

YEAR END DISCLOSURE

DSK Bank

According to

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

2020

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DSK Bank AD (“The Bank”, “DSK Bank”) was incorporated on 2 March 1951 in Bulgaria as a centralised deposit accepting institution under the name State Savings Bank. In 1998 the Bank was transformed 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.

In 2020 the subsidiaries Expressbank AD and Express Factoring EOOD merged into DSK Bank based on agreements for transformation through merger registered in the Commercial Register on 30 April 2020 and 30 September 2020, respectively. The transformations have been undertaken with the aim to optimise the structure, enhance effectiveness of processes, decrease expenses and improve customer service.

On 30 April 2020 DSK Bank issued new shares in favour of the non-controlling shareholders of the transforming bank Expressbank AD. As a result, the Bank was re-registered from a solely owned joint stock company (EAD) to a joint stock company (AD) as of the same date.

I. Capital and Risk Management and Capital Requirements of DSK Bank

This 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. Policy and rules for risk management

The Risk Strategy of the Bank is, by its nature, an instrument of the senior management that ensures the control, monitoring and mitigation of risks inherent in normal banking activities to guarantee their adequate management regarding the Bank's goals.

The risk management is a process that investigates, analyzes and tracks the development of existing risks in order to avoid them or to reduce the negative effect of their eventual occurrence. Risk management aims to be proactive in order to minimize potential negative consequences.

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, 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;
- 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.

DSK Bank has stress test methodology for estimation and analyzes of Bank readiness to meet negative effect from significant adverse changes in risk components that can appear outside from expected in normal course of business. Stress Tests are performed under the significant risks of intrinsic activities of the Bank. Available stress test scenarios based on potential effect of factors which increase risk in case of possible future events instead of particular economic forecast grants the opportunity for comprehensive research of different adverse or even opposite feature of events under particular risk categories and entirely for the Bank. Scenarios are determined for every performed test from competent bodies responsible for performance of the test in dependency of market and economic circumstances under which Bank operates as of particular moment of time and ordinary three scenarios are executed: quick economic recovery, quick macroeconomic shock and long lasting crisis. Results from performed stress tests are presented to the management of DSK Bank. In case result from relevant analysis indicates deterioration of financial stability of the Bank as per methodology stands process of decision making for implementation of adequate measures.

1.1. Types of risk

The identified risks, which DSK Bank considers as significant, can be divided into two main groups-direct and indirect. Direct are risks, which can be drawn directly from the structure of the activity of the Bank, its incomes and capital resources. Indirect are these which can negatively impact on one or great number of direct risk.

Identified direct risks:

- Credit risk - considering that loans are more than 60% of the Bank assets we can define credit risk as the main risk for the Bank and as risk which engages the most substantial part of its own funds for his coverage compared to all other risks
- Liquidity risk – another substantial risk, which derives from the structure of the Bank balance mostly the part of the activity with customers (on one hand loans and on the other attracted funds)
- Interest rate risk – the high share of loans and attracted funds in Bank balance as well as net interest income in net income from operating activity defines interest rate risk also with substantial part in the risk profile
- Currency risk- due to the lower share which assets and liabilities denominated in currencies different from BGN or EUR the currency risk is not sufficient and there is no capital set aside for Pillar I.
- Operational risk – has significant share in the risk profile because it concerns every aspect of the Bank's activity
- Risk of real estate prices changes – as a 6% share of capital resource, which are out of the review scope of other types of risk.

Identified indirect risks

- Concentration risk - can negatively impacts on each one of the direct risks and on their weight in the risk profile respectively. The risk of concentration in credit risk is the most substantial.
- Business risk - analyzes the influence of the correlation between the direct risks closely related to the main Bank's activity (credit, liquidity, interest rate, and market), the Bank's ability to generate incomes, to maintain adequate liquidity and capital position. It also evaluates credit spread risk – up to what extent interest incomes form loan portfolio can offset risk costs and the impact on the Bank ability to generate profit.
- Strategic risk - complex impacts on the direct risks, which are closely related to the main Bank activity (credit, liquidity, interest rate, and market).
- Reputational risk – influences mainly the direct risks, as it may affect an individual risk or several risks.

Definition of influence aspect on identified risks

- Credit risk – the current or potential risk in income and capital, arising from the inability of a debtor to fulfill the requirements of his/her contract with the Bank or the inability to act in accordance with the negotiated terms and conditions. Credit risk also includes residual risk, credit risk associated with securitization and cross-border (transfer) risk.
- Liquidity risk - the current or potential risk in income and capital, arising from the inability of the Bank to meet its obligations at maturity.
- Interest rate risk in banking portfolio - the current or potential risk in income and capital, arising from unfavorable changes in the interest rate levels.
- Market risk – the current or potential risk in income and capital, arising from unfavorable changes in foreign exchange rates or prices of bonds, shares and commodities in the trading portfolio.
- Operational risk - risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This risk includes IT risk, legal risk, and human resources risk.
- Risk of real estate's price changes – current or potential risk for capital –price changes of Bank property impact on available capital resource.
- Concentration risk - refers to exposures, which can arise in a particular risk category or between different risks categories in the Bank and can cause on one hand big enough losses jeopardizing its financial position and/or the ability of the Bank to maintain its main activities. On the other hand it can lead to substantial change in the risk profile of the Bank. The concentration risk is examined in term of both balance and off-balance exposures, and exposures from different financial instruments. The concentration risk impacted strongly credit risk, which has the most substantial share in Bank risk profile.
- Business risk – current or potential risk for the income, liquidity and the capital, which impacts all aspects of the whole Bank's activity and includes combination of the influence of a few direct risks. The possible combination of influence of direct risks is chosen according to the current operating environment and the most probable potential tendencies. Most often this research is covered by stress testing process. Other secondary risks in the Bank's activity are assessed within the business risk, for example risk of replacing customer base in retail banking.
- Strategic risk - the current or potential risk in income and capital, arising from a change in the business environment, unfavorable managerial decisions, incorrect execution of decisions, and inflexible response to changes in the business environment. Strategic risk is the risk that under specific developments in the economic environment, the influence of different internal and external factors, or other risks, the Bank will not be able to achieve its strategic goals or will deviate significantly from them. The strategic risk is closely related to the operational risk; the main difference is the long-term character of the strategic risk and its relationship to the changes in the external environment. The strategic risk is managed through adequate adaption to the changes in the external environment through timely and flexible management decisions.

- Reputation risk – the current or potential risk in income, liquidity and capital, arising from unfavorable change in the perceived image of the Bank and loss of trust by clients, counterparties, shareholders, investors, regulatory bodies, rating agencies, and employees. Reputation risk can be broadly defined as a risk arising from any Bank operation or the activities of the Bank employees which can harm the Bank image, reputation in the society, and long-term confidence of clients, employees, and shareholders. This could lead to a decrease in sales and market share, deterioration of relationships with counterparties and clients, and a consequent deterioration of financial indicators.

1.2. Structures for the management of the various risk types

The structure of the management of the various risk types is determined in the Risk Assumption Regulation of DSK Bank. The main part of the management of risks is concentrated in the Risk Management Division. This is an independent from the business units division lead by a Head, who is a member of the Management Board of DSK Bank and a chairman of the Credits and Limits Council, the Monitoring Committee and Assets and Liabilities Committee. The mission of this division is to manage the credit, market and operational risk through adequate controls and methodologies, delivery of the regulatory reporting regarding the assumed risk and improvement of the risk management and risk reporting practices on an ongoing as well as a project basis.

The Functions of the Risk Management Division include:

- Maintains an adequate risk assumption policy and risk assessment methodologies in accordance with the risk appetite and with the adopted risk management strategy.
- Efficient management of the operational risk in order to minimize losses caused by non-adequate or not well functioning processes, systems, human errors or external operational event.
- Establishes an adequate system for the measurement, reporting and management of the market risks (currency risk, interest rate risk, risk related to equity shares and hedge fund shares, with regard to the trading portfolio of the Bank), as well as country and counterparty risk.
- Plans and manages the implementation of risk management related projects.
- Provides regulatory and operational reporting with respect to the management of the credit, market and operational risk.

From May 2020, a new Collection Division reporting to the CEO was created (previously the activity was managed within Risk Management Division) to manage problem loans in the entire process from day past due 1 until the full resolving or healing of the exposure, ensuring full dedication and expertise and a faster and more flexible proactive reaction to changes in the environment. The Head of the new division is member of the Management Board of DSK Bank and Chairmen of the Work Out Committee of the Bank.

Within the new Collection Division, a new Directorate (Analysis, Reporting and Third Party Relations) was established to support operational processes and management with data provision, analysis, internal and external reporting.

Loan packages write-off and sale activity was separated from the workout process in the newly established Directorate (Third party Relations Section) in order to streamline the process of selection, third party relations, proposals and realization of write-offs and sales of problem loan packages.

The management of the various risk types is supported also by some collective decision taking bodies. These are:

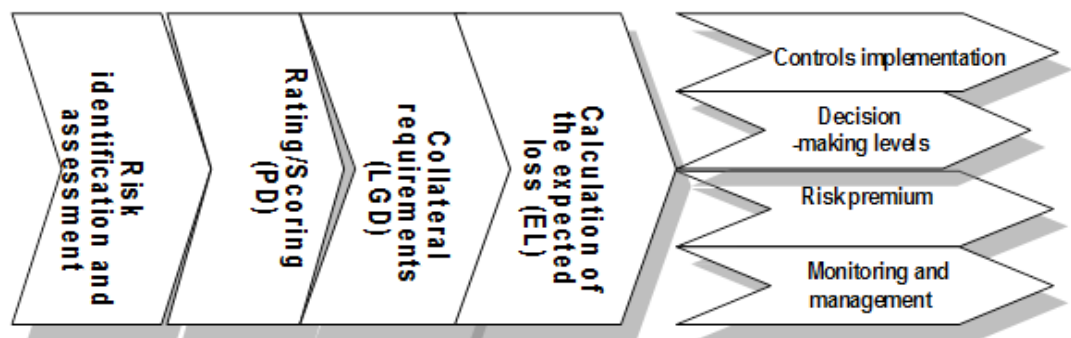
- Credits and Limits Council
- Assets and Liabilities Committee
- Product Development, Pricing and Sales Committee
- Workout Committee
- Risk Committee

The participants in these bodies and their functions are detailed in the Governance Rules of DSK Bank.

1.3. Bank Strategy and Risk Management Policy

The strategy of DSK Bank and OTP Group regarding the control and management of risk has the following main goals:

- Achievement of the strategic goals of the Group in a way which ensures the balance between 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 considering of expected losses related to events which have occurred, allocation of impairments to cover the expected losses, and considering 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 generate the planned return on capital;
- DSK Bank and OTP Group have developed processes for risk management which correspond to the applicable regulatory requirements and follow the best banking practices;
- DSK Bank and OTP Group follow a common and consistent risk management policy, which corresponds to the level of development of the Bank 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.



1.3.1. Credit risk

The credit risk policy of DSK Bank is aiming at developing of a diversified portfolio with a stable profitability.

The constant monitoring of the portfolio and related risks create the basis on which processes are built aiming to ensure an environment, where the undertaken risk is constantly subject of a preventive and reactive control.

Having in mind the business model of DSK Bank being mainly retail the management of the risk is done on a portfolio basis, which is supported through rules, regulations and procedures as well as by appropriate limits subject to a review and approval on an annual basis within the framework of the Credit policy document for the respective year.

With the aim to establish a well-diversified portfolio of business clients, which additionally strengthens the retail position of the bank, through the comprehensive servicing of the business clients and their employees, non-standardized exposures (due to the size of the exposure, the client's business or the structure of the deal) the decision has to be taken on a case-by-case basis for each client/ client group, whereby the delegated authorities in accordance with the Governance rules of DSK Bank apply. The monitoring and the administration of these credits is set in an appropriate manner in the Credit Control and Administration of Business Clients Regulation and the Credit Monitoring of Business Clients of DSK Bank.

The Risk Management Division consists of the following units engaged in the management of risks:

- General Policy and Risk Management Directorate with the following functions:
 - Maintains an adequate risk assumption policy and risk assessment methodologies in accordance with the risk appetite and with the adopted risk management strategy.
 - Efficient management of the operational risk in order to minimize losses caused by non-adequate or not well functioning processes, systems, human errors or external operational event.
 - Establishes an adequate system for the measurement, reporting and management of the market risks (currency risk, interest rate risk, risk related to equity shares and hedge fund shares, with regard to the trading portfolio of the Bank), as well as country and counterparty risk.
 - Plans and manages the implementation of risk management related projects.
 - Provides regulatory and operational reporting with respect to the management of the credit, market and operational risk.

- Credit Risk - Corporate Clients Directorate with the following functions:
 - Provides methodological assistance as regards company loans to the managers engaged with customer relations and to the credit analysts.
 - Independent assessment of the credit risk regarding the proposed credits of business clients and approves/ proposes for approval the ones with acceptable risk level. The employee and links of the Directorate take decisions on credits according to the provided powers according to it. 3 of Section IV of these Rules.
 - Prepares the meetings of the Credits and Limits Council, by submitting also own proposals.
 - Responsible for the movement of the loan files and administrates the approval process of credits to business clients within their own or higher level of competence.
Performs monitoring procedures related with corporate and SME clients

- Retail Credit Risk Directorate with the following functions:
 - Develops, maintains and implements models and analytical system for credit risk assessment;
 - Performs monitoring and provides internal reporting on the loan portfolio quality. Develops early warning mechanisms for increased credit risk;
 - Performs verification and independent credit risk assessment of the proposals for private individuals and micro enterprises financing according to the provided competences.

- Credit Control and Administration Department with the following functions:
 - Execute independent centralized credit control and centralized credit administration of business clients in order to minimize the credit and operational risk;
 - Develop and apply the Bank's policy in respect to credit control and administration of the business clients;
 - Centralized preparation of the loans contracts for the companies in segment SME.
 - Create and support the internal bank regulations which treat the activities of credit control and credit administration to business clients;
 - Make suggestions for reducing the client's, the product's and the portfolio credit bank risk on the grounds of findings on the loans of business clients;
 - Execute an effective control for collection of the initially due fees for credit deals to business clients.

The Collection Division consists of the following units engaged in the management, healing and collection of problem loans:

- Retail Collection Directorate - Performs operational and methodological functions establishing and ensuring application of processes, rules and procedures in order to effectively collect overdues and improving the quality of the portfolio.
 - Mortgage Problem Loans Legal Actions Section - Performs legal actions on problem mortgage loans to individuals.
 - Overdue Loans Management Department - Processes and manages loans to individuals and SME business customers at an early stage of arrears in order to fully repay overdue amounts and restore credit exposures on a regular basis or propose other financial solutions at an earlier stage.
 - Management of Retail Problem Loans Department - Organizes and controls the activity of managing overdue and problem loans of individuals after the period of early arrears, coordinating and supporting the work of all participants in the process in order to effectively collect overdue debts and improve the quality of the loan portfolio of individuals.
- Business Clients and Leasing Collection Directorate - Performs operational and methodological functions for the management of overdue and problem loans of business clients. Monitors and coordinates the implementation of group standards and strategy in order to optimally organize the collection of loan and lease receivables.
 - Management of Problem Loans of Business Clients Department - Organizes, coordinates and controls the overall activity of managing problem loans of business clients in the Bank.
 - Management of Judicial Loans of Business Clients Department - Manages the process of collecting problem loans to business clients, transferred for centralized collection by decision of the Monitoring Committee.
- Analysis, Reporting and 3rd Party Relations Directorate - Through analysis and reporting, monitors and controls the process of managing overdue and problem loans and supports the operational process. Manages the relationship with external counterparties regarding the collection or sale of packages of problem loans. Responsible for the coordination and preparation of an Operational Plan for the implementation of the strategy for reducing problem loans in the banking group.
 - Analysis and Reporting Section - Prepares regular reports according to the group standards. Participates in preparing regulatory reports and methodology. Responsible for the preparation of an Operational Plan for the implementation of the strategy for reducing problem loans in the banking group.
 - Data Provision Section - Development of a strategy and structure of the data flow required for the purpose of management of the collection activity, maintaining consistency and integrity of data. Creating a general collection DataMart.
 - Third-party Relations Section - Provides the debt sale auction process and manages the interaction with external debt collection companies and other agents related to debt collection. Prepares motivated proposals for portfolio sales and write-offs of packages of problem loans.

- Real Estate Department - Organizes, assists and performs actions for the implementation of the Bank's policy on sale of real estate used as collateral of problem loans. Manages acquired real estate collateral and performs other functions in the Bank related to real estate.
 - Residential Properties Sales Section - Manages acquired residential properties used as collateral.
 - Business Properties Sales Section - Manages acquired business properties used as collateral.

Credit risk assumption appetite

The definition of credit risk appetite is intended to support the achievement of growth objectives in such a way that prevents the accumulated portfolio from jeopardising capital even across cycles. Accordingly, credit risk appetite is a framework that encompasses all risk management tools, methods and processes that ensure – provided that the business plans are implemented as scheduled – that the risks associated with the accumulated portfolio do not jeopardise the strategic goals.

Risk appetite at the strategic level

Strategic-level credit risk appetite reflects shareholder and management objectives regarding the utilisation of the capacities available, as well as the basic attitude to credit risk, on the basis of which DSK Bank:

- strives to preserve and reinforce its market position and satisfy demand in dynamically growing segments while pursuing a prudent credit policy;
- carries out its activities in full compliance with legal regulations and supervisory requirements;
- pursues a positively conservative risk assumption practice;
- ensures risk-aware operations by consciously assuming risks instead of avoiding them and by building up and maintaining portfolios that generate stable profits, besides the appropriate identification, assessment and management of risks;
- does not undertake any reputation risk during its activity;
- holds a sufficient level of regulatory capital to maintain its solvency at all times.

Risk appetite at the operative level (Credit Policy)

By defining operative-level credit risk appetite DSK Bank:

- ensures the incorporation of strategic directions and expectations into day-to-day risk management activity;
- considers profitability aspects by analysing the income-generation potential of individual customer segments and product groups in the context of specific risk factors;
- assesses the risk indicators that can best ensure the fulfilment of growth objectives in the context of a prudent, conservative risk assumption practice. Such indicators include:
 - expected PD as an indicator ensuring the identification of the customer base that is desirable / eligible subject to certain conditions / to be avoided;
 - product / segment-level risk indicators indicating the quality of the portfolio: cost of risk, NPL portfolio, vintage indicators;
 - LGD indicators in relation to the definition and back-testing of collateralisation requirements.

Determining and adhering to the tolerance levels and the desirable values of the indicators listed above may ensure the formation of a desirable risk profile. The annual Credit policy – as the manifestation of the operative-level credit risk appetite – summarises the behaviour required for the desirable loan portfolio, defining:

- the limits and target numbers reflecting the willingness to take risks;
- the level, proportion and concentration of the assumed risks comprising the portfolio and the expectations about the quality of the portfolio;
- preferences and business orientation, potential tightening or exclusions regarding the customer base, the sectors, collateral, products and product types and the maturity structure.

In order to monitor the credit risk appetite defined at the operative level, DSK Bank operates a control system that covers:

- policy framework;
- the risk parameters of products;
- the reporting system, and
- additional, secondary controls (e.g. ex post audits of the compliance of specific transactions within the local competence level).

At the operative level the necessary tools for the monitoring of the assumed risk in the context of the pre-defined risk appetite are ensured through a comprehensive system of regulations, product parameters, IT systems supporting the compliance with the regulations and the product parameters and the Credit policy limits. The frame and the limits at the operative level are detailed in the Credit policy and the applicable regulations. These documents are available to all concerned staff in the Bank's intranet. The compliance with the limits and the monitoring of the overrides are regularly communicated to the business units. Taking the necessary measures, whenever needed for ensuring compliance, is a common task of the risk management function and the respective business unit. In the Credit policy of the bank are presented the applicable credit limits for each month of the year and the document is annually approved by the Management Board of the bank and consented by OTP Bank. The compliance with the retail credit limits are reported to the parent bank on a monthly basis and discussed quarterly by the risk function and the respective business unit. A detailed report for the performance of each main product in each month of the past year is presented to the Management Board upon the review of the proposal for next year's Credit policy. This is the basis for estimation the efficiency of the strategy of the risk management at operative level.

The compliance with the sector limits is reported monthly to the Workout committee.

Lending guidelines

The objective of DSK Bank is to develop a diversified portfolio, the performance of which does not excessively depend on the changes in the position of any particular sector, geographical region or debtor group. It is a basic requirement regarding the enforcement of the lending criteria that:

- the primary repayment sources of lending should be the cash flows generated from the enterprise's activity or, in the case of private individuals, long-term, regular income;
- when developing the conditions of new products and upon the review of existing schemes, risk parameters should comply with group standards, reflecting country-specific differences;
- identical risks within the Group should be managed along the lines of the same principles, aligned with the degree and nature of the risk exposure.

The definitions of "delinquent", "impaired" and "forborne" applied in the regulatory reporting, are fully compliant with the EBA definitions. Respectively exposures overdue more than 90 days are considered default (as determined in the Risk Assumption Regulation) and have to be impaired in compliance with the Impairment Policy of the DSK Group as per the IFRS requirements. The policy details also the application of individually and collectively assessed impairment.

1.3.2. Operational risk

A primary ambition of the Bank is to minimize the risks which result from the systems and processes, from human error, and from the impact of external events.

1.3.3. Market risk and liquidity management

The main goal of market risk management is to protect from potential losses due to changes in foreign exchange rates, prices of investments, and interest rates. The market risk and the liquidity risk are managed in accordance with the limits agreed with the sole owner, OTP Bank, and through continuous monitoring and control over the data completeness and quality.

1.3.4. Concentration risk

The main goal of concentration risk management is not to allow concentration of the exposures in the frame of one risk category or between different risk categories in the Bank. The management is based on the assessment of the extent of exposure to this type of risk in combination with the assessment of the Bank regarding the extent and quality of this risk management through rules and procedures for preventive management of risk taking and monitoring, management and control on the undertaken risk.

1.3.5. Business risk

The main goal of business risk management is the identification of the factors which have a direct impact on the income, liquidity and capital or complex influence on the overall bank activity and the extent of their influence on Bank stability and its ability to generate income, which can offset their negative impact. Most often this management is covered during the planning process, forecasting and stress-testing of the entire Balance Sheet and Income statement of the Bank.

1.3.6. Strategic risk

The main goal of strategic risk management is to prevent the possibility of different internal and external factors for the Bank, or other risks, such that the Bank will not be able to achieve its strategic goals or will deviate significantly from its strategic directive. The strategic risk is managed through adequate adaption to the changes in the external environment through timely and flexible management decisions.

1.3.7. Reputation risk

The main goal of reputation risk management is not to allow unfavorable perceived image of the Bank, loss of trust by clients, counterparties, shareholders, investors, regulatory bodies, rating agencies and employees as a result of Bank activity or the activities of the Bank employees.

1.3.8. Country risk

The country risk is managed via a common methodology which includes determination of rating of each individual country and subsequent limitation of the country exposures in accordance with the rating.

1.4. Description of the operational risk control system

Operational risk management control is performed through identification, analysis, monitoring and limitation of the operational risk in DSK Bank and its subsidiaries.

DSK Bank has adopted the following categorization of risk events:

Event-Type Category	Definition
Internal fraud	Losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or company policy, excluding diversity/discrimination events, which involves at least one internal party
External fraud	Losses due to acts of a type intended to defraud, misappropriate property or circumvent the law, by a third party
Employment Practices and Workplace Safety	Losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity/discrimination events
Clients, Products & Business Practices	Losses arising from an unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements), or from the nature or design of a product
Damage to Physical Assets	Losses arising from loss or damage to physical assets from natural disaster or other events
Business disruption and system failures	Losses arising from disruption of business or system failures
Execution, Delivery & Process Management	Losses from failed transaction processing or process management, from relations with trade counterparties and vendors

The Bank uses the following methods for managing operational risk:

- By collecting data about actual losses from operational events in the units of the Bank and its subsidiaries;
- Risk Control and Self-Assessment – identification and assessment of the potential weaknesses in the Bank process and identifying additional measures to limit the residual operational risk;
- Scenario analysis - an assessment of the potential effects on the financial position of the Bank and its ongoing processes in the event of a change in the risk factors associated with the occurrence of a plausible event with catastrophic consequences;
- Key Risk Indicators (KRI) - A tool of measuring the current level of operational risk in banking processes; allow early identification of potential risk that could negatively affect the Bank's or its subsidiary's business;
- By analyzing events that occurred with other participants in the banking market and which, in certain circumstances, could affect DSK Bank.

The hierarchy reporting of occurred operational events is based on the "bottom-up" approach. Responsibility for identifying and managing risk lies with the so-called Risk responsible employees as well as senior management. For this purpose, Internal Rules for Operational Risk Management have been developed, an independent unit for risk measurement, monitoring and reporting has been established, as well as an Operational Risk Management Committee. Collected loss data is reported to the Committee, the management of the Bank and the OTP Bank through the Centralized Registry for registering an occurred operational risk events.

According to the methodology for performing operational risk stress tests, the definition of the parameters involved in the stress test for the operational risk is based on the following elements: the amount of actual operational losses for the Bank; the result of the risk self-assessment process conducted annually with the Risk responsible employees; Scenario analysis that help assessment the potential risk occurrence of rare events with extremely adverse consequences; data on events that affected other participants in the Banking Market and which could arise in certain circumstances in the work of the Bank. Stress tests are conducted to assess and analyze the readiness of DSK Bank to address the negative impact of material adverse changes in risk components that exceed their usual level in the course of normal business planning.

DSK Bank has concluded several insurance policies that cover losses arising from operational risk (e.g. material damage) and they are detailed in the insurance policy. The review of the adequacy of the insurance is done annually.

The process of identifying, measuring and managing the risks related to the outsourcing of banking activities is also within the scope of operational risk management and reflects the current requirements of the European and national legislation. The classification of the banking activities and the differentiation of the critical or important ones for the Bank, the established mechanisms for control and influence on the external providers by the Bank and the supervisory bodies, the defined minimum obligatory contractual conditions, the assessments of the external providers and the developed exit strategies for alternative execution of the outsourced activities aim to limit the risks from the execution of activities by external providers and to avoid the risk of concentration and strong dependence on external contractors in carrying out critical or important activities for the Bank.

As a part of the Bank's operational risk management framework, the management of model risks arising from the used internal models is included. The model risk management aims to build an environment with proper controls by identifying the used models, their categorization and evaluation, as well as compliance with the requirements of the implemented controls.

An inventory of the products provided by the Bank is carried out annually, with focus on the improving of the quality of the sales practices. The purpose of the process is to mitigate the incurrence of reputational risk resulting from incorrect sales practices and to minimize the risk of financial loss and loss of customers' trust. The Rules for coordination of credit, payment and deposit products of DSK Bank AD stipulates that when the development of products requires the implementation of a new process, system or activity, or the implementation of significant changes in existing ones, they must be analyzed and assessed in terms of all risks associated with them, including the various categories of operational risk in order to determine their impact on the risk profile of the Bank and to ensure the introduction of appropriate measures for their management and control.

The Bank also has a Business Continuity Strategy on the basis of which a detailed Business Continuity Plan has been developed, aimed at ensuring the recovery of the most important business processes to levels predetermined by its business needs. In accordance with it and the Procedures for restoration of the business processes in the bank, a BCP test is performed annually to certify the readiness of the Bank to restore its processes in case of unforeseen circumstances and crisis scenarios.

Operational risk is subject to periodic review by DSK Bank's Internal and Audit Directorate, which performs a regular annually inspections in accordance with the annual audit plan. Additionally, in order to ensure a regular and systematic review of the operational risk management strategies, a review of the Operational Risk Management Rules and activities, related to Operations Risk Management is performed once a year. The current trends in the development of risk regarding major Bank activities are analyzed and measures are proposed for its elimination or limitation.

2. Regulatory Capital Requirements

As of 31.12.2020 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.

determined jointly by the Bulgarian National Bank and the Hungarian National Bank

➤ 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;
- Institution specific Countercyclical capital buffer – 0,5 %
- Other Systematically Important institution buffer – 1 % of total risk weighted exposure.

➤ Additional own funds requirements related to Pillar II adjustments, determined jointly by the Bulgarian National Bank and the Hungarian National Bank – 0 % of total risk exposure.

2.1. Regulatory capital

Total own funds are the sum of common equity tier 1 capital, additional tier 1 capital and tier 2 capital, reduced by specific deductions according to provisions of Regulation 575/2013.

2.2. Capital ratios

Total own funds and capital ratios

	<i>In thousands of BGN</i>	
	31.12.2020	31.12.2019
Tier 1 capital	3 036 976	2 608 224
<i>Common equity Tier 1 capital</i>	3 036 976	2 608 224
<i>Additional Tier 1 capital (AT1)</i>	-	-
Tier 2 capital	-	-
Own funds	3 036 976	2 608 224
	-	-
Surplus of total capital	1 923 053	1 844 507
CET1 capital ratio (%)	21.81%	27.32%
Capital adequacy ratio (%)	21.81%	27.32%

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, according to the regulatory framework, ratio should be higher than 11.50 % and the adequacy of Tier 1 capital should be higher than 15.00 % with capital buffers included.

2.3. Reconciliation between balance sheet items used to calculate own funds and regulatory own funds

In thousands of BGN

Balance sheet items included in regulatory capital estimation	Amount in Financial Statements	Amount for regulatory purposes
Assets		
Available for sale investments	178 264	-
CET1 instruments of financial sector entities where the institution does not have a significant investment - amount above 10% threshold	12 026	-
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	166 238	-
Of which - holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	-
Intangible assets	130 280	(130 280)
Capital and Reserves		
Ordinary Shares	1 328 660	1 328 660
Retained earnings	213 181	-
General and other reserve	1 481 763	1 481 763
Other comprehensive income	159 293	159 293
of which - reserves from investments in securities	48 830	48 830
of which - negative reserves from defined benefit liability	(2 912)	(2 912)
of which - positive fair value of tangible assets	113 375	113 375
CET1 additional capital deductions (for specific credit risk)	-	(2 474)
Other transitional adjustments to CET1 Capital	-	200 014
Total own funds	3 182 897	3 036 976

2.4. Capital instruments' main features

Capital instruments' main features template		
1	Issuer	DSK Bank AD
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 1 capital
5	Post-transitional CRR rules	Common equity Tier 1 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 1 328 million
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 1999
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)	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

2.5. Own funds disclosure template

In thousands of BGN

Common Equity Tier 1 capital: instruments and reserves		(A) Amount at 31.12.2020	(B) Regulation (Eu) No 575/2013 Article Reference
1	Capital instruments and the related share premium accounts	1 328 660	26 (1), 27, 28, 29
	of which: Instrument type 1 Ordinary Shares	1 328 660	EBA list 26 (3)
2	Retained earnings	-	26 (1) (c)
3	Accumulated other comprehensive income (and other reserves)	159 293	26 (1)
3a	Funds for general banking risk	1 481 763	26 (1) (f)
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)
5	Minority Interests (amount allowed in consolidated CET1)	-	84
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-	26 (2)
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	2 969 716	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	(2 474)	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	(130 280)	36 (1) (b), 37
9	Other transitional adjustments to CET1 Capital	200 014	
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
11	Fair value reserves related to gains or losses on cash flow hedges	-	33(1) (a)
12	Negative amounts resulting from the calculation of expected loss amounts	-	36 (1) (d), 40, 159
13	Any increase in equity that results from securitised assets (negative amount)	-	32 (1)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	33(1) (b)
15	Defined-benefit pension fund assets (negative amount)	-	36 (1) (e), 41
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-	36 (1) (f), 42
17	Direct, indirect and synthetic holdings of the CET 1 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
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
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
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)
20b	of which: qualifying holdings outside the financial sector (negative amount)	-	36 (1) (k) (i), 89 to 91
20c	of which: securitisation positions (negative amount)	-	36 (1) (k) (ii) 243 (1) (b) 244 (1) (b) 258
20d	of which: free deliveries (negative amount)	-	36 (1) (k) (iii), 379 (3)
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-	36 (1) (c), 38, 48 (1) (a)
22	Amount exceeding the 15% threshold (negative amount)	-	48 (1)
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)
24	Empty Set in the EU		
25	of which: deferred tax assets arising from temporary differences	-	36 (1) (c), 38, 48 (1) (a)
25a	Losses for the current financial year (negative amount)	-	36 (1) (a)
25b	Foreseeable tax charges relating to CET1 items (negative amount)	-	36 (1) (l)
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-	36(1)(j)
28	Total regulatory adjustments to Common equity Tier 1 (CET1)	67 260	
29	Common Equity Tier 1 (CET1) capital	3 036 976	
Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	-	51, 52
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
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)
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
35	of which: instruments issued by subsidiaries subject to phase out	-	486 (3)
36	Additional Tier 1 (AT1) capital before regulatory adjustments	-	
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
38	Direct, indirect and synthetic 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
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

40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	56 (d), 59, 79
41	Empty set in the EU	-	
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	56 (e)
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	-	
44	Additional Tier 1 (AT1) capital	-	
45	Tier 1 capital (T1 = CET1 + AT1)	3 036 976	
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	-	62, 63
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)
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
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	-	
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
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
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)	-	66 (c), 69, 70, 79
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
56	Empty set in the EU	-	
57	Total regulatory adjustments to Tier 2 (T2) capital	-	
58	Tier 2 (T2) capital	-	
59	Total capital (TC = T1 + T2)	3 036 976	
60	Total risk weighted assets	13 924 042	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	21.81%	92 (2) (a)
62	Tier 1 (as a percentage of risk exposure amount)	21.81%	92 (2) (b)
63	Total capital (as a percentage of risk exposure amount)	21.81%	92 (2) (c)
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)	7.00%	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer requirement	2.50%	
66	of which: countercyclical buffer requirement	0.50%	
67	of which: systemic risk buffer requirement	3.00%	

67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	1.00%	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	17.31%	CRD 128
69	[non relevant in EU regulation]		
70	[non relevant in EU regulation]		
71	[non relevant in EU regulation]		
Amounts below the thresholds for deduction (before risk weighting)			
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)	12 026	36 (1) (h), 46, 45 56 (c), 59, 60 66 (c), 69, 70
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
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
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
77	Cap on Inclusion of credit risk adjustments in T2 under standardised approach	-	62
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
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-	62
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)			
80	Current cap on CET1 instruments subject to phase out arrangements	-	484 (3), 486 (2) & (5)
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	484 (3), 486 (2) & (5)
82	Current cap on AT1 instruments subject to phase out arrangements	-	484 (4), 486 (3) & (5)
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	484 (4), 486 (3) & (5)
84	Current cap on T2 instruments subject to phase out arrangements	-	484 (5), 486 (4) & (5)
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	484 (5), 486 (4) & (5)

2.6. EU LI1 – Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories

In thousands of BGN

	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items			
			Subject to the credit risk framework	Subject to the CCR framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets						
Cash and current accounts with the Central Bank and other banks	3 726 939	3 726 939	3 726 939	-	-	-
Financial assets held for trading	25 635	25 635	-	-	25 635	-
Derivative financial instruments	62 769	62 769	-	62 769	62 769	-
Loans and advances to banks	2 393 813	2 393 813	2 393 813	-	-	-
Loans and advances to customers	13 052 195	13 052 195	13 052 195	-	-	-
Investments in securities	2 752 209	2 752 209	2 752 209	-	-	-
Current tax assets	14 478	14 478	14 478	-	-	-
Investments in subsidiaries and associates	125 589	125 589	125 589	-	-	-
Property, plant and equipment	430 504	430 504	430 504	-	-	-
Intangible assets	154 372	154 372	-	-	-	154 372
Other assets	70 365	70 365	70 365	-	-	-
Total assets	22 808 868	22 808 868	22 566 092	62 769	88 404	154 372
Liabilities						
Deposits from banks	36 897	36 897	-	-	-	36 897
Derivative financial instruments	86 191	86 191	-	86 191	86 191	-
Loans from financial institutions	12 521	12 521	-	-	-	12 521
Deposits from customers	19 257 235	19 257 235	-	-	-	19 257 235
Current tax liabilities	24 026	24 026	-	-	-	24 026
Deferred tax liabilities	13 210	13 210	-	-	-	13 210
Provisions	86 620	86 620	-	-	-	86 620
Trade and other liabilities	109 271	109 271	-	-	-	109 271
Total liabilities	19 625 971	19 625 971	-	86 191	86 191	19 539 780

2.7. EU LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements

In thousands of BGN

		Total	Items subject to		
			Credit risk framework	CCR framework	Market risk framework
1	Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	22 717 265	22 566 092	62 769	88 404
2	Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	172 382	-	86 191	86 191
3	Total net amount under the regulatory scope of consolidation	22 544 883	22 566 092	(23 422)	2 213
4	Off-balance-sheet amounts	(115 761)	-	-	-
10	Exposure amounts considered for regulatory purposes	22 429 122	22 566 092	(23 422)	2 213

2.8. Capital requirements

2.8.1. 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: risk-weighted on-balance sheet assets, risk-weighted off-balance sheet equivalents, OTC derivative instruments weighted for counter party risk and 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 risk weighted assets and capital requirements.

EU OV1 – Overview of RWAs

In thousands of BGN

		RWAs		Minimum capital requirements
		31.12.2020	31.12.2019	31.12.2020
1	Credit risk (excluding CCR)	13 143 085	8 763 734	1 057 787
2	Of which the standardised approach	13 143 085	8 763 734	1 051 447
3	Of which the foundation IRB (FIRB) approach	-	-	-
4	Of which the advanced IRB (AIRB) approach	-	-	-
5	Of which equity IRB under the simple risk-weighted approach or the IMA	-	-	-
6	CCR	79 256	67 341	6 340
7	Of which mark to market	79 256	67 341	6 340
8	Of which original exposure	-	-	-
9	Of which the standardised approach	-	-	-
10	Of which internal model method (IMM)	-	-	-
11	Of which risk exposure amount for contributions to the default fund of a CCP	-	-	-
12	Of which CVA	-	-	-
13	Settlement risk	-	-	-
14	Securitisation exposures in the banking book (after the cap)	-	-	-
15	Of which IRB approach	-	-	-
16	Of which IRB supervisory formula approach (SFA)	-	-	-
17	Of which internal assessment approach (IAA)	-	-	-
18	Of which standardised approach	-	-	-
19	Market risk	24 613	50 100	1 969
20	Of which the standardised approach	24 613	50 100	1 969
21	Of which IMA	-	-	-
22	Large exposures	-	-	-
23	Operational risk	677 088	665 288	54 167
24	Of which basic indicator approach	-	-	-
25	Of which standardised approach	-	-	-
26	Of which advanced measurement approach	677 088	665 288	54 167
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
28	Floor adjustment	-	-	-
29	Total	13 924 042	9 546 463	1 113 923

CCR related mainly to OTC derivatives, REPO-transactions, lending/borrowing of securities or commodities, margin transactions and transaction with prolonged settlement. It is originated by adverse movements in market prices deteriorating credit quality of the counterparty and reveal the risk of counterparty to fall under default before final settlement of transaction.

The Bank reduces the CCR by using different technics – system of limits and/or via accepting of high liquidity callaterals which are approved as per rules and procedures

The Bank manages CCR which are undertaken through the deals by strict rules based on preliminary approved limits of maximum risk exposure (counterparty limit) to counterparty group and/or counterparty.

The Bank has approved rules concerning detailed rights and responsibilities of different units of Bank DSK and OTP Bank, Hungary, related to preparation, monitoring and control of counterparty limits set. Approved counterparty limits are obligatory before conclusion of deals with financial institutions. The Council of Credits and Limits (CCL) approves counterparty limits under the competences of Management Rules of the Bank.

The Bank acts through policy of CCR reduction by mandatory observation of procedures for margin call, assessment of collateral's market prices as guarantee of deals fulfilment by counterparties which do not have approved limits. For this purpose the Bank uses the approved relative risk weights as per type of transactions and counterparties. If there is no approved counterparty limit as a rule the Bank accepts as collateral in transactions with financial institutions cash freed on account.

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.

EU CCR1 – Analysis of CCR exposure by approach

In thousands of BGN

		Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
1	Mark to market		62 769	125 458			125 458	79 256
2	Original exposure	-					-	-
3	Standardised approach		-			-	-	-
4	IMM (for derivatives and SFTs)				-	-	-	-
5	Of which securities financing transactions				-	-	-	-
6	Of which derivatives and long settlement transactions				-	-	-	-
7	Of which from contractual cross-product netting				-	-	-	-
8	Financial collateral simple method (for SFTs)						198	40
9	Financial collateral comprehensive method (for SFTs)						-	-
10	VaR for SFTs						-	-
11	Total							79 296

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.

EU CR3 – CRM techniques – Overview

In thousands of BGN

		Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
1	Total loans	12 826 763	409 100	143 298	265 802	-
2	Total debt securities	2 729 167	-	-	-	-
3	Total exposures	25 970 864	409 100	143 298	265 802	-
4	Of which defaulted	452 489	-	-	-	-

EU CR4 – Standardised approach – Credit risk exposure and CRM effects

In thousands of BGN / %

	Exposure classes	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
		On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
1	Central governments or central banks	5 547 193	4 635	5 584 133	28 818	326 932	6%
2	Regional government or local authorities	33 041	5 281	33 041	2 623	12 857	36%
3	Public sector entities	2 877	166	2 835	75	2 910	100%
4	Multilateral development banks	-	-	87 825	5 785	-	0%
5	International organisations	-	-	-	-	-	0%
6	Institutions	2 623 642	15 514	2 648 919	35 962	1 105 673	41%
7	Corporates	3 819 416	2 328 941	3 745 739	962 505	4 703 112	100%
8	Retail	4 126 819	494 797	4 034 863	203 594	3 123 735	74%
9	Secured by mortgages on immovable property	4 811 055	616 298	4 793 375	270 231	2 671 369	53%
10	Exposures in default	446 197	6 292	446 197	3 093	464 466	103%
11	Exposures associated with particularly high risk	-	-	-	-	-	0%
12	Covered bonds	-	-	-	-	-	0%
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	0%
14	Collective investment undertakings	263	-	263	-	323	123%
15	Equity	150 843	-	150 843	-	150 843	100%
16	Other items	1 192 423	-	1 225 736	69 954	580 825	45%
17	Total	22 753 769	3 471 924	22 753 769	1 582 640	13 143 045	54%

2.8.2. Capital requirements for market risk

Market risk is the risk arising from unexpected and adverse changes in market factors that affect the Bank's performance or the value of its financial instruments. These may be changes in interest rates, securities prices, exchange rates, negative information.

Interest rate risk (IRR) is a potential loss from adverse changes in fair value of interest rate sensitivity positions after change of market interest rates. IRR originates from available interest bearing exposures in interest sensitivity instruments as the vast majority of potential loss is a result of adverse market movements of interest rates. Such a movement affects open interest bearing positions of the Bank and requires special regulation.

Foreign exchange risk (FXR) is the risk of negative changes in value of foreign currency exposures, originated by changes in foreign exchange rate. Positions in foreign currencies /including gold and silver/ bears FXR and have immediate effect on current and potential cash flows of the Bank in currency different from local one as the assets and liabilities are every day revaluated.

The policy of the Bank regarding management of FXR aims bearing of currency exposures which do not generate losses endangering income of the Bank or its safety under observation of all regulatory boundaries. The Bank determines its aims of income from foreign currencies exposures based on preliminary approved business plan and strategy.

Concerning the bearing of market risk the strategy of Bank DSK as a part of Bank OTP is in compliance with strategic aims adopted by the Group and characterizes as a conservative one. Market Risk is observed and controlled through strict build limits system, composed of limits for FXR and IRR. The system of market risk limits are defined in manner which requires on time close-outs of positions with minimum losses. With this purpose Bank has approved limits for positions by financial instruments, currencies and maturities, turnover rate for bonds and maturity limits, loss limit levels, VaR and BPV limits.

All limits of market risk is approved by ALCO of the Bank, after reconciliation and approval by OTP Bank. These limits are subject of review and actualization every year taking in account new business targets, possible changes in determined risk appetite or business strategy.

FXR of the trading portfolio is controlled by position limits set on open currency total position and positions by every single currency (intraday and daily) as well as limit of total open currency position. Utilization of open currency position limits is observed daily from "Market risk Management" section and related report is sent to the management of the Bank. Every breach of limits is analysed on time and relevant communication is made for the reasons of limits breach and measures undertaken for elimination.

The interest risk of the trading portfolio is controlled daily by unit "Market risk Management" section based on limits of maximum exposures divided by categories as per issuer of securities and maturities; BPV limits as per time bands and currency through permitted currencies BGN, EUR and USD; VaR limits and stop loss limits.

With purpose for the management of market risk is used parametric and historical stress test model for calculation of VaR. Assessment of market risk of portfolio is determined by VaR calculation which indicates loss in value within confidence level of probability for time horizon that won't be exceeded. At present moment DSK Bank uses historical model for determination of Value at Risk for period 252 days, 1 day maintenance period, confidence level 99 % and standard deviation 2,33.

Organisation structure of the Bank related to process of risk undertaking is builded to ensure independency of the unit responsible for control of business units. The market risk in trade portfolio is controlled by unit "Management of Market and Counterparty Risk Management" section of "Management of Operational, market and counterparty risk Management" Department which is part of "Risk Management" Division. The management of the risk in Bankbook is performed by "Assets and Liabilities Management" Department (ALM) as a part of "Finance and Planning" Division. "Treasury and capital markets" Department which performs all deals related to purchase and sale of financial instruments for corporate customers and individuals, purchase and sale of securities, for trade portfolio or for Bank book, deals on money market as well as management of open currency position of the Bank is a part of Division "Corporate banking".

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 applying standardised approach 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 risk as at 31 December 2020

EU MR1 – Market risk under the standardised approach

In thousands of BGN

		RWAs	Capital requirements
	Outright products	24 613	1 969
1	Interest rate risk (general and specific)	24 613	1 969
2	Equity risk (general and specific)	-	-
3	Foreign exchange risk	-	-
4	Commodity risk	-	-
	Options		
5	Simplified approach	-	-
6	Delta-plus method	-	-
7	Scenario approach	-	-
8	Securitisation (specific risk)	-	-
9	Total	24 613	1 969

▪ *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.

Capital requirements for foreign exchange risk as at 31 December 2020

In thousands of BGN

Market risk Standardised Approach to foreign exchange risk	All positions		Net positions	Capital requirement *
	Long	Short		
Total positions	28 929 247	28 928 207	2 376	-
Currencies closely correlated	26 694 780	26 696 116	-	
All other currencies	2 234 467	2 232 091	2 376	
Currency positions				
EUR**	9 301 223	9 285 491	15 732	
BGN	17 393 557	17 410 625	(17 068)	
AUD	761	720	41	
CAD	1 106	1 257	(151)	
CZK	431	422	9	
CHF	46 329	46 519	(190)	
DKK	2 258	2 218	40	
GBP	148 698	148 561	137	
HUF	846	827	19	
JPY	2 815	2 804	11	
NOK	11 018	11 070	(52)	
PLN	22 981	22 889	92	
RON	209 611	209 503	108	
RSD	4 994	4 990	4	
RUB	8 981	8 979	2	
SEK	623	601	22	
TRY	172	172	-	
USD	1 772 821	1 770 559	2 262	
CNY	22	-	22	

* 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, 2020 the Bank doesn't calculate capital for settlement risk.*

2.8.3. 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 31.12.2020 is BGN 54 167 thousand.

2.8.4. Detailed disclosure for exposure classes allocation according to criterion defined in Regulation 575

EU CRB-B – Total and average net amount of exposures

		<i>In thousands of BGN</i>	
		Net value of exposures at the end of the period	Average net exposures over the period
16	Central governments or central banks	5 551 828	4 867 621
17	Regional governments or local authorities	38 322	30 877
18	Public sector entities	3 043	13 761
19	Multilateral development banks	-	-
20	International organisations	-	-
21	Institutions	2 751 112	2 893 827
22	Corporates	6 190 594	5 142 974
23	Of which: SMEs	10 813	11 239
24	Retail	4 621 620	4 300 096
25	Of which: SMEs	426 066	386 021
26	Secured by mortgages on immovable property	5 427 353	4 824 106
27	Of which: SMEs	210 412	216 215
28	Exposures in default	452 489	421 915
29	Items associated with particularly high risk	-	-
30	Covered bonds	-	-
31	Claims on institutions and corporates with a short-term credit assessment	-	-
32	Collective investments undertakings	337	435
33	Equity exposures	150 843	408 099
34	Other exposures	1 192 423	983 151
35	Total standardised approach	26 379 964	23 886 862

EU CRB-C – Geographical breakdown of exposures

In thousands of BGN

		Net value																			
		Europe	Bulgaria	Serbia	France	Hungary	Romania	Germany	Poland	Switzerland	Spain	Belgium	Other countries	America	USA	Other countries	Asia	Israel	Other countries	Other geographical areas	Total
7	Central governments or central banks	5 382 646	4 112 139	21 257	-	476 520	305 402	-	199 015	-	120 012	-	148 301	110 567	110 567	-	58 615	58 615	-	-	5 551 828
8	Regional governments or local authorities	38 322	38 322	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	38 322
9	Public sector entities	3 043	3 043	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3 043
10	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Institutions	2 710 857	103 696	784 488	770 390	239 351	4 194	264 612	1 110	201 276	-	144 584	197 156	39 512	38 406	1 106	240	-	240	503	2 751 112
13	Corporates	6 178 076	5 861 862	485	8 852	7 214	41 961	33 620	10 266	2 273	8 050	679	202 814	7 378	5 226	2 152	1 338	-	1 338	3 802	6 190 594
14	Retail	4 618 937	4 577 243	527	1 593	172	826	4 424	626	84	1 186	547	31 709	560	148	412	1 672	594	1 078	451	4 621 620
15	Secured by mortgages on immovable property	5 423 193	5 399 710	457	2 783	18	1 695	1 292	699	77	94	803	15 565	752	737	15	2 355	1 739	616	1 053	5 427 353
16	Exposures in default	452 267	447 486	48	212	3	19	248	37	-	25	101	4 088	18	-	18	165	-	165	39	452 489
17	Items associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20	Collective investments undertakings	337	337	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	337
21	Equity exposures	139 283	139 147	-	-	-	-	-	-	-	-	136	-	11 560	11 560	-	-	-	-	-	150 843
22	Other exposures	1 192 423	1 192 423	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1 192 423
23	Total standardised approach	26 139 384	21 875 408	807 262	783 830	723 278	354 097	304 196	211 753	203 710	129 367	146 850	599 633	170 347	166 644	3 703	64 385	60 948	3 437	5 848	26 379 964

EU CRB-D – Concentration of exposures by industry or counterparty types

In thousands of BGN

		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
7	Central governments or central banks	2 567 151	-	-	-	-	-	-	2 984 677	-	-	-	-	5 551 828
8	Regional governments or local authorities	38 322	-	-	-	-	-	-	-	-	-	-	-	38 322
9	Public sector entities	-	-	-	-	10	4	-	-	-	-	3 029	-	3 043
10	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-
11	International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Institutions	-	-	-	-	-	-	-	2 751 112	-	-	-	-	2 751 112
13	Corporates	-	473 011	2 337 656	188 706	127 044	149 248	1 173 524	1 124 589	182 577	-	365 492	68 747	6 190 594
14	Retail	82	3 864	87 552	130 163	23 371	40 892	119 630	139	8 206	4 149 561	31 992	26 168	4 621 620
15	Secured by mortgages on immovable property	8 120	83 985	561 436	160 572	332 746	30 839	696 447	29 843	182 134	3 205 795	118 387	17 049	5 427 353
16	Exposures in default	692	9 691	34 987	11 591	8 308	4 658	19 333	248	3 738	232 812	4 850	121 581	452 489
17	Items associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	-	-	-
18	Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-
19	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-
20	Collective investments undertakings	-	-	-	-	-	-	-	337	-	-	-	-	337
21	Equity exposures	-	-	-	-	-	7 137	-	143 706	-	-	-	-	150 843
22	Other exposures	-	-	-	-	-	-	24 092	-	-	-	-	1 168 331	1 192 423
23	Total standardised approach	2 614 367	570 551	3 021 631	491 032	491 479	232 778	2 033 026	7 034 651	376 655	7 588 168	523 750	1 401 876	26 379 964

EU CRB-E – Maturity of exposures

In thousands of BGN

		Net exposure value					
		On demand	≤ 1 year	> 1 year ≤ 5 years	> 5 years	No stated maturity	Total
7	Central governments or central banks	2 970 049	474 961	1 443 121	663 697	-	5 551 828
8	Regional governments or local authorities	-	7 046	20 027	11 249	-	38 322
9	Public sector entities	-	803	2 238	2	-	3 043
10	Multilateral development banks	-	-	-	-	-	-
11	International organisations	-	-	-	-	-	-
12	Institutions	92 426	2 470 227	5 056	183 403	-	2 751 112
13	Corporates	11 603	3 469 181	2 090 712	619 098	-	6 190 594
14	Retail	44 986	1 379 809	1 949 398	1 247 427	-	4 621 620
15	Secured by mortgages on immovable property	4 622	1 604 368	1 253 566	2 564 797	-	5 427 353
16	Exposures in default	-	6 027	51	446 411	-	452 489
17	Items associated with particularly high risk	-	-	-	-	-	-
18	Covered bonds	-	-	-	-	-	-
19	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
20	Collective investments undertakings	-	74	-	-	263	337
21	Equity exposures	-	-	-	-	150 843	150 843
22	Other exposures	691 554	25 834	25 773	18 759	430 503	1 192 423
24	Total	3 815 240	9 438 330	6 789 942	5 754 843	581 609	26 379 964

EU CR1-A – Credit quality of exposures by exposure class and instrument

In thousands of BGN

		Gross carrying values of		Specific credit risk adjustment	Accumulated write-offs	Net values
		Defaulted exposures	Non-defaulted exposures			
		a	b	c	e	(a+b-c)
16	Central governments or central banks	-	5 555 616	3 788	-	5 551 828
17	Regional governments or local authorities	-	38 451	129	-	38 322
18	Public sector entities	-	3 079	36	-	3 043
19	Multilateral development banks	-	-	-	-	-
20	International organisations	-	-	-	-	-
21	Institutions	-	2 755 949	4 837	-	2 751 112
22	Corporates	-	6 293 816	103 222	2 818	6 190 594
23	Of which: SMEs	-	11 128	315	-	10 813
24	Retail	-	4 723 182	101 562	5 637	4 621 620
25	Of which: SMEs	-	433 466	7 400	-	426 066
26	Secured by mortgages on immovable property	-	5 493 709	66 356	43	5 427 353
27	Of which: SMEs	-	214 413	4 001	-	210 412
28	Exposures in default	925 910	-	473 421	65 766	452 489
29	Items associated with particularly high risk	-	-	-	-	-
30	Covered bonds	-	-	-	-	-
31	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-
32	Collective investments undertakings	-	337	-	-	337
33	Equity exposures	-	155 709	4 866	-	150 843
34	Other exposures	-	1 213 055	20 632	-	1 192 423
35	Total	925 910	26 232 903	778 849	74 264	26 379 964
37	Of which: Loans	916 404	13 034 653	715 195	74 264	13 235 862
38	Of which: Debt securities	-	2 732 916	3 749	-	2 729 167
38a	Of which: Other exposures	-	6 973 259	30 248	-	6 943 011
39	Of which: Off-balance-sheet exposures	9 506	3 492 075	29 657	-	3 471 924

Template 6: Credit quality of loans and advances by industry

In thousands of BGN

		Gross carrying amount			Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures	
		a	Of which non-performing	Of which loans and advances subject to impairment			
			b	Of which defaulted			d
			c		e	f	
1	Agriculture, forestry and fishing	292 786	13 084	13 084	292 786	(12 244)	-
2	Mining and quarrying	53 447	-	-	53 447	(777)	-
3	Manufacturing	1 522 523	70 085	70 085	1 522 523	(65 205)	-
4	Electricity, gas, steam and air conditioning supply	294 617	4 009	4 009	294 617	(6 002)	-
5	Water supply	69 254	2 750	2 750	69 254	(1 954)	-
6	Construction	223 663	28 250	28 250	223 663	(22 770)	-
7	Wholesale and retail trade	1 086 194	42 565	42 565	1 086 194	(54 463)	-
8	Transport and storage	124 366	9 163	9 163	124 366	(6 963)	-
9	Accommodation and food service activities	419 783	15 076	15 076	419 783	(59 797)	-
10	Information and communication	92 141	5 464	5 464	92 141	(4 998)	-
11	Financial and insurance activities	-	-	-	-	-	-
12	Real estate activities	489 957	14 703	14 703	489 957	(17 259)	-
13	Professional, scientific and technical activities	105 056	2 365	2 365	105 056	(5 463)	-
14	Administrative and support service activities	65 785	2 241	2 241	65 785	(4 199)	-
15	Public administration and defense, compulsory social security	27	27	27	27	(16)	-
16	Education	12 672	71	71	12 672	(189)	-
17	Human health services and social work activities	51 806	545	545	51 806	(1 058)	-
18	Arts, entertainment and recreation	2 225	97	97	2 225	(131)	-
19	Other services	10 941	596	596	10 941	(584)	-
20	Total	4 917 243	211 091	211 091	4 917 243	(264 072)	-

Template 5: Quality of non-performing exposures by geography

In thousands of BGN

		Gross carrying/nominal amount			Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures	
		a	Of which non-performing					d
			b	Of which defaulted				
		e	f	g				
1	On-balance-sheet exposures	19 402 585	916 404	916 404	19 402 585	904 832	-	
2	Bulgaria	16 792 733	901 125	901 125	16 792 733	880 886	-	
3	Serbia	787 823	108	108	787 823	2 996	-	
4	France	770 942	231	231	770 942	2 714	-	
5	Germany	279 674	835	835	279 674	1 907	-	
6	Switzerland	202 518	-	-	202 518	263	-	
7	Belgium	146 240	354	354	146 240	339	-	
8	The Netherlands	96 394	596	596	96 394	1 517	-	
9	Ireland	49 349	569	569	49 349	579	-	
10	USA	44 181	-	-	44 181	111	-	
11	Austria	43 397	-	-	43 397	200	-	
12	Other countries	189 334	12 586	12 586	189 334	13 320	-	
13	Off-balance-sheet exposures	3 503 582	9 506	9 506	3 461 301	-	37 273	
14	Bulgaria	3 285 974	9 480	9 480	3 285 974	-	34 647	
15	Italy	57 165	1	1	57 165	-	629	
16	Romania	37 159	-	-	37 159	-	410	
17	Germany	26 281	1	1	26 281	-	306	
18	Portugal	8 874	-	-	8 874	-	94	
19	France	8 844	-	-	-	-	126	
20	Hungary	8 772	-	-	-	-	79	
21	Czech Republic	8 645	-	-	-	-	87	
22	United Kingdom	8 573	-	-	-	-	104	
23	Poland	7 447	-	-	-	-	197	
24	Other countries	45 848	24	24	45 848	-	594	
25	Total	22 906 167	925 910	925 910	22 863 886	904 832	37 273	

EU CR1-D – Ageing of past-due exposures

In thousands of BGN

		Gross carrying values					
		≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
1	Loans	246 084	41 590	56 364	77 925	72 551	421 890
2	Debt securities	-	-	-	-	-	-
3	Total exposures	246 084	41 590	56 364	77 925	72 551	421 890

EU CR1-E – Non-performing and forborne exposures

In thousands of BGN

		Gross carrying values of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
			Of which performing but past due > 30 days and ≤ 90 days	Of which performing forborne	Of which non-performing			On performing exposures		On non-performing exposures		On non-performing exposures	Of which forborne exposures	
					Of which defaulted	Of which impaired	Of which forborne		Of which forborne		Of which forborne			
010	Debt securities	2 732 653	-	-	-	-	-	-	4 711	-	-	-	-	-
020	Loans and advances	16 350 840	151 033	87 696	916 404	916 404	916 404	429 304	313 873	18 727	590 959	260 342	232 106	186 489
030	Off-balance-sheet exposures	3 503 582	-	514	9 506	9 506	9 506	55	33 234	35	4 039	16	1 142	-

EU CR2-A – Changes in the stock of general and specific credit risk adjustments

In thousands of BGN

		Accumulated specific credit risk adjustment
1	Opening balance	(618 569)
1a	Changes on application of IFRS 9	200 014
2	Increases due to amounts set aside for estimated loan losses during the period	(913 124)
3	Decreases due to amounts reversed for estimated loan losses during the period	628 068
4	Decreases due to amounts taken against accumulated credit risk adjustments	74 264
5	Transfers between credit risk adjustments	-
6	Impact of exchange rate differences	-
7	Business combinations, including acquisitions and disposals of subsidiaries	(147 698)
8	Other adjustments	(1 804)
9	Closing balance	(778 849)
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	2 083
11	Specific credit risk adjustments directly recorded to the statement of profit or loss	9

EU CR2-B – Changes in the stock of defaulted and impaired loans and debt securities

In thousands of BGN

		Gross carrying value defaulted exposures
1	Opening balance	703 262
2	Loans and debt securities that have defaulted or impaired since the last reporting period	394 986
3	Returned to non-defaulted status	(102 169)
4	Amounts written off	(36 434)
5	Other changes	(33 735)
6	Closing balance	925 910

EU CR5 – Standardised approach

In thousands of BGN

	Exposure classes	Risk weight										Total	Of which unrated
		0%	10%	20%	35%	50%	75%	100%	150%	250%	Deducted		
1	Central governments or central banks	4 898 998	-	148 037	-	594 729	-	-	-	-	-	5 641 764	227 694
2	Regional government or local authorities	-	-	28 509	-	-	-	7 155	-	-	-	35 664	35 664
3	Public sector entities	-	-	-	-	-	-	2 910	-	-	-	2 910	2 910
4	Multilateral development banks	93 610	-	-	-	-	-	-	-	-	-	93 610	93 610
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	-	-	1 081 535	-	1 520 242	-	166 247	-	-	-	2 768 024	2 343 537
7	Corporates	-	-	3 542	-	-	-	4 746 938	-	-	-	4 750 480	4 748 419
8	Retail	-	-	-	-	-	4 238 460	-	-	-	-	4 238 460	4 238 460
9	Secured by mortgages on immovable property	-	-	-	2 974 442	662 002	395 930	1 031 231	-	-	-	5 063 605	5 063 605
10	Exposures in default	-	-	-	-	-	-	418 939	30 351	-	-	449 290	449 290
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	-	-
12	Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-	337	-	-	-	337	337
15	Equity	-	-	-	-	-	-	150 843	-	-	-	150 843	150 843
16	Other items	460 480	-	317 981	-	-	-	517 229	-	-	-	1 295 690	1 295 690
17	Total	5 453 088	-	1 579 604	2 974 442	2 776 973	4 634 390	7 041 829	30 351	-	-	24 490 677	18 650 059

EU CCR3 – Standardised approach – CCR exposures by regulatory portfolio and risk

In thousands of BGN

	Exposure classes	Risk weight				Total	Of which unrated
		20%	50%	75%	100%		
1	Central governments or central banks	-	-	-	-	-	-
2	Regional government or local authorities	-	-	-	-	-	-
3	Public sector entities	-	-	-	-	-	-
4	Multilateral development banks	-	-	-	-	-	-
5	International organisations	-	-	-	-	-	-
6	Institutions	15 230	67 913	-	-	83 143	7 122
7	Corporates	-	-	-	42 237	42 237	42 237
8	Retail	-	-	4	-	4	4
9	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
10	Other items	-	-	-	74	74	74
11	Total	15 230	67 913	4	42 311	125 458	49 437

EU CCR5-A – Impact of netting and collateral held on exposure values

In thousands of BGN

		Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
1	Derivatives	125 458	-	-	-	125 458
2	SFTs	-	-	-	-	-
3	Cross-product netting	-	-	-	-	-
4	Total	125 458	-	-	-	125 458

2.9. COVID-19

On 11 March 2020 the World Health Organisation declared a COVID-19 pandemic, and on 13 March 2020 the Bulgarian Parliament imposed a state of emergency in Bulgaria, as a result of which a number of restrictive measures were taken.

On 24 March 2020, the State of Emergency Act was promulgated, imposing measures for the period of the pandemic state of emergency in various areas – employment relations and social security, taxation and annual financial closure, default and forced execution, terms and deadlines, etc. Decisions and orders of the Council of Ministers and the Ministry of Health were adopted for implementing anti-epidemic measures on the territory of the country aimed to protect and preserve the population’s life and health in relation to: a ban on entering the country and applying measures (quarantine or provision of a negative lab result from a PCR test prior to entering the country) for countries with high COVID-19 rates and significant pandemic spread; observing requirements on physical distance, hand hygiene, disinfection and wearing protective face masks in indoor public places; temporary suspension or restriction of the operations of public sites and/or other sites or services rendered to citizens, etc.

On 10 April 2020 the Bulgarian National Bank approved a “Procedure for deferral and settlement of liabilities payable to banks and their subsidiaries – financial institutions, in relation to the state of emergency imposed by Parliament on 13 March 2020” (the “Procedure”), resulting from the COVID-19 pandemic and consequences thereof. The Procedure allowed borrowers affected by the restrictive measures applied to defer the repayment of their debts to financial institutions. The Procedure initially provided for deferral possibility for up to 6 months, not later than 31 December 2020. Consequently, the Procedure was amended and the period was extended to 31 March 2021. Pursuant to a new BNB decision, dated 10 December 2020, the Procedure’s effect was extended until 31 December 2021, and borrowers were allowed to defer repayments to financial institutions for a period of 9 months.

As a result of the restrictions imposed in Bulgaria and in most countries around the world, the normal operations of businesses in a number of economic sectors was disrupted. There were difficulties with the supplies of raw and other materials from suppliers, shipments to clients, and procuring workforce. Almost all entities, though to a different extent, had to impose certain actions and measures to reorganise business operations, work schedules, business communications and other aspects of their relations to counterparties, partners, and state institutions.

Non-legislative moratorium in COVID-19 crisis

In 2020 the coronavirus pandemic reached Europe. As a result lockdowns were implemented in a number of European countries, incl. Bulgaria, where state of emergency entered into effect on March 13th 2020. To support the credit situation of clients with loans, and in line with the EBA *Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis*, DSK Bank offered to its clients renegotiation instruments, mainly under the non-legislative moratorium, but also under its own forbearance instruments. In the latter case the loans are classified and reported as forborne.

As set out in the EBA guidelines on payment moratoria, loans which have been granted a concession through the non-legislative general payment moratorium, or through any other modification (including any ongoing provided forbearance measures) are identifiable and monitored.

CVD-19-1: Information on loans and advances subject to legislative and non-legislative moratoria

In thousands of BGN

	Gross carrying amount							Accumulated impairment, accumulated negative changes in fair value due to credit risk							Gross carrying amount	
		Performing			Non performing			Performing			Non performing			Inflows to non-performing exposures		
		Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days		Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days				
1	Loans and advances subject to moratorium	74 552	73 955	275	52 038	597	185	490	(6 405)	(6 102)	(56)	(5 903)	(303)	(99)	(247)	597
2	of which: Households	22 942	22 467	275	7 261	475	185	369	(1 199)	(956)	(56)	(835)	(243)	(99)	(186)	475
3	of which: Collateralised by residential immovable property	10 955	10 955	90	1 966	-	-	-	(179)	(179)	(9)	(131)	-	-	-	-
4	of which: Non-financial corporations	50 522	50 400	-	44 777	122	-	121	(5 190)	(5 130)	-	(5 068)	(60)	-	(60)	122
5	of which: Small and Medium-sized Enterprises	2 777	2 655	-	500	122	-	121	(127)	(67)	-	(42)	(60)	-	(60)	122
6	of which: Collateralised by commercial immovable property	46 609	46 509	-	43 290	100	-	100	(5 123)	(5 070)	-	(5 037)	(53)	-	(53)	100

CVD-19-2: Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria

In thousands of BGN

		Number of obligors	Gross carrying amount	Residual maturity of moratoria						
				Of which: legislative moratoria	Of which: expired	<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
1	Loans and advances for which moratorium was offered	13 494	1 339 747							
2	Loans and advances subject to moratorium (granted)	10 401	1 057 111	-	982 559	71 757	1 699	1 096	-	-
3	of which: Households		438 055	-	415 113	22 287	399	255	-	-
4	of which: Collateralised by residential immovable property		242 225	-	231 270	10 477	327	151	-	-
5	of which: Non-financial corporations		617 774	-	567 252	48 380	1 299	841	-	-
6	of which: Small and Medium-sized Enterprises		81 730	-	78 953	2 777	-	-	-	-
7	of which: Collateralised by commercial immovable property		318 909	-	272 300	45 768	-	841	-	-

CVD-19-3: Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis

In thousands of BGN

		Gross carrying amount	of which: forborne	Maximum amount of the guarantee that can be considered	Gross carrying amount
				Public guarantees received	Inflows to non-performing exposures
1	Newly originated loans and advances subject to public guarantee schemes	67 206	628	59 132	129
2	of which: Households	28 264			129
3	of which: Collateralised by residential immovable property	-			-
4	of which: Non-financial corporations	38 942	628	31 153	-
5	of which: Small and Medium-sized Enterprises	28 306			-
6	of which: Collateralised by commercial immovable property	1 569			-

3. Liquidity risk and Liquidity Coverage Ratio

DSK Bank manages its exposure to liquidity risk by:

- accumulating an adequate level of high-quality liquid assets (HQLA);
- developing a modern system for liquidity risk management covering exposures in adequate manner;
- applying a transparent management process;
- performing monitoring and preparing well-grounded analyses and reports to the management body.

The main body for liquidity management is the Asset and Liabilities Management Committee (ALCO). ALCO reports its activity to the Management board quarterly or on demand if needed. Balance Sheet Management Department (BSM) is the unit that performs constant monitoring and prepares a regular information and proposals to the ALCO concerning management of liquidity in short and long term. The intraday liquidity management is delegated to Correspondent Banking Department (CB). BSM Department provides guidelines to CB Department regarding the targets for operational liquidity.

DSK Bank uses information from various sources to monitor the liquidity position on daily and monthly base. In case of deviations from the strategy or significant changes in liquidity, they are reported to the Group and Local ALCO in order corrective measures to be undertaken.

DSK Bank maintains adequate level of liquidity buffer, so that it can fulfil its obligations in different currencies when they come due.

Once a year DSK Bank carries out an internal liquidity adequacy assessment process (ILAAP). The final ILAAP report is submitted and approved by the Management Board prior to being sent to the supervisory authority.

DSK Bank has large and well-diversified deposit base. The prevailing part of attracted funds is from retail clients. For that reason, there is not concentration to any client or group of clients.

Exposures in derivatives is not significant. Derivatives are used mainly for servicing corporate and financial clients.

Liquidity coverage ratios (LCR) is above the regulatory and internal limits for the whole year.

Liquidity management in foreign currencies is to a large extent coordinated with OTP Group. Irrespective of the level of centralisation of the liquidity management function, the Bank applies group methods and standards for measurement and reporting of liquidity.

There are no significant positions in terms of liquidity that are not considered in the LCR.

In the next table a qualitative information for liquidity coverage ratio is represented.

LCR disclosure template, on quantitative information of LCR which complements Article 435(1)(f) of Regulation (EU) No 575/2013

In thousands of BGN / %

		Total unweighted value				Total weighted value			
Quarter ending on:		31.03.2020	30.06.2020	30.09.2020	31.12.2020	31.03.2020	30.06.2020	30.09.2020	31.12.2020
Number of data points used in the calculation of averages		12	12	12	12	12	12	12	12
HIGH-QUALITY LIQUID ASSETS									
1	Total high-quality liquid assets (HQLA)					5 053 270	5 129 485	5 043 683	5 094 498
CASH-OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	8 284 810	9 095 738	10 208 238	11 383 686	479 828	531 486	602 699	680 785
3	Stable deposits	7 500 966	8 185 047	9 120 316	10 084 706	375 048	409 252	456 016	504 235
4	Less stable deposits	783 845	910 690	1 087 922	1 298 981	104 780	122 234	146 683	176 550
5	Unsecured wholesale funding					1 442 508	1 498 239	1 465 580	1 540 156
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-	-	-	-	-
7	Non-operational deposits (all counterparties)	2 209 175	2 410 882	2 606 790	2 901 364	1 442 508	1 498 239	1 465 580	1 540 156
8	Unsecured debt	-	-	-	-	-	-	-	-
9	Secured wholesale funding					-	-	-	-
10	Additional requirements					158 163	181 356	212 399	232 721
11	Outflows related to derivative exposures and other collateral requirements	42 343	42 836	34 744	5 861	42 343	42 836	34 744	5 861
12	Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
13	Credit and liquidity facilities	1 242 238	1 413 938	1 707 198	2 031 258	115 820	138 520	177 655	226 860
14	Other contractual funding obligations	16 500	15 125	11 000	6 875	-	-	-	-
15	Other contingent funding obligations	247 036	290 420	360 370	431 491	12 352	14 521	18 019	21 575
16	TOTAL CASH OUTFLOWS					2 092 851	2 225 603	2 298 697	2 475 237
CASH-INFLOWS									
17	Secured lending (eg reverse repos)	-	25 146	61 768	99 820	-	-	-	-
18	Inflows from fully performing exposures	402 350	482 440	628 990	788 612	313 938	388 161	532 191	681 671
19	Other cash inflows	38 732	39 227	27 688	7 599	38 732	39 227	27 688	7 599
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					-	-	-	-
EU-19b	(Excess inflows from a related specialised credit institution)					-	-	-	-
20	TOTAL CASH INFLOWS	441 082	546 814	718 446	896 031	352 670	427 389	559 879	689 270
EU-20a	Fully exempt inflows	-	-	-	-	-	-	-	-
EU-20b	Inflows Subject to 90% Cap	-	-	-	-	-	-	-	-
EU-20c	Inflows Subject to 75% Cap	441 082	546 814	718 446	896 031	352 670	427 389	559 879	689 270
						TOTAL ADJUSTED VALUE			
21	LIQUIDITY BUFFER					5 053 270	5 129 485	5 043 683	5 094 498
22	TOTAL NET CASH OUTFLOWS					1 740 181	1 798 214	1 738 818	1 785 967
23	LIQUIDITY COVERAGE RATIO (%)					293.07%	288.35%	292.98%	288.09%

4. Leverage

DSK Bank estimates the leverage ratio according to Regulation (EC) 575/2013, art. 429 and the following improvements as a proportion between CET 1 and the total leverage exposure in percentage.

As of December 31, 2020 the leverage ratio is 12.46 %.

In the next tables is represented information connected with the fulfilment of Regulation (EC) 575/2013, art. 451 and Commission implementing regulation – EU 2016/200.

Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

		<i>In thousands of BGN</i>
		Applicable Amount
1	Total assets as per published financial statements	22 808 868
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	-
4	Adjustments for derivative financial instruments	62 689
5	Adjustment for securities financing transactions (SFTs)	-
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	1 582 640
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	-
EU-6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	-
7	Other adjustments	(94 728)
8	Leverage ratio total exposure measure	24 359 469

Table LRCom: Leverage ratio common disclosure

		<i>In thousands of BGN</i>
		CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	22 808 217
2	(Asset amounts deducted in determining Tier 1 capital)	(156 846)
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	22 651 371
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	62 769
5	Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method)	62 689
EU-5a	Exposure determined under Original Exposure Method	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	Total derivatives exposures (sum of lines 4 to 10)	125 458
SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	Counterparty credit risk exposure for SFT assets	-
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	-
15	Agent transaction exposures	-
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	-
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	-
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	3 471 924
18	(Adjustments for conversion to credit equivalent amounts)	(1 889 284)
19	Other off-balance sheet exposures (sum of lines 17 and 18)	1 582 640
Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)		
EU-19a	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
Capital and total exposure measure		
20	Tier 1 capital	2 836 962
21	Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	24 359 469
Leverage ratio		
22	Leverage ratio	11.65%
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	-
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	-

Table LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

		<i>In thousands of BGN</i>
		CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	22 808 217
EU-2	Trading book exposures	25 635
EU-3	Banking book exposures, of which:	22 782 582
EU-4	Covered bonds	-
EU-5	Exposures treated as sovereigns	5 612 946
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	123 701
EU-7	Institutions	2 648 919
EU-8	Secured by mortgages of immovable properties	4 793 375
EU-9	Retail exposures	4 034 863
EU-10	Corporate	3 745 739
EU-11	Exposures in default	446 197
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	1 376 842

5. Countercyclical Capital Buffer (CCyB)

According to Directive 2013/36/EC, Part VII, Chapter 4 the Bank have to keep CCyB which purpose is to protect against potential losses, resulting from accumulated system cyclical risk in period of excess credit growth.

The CCyB is regulated with Ordinance N 8 of the Bulgarian National Bank for capital Buffrs of the banks. BNB discloses information for the fixed level of CCyB and ups to date it quarterly. The level of CCyB for 2020 is 0.5 %.

The specific for the Bank CCyB is also 0.49%.

Geographical distribution of the institution's credit exposures relevant for the calculation of the countercyclical capital buffer

In thousands of BGN / %

Row		General credit exposures - exposure value for SA	Trading book exposure - sum of long and short position of trading book	Own funds requirements			Own funds requirement weights	Countercyclical capital buffer rate
				Of which: General credit exposures	Of which: Trading book exposures	Total		
		010	030	070	080	100	110	120
010	Breakdown by country							
	Bulgaria	15 642 400	-	917 819	-	917 819	97.75%	0.50%
	The Netherlands	66 746	-	5 120	-	5 120	0.55%	0.00%
	Italy	45 857	-	3 544	-	3 544	0.38%	0.00%
	Romania	26 639	-	2 041	-	2 041	0.22%	0.00%
	Germany	25 750	-	1 813	-	1 813	0.19%	0.00%
	United Kingdom	21 952	-	643	-	643	0.07%	0.00%
	USA	17 381	-	1 352	-	1 352	0.14%	0.00%
	France	9 095	-	544	-	544	0.06%	0.00%
	Poland	8 123	-	602	-	602	0.06%	0.00%
	Slovenia	7 773	-	621	-	621	0.07%	0.00%
	Austria	7 541	-	498	-	498	0.05%	0.00%
	Greece	7 362	-	512	-	512	0.05%	0.00%
	North Macedonia	7 020	-	521	-	521	0.06%	0.00%
	Spain	6 538	-	473	-	473	0.05%	0.00%
	Russia	6 084	-	276	-	276	0.03%	0.00%
	Other countries	42 444	-	2 575	-	2 575	0.27%	n/a
020	Total	15 948 705	-	938 954	-	938 954		

Amount of institution-specific countercyclical capital buffer

In thousands of BGN / %

Row		Column
		010
010	Total risk exposure amount	15 948 705
020	Institution specific countercyclical buffer rate	0.00%
030	Institution specific countercyclical buffer requirement	938 954

II. 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

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*

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.

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 2020 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 2020 Regulatory	Basel III 2020 ICAAP
Own Funds for Solvency Purposes	3 036 976	3 230 012
Common equity Tier 1 capital	3 036 976	3 230 012
Ordinary share capital	1 328 660	1 328 660
Reserves	1 481 763	1 674 799
Intangible assets	(52 908)	(52 908)
Goodwill	(77 372)	(77 372)
Accumulated other comprehensive income	159 293	159 293
Adjustments to CET1 due to prudential filters	(2 474)	(2 474)
CET1 instruments of financial sector entities where the institution has a significant investment	-	-
Tier 2 instruments of financial sector entities where the institution does not have a significant investment	-	-
CET1 additional capital deductions (for specific credit risk)	-	-
Other transitional adjustments to CET1 Capital	200 014	200 014
Tier 2 capital	-	-
Accumulated other comprehensive income	-	-
CET1 instruments of financial sector entites where the institution does not have a significant investment	-	-
CET1 instruments of financial sector entities where the institution has a significant investment	-	-
Tier 2 instruments of financial sector entities where the institution does not have a significant investment	-	-
Excess of deduction from T2 items over T2 Capital (deducted in CET1)	-	-

According to the approved policy of the Bank, for the purposes of internal capital analysis tier-one capital includes the 2020 annual profit because during the period of ICAAP assessment it was known that it will be kept in Reserves with a decision taken by the General Assembly. The decision for 2020 profit capitalization is based on the measures taken by the Bulgarian National Bank in relation to the impact of COVID-19 pandemic.

In the capital base calculation according to the regulatory 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:

	<i>In thousands of BGN / %</i>	
	Basel III 2020 Regulatory	Basel III 2020 ICAAP
Own Funds for Solvency Purposes	3 036 976	3 230 012
Common equity Tier 1 capital	3 036 976	3 230 012
Risk-weighted assets	13 924 042	14 825 714
Credit risk	13 222 341	13 222 341
Position, foreign exchange and commodity risk	24 613	110 274
Operational risk	677 088	677 088
Other risks	-	816 011
Interest rate risk in Banking book	-	737 500
Reputation risk	-	28 511
Strategic risk	-	50 000
Total capital requirement	1 113 923	1 186 057
Credit risk	1 057 787	1 057 787
Position, foreign exchange and commodity risk	1 969	8 822
Operational risk	54 167	54 167
Other risks	-	65 281
Interest rate risk in Banking book	-	59 000
Reputation risk	-	2 281
Strategic risk	-	4 000
Total capital adequacy ratio (%)	21.81%	21.79%
Tier I capital adequacy ratio (%)	21.81%	21.79%
Capital Conservation Buffer	348 101	348 101
Systemic Risk Buffer	417 721	417 721
O-SII Buffer	139 240	139 240
Countercyclical capital buffer	69 620	69 620
Free Capital	948 370	1 069 272

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.

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:

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

As at 31.12.2020 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

According to the adopted approach for assessment of the additional capital for concentration risk according to ICAAP no additional internal capital for coverage of concentration risk shall be allocated.

- 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 and VaR. The applied VaR has a confidence level 99% 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 book

The capital requirements for this type of risk are based on the applied stress-test scenarios. They are done according to Guidelines on the management of interest rate risk arising from non-trading book activities – EBA/GL/2018/02. The Bank calculates two main indicators – change in the net interest income (earning based indicator) and change in the economic value of equity (value based indicator). There are limits set for those two indicators in the interest rate risk in the banking book management policy of the Bank. For the calculation of capital needed under ICAAP the impact of all shocks scenarios is calculated as a sum of positive and negative changes in economic value of equity (EVE) and net interest income (NII). This is done for every significant currency. Then the results for both indicators are compared and the worst of them is taken into consideration.

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 2020 is assessed at BGN 59 000 thousand.

- *Additional capital reserve for liquidity risk*

The liquidity risk analysis in the Bank are according to the Liquidity Risk Management Policy. Periodically are conducted statistical and dynamical maturity tables. The liquidity position is reviewed on daily basis. Monitoring of key liquidity ratios, early warning indicators, nostro accounts balances and required reserves is performed as well.

DSK Bank has Contingency Funding Plan (CFP) in place for action at liquidity crisis. . Early warning indicators for activation of the CFP are defined. The defined actions and the responsibilities of the different units in management of crisis are set-up in the plan of liquidity crisis as well.

The LCRMP of DSK Bank considers 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*

For the purpose of ICAAP the bank assesses the capital needed for operational risk coverage applying the Advanced Measurement Approach (AMA) which is also applied for the assessment of the regulatory requirement for operational risk according to Pillar I requirements.

The assessed regulatory capital for operational risk in the fourth quarter of 2020 amounts to BGN 54 167 thousand. It is calculated through the Advanced Measurement Approach. For the purpose of ICAAP the same amount is allocated for operational risk.

- *Additional capital for reputational risk*

For the purpose of reputation risk assessment the Bank has developed a monitoring system which reflects different aspects related to the image of the Bank. In case the indicators breach a predefined threshold additional capital for reputation risk shall be allocated. In 2020 the indicators remained below the given thresholds but because of the inherent risk of events which are not under the direct control of the Bank and which could not be foreseen, allocated is additional capital buffer to the amount of BGN 2 000 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 2021 plan parameters, shows that there is no need for the Bank to allocate an additional capital for strategic risk coverage.

Inspite 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 fulfilment 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 the household segment (the highest share in total number of clients). 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 2021 planned parameters, which indicate the lack of necessity for allocating an additional capital in order to cover any business risks for 2020.

- Additional capital for risk of change in real estate prices

The Bank assesses the risk related to real estates which is not already covered in the regulatory assessment based on the simultaneous increase of the share in total assets and on a decrease of the real estate prices. The Bank's real estates represented less than 2% 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.

III. 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 2020 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	325 274		22 483 594	
030	Equity instruments	-	-	24 267	-
040	Debt securities	317 375	317 375	2 436 202	-
120	Other assets	-		1 533 271	

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	-	29 323
150	Equity instruments	-	-
160	Debt securities	-	29 323
230	Other collateral received	-	-
240	Own debt securities issued other than own covered bonds or ABSs	-	-

3. Encumbered assets

		<i>In thousands of BGN</i>	
		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	298 468	325 274

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.

IV. Remuneration Policy and Practices

1. Remuneration Policy of the Bank

The decision making process is in accordance with the Remuneration Policy keeping the OTP Banking group standards.

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 relevant 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 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.

The main criteria for identifying the personal scope of the Remuneration Policy are as follows:

- Importance of the position in the group – consolidation (group) level, subconsolidation level and local level;
- Assessment of the importance of the material risk assumption of the position accordingly to the European legal framework - regulatory technical standards.

The performance remuneration based on performance appraisal of the managers identified on consolidation level in the scope of the Remuneration Policy takes place uniformly in the form of cash bonus and shares in the proportion of 50-50%. As a general rule 60% of the performance-based remuneration specified for individual level shall be deferred for period of three years.

The performance remuneration based on performance appraisal of the managers identified on subconsolidation and local level in the scope of the Remuneration Policy takes place uniformly in the form of cash bonus and synthetic shares, in the proportion of 50-50%. 40% of the performance-based remuneration specified for individual level shall be deferred for period of three years. For certain positions the payment of this type of remuneration is 100 %.

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

	<i>In thousands of BGN</i>
	Remuneration for 2020
Credit activity	77 912
Asset management	3 348
Corporate functions	25 793
Independent control functions	5 012
Investment banking	3 370
Other activities	7 795
Top management	7 719
Total	130 949

3. Aggregated 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 7 989 thousand / 67 persons;


Variable annual remuneration - BGN 3 882 thousand / 66 persons.

- the amount and form of variable remuneration is BGN 3 309 thousand – cash and BGN 573 thousand – shares and relevant to shares instruments;
- the total amount of outstanding deferred remuneration, accounted in previous years, is BGN 1 741 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.

DSK Bank applies a 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.


Tamas Hak-Kovacs
Chief Executive Director


Slavyko Slavykov
Executive Director

Appendix 1: Areas and countries included as Other areas and Other countries in the Geographical Breakdown of Exposures

Geographical area	Other countries
Asia	Azerbaijan
Asia	Armenia
Asia	Afghanistan
Asia	India
Asia	Indonesia
Asia	Islamic Republic of Iran
Asia	Yemen
Asia	Jordan
Asia	Kazakhstan
Asia	China
Asia	Lebanon
Asia	United Arab Emirates
Asia	Pakistan
Asia	The Republic Of Korea
Asia	Saudi Arabia
Asia	Syrian Arab Republic
Asia	Turkmenistan
Asia	Hong Kong
Asia	Japan
Europe	Austria
Europe	Albania
Europe	Belarus
Europe	Bosnia And Herzegovina
Europe	Georgia
Europe	Greece
Europe	Denmark
Europe	Estonia
Europe	Ireland
Europe	Iceland
Europe	Cyprus
Europe	Latvia
Europe	Lithuania
Europe	Luxembourg
Europe	Norway
Europe	The Republic Of Moldova
Europe	Russian Federation
Europe	Slovakia
Europe	Turkey
Europe	Ukraine
Europe	Finland
Europe	Croatia
Europe	Montenegro
Europe	Czech Republic
Europe	Sweden
North America	Canada
North America	Mexico
North America	British Virgin Islands
North America	Panama
Europe	North Macedonia
Europe	Slovenia
Europe	The Netherlands
Europe	Portugal

Other geographical areas	Countries
Australia	Australia
Africa	Algeria
Africa	Angola
Africa	Egypt
Africa	Kongo
Africa	Libya
Africa	Mauritius
Africa	Madagascar
Africa	Morocco
Africa	Nigeria
Africa	Tunisia
Africa	South Africa
South America	Brazil
South America	Ecuador
South America	Colombia
Central America	Guatemala
Central America	Cuba
Central America	Nicaragua

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