

YEAR END DISCLOSURE

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

2015

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 unconsolidated 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 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 31.12.2015 r. the Bank 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.

(2) **Capital ratios**

Total own funds

	Basel III 2015	Basel III 2014
<i>In thousands of BGN</i>		
Common equity Tier 1 capital		
Ordinary share capital	153 984	153 984
Reserves	982 208	982 208
<i>Deductions from Common equity Tier 1 capital</i>		
Intangible assets	(34 057)	(29 759)
Accumulated other comprehensive income	37 149	(673)
CET1 instruments of financial sector entities where the institution has a significant investment	(17 497)	(14 998)
Tier 2 instruments of financial sector entities where the institution does not have a significant investment	(22 179)	(23 579)
	1 099 608	1 067 183
Tier 2 capital		
Accumulated other comprehensive income	66 049	63 730
<i>Deductions from Tier 2 capital</i>		
CET1 instruments of financial sector entities where the institution has a significant investment	(7 499)	(9 998)
Tier 2 instruments of financial sector entities where the institution does not have a significant investment	(51 752)	(35 368)
	6 798	18 364
Own funds	1 106 406	1 085 547

The Bank calculates the total capital adequacy (the 'Basel ratio') as a ratio between total own funds for solvency purposes and the total of the risk-weighted assets for credit, market and operational risks. 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-2015	31-Dec-2014
Solvency ratio (%)	17,26%	18,03%
Original own funds ratio (%)	17,16%	17,72%

(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	98 927	(98 927)
Of which - holdings of the T2 instruments of financial sector entities where the institution does not have a significant investment in those entities - amount above 10% threshold	73 931	(73 931)
Of which - holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	24 996	(24 996)
Intangible assets	34 057	(34 057)
Capital and Reserves		
Ordinary Shares	153 984	153 984
Retained earnings	346 282	-
General and other reserve	982 208	982 208
Other comprehensive income	114 382	103 198
of which - negative fair value of available for sale investments	(1 762)	(1 762)
of which - positive fair value of available for sale investments	27 959	16 775
of which - negative reserves from defined benefit liability	(1 394)	(1 394)
of which - positive fair value of tangible assets	89 579	89 579
Total own funds	<u>1 596 856</u>	<u>1 106 406</u>

(4) *Capital instruments' main features*

Capital instruments' main features template		
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
	<i>Regulatory treatment</i>	
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
	<i>Coupons / dividends</i>	
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)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
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)	114 382	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	1 250 574		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)	(34 057)	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)	(24 996)	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) (l)	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	(39 907)		N/A
	Of which: available for sale instruments - filter for unrealised loss 1	1 894	467	N/A
	Of which: available for sale instruments - filter for unrealised gain 1	(23 486)	468	N/A
	Of which: tangible assets - filter for unrealised gain 2	(53 747)	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	35 432	481	N/A
	Of which: ...	-	481	N/A
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	(52 006)	36(1)(j)	N/A
28	Total regulatory adjustments to Common equity Tier 1 (CET1)	(150 966)		N/A
29	Common Equity Tier 1 (CET1) capital	1 099 608		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	(52 006)	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	(20 434)		
	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	(22 179)		
	f which - holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	(7 499)		N/A
	Of which - additional filters	(1 894)		
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	(52 006)		N/A
44	Additional Tier 1 (AT1) capital	-		N/A
45	Tier 1 capital (T1 = CET1 + AT1)	1 099 608		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)	
	Public sector capital injections grandfathered until 1 January 2018	-	483 (4)	
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	

49	of which: instruments issued by subsidiaries subject to phase out	-	486 (4)	
50	Credit risk adjustments	-	62 (c) & (d)	
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)	
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)	
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)	(73 931)	66 (c), 69, 70, 79, 477 (4)	
54a	Of which new holdings not subject to transitional arrangements	-		
54b	Of which holdings existing before 1 January 2013 and subject to transitional arrangements	22 179		
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)	
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)	-		
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	(7 499)	472, 472(3)(a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)	
	Of which items to be detailed line by line, e.g. Material net interim losses, Intangibles, shortfall of provisions to expected losses etc.	-		
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)	
	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.	-		
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR	66 049	467, 468, 481	
	Of which: ... possible filter for unrealised losses	-	467	
	Of which: unrealised profit of tangible assets	53 747	468	
	Of which: unrealised profit of AFS securities	12 302	481	

57	Total regulatory adjustments to Tier 2 (T2) capital	6 798		
58	Tier 2 (T2) capital	6 798		N/A
59	Total capital (TC = T1 + T2)	1 106 406		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	6 409 348		N/A
Capital ratios and buffers				
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	17,16%	92 (2) (a), 465	N/A
62	Tier 1 (as a percentage of risk exposure amount)	17,16%	92 (2) (b), 465	N/A
63	Total capital (as a percentage of risk exposure amount)	17,26%	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%		
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)	12,66%	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)	24 996	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 applies the standardized approach for calculating its risk-weighted assets for credit risk. For this purpose the Bank 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 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	2 184 923	1 532 379	3 095 397	200 322	16 026
Regional governments or local authorities	8 907	7 408	8 907	2 363	189
Public sector entities	931	16 840	836	836	67
Multilateral development banks	-	1 483	-	-	-
Institutions	1 843 268	1 864 133	971 461	683 225	54 658
Corporates	1 570 961	1 338 288	1 076 310	1 073 553	85 884
Retail	2 741 395	2 712 954	2 479 863	1 831 911	146 552
Exposures secured by mortgages on immovable property	2 750 712	2 924 993	2 531 359	1 430 298	114 424
Exposures in default	297 555	289 646	295 625	309 044	24 724
Exposures in the form of units or shares in collective investment undertakings ('CIUs')	358	458	358	358	29
Equity exposures	29 913	20 354	29 913	29 913	2 393
Other exposures	671 293	605 876	717 302	361 475	28 918
Total	12 100 216	11 314 812	11 207 331	5 923 298	473 864

To measure the exposure to counterparty risk for over-the-counter derivatives DSK Bank 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	61 377	61 377	59 974	4 798
Corporates	897	897	897	72
Retail	1 809	1 809	1 356	108
Exposures in the form of units or shares in collective investment undertakings ('CIUs')	79	79	79	6
Total	64 162	64 162	62 306	4 984

For the purposes of credit risk mitigation the Bank applies Financial Collateral Simple Method. During the process of credit risk mitigation for the purposes of capital calculation the Bank 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 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	2 184 923	-	-
Regional governments or local authorities	8 907	-	-
Public sector entities	931	40	-
Institutions	1 843 268	867 735	-
Corporates	1 570 961	45 581	307
Retail	2 741 395	14 956	56 212
Exposures secured by mortgages on immovable property	2 750 712	352	298
Exposures in default	297 555	114	83
Exposures in the form of units or shares in collective investment undertakings ('CIUs')	358	-	-
Equity exposures	29 913	-	-
Other exposures	671 293	-	-
Total	12 100 216	928 778	56 900

(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's debt securities in the Trading portfolio.

To calculate the capital requirements for general position risk, the Bank 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 2015

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	-	-	-
> 3 ≤ 6 months	-	1 993	-
> 6 ≤ 12 months	183	-	-
> 1 ≤ 2 (1,9 for coupon of less than 3%) years	12 281	10 910	3 952
> 2 ≤ 3 (> 1,9 ≤ 2,8 for coupon of less than 3%) years	1 656	-	464
> 3 ≤ 4 (> 2,8 ≤ 3,6 for coupon of less than 3%) years	-	1 917	-
> 4 ≤ 5 (> 3,6 ≤ 4,3 for coupon of less than 3%) years	-	8 916	-
> 5 ≤ 7 (> 4,3 ≤ 5,7 for coupon of less than 3%) years	-	6 116	-
> 7 ≤ 10 (> 5,7 ≤ 7,3 for coupon of less than 3%) years	-	16 564	-
> 10 ≤ 15 (> 7,3 ≤ 9,3 for coupon of less than 3%) years	-	4 097	-
> 15 ≤ 20 (> 9,3 ≤ 10,6 for coupon of less than 3%) years	-	-	-
> 20 (> 10,6 ≤ 12,0 for coupon of less than 3%) years	-	-	-
Total	14 120	50 513	4 416
Specific position risk			
Debt instruments under first category (0% capital requirement)	14 120	23 344	-
Debt instruments under second category	-	-	-
Debt instruments under third category	-	27 169	4 416
Total	14 120	50 513	4 416
Capital requirements for each currency			
	184	3 607	411

- *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 2015

In thousands of BGN

Market risk Standardised Approach to foreign exchange risk	All positions		Net positions	Capital requirement *
	Long	Short		
Total positions	13 457 660	13 480 840	(1 787)	-
Currencies closely correlated	11 688 076	11 709 469	-	
All other currencies	1 769 584	1 771 371	(1 787)	
Currency positions				
EUR**	5 131 265	2 796 148	2 335 117	
BGN	6 556 811	8 913 321	(2 356 510)	
GBP	30 822	31 458	(636)	
SEK	122	42	80	
CHF	9 867	13 246	(3 379)	
HUF	931 010	930 457	553	
RON	305	230	75	
USD	792 342	792 669	(327)	
RUB	442	172	270	
TRY	1 985	1 355	630	
CAD	959	355	604	
JPY	1 730	1 387	343	

* 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 2015 the Bank 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 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 31.12.2015 is BGN 34 682 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 2015*

In thousands of BGN

Exposure class	Europe	Asia	Africa	North America	South America	Total
Central governments and central banks	2 184 923	-	-	-	-	2 184 923
Regional governments or local authorities	8 907	-	-	-	-	8 907
Public sector entities	877	-	-	-	-	877
Institutions	1 819 006	361	-	17 447	-	1 836 814
Corporates	1 113 585	-	-	-	-	1 113 585
Retail	2 533 343	179	1	17	43	2 533 583
Exposures secured by mortgages on immovable property	2 531 461	547	-	-	-	2 532 008
Exposures in default	295 097	533	-	52	-	295 682
Exposures in the form of units or shares in collective investment undertakings ('CIUs')	358	-	-	-	-	358
Equity exposures	29 758	-	-	155	-	29 913
Other exposures	670 681	-	-	-	-	670 681
Total	11 187 996	1 620	1	17 671	43	11 207 331

(7.2) Value of exposures to credit risk broken down by industries as of 31 December 2015

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	627 698	-	-	-	-	-	-	1 557 225	-	-	-	-	2 184 923
Regional governments or local authorities	8 907	-	-	-	-	-	-	-	-	-	-	-	8 907
Public sector entities	-	-	-	-	-	-	-	-	-	-	877	-	877
Institutions	-	-	-	-	-	-	-	1 836 814	-	-	-	-	1 836 814
Corporates	-	121 143	434 754	41 031	67 746	16 809	285 006	61 788	1 469	-	83 839	-	1 113 585
incl. SME	-	-	2 828	3 013	26	-	1 569	-	-	-	2 781	-	10 217
Retail	-	702	35 403	64 211	4 869	12 635	39 295	54	865	2 366 130	9 419	-	2 533 583
incl. SME	-	702	35 403	64 211	4 869	12 635	39 295	54	865	-	7 642	-	165 676
Exposures secured by mortgages on immovable property	-	132 039	191 759	36 031	44 912	7 005	217 247	7	111 238	1 724 285	67 485	-	2 532 008
incl. SME	-	326	23 132	18 227	13 475	4 407	48 868	-	18 792	-	17 496	-	144 723
Exposures in default	-	33 054	4 142	1 170	17 905	2 935	15 288	39	16 714	200 299	4 136	-	295 682
Exposures in the form of units or shares in collective investment undertakings ('CIUs')	-	-	-	-	-	-	-	358	-	-	-	-	358
Equity exposures	-	-	-	-	-	8 491	-	13 009	-	-	8 413	-	29 913
Other exposures	-	-	-	-	-	-	-	-	-	-	-	670 681	670 681
Total	636 605	286 938	666 058	142 443	135 432	47 875	556 836	3 469 294	130 286	4 290 714	174 169	670 681	11 207 331

(7.3) *Value of exposures to credit risk broken down by residual maturity as of 31 December 2015*

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	1 608 634	415 299	160 990	-	2 184 923
Regional governments or local authorities	1 397	5 291	2 219	-	8 907
Public sector entities	146	459	272	-	877
Institutions	684 303	1 152 511	-	-	1 836 814
Corporates	606 711	222 534	284 340	-	1 113 585
Retail	425 665	1 221 490	886 428	-	2 533 583
Exposures secured by mortgages on immovable property	363 203	542 013	1 626 792	-	2 532 008
Exposures in default	19 594	32 896	243 192	-	295 682
Exposures in the form of units or shares in collective investment undertakings ('CIUs')	-	-	-	358	358
Equity exposures	-	-	-	29 913	29 913
Other exposures	360 300	-	-	310 381	670 681
Total	4 069 953	3 592 493	3 204 233	340 652	11 207 331

2. Internal Capital Adequacy Assessment Process (ICAAP)

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 should 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 2015 in accordance with Directive 2013/36/EU and Reglament (EU) №575/2013 according to the Internal Capital Adequacy Assessment as well as to the accepted supervisory assessment (SREP):

In thousands of BGN

	Basel III 2015 Regulatory	Basel III 2015 ICAAP	Basel III 2015 ICAAP SREP
Own Funds for Solvency Purposes	1 106 406	1 106 406	1 106 406
Common equity Tier 1 capital	1 099 608	1 099 608	1 099 608
Ordinary share capital	153 984	153 984	153 984
Reserves	982 208	982 208	982 208
Intangible assets	(34 057)	(34 057)	(34 057)
Accumulated other comprehensive income	37 149	37 149	37 149
CET1 instruments of financial sector entities where the institution has a significant investment	(17 497)	(17 497)	(17 497)
Tier 2 instruments of financial sector entities where the institution does not have a significant investment	(22 179)	(22 179)	(22 179)
Tier 2 capital	6 798	6 798	6 798
Accumulated other comprehensive income	66 049	66 049	66 049
CET1 instruments of financial sector entities where the institution has a significant investment	(7 499)	(7 499)	(7 499)
Tier 2 instruments of financial sector entities where the institution does not have a significant investment	(51 752)	(51 752)	(51 752)

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 / %

	Basel III 2015 Regulatory	Basel III 2015 ICAAP	Basel III 2015 ICAAP SREP
Own Funds for Solvency Purposes	1 106 406	1 106 406	1 106 406
Common equity Tier 1 capital	1 099 608	1 099 608	1 099 608
Risk-weighted assets	6 409 348	7 310 497	7 310 497
Credit risk	5 923 298	5 923 298	5 923 298
Position, foreign exchange and commodity risk	52 525	96 013	96 013
Operational risk	433 525	460 736	460 736
Other risks	0	830 450	830 450
Interest rate risk in Banking book	0	730 450	730 450
Reputation risk	0	50 000	50 000
Strategic risk	0	50 000	50 000
Solvency ratio (%)	17,26%	15,13%	15,13%
Original own funds ratio (%)	17,16%	15,04%	15,04%
Capital Conservation Buffer (2.5%)	160 234	182 762	182 762
Systemic Risk Buffer (3%)	192 280	219 315	219 315
Free Capital	241 144	119 489	112 910

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 2015.

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	473 864	-	5 331	473 864	479 195
2. Concentration risk	-	-	-	-	-
3. Market risk	4 202	3 479	3 566	7 681	7 767
4. Interest rate risk in Banking book	-	58 436	59 093	58 436	59 093
5. Operational risk	34 682	2 177	2 592	36 859	37 274
6. Liquidity risk	-	-	-	-	-
7. Other risks	-	8 000	8 090	8 000	8 090
8. Capital Conservation Buffer (2.5%)	160 234	22 529	22 529	182 762	182 762
9. Systemic Risk Buffer (3%)	192 280	27 034	27 034	219 315	219 315
Total	865 262	121 655	128 235	986 917	993 496
Effective adequacy/risk assets ratio according to regulatory requirements	13,50%	0,00%	0,00%	15,40%	15,50%

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

For the purpose of ICAAP DSK Bank assesses the required capital for credit risk using the following calculation:

$$CR = \text{Unexpected Loss (UL)} - \text{Expected Loss (EL)}$$

In order to assess the EL value, which is not distracted by the restructuring process, for the restructured loans is applied a correcting factor, reflecting the redefault rate within 2 years after the date of restructuring.

As at 31.12.2015 the capital requirement for credit risk according to ICAAP of DSK Bank is below the capital requirement of the standardized approach. For this reason an allocation of additional capital is not necessary.

- Additional capital for concentration risk

The assessment of concentration risk 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 0.1% 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 2015 is assessed at BGN 58 436 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 2015 amounts to BGN 34 682 thousand. It is calculated through the Enhanced Method of tier I. The calculation for the fourth quarter of 2015 under ICAAR amounts to BGN 36 859 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 4 000 thousand 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 2016 plan parameters, shows that there is no need for the Bank to allocate an additional capital for strategic risk coverage.

In spite of that, with regards to the still unstable national and international economic environment, the dynamic banking system environment and the existing factors which are out of the control of the Bank, which could impact the fulfillment of the strategic goals, DSK Bank allocates additional capital buffer for strategic risk to the amount of BGN 4 000 thousand.

- *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.
 - Analysis of the client base substitution – the Bank prepares an annual analysis on the transfer of clients in Retail banking (the highest share in total number of clients) divided into the segments households and small and medium enterprises. A monthly analysis on the deposit distribution upon age ranges is also prepared. An assessment of significant deviations in the structure, the transfer of new and churn clients as well as other indicators for changes is made on the basis of these analysis.
 - 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 2016 planned parameters, which indicate the lack of necessity for allocating an additional capital in order to cover any business risks for 2015.
- 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 2015 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	215 246		10 896 780	
030	Equity instruments	-	-	19 211	19 211
040	Debt securities	215 246	215 230	667 610	667 610
120	Other assets	-		752 790	

(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	868 252	9 802 366
150	Equity instruments	-	-
160	Debt securities	868 252	128 590
230	Other collateral received	-	9 673 776
240	Own debt securities issued other than own covered bonds or ABSs	-	-

(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	143 680	1 092 617

DSK Bank 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

The decision making process is in accordance with the Remuneration Policy Rules of the Bank, 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 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	45 540
Corporate functions	9 345
Independent control functions	10 760
Top management	2 705
Total	68 350

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 7 167 thousand / 101 persons;
Variable annual remuneration - BGN 4 246 thousand / 96 persons.
- the amount and form of variable remuneration is BGN 3 258 thousand – cash and BGN 988 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 2 593 thousand;
- there is no amount of deferred remuneration awardee during the financial year paid out and reduced through performance adjustments;
- there is no amount for severance payment during the financial year;
- 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 operate regulation, ensuring compliance with the requirements for the members of the management bodies, executive officers and key function holders of DSK Bank and Group.


Violeta Marinova
Chief Executive Director




Dorothea Nikolova
Executive Director