakings ('CIUs') | 438 | - | - |
| Equity exposures | 8 784 | - | - |
| Other exposures | 779 823 | - | - |
| Total | 10 861 821 | 1 313 124 | 52 496 |

(6.2) *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 in the Trading portfolio.

To calculate the capital requirements for general position risk, 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, the net position in each debt instrument is assigned 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 2014

In thousands of BGN

| Market risk: Standardised Approach for position risks in traded debt instruments | BGN | EUR | USD |
|---|--------------|---------------|---------------|
| General position risk. Maturity based approach | | | |
| 0 ≤ 1 month | - | - | - |
| > 1 ≤ 3 months | 176 | - | 18 113 |
| > 3 ≤ 6 months | - | - | - |
| > 6 ≤ 12 months | - | 19 419 | - |
| > 1 ≤ 2 (> 1,9 for coupon of less than 3%) years | 96 | 2 052 | - |
| > 2 ≤ 3 (> 1,9 ≤ 2,8 for coupon of less than 3%) years | - | 7 947 | - |
| > 3 ≤ 4 (> 2,8 ≤ 3,6 for coupon of less than 3%) years | 1 079 | - | - |
| > 4 ≤ 5 (> 3,6 ≤ 4,3 for coupon of less than 3%) years | 4 073 | 7 133 | - |
| > 5 ≤ 7 (> 4,3 ≤ 5,7 for coupon of less than 3%) years | 2 233 | 6 337 | - |
| > 7 ≤ 10 (> 5,7 ≤ 7,3 for coupon of less than 3%) years | 1 088 | - | - |
| > 10 ≤ 15 (> 7,3 ≤ 9,3 for coupon of less than 3%) years | - | - | - |
| > 15 ≤ 20 (> 9,3 ≤ 10,6 for coupon of less than 3%) years | - | 6 946 | - |
| > 20 (> 10,6 ≤ 12,0 for coupon of less than 3%) years | - | - | - |
| Total | 8 745 | 49 834 | 18 113 |
| Specific position risk | | | |
| Debt instruments under first category (0% capital requirement) | 8 745 | 35 490 | - |
| Debt instruments under second category | - | - | - |
| Debt instruments under third category (8% capital requirement) | - | 14 344 | 18 113 |
| Total | 8 745 | 49 834 | 18 113 |
| Capital requirements for each currency | 251 | 2 215 | 1 485 |

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 | 243 | 8,00% | 19 |
| Specific position risk | | | |
| Equities - other | 243 | 8,00% | 19 |
| Positions in Collective investment units | 1 498 | 32,00% | 480 |
| Capital requirements | | | 518 |

▪ *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 has introduced a Currency Board and the national currency has been pegged to the euro by a fixed exchange rate. 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 2014

In thousands of BGN

| Market risk Standardised Approach to foreign exchange risk | All positions | | Net positions | Capital requirement * |
|--|-------------------|-------------------|---------------|-----------------------|
| | Long | Short | | |
| Total positions | 11 658 708 | 11 658 865 | 1 212 | - |
| Currencies closely correlated | 9 967 192 | 9 968 561 | - | |
| All other currencies | 1 691 516 | 1 690 304 | 1 212 | |
| Currency positions | | | | |
| EUR** | 4 697 802 | 2 570 194 | 2 127 608 | |
| BGN | 5 269 390 | 7 398 367 | (2 128 977) | |
| GBP | 22 149 | 22 059 | 90 | |
| SEK | 73 | 5 | 68 | |
| CHF | 6 883 | 6 837 | 46 | |
| HUF | 1 273 353 | 1 272 690 | 663 | |
| RON | 248 | 150 | 98 | |
| USD | 383 192 | 383 226 | (34) | |
| RUB | 233 | 15 | 218 | |
| TRY | 1 461 | 1 443 | 18 | |
| CAD | 111 | 84 | 27 | |
| JPY | 3 813 | 3 795 | 18 | |

* 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

▪ *As of December 31 2014 the Bank Group doesn't calculate capital for settlement risk.*

(6.3) *Capital requirements for operational risk*

From the beginning of 2014 a Joint Decision of the National Bank of Hungary and the Bulgarian National Bank which approved DSK Bank Group to apply the Advance Measurement Approach for the capital calculation purposes on the individual and also on the consolidated base is in force.

The capital requirement as of 31.12.2014 is BGN 36 642 thousand.

(7) *Detailed disclosure for exposure classes allocation according to criterion defined in Regulation 575. The disclosures are made without taking into account the effect of credit risk mitigation.*

(7.1) *Value of exposures to credit risk broken down by significant geographic regions as of 31 December 2014*

In thousands of BGN

| Exposure class | Europe | Asia | Africa | North America | South America | Total |
|---|-------------------|--------------|---------------|----------------------|----------------------|-------------------|
| Central governments and central banks | 649 310 | - | - | - | - | 649 310 |
| Regional governments or local authorities | 6 724 | - | - | - | - | 6 724 |
| Public sector entities | 2 827 | - | - | - | - | 2 827 |
| Multilateral development banks | 2 012 | - | - | - | - | 2 012 |
| Institutions | 2 213 740 | 20 | - | 3 135 | - | 2 216 895 |
| Corporates | 878 824 | - | - | - | - | 878 824 |
| Retail | 2 565 079 | 46 | 2 | 6 | 49 | 2 565 182 |
| Exposures secured by mortgages on immovable property | 2 747 286 | 1 050 | - | 53 | - | 2 748 389 |
| Exposures in default | 305 231 | 135 | - | - | - | 305 366 |
| Exposures in the form of units or shares in collective investment undertakings ('CIUs') | 438 | - | - | - | - | 438 |
| Equity exposures | 8 644 | - | - | 140 | - | 8 784 |
| Other exposures | 772 942 | - | - | - | - | 772 942 |
| Total | 10 153 057 | 1 251 | 2 | 3 334 | 49 | 10 157 693 |

(7.2) Value of exposures to credit risk broken down by industries as of 31 December 2014

In thousands of BGN

| Exposure class | Public Administration | Real estate activities | Manufacturing | Agriculture and forestry | Construction | Transport and communications | Trade and services | Financial and insurance activities | Hotels and catering | Individuals | Other industry | Non defined | Total |
|---|-----------------------|------------------------|----------------|--------------------------|----------------|------------------------------|--------------------|------------------------------------|---------------------|------------------|----------------|----------------|-------------------|
| Central governments and central banks | 233 410 | - | - | - | - | - | - | 415 900 | - | - | - | - | 649 310 |
| Regional governments or local authorities | 6 724 | - | - | - | - | - | - | - | - | - | - | - | 6 724 |
| Public sector entities | - | - | - | - | - | - | - | - | - | - | 2 827 | - | 2 827 |
| Multilateral development banks | - | - | - | - | - | - | - | 2 012 | - | - | - | - | 2 012 |
| Institutions | - | - | - | - | - | - | - | 2 216 895 | - | - | - | - | 2 216 895 |
| Corporates | - | 128 393 | 382 053 | 39 063 | 47 116 | 26 706 | 176 239 | 11 796 | 575 | - | 66 883 | - | 878 824 |
| incl. SME | - | - | 3 327 | 2 199 | - | - | 1 569 | - | - | - | 1 833 | - | 8 928 |
| Retail | - | 495 | 34 062 | 55 013 | 4 490 | 21 312 | 36 760 | 709 | 1 382 | 2 403 611 | 7 348 | - | 2 565 182 |
| incl. SME | - | 495 | 34 062 | 55 013 | 4 490 | 21 285 | 36 760 | 709 | 1 382 | - | 5 471 | - | 159 667 |
| Exposures secured by mortgages on immovable property | 393 | 150 800 | 249 046 | 33 899 | 90 267 | 12 611 | 227 374 | 2 955 | 121 770 | 1 803 542 | 55 732 | - | 2 748 389 |
| incl. SME | - | 1 413 | 34 506 | 17 948 | 8 958 | 6 494 | 60 605 | - | 19 056 | - | 17 345 | - | 166 325 |
| Exposures in default | 695 | 30 508 | 9 780 | 1 537 | 20 258 | 3 562 | 21 183 | 139 | 5 095 | 206 362 | 6 247 | - | 305 366 |
| Exposures in the form of units or shares in collective investment undertakings ('CIUs') | - | - | - | - | - | - | - | 438 | - | - | - | - | 438 |
| Equity exposures | - | - | - | - | - | - | - | 6 070 | - | - | 2 714 | - | 8 784 |
| Other exposures | - | - | - | - | - | - | - | - | - | - | - | 772 942 | 772 942 |
| Total | 241 222 | 310 196 | 674 941 | 129 512 | 162 131 | 64 191 | 461 556 | 2 656 914 | 128 822 | 4 413 515 | 141 751 | 772 942 | 10 157 693 |

(7.3) *Value of exposures to credit risk broken down by residual maturity as of 31 December 2014*

In thousands of BGN

| Exposure class | Up to 1 year | From 1 year to 5 years | Over 5 years | Without maturity | Total |
|---|---------------------|-------------------------------|---------------------|-------------------------|-------------------|
| Central governments and central banks | 445 102 | 175 498 | 28 710 | - | 649 310 |
| Regional governments or local authorities | 1 600 | 4 970 | 154 | - | 6 724 |
| Public sector entities | 2 827 | - | - | - | 2 827 |
| Multilateral development banks | 2 012 | - | - | - | 2 012 |
| Institutions | 2 107 969 | 108 926 | - | - | 2 216 895 |
| Corporates | 426 961 | 180 659 | 271 204 | - | 878 824 |
| Retail | 417 191 | 1 275 531 | 872 460 | - | 2 565 182 |
| Exposures secured by mortgages on immovable property | 431 692 | 612 061 | 1 704 636 | - | 2 748 389 |
| Exposures in default | 10 912 | 24 886 | 269 568 | - | 305 366 |
| Exposures in the form of units or shares in collective investment undertakings ('CIUs') | - | - | - | 438 | 438 |
| Equity exposures | - | - | - | 8 784 | 8 784 |
| Other exposures | 412 890 | - | - | 360 052 | 772 942 |
| Total | 4 259 156 | 2 382 531 | 3 146 732 | 369 274 | 10 157 693 |

2. Internal Capital Adequacy Assessment Process (ICAAP)

The management of DSK Bank considers that the main part to the risk and its coverage within the Banking group is concentrated in it. The relative impact of the specific risks in the other subsidiaries in the Group do not affect substantially the risk profile on Group level as capital adequacy ratios on consolidated base differs insignificantly from those on individual base. For these reasons is accepted that the capital buffer allocated by the Bank is sufficient to cover unexpected unfavorable changes in the coverage of the risk positions on Group level. Consequently no Internal Capital Adequacy Assessment on consolidated level is conducted. Below are stated the results from the Internal Capital Adequacy Assessment of the Bank.

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, which is aimed by the Bank;
- 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 aim at maintaining an adequate amount of internal capital according to the level determined by the Bank's management which corresponds to the risk profile of the bank and to its quality of management through respective systems for risk management. The following principles should be followed:

- A transparent corporate structure which ensures effective and reasonable risk management;
- Clearly defined levels of reporting and distribution of the tasks and responsibilities;
- The entire process of risk management 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 activity and operations;
- The Bank regulates the management process of every significant type of risk within separate rules.

The plan for development of the capital base is 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), represented 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 ability to meet a negative impact of significant adverse changes in the risk components, which are beyond expectations during the normal planning process. If the conducted analysis indicate a threat for the Bank's financial stability, a decision for undertaking adequate measures is being made.

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

- *Capital adequacy and capital position ;*
- *Liquidity – defined as the ratio between liquid assets and the amount of the attracted funds except for those attracted 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 deteriorate sharply, the Bank's capital and liquidity position remains stable and the Bank is able to meet a sharp deterioration in the operating environment. In this respect, the stress tests results show that further allocation of additional capital is not needed to cover unforeseen negative events 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 2014 in accordance with Directive 2013/36/EU and Regulation (EU) №575/2013 according to the Internal Capital Adequacy Assessment as well as to the accepted supervisory assessment (SREP):

In thousands of BGN

| In thousands of BGN | Basel III 2014 Regulatory | Basel III 2014 ICAAP | Basel III 2014 ICAAP SREP |
|--|---------------------------------|----------------------------|------------------------------------|
| Own Funds for Solvency Purposes | 1 085 547 | 1 085 547 | 1 085 547 |
| Common equity Tier 1 capital | 1 067 183 | 1 067 183 | 1 067 183 |
| Ordinary share capital | 153 984 | 153 984 | 153 984 |
| Reserves | 982 208 | 982 208 | 982 208 |
| Intangible assets | (29 759) | (29 759) | (29 759) |
| Accumulated other comprehensive income | (673) | (673) | (673) |
| CET1 instruments of financial sector entities where the institution has a significant investment | (14 998) | (14 998) | (14 998) |
| Tier 2 instruments of financial sector entities where the institution does not have a significant investment | (23 579) | (23 579) | (23 579) |
| Tier 2 capital | 18 364 | 18 364 | 18 364 |
| Accumulated other comprehensive income | 63 730 | 63 730 | 63 730 |
| CET1 instruments of financial sector entities where the institution has a significant investment | (9 998) | (9 998) | (9 998) |
| Tier 2 instruments of financial sector entities where the institution does not have a significant investment | (35 368) | (35 368) | (35 368) |

According to the approved policy of the Bank, for the purposes of internal capital analysis, tier-one capital includes the current year profit except for the case when it is known that after year end, the General Assembly will make a decision regarding profit distribution as dividend or if this decision has been already taken

In the capital base calculation according to the supervisory assessment, the current year profit is not included in tier I capital at any stage of the calculation.

The parameters of capital adequacy are as follows:

In thousands of BGN / %

| In thousands of BGN / % | Basel III 2014 Regulatory | Basel III 2014 ICAAP | Basel III 2014 ICAAP SREP |
|---|------------------------------|-------------------------|---------------------------------|
| Own Funds for Solvency Purposes | 1 085 547 | 1 085 547 | 1 085 547 |
| Common equity Tier 1 capital | 1 067 183 | 1 067 183 | 1 067 183 |
| Risk-weighted assets | 6 021 760 | 6 753 315 | 6 753 315 |
| Credit risk | 5 518 503 | 5 518 503 | 5 518 503 |
| Position, foreign exchange and commodity risk | 45 232 | 53 275 | 53 275 |
| Operational risk | 458 025 | 681 537 | 681 537 |
| Other risks | 0 | 250 000 | 250 000 |
| Interest rate risk in Banking book | 0 | 200 000 | 200 000 |
| Reputation risk | 0 | 50 000 | 50 000 |
| Strategic risk | 0 | 0 | 0 |
| Solvency ratio (%) | 18,03% | 16,69% | 16,69% |
| Original own funds ratio (%) | 17,72% | 16,41% | 16,41% |
| Capital Conservation Buffer (2.5%) | 150 544 | 162 583 | 162 583 |
| Systemic Risk Buffer (3%) | 180 653 | 195 099 | 195 099 |
| Free Capital | 272 609 | 207 600 | 207 600 |

The Bank has a stable and adequate capital position which allows coverage of the risks specific to its operations. Bank estimates 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 from the followed policy for capitalization of profit from previous years, as well as a reasonable risk management and defining risk appetite in the activity. As a result of these the Bank has a sufficiently stable position of tier I capital.

Capital requirements and ratios for 2014.

In thousands of BGN

| Risk profile | 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 | 441 480 | - | - | 441 480 | 441 480 |
| 2. Concentration risk | - | - | - | - | - |
| 3. Market risk | 3 619 | 643 | 643 | 4 262 | 4 262 |
| 4. Interest rate risk in Banking book | - | 16 000 | 16 000 | 16 000 | 16 000 |
| 5. Operational risk | 36 642 | 17 881 | 17 881 | 54 523 | 54 523 |
| 6. Liquidity risk | - | - | - | - | - |
| 7. Other risks | - | 4 000 | 4 000 | 4 000 | 4 000 |
| 8. Capital Conservation Buffer (2.5%) | 150 544 | 12 039 | 12 039 | 162 583 | 162 583 |
| 9. Systemic Risk Buffer (3%) | 180 653 | 14 447 | 14 447 | 195 099 | 195 099 |
| Total | 812 938 | 65 010 | 65 010 | 877 947 | 877 947 |
| Effective minimal adequacy/risk assets ratio according to regulatory requirements | 13,50% | 0,00% | 0,00% | 14,58% | 14,58% |

In line with the more conservative approach regarding the capital adequacy requirements adopted by the regulator in Bulgaria, which allows allocation of reasonable buffers for meeting unexpected adverse changes in the operating environment, the Bank sets also for internal capital assessment more conservative limit of minimum capital requirement to cover the risk component, and namely equal to the regulatory of 13.5%.

(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. For that reason, 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 by 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 assessment is based on the evaluation of the extent of exposure to concentration risk in relation to the Bank's assessment of the extent and quality management through the introduced rules and procedures for preventive management of concentration risk as well as monitoring, management and control of taken risk.

The Bank conducts assessment and analysis of the concentration within and between risks. Concentration within risks arises from the correlation within separate exposures within a single risk category. Concentration between risks is established through correlation indications between separate exposures which are part of separate risk categories.

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. All aspects of impact and correlation between separate risks are subject of existing regulations, all internal rules and procedures, regulation the Bank's activity. The analysis and assessment of the according correlations between risks and their impact on concentration in relation to the capital allocation for their coverage are subject to the assessment of each main or arising risk. For that reason, the Bank considers that it is not necessary to allocate additional capital to cover 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 trading portfolio**

In the assessment of the interest rate risk in the trading portfolio of the Bank are applied models which generally assess the exposure, calculate modified durations and VaR for the trading portfolio. The applied VaR has a confidence level 95% and 1 day time horizon. As most of the assets in the portfolio are not actively traded on the market, the management considers that VaR is not an adequate tool for the allocation of the capital requirements. Therefore for the assessment of the capital requirements of the trading portfolio is applied the result from the standardized method.

▪ **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 required capital for 2014 amounted to BGN 16 000 thousand.

- *Additional capital reserve for liquidity risk*

The liquidity risk analysis in the Bank are according to the internal rules for liquidity management. Periodically are conducted statistical and dynamical maturity tables. The liquidity position is reviewed on daily basis. Information about the liquidity ratios is also included in the analysis.

DSK Bank has elaborated an action plan for liquidity crisis. The plan is triggered if withdrawals exceed a definite amount. Early warning indicators are also foreseen. In the plan for the liquidity crisis are determined actions and responsibilities of the various departments within the management of the crisis.

The policy and the rules of the Bank for liquidity risk management consider the concentration of risks within 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 four components similarly to the applied group model for the assessment of regulatory capital on the basis of the enhanced method - actual damages suffered, self-assessment of the risk, scenario analyses and external events.

The assessed regulatory capital for operational risk in the fourth quarter of 2014 amounts to BGN 36 642 thousand. It is calculated through the Enhanced Method of tier I. The calculation for the fourth quarter of 2014 under ICAAR amounts to BGN 54 523 thousand.

- *Additional capital for reputational risk*

The management of the Bank considers the applied preventive measures for limiting reputation risk as effective but because of the inherent risk of events which are not under the direct control of the Bank and which could not be foreseen, it approves the allocation of additional capital buffer to the amount of BGN 4 million for reputational risk coverage.

- *Additional capital for strategic risk*

The Bank estimates its sensitivity to strategic risk in accordance to the strategic risk management and the observed deviation from historic goals in historical plan. Analysis prove the adequate management of the operations in an environment of strongly unfavorable external influences and the ability of the Bank to maintain its stability, covering its strategic risk with its ongoing processes and flexible reactions based on timely management decisions and measures. The balance between the management of the operations and the results from the latest conducted stress tests regarding the overall activity of the Bank based on 2015 plan parameters, shows that there is no need for the Bank to allocate an additional capital for strategic risk coverage.

- *Additional capital for business 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 income statement of the Bank. The main aspects of the assessment are:

- General 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. The according assessments of key indicators within a certain period of time.
- Conduction of stress tests for business risk and analysis of the reaction of key indicators for the Bank on possible adverse changes of key parameters.

The Bank considers that a lot of successful preventive measures are placed in order to reduce the business risk based on the results of the recently conducted stress tests on the Bank's overall activity including 2015 planned parameters, which indicate the lack of necessity for allocating an additional capital in order to cover any business risks for 2014.

- Additional capital for risk of change in real estate prices

The Bank assesses extent of coverage of the potential risk of decline in real estate market prices through available capital resource, without jeopardizing the adequate capital coverage of the other risks. The Bank's real estates represented less than 3% of total assets. The Bank regularly (annually) monitors the current evaluation of the real estate book value and verifies the need for reassessment. The Bank monitors the dynamics of the real estate market and in case of negative trends indications, applies relevant assumptions in planning and forecasting process, and in conduction of stress tests in order to consider the possible negative effects on the capital resources.

3. Asset Encumbrance Policy

In 2014 the Bank accepted policy aiming to regulate asset encumbrance. The policy corresponds with Recommendation B - Risk management of asset encumbrance by institutions of European Systemic Risk Board (ESRB).

With the policy the Bank defines groups of assets that could be encumbered: securities from the Bank's portfolios; cash on accounts of the Bank and other cash receivables from third parties.

As of 31 December 2014 consolidated asset encumbrance data to be disclosed is as follow:

(1) *Assets of DSK Bank*

In thousands of BGN

| | | Carrying amount of encumbered assets | Fair value of encumbered assets | Carrying amount of unencumbered assets | Fair value of unencumbered assets |
|------------|--|--------------------------------------|---------------------------------|--|-----------------------------------|
| | | 010 | 040 | 060 | 090 |
| 010 | Assets of the reporting institution | | | | |
| 030 | Equity instruments | 0 | 0 | 8 249 | 8 249 |
| 040 | Debt securities | 223 120 | 226 870 | 256 835 | 253 979 |
| 120 | Other assets | 0 | | 813 393 | |

(2) *Collaterals received*

In thousands of BGN

| | | Fair value of encumbered collateral received or own debt securities issued | Fair value of collateral received or own debt securities issued available for encumbrance |
|------------|--|---|--|
| | | 010 | 040 |
| 130 | Collateral received by the reporting institution | 1 258 518 | 0 |
| 150 | Equity instruments | 0 | 0 |
| 160 | Debt securities | 1 258 518 | 0 |
| 230 | Other collateral received | 0 | 0 |
| 240 | Own debt securities issued other than own covered bonds or ABSs | 0 | 0 |

(3) *Encumbered assets*

In thousands of BGN

| | | Matching liabilities, contingent liabilities or securities lent | Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered |
|------------|--|--|--|
| | | 010 | 030 |
| 010 | Carrying amount of selected financial liabilities | 212 235 | 223 120 |

DSK Bank Group encumbers assets mainly for collateralisation of liabilities to State Budget according to The Public Finance Act. Assets pledged are more than liabilities to State Budget because of the specific of prices used and the discount applied from regulator on each emission.

Received as collateral government debt securities are connected with repo deals with OTP Bank. The coverage of exposures is controlled on daily basis on current market prices.

II. Remuneration Policy and Practices

1. Remuneration Policy of the Bank Group

The decision making 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 (variable element) – 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 share-options, 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.

In DSK Bank Group the variable elements of the remuneration do not exceed 100 % of the fixed elements from the total remuneration for each person.

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

In thousands of BGN

| | |
|-------------------------------|-----------------------------|
| Credit activity | 44 841 |
| Asset management | 586 |
| Corporate functions | 10 406 |
| Independent control functions | 9 317 |
| Other activities | 7 448 |
| Top management | <u>3 565</u> |
| Total | <u><u>76 163</u></u> |

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 - BGN 7 495 thousand / 108 persons;
Variable annual remuneration - BGN 4 682 thousand / 103 persons.
- the amount and form of variable remuneration is BGN 3 603 thousand – cash and BGN 1 079 thousand – options for shares from mother-bank and for account of mother-bank;
- the total amount of outstanding deferred remuneration, accounted in previous years, is BGN 4 075 thousand;
- there is no amount of deferred remuneration awardee during the financial year paid out and reduced through performance adjustments;
- the amount for severance payment during the financial year – BGN 96,15 thousand / 1 p.;
- there is no amount of new sign-on payment made during the financial year.

In DSK Bank and the Group has been realized diversity policy, regarding recruitment of key management personnel.

In DSK Bank Group operates regulation, ensuring compliance with the requirements for the members of the management bodies, executive officers and key function holders of DSK Bank and the Group.


Violina Marinova
Chief Executive Director




Dorothea Nikolova
Executive Director