

YEAR END DISCLOSURE

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

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DSK Bank EAD as the former State Savings Bank was incorporated on 2 March 1951 in Bulgaria as a centralised deposit accepting institution. In 1998 DSK has been transferred into a commercial bank through the Act on DSK transformation and is allowed to conduct all the transactions stated in art. 1. par.2 from the Banking Law. Later the Bank receives a full banking license to operate as a commercial bank (by order No. 220882 of 26 September 2002 issued by the Bulgarian National Bank).

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

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

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

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

Current unconsolidated disclosure is published according to Part eight of Regulation 575/2013 on prudential requirements for credit institutions and investment firms (the Regulation). According to art. 434 of the Regulation an equivalent disclosure of non-disclosed here parts is made in the Financial Statements of the Bank published on official web page.

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

1. 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.

Bank DSK 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 Bank DSK. 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. Type of risks

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 PLC. 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 chairmen of the Credits and Limits Council, the Monitoring Committee and Assets and Liabilities Committee. The mission of this division is to manage credit, operational, market, country and counterparty risks through adequate methodology and control, ensuring regulatory accountability of the risk taken and improvement of risk management and reporting practices, including on a project basis.

The Functions of the Risk Management Division include:

- Work out and implement rules and systems for adequate credit, operational, market, country and counterparty risk identification and management;
- Work out, reconcile and submit for approval the limits towards financial institutions (counter-parties) and countries;
- Periodically review and suggest amendments to the rules, limits and methodologies concerning the operational, market, country and counterparty risk;
- Monitor the compliance with the limits for market, country and counterparty risk in accordance with the current regulations;
- Define credit risk policy by economic sectors, regions, clients, products, collateral, etc.;
- Regularly acquaint top management with the risk profile of individual businesses with a view to a duly and adequate formulation of the Bank's credit risk strategy and policy (Corporate Clients, Retail, SME);
- Monitor (audit) of the credit risk management systems and the rules regulating the lending process in the Bank and their observance by all Bank units;
- Submit for approval, control and report to the Committee for classification and impairment the observance of branch and other limits, with the exception of client limits;
- Work out and implement systems and rules for credit risk management with a view to maximum return from business activities (including credit rating for corporate clients and credit scoring for individuals);
- Work out and apply the policy on risk exposures assessment;
- Act independently in the lending process following preliminary analysis; approve loans at their level of competence, including cases of renegotiation, and submit to CC and MB loans for approval or renegotiation, which exceed the level of competence of the division and its units;
- Functional management of the staff engaged in the Bank's lending process and directly of all branch networks heads;
- Manage the process of collection of problem receivables from corporate clients, SME and individuals;
- Work out and define Operational risk policy to minimize the losses from operational events in the Bank;
- Managing and supporting the process of measuring and reporting operational risk for management and supervisory purposes.

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

- Credits and Limits Council
- Committee for classification and impairment
- Assets and Liabilities Committee
- Workout Committee
- Sub commission of DSK Bank's Workout Committee

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

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:

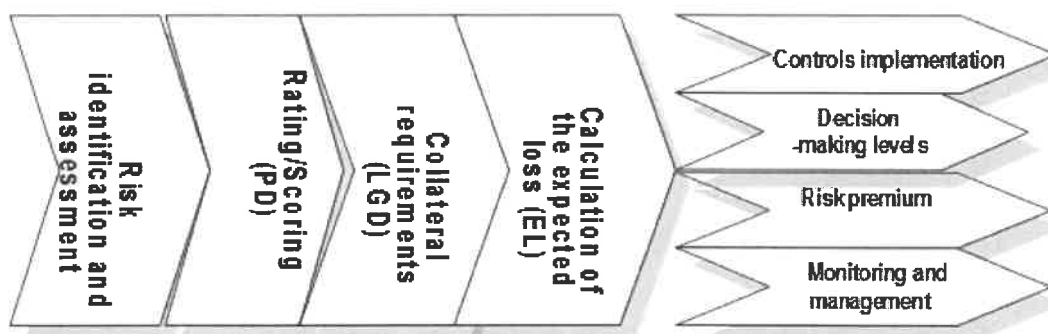
- Achievement of the strategic goals of the Group in a way which ensures the balance between risks and realized earnings;

- 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 PLC 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 EAD 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:

- Credit Risk Policy and Portfolio Management Directorate with the following functions:
 - Develops and applies the credit policy (loan portfolio, client limits, sector limits, collaterals, product limits);

- Provides regulatory and internal reporting in relation to credit risk;
 - Develops adequate risk assessment methodologies;
 - Realises the monitoring of loan portfolio quality (by products, regions, sectors, etc.);
 - Develops and applies statistical and/or expert risk assessment models;
 - Participates in the development, implementation and maintenance of the technical mechanisms facilitating the decision-making process in cases of credit risk undertaking;
 - Designs and maintains the scoring system for the assessment of retail clients;
 - Designs and maintains the rating system for the assessment of corporate clients;
 - Realises the monitoring of loan portfolio quality (by products, regions, sectors, portfolio age, etc.) and develops the system of early warning signals of credit risks;
 - Assists in the provision of regulatory and internal reporting in relation to credit risk;
 - Provides timely and high-quality support to the business when developing new products;
 - Provides timely communication with OTP Bank in relation to product approval;
 - Provides high-quality periodical review of the products;
 - Provides timely reviews and updates to the regulations prepared by the Credit Risk Policy and Portfolio Management Department;
 - Coordinates the proposals related to amendments to the internal regulatory framework relevant to the credit risk;
 - Provides methodological support to the business units.
- Corporate Credit Approval Directorate with the following functions:
- To provide 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;
 - 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;
 - Verifies credits to standard SME clients.
- Problem Loans Directorate with the following functions:
- Prepares internal regulations and provides methodology for problem loans management;
 - Organizes the collection process of loans to business clients and individuals;
 - Controls the activity of management of overdue and problem loans;
 - Provides training of employee, engaged in the process of management of overdue and problem loans;
 - Prepares proposals for creation and/or change in motivation scheme of Problem loans inspectors, Senior problem loans inspectors, Inspector problem loans to business clients and employee from Management of legal loans to business clients Department;
 - Provides consent for hiring Problem loans inspectors and senior problem loans inspectors in regional centers;
 - Analyzes the current process of collection of problem loans to individuals and business clients and proposes measures for improvement;
 - Manages on a centralized level collection of larger non regular loans to business clients;
 - Prepares and/or provides consent for proposals to the respective approval body for restructuring, voluntary sale of real estate collateral of problem loans, cession and write off of problem receivables;
 - Prepares proposals for assignment for management of problem loans to external companies and OTP Factoring Bulgaria being responsible for the administration process;
 - Prepares proposals for cession of receivables including packages of such to external companies and OTP Factoring Bulgaria;

- Prepares answers of requests and complaints of individuals and business clients according to Rules for work concerning complaints, proposals and/or inquiries of clients of DSK Bank;
 - Administrates the list with temporary ban, according to Rules for risk undertaking of DSK Bank;
 - Provides supply of information for the management of overdue and problem loans preparing business tasks for implementation and/or optimization of electronic systems of the Bank.
- Market Risk Management Section with the following functions:
 - Prepare and coordinate with OTP Bank a proposals to the Credits and Limits Council and to the Management Board regarding the approval of limits towards financial institutions (counterparties) and countries within the competence of CLC and MB according to Table 3, Section IV – Decision structure of the Governance Rules of DSK Bank;
 - Work out and implement rules, procedures and instructions for measurement and management of the market (currency and interest risk in the Trading portfolio) risk country and counterparty risk of the Bank in compliance with the adopted standards of the OTP Group;
 - Prepare a periodic reports to the Assets and Liabilities Committee on the Bank's exposure to market types of risk and the violation of the established limits;
 - Periodically review the rules, limits and methodologies concerning the market, country and counterparty risk and suggest amendments thereto;
 - Participate in the preparation of the Internal Capital Adequacy Assessment Process of DSK Bank with regard to the market risk, as well as of the stress tests related to this process.
- Credit Monitoring Department with the following functions:
 - Develop and apply Bank's policy in Credit monitoring of business client area;
 - Create and support Bank rules which treat activities and procedures for the reduction of losses related with credit monitoring events;
 - Accomplish centralized monitoring activities for the credits of business clients and business clients credit portfolio by regions purposely to minimize the credit risk;
 - Increase the quality of the data in to the IT system of the Bank;
 - Provide the necessary information for the all aspects of credit monitoring of business clients management to the Management Board.
- Control and Administration of Credit Deals to Business Clients 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;
 - 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.
- Real Estate Department with the following functions:
 - Assists property owners in voluntary sales of problem loan collaterals;
 - Carries out all legal actions against physical person's problem mortgage loans, managed by OTP Faktoring Bulgaria PLC;
 - Manages and supports marketing of real estate properties, problem loan collaterals;

- Prepares and submits proposals to the Bank's competent bodies for the acquisition through public auctions (as per the regulations of the Civil Code and the Commercial Law) of real estate properties, problem loan collaterals;
- Manages problem loan collaterals acquired by the Bank; prepares, manages and carries out their sale;
- Fulfils other functions assigned to it by internal regulations or the competent persons/bodies of the Bank.

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 PLC:

- 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 PLC 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 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 reliable management of the outsourcing process in order to ensure efficiency and effectiveness in the implementation of significant processes for the Bank is ensured through a detailed DSK Bank's Outsourcing Policy. The policy is part of the Bank's overall operational risk management system.

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 deletion or limitation.

2. Regulatory Capital Requirements

As of 31.12.2019 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 – 0.75 % 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 – 1.12 % 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

In thousands of BGN

	31.12.2019	31.12.2018
Tier 1 capital	2 608 224	1 157 537
<i>Common equity Tier 1 capital</i>	2 608 224	1 157 537
<i>Additional Tier 1 capital (AT1)</i>	-	-
Tier 2 capital	-	-
Own funds	2 608 224	1 157 537
	-	-
Surplus of total capital	1 844 507	593 740
CET1 capital ratio (%)	27.32%	16.42%
Capital adequacy ratio (%)	27.32%	16.42%

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 11.88 % and the adequacy of Tier 1 capital should be higher than 14.25 % 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 Statement	Amount for regulatory purposes
Assets		
Available for sale investments	181 935	-
CET1 instruments of financial sector entities where the institution does not have a significant investment - amount above 10% threshold	7 771	-
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	174 164	-
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	56 833	(56 833)
Capital and Reserves		
Ordinary Shares	1 327 482	1 327 482
Retained earnings	255 770	-
General and other reserve	1 200 054	1 200 054
Other comprehensive income	140 734	140 734
of which - reserves from investments in securities	31 757	31 757
of which - negative reserves from defined benefit liability	(4 697)	(4 697)
of which - positive fair value of tangible assets	113 674	113 674
CET1 additional capital deductions (for specific credit risk)	-	(3 213)
Total own funds	2 924 040	2 608 224

2.4. Capital instruments' main features

Capital instruments' main features template		
1	Issuer	DSK Bank EAD
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	BG1100050001
3	Governing law(s) of the instrument	Bulgarian
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 1 327 m.
9	Nominal amount of instrument	BGN 10
9a	Issue price	100%
9b	Redemption price	100%
10	Accounting classification	Shareholders' equity
11	Original date of issuance	26.Jan.99
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates, and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	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 Disclosure Date	(B) Regulation (Eu) No 575/2013 Article Reference
1	Capital instruments and the related share premium accounts	1 327 482	26 (1), 27, 28, 29
	of which: Instrument type 1 Ordinary Shares	1 327 482	EBA list 26 (3)
2	Retained earnings	-	26 (1) (c)
3	Accumulated other comprehensive income (and other reserves)	140 734	26 (1)
3a	Funds for general banking risk	1 200 054	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	2 668 270	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	(3 213)	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	(56 833)	36 (1) (b), 37
9	Empty Set in the EU		
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-	36 (1) (c), 38
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)	(60 046)	
29	Common Equity Tier 1 (CET1) capital	2 608 224	
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)	2 608 224	
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)	2 608 224	
60	Total risk weighted assets	9 546 463	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	27.32%	92 (2) (a)
62	Tier 1 (as a percentage of risk exposure amount)	27.32%	92 (2) (b)
63	Total capital (as a percentage of risk exposure amount)	27.32%	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)	6.75%	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	0.75%	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	22.82%	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)	7 771	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	1 769 073	1 769 073	1 769 073	-	-	-
Financial assets held for trading	183 413	183 413	-	-	183 413	-
Derivative financial instruments	20 111	20 111	-	20 111	20 111	-
Loans and advances to banks	2 197 280	2 197 280	2 197 280	-	-	-
Loans and advances to customers	8 298 533	8 298 533	8 298 533	-	-	-
Investments in securities	1 826 018	1 826 018	1 826 018	-	-	-
Current tax assets	1 410	1 410	1 410	-	-	-
Investments in subsidiaries and associates	1 150 957	1 150 957	1 150 957	-	-	-
Property, plant and equipment	361 035	361 035	361 035	-	-	-
Intangible assets	56 833	56 833	-	-	-	56 833
Other assets	37 902	37 902	37 902	-	-	-
Total assets	15 902 565	15 902 565	15 642 208	20 111	203 524	56 833
Liabilities						
Deposits from banks	10 159	10 159	-	-	-	10 159
Derivative financial instruments	32 891	32 891	-	32 891	1 127 848	-
Loans from financial institutions	38 793	38 793	-	-	-	38 793
Deposits from customers	12 673 063	12 673 063	-	-	-	12 673 063
Current tax liabilities	-	-	-	-	-	-
Deferred tax liabilities	5 534	5 534	-	-	-	5 534
Provisions	70 767	70 767	-	-	-	70 767
Trade and other liabilities	147 318	147 318	-	-	-	147 318
Total liabilities	12 978 525	12 978 525	-	32 891	1 127 848	12 945 634

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)	15 865 843	15 642 208	20 111	203 524
2	Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	1 160 739	-	32 891	1 127 848
3	Total net amount under the regulatory scope of consolidation	14 705 104	15 642 208	(12 780)	(924 324)
4	Off-balance-sheet amounts	1 757 800	856 330	-	-
10	Exposure amounts considered for regulatory purposes	16 462 904	16 498 538	(12 780)	(924 324)

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
	31.12.2019	31.12.2018	31.12.2019
1 Credit risk (excluding CCR)	8 831 075	6 359 129	701 099
2 Of which the standardised approach	8 763 734	6 359 129	701 099
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	67 341	56 884	5 387
7 Of which mark to market	67 341	56 884	5 387
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	50 100	44 763	4 008
20 Of which the standardised approach	50 100	44 763	4 008
21 Of which IMA	-	-	-
22 Large exposures	-	-	-
23 Operational risk	665 288	586 688	53 223
24 Of which basic indicator approach	-	-	-
25 Of which standardised approach	-	-	-
26 Of which advanced measurement approach	665 288	586 688	53 223
27 Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
28 Floor adjustment	-	-	-
29 Total	9 546 463	7 047 464	763 717

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.

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. Approvement of counterparty limits are under competences of Management Rules of the Bank and lowest level of approval is Council of Credits and Limits (CCL).

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 frozen 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	20 111	128 782			128 782	67 341
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)					1 970 758	91 684
9	Financial collateral comprehensive method (for SFTs)					-	-
10	VaR for SFTs					-	-
11	Total						159 025

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	6 199 641	2 122 247	1 999 986	122 261
2	Total debt securities	1 807 882	-	-	-
3	Total exposures	15 406 544	2 122 247	1 999 986	122 261
4	Of which defaulted	703 262	-	-	-

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	2 789 638	4 425	2 825 800	21 812	262 170	9%
2 Regional government or local authorities	2 163	342	2 163	68	446	20%
3 Public sector entities	3 462	145	3 418	72	3 490	100%
4 Multilateral development banks	-	-	24 602	472	-	0%
5 International organisations	-	-	-	-	-	0%
6 Institutions	435 379	9 955	456 643	9 171	319 038	68%
7 Corporates	1 540 286	951 374	1 501 416	432 314	1 928 371	100%
8 Retail	3 125 479	371 039	3 075 631	158 724	2 379 096	74%
9 Secured by mortgages on immovable property	3 370 970	412 998	3 359 869	208 340	1 899 694	53%
10 Exposures in default	258 236	7 522	258 236	4 726	280 020	106%
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	284	-	284	-	284	100%
15 Equity	1 169 093	-	1 169 093	-	1 169 093	100%
16 Other items	976 461	-	994 296	20 631	430 348	42%
17 Total	13 671 451	1 757 800	13 671 451	856 330	8 672 050	60%

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, loss limit levels, VaR and BPV limits.

All limits of market risk is approved by ALCO of the Bank, after reconciliation and improvement 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 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. VaR is calculated based on volatility of different risk parameters taking in account correlation between them and on this base is determined change in the portfolio toward current market value. At present moment DSK Bank uses 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 2019

EU MR1 – Market risk under the standardised approach

		<i>In thousands of BGN</i>	
		RWAs	Capital requirements
	Outright products	50 100	4 008
1	Interest rate risk (general and specific)	50 100	4 008
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	50 100	4 008

▪ *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 2019

In thousands of BGN

Market risk Standardised Approach to foreign exchange risk	All positions		Net positions	Capital requirement *
	Long	Short		
Total positions	30 286 766	30 291 985	8 585	-
Currencies closely correlated	26 835 022	26 848 826	-	
All other currencies	3 451 744	3 443 159	8 585	
Currency positions				
EUR**	9 254 758	9 098 487	156 271	
BGN	17 580 264	17 750 339	(170 075)	
AUD	613	590	23	
CAD	1 756	1 787	(31)	
CHF	43 716	43 837	(121)	
CZK	227	201	26	
DKK	169	114	55	
GBP	163 705	163 525	180	
HUF	1 583 455	1 583 419	36	
JPY	1 593	916	677	
NOK	11 849	11 799	50	
PLN	52 983	52 973	10	
RON	100 239	98 939	1 300	
RSD	994	-	994	
RUB	440	457	(17)	
SEK	355	326	29	
TRY	356	346	10	
USD	1 489 294	1 483 930	5 364	

* 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, 2019 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 31.12.2019 is BGN 53 223 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	2 794 063	2 928 170
17	Regional governments or local authorities	2 505	2 143
18	Public sector entities	3 607	10 135
19	Multilateral development banks	-	-
20	International organisations	-	-
21	Institutions	2 530 762	2 675 540
22	Corporates	2 505 692	2 324 882
23	Of which: SMEs	113 852	118 627
24	Retail	3 496 518	3 316 002
25	Of which: SMEs	325 328	312 190
26	Secured by mortgages on immovable property	3 783 968	3 692 032
27	Of which: SMEs	227 527	221 178
28	Exposures in default	265 758	291 372
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	364	433
33	Equity exposures	1 169 093	896 747
34	Other exposures	976 461	800 739
35	Total standardised approach	17 528 791	16 938 195

EU CRB-C – Geographical breakdown of exposures

		<i>In thousands of BGN</i>																		
		Net value																		
		Europa	Bulgaria	Hungary	Romania	Poland	Spain	Italy	Slovenia	Russian Federation	United Kingdom	Germany	Netherlands	Other countries	North America	USA	Canada	Asia	Other geographical	Total
7	Central governments or central banks	2 645 143	2 046 374	111 445	185 250	137 679	117 443	-	39 259	7 693	-	-	-	-	148 920	148 920	-	-	-	2 794 063
8	Regional governments or local authorities	2 505	2 505	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2 505
9	Public sector entities	3 607	3 607	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3 607
10	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Institutions	2 521 692	40 485	2 426 652	1 796	169	-	342	-	28 764	3 300	6 256	3 771	10 157	8 150	7 829	321	906	14	2 530 762
13	Corporates	2 494 910	2 312 915	3 909	21 379	4 807	6 433	58 399	7 433	-	3 766	13 103	16 696	46 070	6 450	4 720	1 730	962	3 370	2 505 692
14	Retail	3 494 688	3 459 083	144	727	390	616	1 998	188	1 771	15 928	3 807	808	9 228	347	289	58	697	786	3 496 518
15	Secured by mortgages on immovable property	3 780 249	3 762 451	22	247	556	120	1 522	-	2 528	2 976	1 314	1 521	6 992	905	905	-	2 120	694	3 783 968
16	Exposures in default	265 568	263 822	-	23	8	39	46	-	331	565	41	73	620	1	-	1	138	51	265 758
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	364	364	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	364
21	Equity exposures	1 158 810	1 158 729	-	-	-	-	-	-	-	-	-	-	81	10 283	10 283	-	-	-	1 169 093
22	Other exposures	976 461	976 461	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	976 461
23	Total standardised approach	17 343 997	14 026 796	2 542 172	209 422	143 609	124 651	62 307	46 880	41 087	26 535	24 521	22 869	73 148	175 056	172 946	2 110	4 823	4 915	17 528 791

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	1 640 657	-	-	-	-	-	-	1 938 099	-	-	-	-	3 578 756
8	Regional governments or local authorities	51 260	-	-	-	-	-	-	-	-	-	-	-	51 260
9	Public sector entities	-	-	-	-	-	-	-	-	-	-	87 051	240	87 291
10	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-
11	International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Institutions	-	-	-	-	-	-	-	3 371 413	-	-	20	5 121	3 376 554
13	Corporates	26 953	348 570	1 236 180	325 077	174 465	478 951	1 552 511	93 635	310 985	-	166 020	78 483	4 791 830
14	Retail	155	3 971	105 355	221 004	23 481	49 625	171 703	110	11 010	4 180 491	593 498	279	5 360 682
15	Secured by mortgages on immovable property	-	69 631	390 820	92 525	234 587	75 384	574 346	12 290	280 236	2 981 754	499 749	1 051	5 212 373
16	Exposures in default	856	14 500	25 604	29 077	23 305	2 382	37 844	-	6 603	232 030	7 705	7	379 913
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	-	-	-	-	-	-	-	2 247	-	-	-	-	2 247
21	Equity exposures	-	-	-	-	-	-	-	26 500	-	-	-	-	26 500
22	Other exposures	-	-	-	-	-	-	-	5 088	-	-	-	1 235 043	1 240 131
23	Total standardised approach	1 719 881	436 672	1 757 959	667 683	455 838	606 342	2 336 404	5 449 382	608 834	7 394 275	1 354 043	1 320 224	24 107 537

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	1 505 427	4 424	741 595	542 617	-	2 794 063
8	Regional governments or local authorities	-	679	1 701	125	-	2 505
9	Public sector entities	-	706	2 340	561	-	3 607
10	Multilateral development banks	-	-	-	-	-	-
11	International organisations	-	-	-	-	-	-
12	Institutions	35 773	46 964	2 234 604	213 421	-	2 530 762
13	Corporates	23 275	1 190 770	933 337	358 310	-	2 505 692
14	Retail	52 593	641 356	1 826 028	976 541	-	3 496 518
15	Secured by mortgages on immovable property	4 971	783 883	1 148 248	1 846 866	-	3 783 968
16	Exposures in default	-	7 513	10	258 235	-	265 758
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	-	80	-	-	284	364
21	Equity exposures	-	-	-	-	1 169 093	1 169 093
22	Other exposures	539 398	38 825	16 483	19 471	362 284	976 461
24	Total	2 161 437	2 715 200	6 904 346	4 216 147	1 531 661	17 528 791

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			
16	Central governments or central banks	-	2 794 997	934	-	2 794 063
17	Regional governments or local authorities	-	2 525	20	-	2 505
18	Public sector entities	-	3 651	44	-	3 607
19	Multilateral development banks	-	-	-	-	-
20	International organisations	-	-	-	-	-
21	Institutions	-	2 531 318	556	-	2 530 762
22	Corporates	-	2 553 674	47 982	237 437	2 505 692
23	Of which: SMEs	-	115 718	1 866	-	113 852
24	Retail	-	3 563 385	66 867	13 809	3 496 518
25	Of which: SMEs	-	329 323	3 995	-	325 328
26	Secured by mortgages on immovable property	-	3 824 384	40 416	99 116	3 783 968
27	Of which: SMEs	-	229 727	2 200	-	227 527
28	Exposures in default	703 262	-	437 504	-	265 758
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	-	364	-	-	364
33	Equity exposures	-	1 175 209	6 116	-	1 169 093
34	Other exposures	-	994 591	18 130	-	976 461
35	Total	703 262	17 444 098	618 569	350 362	17 528 791
37	Of which: Loans	693 668	8 194 535	566 315	350 362	8 321 888
38	Of which: Debt securities	-	1 808 741	859	-	1 807 882
38a	Of which: Other exposures	-	5 665 805	24 584	-	5 641 221
39	Of which: Off-balance-sheet exposures	9 594	1 775 017	26 811	-	1 757 800

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	c			
	a	b	c	d	e	f
1 Agriculture, forestry and fishing	176 974	9 001	9 001	176 974	(7 697)	-
2 Mining and quarrying	2 833	1	1	2 833	(29)	-
3 Manufacturing	836 969	48 393	48 393	836 969	(40 694)	-
4 Electricity, gas, steam and air conditioning supply	76 606	2 420	2 420	76 606	(2 463)	-
5 Water supply	64 814	14 979	14 979	64 814	(12 953)	-
6 Construction	186 185	27 446	27 446	186 185	(22 204)	-
7 Wholesale and retail trade	698 048	22 557	22 557	698 048	(28 881)	-
8 Transport and storage	78 106	4 026	4 026	78 106	(3 167)	-
9 Accommodation and food service activities	303 515	8 302	8 302	303 515	(7 182)	-
10 Information and communication	36 512	1 426	1 426	36 512	(1 479)	-
11 Financial and insurance activities	-	-	-	-	-	-
12 Real estate activities	395 923	23 471	23 471	395 923	(20 687)	-
13 Professional, scientific and technical activities	71 307	853	853	71 307	(2 652)	-
14 Administrative and support service activities	66 257	773	773	66 257	(1 538)	-
15 Public administration and defense, compulsory social security	-	-	-	-	-	-
16 Education	1 044	88	88	1 044	(49)	-
17 Human health services and social work activities	24 620	31	31	24 620	(331)	-
18 Arts, entertainment and recreation	1 630	21	21	1 630	(29)	-
19 Other services	7 324	337	337	7 324	(370)	-
20 Total	3 028 667	164 125	164 125	3 028 667	(152 405)	-

Template 5: Quality of non-performing exposures by geograph

		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	
		Of which non-performing	Of which defaulted	Of which subject to impairment				
		a	b	c	d	e	f	g
1	On-balance-sheet exposures	12 245 210	693 668	693 668	12 245 210	566 654	-	-
2	Bulgaria	9 914 257	679 597	679 597	9 914 257	552 034	-	-
3	Hungary	2 149 054	-	-	2 149 054	351	-	-
4	Russion Federation	34 190	1 241	1 241	34 190	993	-	-
5	United kingdom	24 942	6 901	6 901	24 942	6 580	-	-
6	Netherlands	19 762	468	468	19 762	794	-	-
7	Italy	14 686	274	274	14 686	522	-	-
8	USA	13 809	-	-	13 809	115	-	-
9	Germany	11 826	563	563	11 826	592	-	-
10	Romania	7 013	124	124	7 013	219	-	-
11	Republic of North Macedonia	6 287	99	99	6 287	198	-	-
12	Other countries	49 384	4 401	4 401	49 384	4 256	-	-
13	Off-balance-sheet exposures	1 819 794	9 594	9 594	1 790 158	-	26 811	-
14	Bulgaria	1 678 744	9 590	9 590	1 678 744	-	24 512	-
15	Italy	48 618	-	-	48 618	-	815	-
16	Romania	17 148	-	-	17 148	-	286	-
17	Germany	13 512	-	-	13 512	-	224	-
18	Czech Republic	7 667	-	-	7 667	-	129	-
19	Portugal	7 395	-	-	-	-	-	-
20	France	6 160	-	-	-	-	-	-
21	United Kingdom	6 031	-	-	-	-	-	-
22	Hungary	5 117	-	-	-	-	-	-
23	Poland	4 933	-	-	-	-	-	-
24	Other countries	24 469	4	4	24 469	-	845	-
25	Total	14 065 004	703 262	703 262	14 035 368	566 654	26 811	-

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	227 930	43 316	42 593	39 309	39 710	390 757
2	Debt securities	-	-	-	-	-	-
3	Total exposures	227 930	43 316	42 593	39 309	39 710	390 757

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	-	-	-	-	-	-	-	-	-	-	-	-	-
020	Loans and advances	12 245 210	65 153	70 029	693 668	693 668	693 668	362 891	131 222	8 572	435 432	218 903	219 325	168 861
030	Off-balance-sheet exposures	1 819 794	-	3	9 594	9 594	-	45	24 739	-	2 072	17	5 632	-

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

		<i>In thousands of BGN</i>
		Accumulated specific credit risk adjustment
1	Opening balance	(684 284)
1a	Changes on initial application of IFRS 9	-
2	Increases due to amounts set aside for estimated loan losses during the period	(261 015)
3	Decreases due to amounts reversed for estimated loan losses during the period	259 416
4	Decreases due to amounts taken against accumulated credit risk adjustments	67 314
5	Transfers between credit risk adjustments	-
6	Impact of exchange rate differences	-
7	Business combinations, including acquisitions and disposals of subsidiaries	-
8	Other adjustments	-
9	Closing balance	(618 569)
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	-
11	Specific credit risk adjustments directly recorded to the statement of profit or loss	-

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

		<i>In thousands of BGN</i>
		Gross carrying value defaulted exposures
1	Opening balance	792 885
2	Loans and debt securities that have defaulted or impaired since the last reporting period	159 585
3	Returned to non-defaulted status	(194 585)
4	Amounts written off	(4 063)
5	Other changes	(50 560)
6	Closing balance	703 262

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	3 421 525	57 303	530 855	-	159 126	-	-	-	-	-	4 168 809	(1 245 261)
2	Regional government or local authorities	-	-	2 231	-	-	-	-	-	-	-	2 231	2 231
3	Public sector entities	-	-	-	-	-	-	-	-	-	-	3 490	3 490
4	Multilateral development banks	25 074	-	-	-	-	-	-	-	-	-	25 074	25 074
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	-	-	55 907	-	326 983	-	-	-	-	-	580 484	155 997
7	Corporates	-	-	2 061	-	-	-	-	-	-	-	1 947 762	1 945 701
8	Retail	-	-	-	-	-	3 234 355	-	-	-	-	3 234 355	3 234 355
9	Secured by mortgages on immovable property	-	-	-	2 059 656	461 575	304 547	-	-	-	-	3 568 209	3 568 209
10	Exposures in default	-	-	-	-	-	-	-	34 116	-	-	262 962	262 962
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	-	-
12	Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-	-	-	-	-	364	364
15	Equity	-	-	-	-	-	-	-	-	-	-	1 169 093	1 169 093
16	Other items	423 716	-	201 079	-	-	-	-	-	-	-	1 014 927	1 014 927
17	Total	3 870 315	57 303	792 133	2 059 656	947 684	3 538 902	-	34 116	-	-	15 977 760	10 137 142

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	13 815	100 778	-	77	114 670	63 032
7	Corporates	-	-	-	14 032	14 032	14 032
8	Retail	-	-	-	-	-	-
9	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
10	Other items	-	-	-	80	80	80
11	Total	13 815	100 778	-	14 189	128 782	77 144

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	128 782	-	-	-	128 782
2	SFTs	-	-	-	-	-
3	Cross-product netting	-	-	-	-	-
4	Total	128 782	-	-	-	128 782

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) in all significant currencies are above the level of 100% and the Bank does not rely on transferring liquidity between currencies to cover liquidity cash outflows.

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 / %

Quarter ending on:		Total unweighted value				Total weighted value			
		31.3.2019	30.6.2019	30.9.2019	31.12.2019	31.3.2019	30.6.2019	30.9.2019	31.12.2019
Number of data points used in the calculation of averages		3	3	3	3	3	3	3	3
HIGH-QUALITY LIQUID ASSETS									
1	Total high-quality liquid assets (HQLA)					4 803 395	4 879 385	5 293 714	5 085 436
CASH-OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	7 586 557	7 856 503	8 059 941	8 447 900	438 256	454 904	467 449	489 156
3	Stable deposits	6 878 690	7 119 803	7 291 471	7 646 253	343 934	355 990	364 573	382 312
4	Less stable deposits	707 868	736 699	768 471	801 647	94 322	98 914	102 876	106 844
5	Unsecured wholesale funding					1 360 358	1 358 915	1 636 775	1 274 114
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-	-	-	-	-
7	Non-operational deposits (all counterparties)	2 081 743	2 073 326	2 423 613	2 075 484	1 360 358	1 358 915	1 636 775	1 274 114
8	Unsecured debt	-	-	-	-	-	-	-	-
9	Secured wholesale funding					-	-	-	-
10	Additional requirements					94 982	103 521	128 809	243 481
11	Outflows related to derivative exposures and other collateral requirements	258	540	33 629	117 405	258	540	33 629	117 405
12	Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
13	Credit and liquidity facilities	1 024 256	1 167 923	1 065 857	1 306 162	94 724	102 981	95 180	126 076
14	Other contractual funding obligations	16 500	16 500	16 500	16 500	-	-	-	-
15	Other contingent funding obligations	291 661	251 272	243 886	244 750	14 583	12 564	12 194	12 238
16	TOTAL CASH OUTFLOWS					1 908 179	1 929 903	2 245 227	2 018 989
CASH-INFLOWS									
17	Secured lending (eg reverse repos)	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	453 029	408 044	404 420	438 478	388 101	321 319	285 530	362 330
19	Other cash inflows	2 687	593	48 203	82 075	2 687	593	48 203	82 075
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	455 716	408 637	452 623	520 553	390 788	321 912	333 733	444 405
EU-20a	Fully exempt inflows	-	-	-	-	-	-	-	-
EU-20b	Inflows Subject to 90% Cap	-	-	-	-	-	-	-	-
EU-20c	Inflows Subject to 75% Cap	455 716	408 638	452 623	520 553	390 788	321 912	333 733	444 405
TOTAL ADJUSTED VALUE									
21	LIQUIDITY BUFFER					4 803 395	4 879 385	5 293 714	5 085 436
22	TOTAL NET CASH OUTFLOWS					1 517 392	1 607 991	1 911 494	1 574 583
23	LIQUIDITY COVERAGE RATIO (%)					316.56%	303.45%	276.94%	322.97%

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, 2019 the leverage ratio is 15.57 %.

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	15 902 565
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	(56 833)
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)	856 335
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	51 839
8	Leverage ratio total exposure measure	16 753 906

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)	15 825 622
2	(Asset amounts deducted in determining Tier 1 capital)	(56 833)
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	15 768 789
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	20 111
5	Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method)	(56 833)
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)	(36 722)
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	1 757 800
18	(Adjustments for conversion to credit equivalent amounts)	(901 465)
19	Other off-balance sheet exposures (sum of lines 17 and 18)	856 335
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	2 608 224
21	Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	16 753 906
Leverage ratio		
22	Leverage ratio	15.57%
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)

In thousands of BGN

		CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	15 825 622
EU-2	Trading book exposures	183 413
EU-3	Banking book exposures, of which:	15 642 209
EU-4	Covered bonds	-
EU-5	Exposures treated as sovereigns	4 796 558
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	30 183
EU-7	Institutions	456 643
EU-8	Secured by mortgages of immovable properties	3 359 869
EU-9	Retail exposures	3 075 631
EU-10	Corporate	1 501 416
EU-11	Exposures in default	258 236
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	2 163 673

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 2019 is 0.5 %.

The specific for the Bank CCyB is also 0.5%.

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	11 018 767	-	635 298	-	635 298	0.98	0.50%
	Italy	38 065	-	2 928	-	2 928	0.00	0.00%
	Netherlands	19 025	-	1 416	-	1 416	0.00	0.00%
	United States	16 164	-	1 245	-	1 245	0.00	0.00%
	Romania	13 938	-	1 089	-	1 089	0.00	0.00%
	Germany	9 150	-	662	-	662	0.00	0.00%
	United Kingdom	7 067	-	468	-	468	0.00	1.00%
	North Macedonia	7 064	-	530	-	530	0.00	0.00%
	Slovenia	6 749	-	535	-	535	0.00	0.00%
	France	6 717	-	432	-	432	0.00	0.25%
	Portugal	5 562	-	444	-	444	0.00	0.00%
	Spain	5 056	-	364	-	364	0.00	0.00%
	Other countries	44 348	-	2 670	-	2 670	0.06	0.00%
020	Total	11 197 672	-	648 081	-	648 081		

Amount of institution-specific countercyclical capital buffer

In thousands of BGN / %

Row		Column
		010
010	Total risk exposure amount	11 197 672
020	Institution specific countercyclical buffer rate	0.49%
030	Institution specific countercyclical buffer requirement	648 081

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 – Primary and Secondary liquidity (based on the effective in 2019 Rules for Liquidity Management);*

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 2019 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 2019 Regulatory	Basel III 2019 ICAAP
Own Funds for Solvency Purposes	2 608 224	2 863 994
Common equity Tier 1 capital	2 608 224	2 863 994
Ordinary share capital	1 327 482	1 327 482
Reserves	1 200 054	1 455 824
Intangible assets	(56 833)	(56 833)
Accumulated other comprehensive income	140 734	140 734
Adjustments to CET1 due to prudential filters	(3 213)	(3 213)
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	-	-
Tier 2 capital	-	-
Accumulated other comprehensive income	-	-
CET1 instruments of financial sector entities 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 2019 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.

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

The parameters of capital adequacy are as follows:

	<i>In thousands of BGN / %</i>	
	Basel III 2019 Regulatory	Basel III 2019 ICAAP
Own Funds for Solvency Purposes	2 608 224	2 863 994
Common equity Tier 1 capital	2 608 224	2 863 994
Risk-weighted assets	9 546 463	10 149 657
Credit risk	8 831 075	8 831 075
Position, foreign exchange and commodity risk	50 100	53 000
Operational risk	665 288	640 582
Other risks	-	625 000
Interest rate risk in Banking book	-	525 000
Reputation risk	-	50 000
Strategic risk	-	50 000
Total capital adequacy ratio (%)	27.32%	28.22%
Tier I capital adequacy ratio (%)	27.32%	28.22%
Capital Conservation Buffer (2.5%)	238 662	238 662
Systemic Risk Buffer (3%)	286 394	286 394
O-SII Buffer	71 598	71 598
Countercyclical capital buffer	47 732	47 732
Free Capital	1 200 121	1 407 635

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

Capital requirements and ratios for 2019

In thousands of BGN / %

Risk profile	Regulatory Capital Requirement	SREP		ICAAP	
		Additional capital according to SREP	Total Capital Required SREP	Additional capital according to ICAAP	Total Capital Required ICAAP
1. Credit risk	706 486			-	706 486
2. Concentration risk	-			-	-
3. Market risk	4 008			232	4 240
4. Interest rate risk in Banking book	-			42 000	42 000
5. Operational risk	53 223			(1 976)	51 247
6. Liquidity risk	-			-	-
7. Other risks	-			8 000	8 000
Capital requirement excl. capital buffers	763 717	106 920	870 637	48 256	811 973
8. Capital Conservation Buffer (2.5%)	238 662	-	238 662	-	238 662
9. Systemic Risk Buffer (3%)	286 394	-	286 394	-	286 394
10. O-SII Buffer	71 598	-	71 598	(71 598)	71 598
11. Countercyclical capital buffer	47 732	-	47 732	(47 732)	47 732
Capital requirement incl. capital buffers	1 408 103	106 920	1 515 024	(71 075)	1 456 359
Effective minimum required adequacy ratio (capital requirement/risk assets ratio according to regulatory requirements)	14.75%		15.87%		15.26%

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 31.12.2019 the capital requirement for credit risk according to ICAAP of DSK Bank is below the capital requirement of the standardized approach. For this reason an allocation of additional capital is not necessary.

- Additional capital for concentration risk

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

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

The Bank considers that it maintains a high level of preventive and follow-up measures for restricting and managing the concentration risk, which in addition to the high level of provision coverage of the assets represents an additional buffer also regarding the concentration risk. All aspects of impact and correlation between separate risks are subject of existing regulations, all internal rules and procedures, regulation the Bank's activity. The analysis and assessment of the according correlations between risks and their impact on concentration in relation to the capital allocation for their coverage are subject to the assessment of each main or arising risk. For that reason, the Bank considers that it is not necessary to allocate additional capital to cover concentration risk.

- Additional capital for currency risk

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

The additional capital that the Bank allocates according to the calculations regarding the level of currency risk is lower than 0.1% from the capital base.

- Additional capital for interest rate risk in the trading portfolio

In the assessment of the interest rate risk in the trading portfolio of the Bank are applied models which generally assess the exposure, calculate modified durations and VaR for the trading portfolio. The applied VaR has a confidence level 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 2019 is assessed at BGN 42 millions.

- 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*

The Bank uses an approach for assessment of the necessary capital for operational risk under ICAAP, based on four components similarly to the applied group model for the assessment of regulatory capital on the basis of the enhanced method - actual damages suffered, self-assessment of the risk, scenario analyses and external events.

The assessed regulatory capital for operational risk in the fourth quarter of 2019 amounts to BGN 53 223 thousand. It is calculated through the Enhanced Method of tier I. The calculation for the fourth quarter of 2019 under ICAAP amounts to BGN 51 247 thousand.

- *Additional capital for reputational risk*

The management of the Bank considers the applied preventive measures for limiting reputation risk as effective but because of the inherent risk of events which are not under the direct control of the Bank and which could not be foreseen, it approves the allocation of additional capital buffer to the amount of BGN 4 000 thousand for reputational risk coverage.

- *Additional capital for strategic risk*

The Bank estimates its sensitivity to strategic risk in accordance to the strategic risk management and the observed deviation from historic goals in historical plan. Analysis prove the adequate management of the operations in an environment of strongly unfavorable external influences and the ability of the Bank to maintain its stability, covering its strategic risk with its ongoing processes and flexible reactions based on timely management decisions and measures. The balance between the management of the operations and the results from the latest conducted stress tests regarding the overall activity of the Bank based on 2020 plan parameters, shows that there is no need for the Bank to allocate an additional capital for strategic risk coverage.

In spite of that, with regards to the still unstable national and international economic environment, the dynamic banking system environment and the existing factors which are out of the control of the Bank, which could impact the 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 Retail banking (the highest share in total number of clients) divided into the segments households and small and medium enterprises. A monthly analysis on the deposit distribution upon age ranges is also prepared. An assessment of significant deviations in the structure, the transfer of new and churn clients as well as other indicators for changes is made on the basis of these analysis.
 - The Bank considers that a lot of successful preventive measures are placed in order to reduce the business risk based on the results of the recently conducted stress tests on the Bank's overall activity including 2020 planned parameters, which indicate the lack of necessity for allocating an additional capital in order to cover any business risks for 2019.
- Additional capital for risk of change in real estate prices

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

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 2019 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	279 558		15 623 007	
030	Equity instruments	-	-	18 420	-
040	Debt securities	277 544	277 544	1 713 467	-
120	Other assets	1 623		2 212 955	

2. Collaterals received

In thousands of BGN

		Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
		010	040
130	Collateral received by the reporting institution	-	1 999 701
150	Equity instruments	-	-
160	Debt securities	-	1 999 701
230	Other collateral received	-	-
240	Own debt securities issued other than own covered bonds or ABSs	-	-

3. Encumbered assets

In thousands of BGN

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
010	Carrying amount of selected financial liabilities	268 622	15 902 565

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 to identify 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.

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

In thousands of BGN

	Remuneration for 2019
Credit activity	58 756
Corporate functions	25 777
Independent control functions	8 162
Top management	3 814
Total	96 509

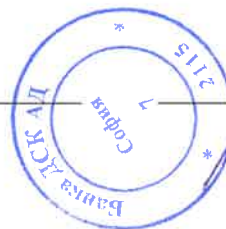
3. Aggregated quantitative information on remuneration of the persons referred to in Article 2, items 1, 2 and 4 of BNB Ordinance No. 4 of 2010 on the Requirements on the Remuneration in Banks


- the amount of remuneration for the financial year split into fixed and variable remuneration, and the number of beneficiaries:
Fixed annual remuneration - BGN 5 533 thousand / 46 persons;
Variable annual remuneration - BGN 2 913 thousand / 39 persons.
- the amount and form of variable remuneration is BGN 1 576 thousand – cash and BGN 1 337 thousand – shares and relevant to shares instruments;
- the total amount of outstanding deferred remuneration, accounted in previous years, is BGN 2 831 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– BGN 27 thousand;
- there is no amount of new sign-on payment made during the financial year– BGN 164 thousand.

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

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


Violina Marinova
Chief Executive Director




Slayeyko Slaveykov
Executive Director

Appendix 1: Areas and Countries list for geographical breakdown tables included as Other areas and Other countries

Geographical area	Other countries
Asia	Azerbaijan
Asia	Armenia
Asia	Afghanistan
Asia	Israel
Asia	India
Asia	Indonesia
Asia	Yemen
Asia	Jordan
Asia	Kazakhstan
Asia	China
Asia	United Arab Emirates
Asia	Pakistan
Asia	Korea, Republic Of
Asia	Saudi Arabia
Asia	Syrian Arab Republic
Asia	Turkmenistan
Asia	Hong Kong
Asia	Japan
Europe	Austria
Europe	Albania
Europe	Belarus
Europe	Belgium
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	Poland
Europe	Moldova, Republic Of
Europe	Russian Federation
Europe	Slovakia
Europe	Serbia
Europe	Turkey
Europe	Ukraine
Europe	Hungary
Europe	Finland
Europe	Croatia
Europe	Montenegro
Europe	Czech Republic
Europe	Switzerland
Europe	Sweden
North America	Canada
North America	Mexico
Europe	Spain
Europe	North Macedonia

Europe	Slovenia
Europe	Netherlands
Europe	France
Europe	Portugal
North America	United States

Other geographical areas	Countries
Australia	Australia
Africa	Algeria
Africa	Egypt
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	Cuba
Central America	Nicaragua

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