Head Office
Financing and Strategy Division

YEAR END DISCLOSURE
DSK Bank Group

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

2019

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 Group

Current consolidated disclosure is published according to Part eight of Regulation 575/2013 on prudential requirements for credit institutions and investment firms (the Regulation). According to art. 434 of the Regulation an equivalent disclosure of non-disclosed here parts is made in the Financial Statements of the Bank published on official web page.
The Management board of DSK Bank allocates the capital amongst various banking activities by maintaining a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. The Bank Asset and Liabilities Committee reviews the level and trend of credit, market and operational risks and their effects on capital levels on a regular basis. In cooperation with OTP Bank Hungary the Bank's risk profile is assessed in order to determine whether the Bank Group allocates sufficient capital against the various risks and to assess future capital requirement either for regulatory purposes or from the internal understanding for its risk profile coverage according to its strategy.

1. Policy and rules for risk management

The Risk Strategy of the Bank Group 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 Group'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 Group's control and risk management has the following main goals:

- Achievement of the strategic goals of the Bank 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 Group 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 Group 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 Group 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 Group, 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 Group has stress test methodology for estimation and analyzes of Bank Group 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 Group. 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 Group. 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 Group 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 the Bank Group. In case result from relevant analysis indicates deterioration of financial stability of the Bank Group as per methodology stands process of decision making for implementation of adequate measures.

1.1. Type of risks

The identified risks, which Bank Group 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 Group, 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 Group assets we can define credit risk as the main risk for the Bank Group 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 Group 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 Group 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 Group'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 Group's activity (credit, liquidity, interest rate, and market), the Group'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 Group ability to generate profit.

- Strategic risk - complex impacts on the direct risks, which are closely related to the main Bank Group 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 Group 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 Group 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 Group 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 Group and can cause on one hand big enough losses jeopardizing its financial position and/or the ability of the Bank Group to maintain its main activities. On the other hand it can lead to substantial change in the risk profile of the Bank Group. 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 Group risk profile.
- Business risk – current or potential risk for the income, liquidity and the capital, which impacts all aspects of the whole Group'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 Group'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 Group 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 Group 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 Group operation or the activities of the Bank Group employees which can harm the Bank Group 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 Group'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 Group and their observance by all Bank Group units;
- 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 Group;
- 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.

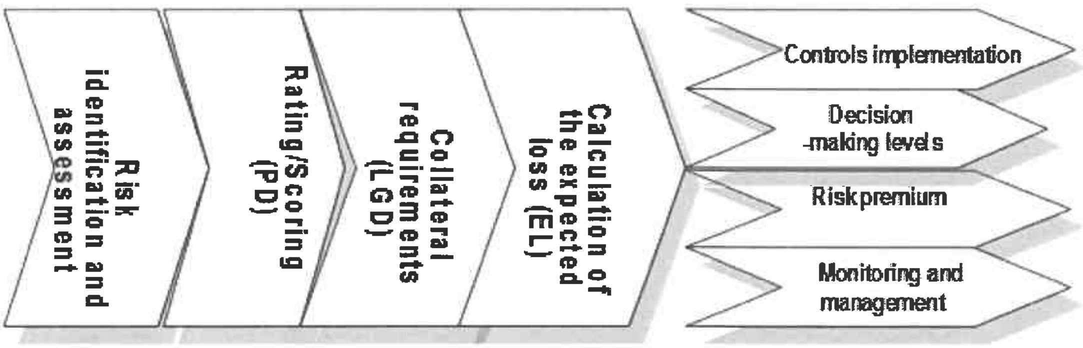
1.3. Bank Group Strategy and Risk Management Policy

The strategy of DSK Bank Group 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 Group is capable of bearing without endangering its long-term development. This goal is realized through considering of expected losses related to events which have occured, 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 Group has to be sufficient to provide protection against unexpected losses and at the same time generate the planned return on capital;
- DSK Bank Group and OTP Group have developed processes for risk management which correspond to the applicable regulatory requirements and follow the best banking practices;
- DSK Bank Group 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 Group, 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 Group 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 Group 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 interesrt 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 Group'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 Group:

- 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 Group:

- 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 Group 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 Group 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 Group 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 Group 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 Group.

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 Group, or other risks, such that the Bank Group 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 Group, loss of trust by clients, counterparties, shareholders, investors, regulatory bodies, rating agencies and employees as a result of Bank Group activity or the activities of the Bank Group 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 Group and its subsidiaries.

DSK Bank Group 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 Group uses the following methods for managing operational risk, arising from DSK Bank and its subsidiaries joint activities:

- By collecting data about actual losses from operational events in the units of the Bank Group 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 Group 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 Group'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 the Bank Group.

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 Centralised registry for registering an occurred operational risk events of OTP Bank Group.

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; 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 Group. Stress tests are conducted to assess and analyze the readiness of the Bank Group to address the negative impact of material adverse changes in risk components that exceed their usual level in the course of normal business planning.

Bank Group 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 Group is ensured through a detailed Outsourcing Policy. The policy is part of the Group's overall operational risk management system.

Operational risk is subject to periodic review by DSK Bank's Internal 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 Group has to maintain the minimum amount of or above the sum total of the capital requirements for:

➢ Capital requirements for:

- credit and dilution risk in the banking book;
- position risk in the trading book;
- counterparty and settlement risk from the entire activity;
- exchange rate and commodity risk from the entire activity and

- operational risk from the entire activity.

  - Capital Buffers, required from Bulgarian National Bank according to the Regulation:

- Capital conservation buffer - 2,5 % of total risk exposure;
- Systemic risk buffer - 3 % of total risk exposure;
- 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.

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

EU LI3 – Outline of the differences in the scopes of consolidation (entity by entity)

Name of the entity	Method of accounting consolidation	Full consolidation	Description of the entity
DSK Tours EOOD	Full consolidation	X	Travel agency services
DSK Mobile EAD	Full consolidation	X	IT services
DSK Trans Security EAD	Full consolidation	X	Security and money transportation services
DSK Rodina Pension Company AD	Full consolidation	X	Retirement insurance activities
DSK Asset Management EAD	Full consolidation	X	Fund management
OTP Factoring Bulgaria EAD	Full consolidation	X	Factoring entity
Project Company Complex Banya EOOD	Full consolidation	X	Real estate vendor
DSK Leasing AD	Full consolidation	X	Leasing activities
DSK Auto Leasing EOOD	Full consolidation	X	Leasing activities
DSK Leasing Insurance Broker EOOD	Full consolidation	X	Insurance broker
DSK Operative Leasing	Full consolidation	X	Leasing activities
Cash Services Company AD	Method of the Own Capital		Cash Services Company
DSK Dom EAD	Full consolidation	X	Credit intermediation
Expressbank AD	Full consolidation	X	Credit institution
OTP Leasing EOOD	Full consolidation	X	Leasing activities
Express Factoring EOOD	Full consolidation	X	Factoring entity
Regional Urban Development Fund AD	Full consolidation	X	Credit intermediation

2.2. Capital ratios

Total own funds and capital ratios

In thousands of BGN

	31.12.2019	**31.12.2018**
Tier 1 capital	2 534 014	1 155 784
Common equity Tier 1 capital	2 534 014	1 155 784
Additional Tier 1 capital (AT1)	-	-
Tier 2 capital	-	-
Own funds	**2 534 014**	**1 155 784**
Surplus of total capital	**1 487 633**	**580 948**
CET1 capital ratio (%)	19.37%	16.09%
Capital adequacy ratio (%)	**19.37%**	**16.09%**

The Bank Group calculates the total capital adequacy (the 'Basel ratio") as a ratio between total own funds for solvency purposes and the total of the risk-weighted assets for credit, market and operational risks. The total capital adequacy, according to the regulatory framework, ratio should be higher than 11,88 % and the adequacy of Tier 1 capital should be higher than 14,28 % 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	182 539	-
Of which - holdings of the T2 instruments of financial sector entities where the institution does not have a significant investment in those entitles - amount above 10% threshold	8 375	-
Of which - holdings of the T2 instruments of financial sector entities where the institution does not have a significant investment in those entitles - amount above 10% threshold	174 164	-
Intangible assets	199 287	(199 287)
Capital and Reserves		
Ordinary Shares	1 327 482	1 327 482
Retained earnings	350 200	-
General and other reserve	1 225 197	1 225 197
Other comprehensive income	151 628	151 628
of which - reserves from investments in securities	42 589	42 589
of which - negative resesrves from defined benefit liability	(4 635)	(4 635)
of which - positive fair value of tangible assets	113 674	113 674
Minority interest	15 158	-
CET1 additional capital deductions (for specific credit risk)	-	(2 120)
Other transitional adjustments to CET1 Capital	-	31 114
Total own funds	**3 069 665**	**2 534 014**

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)	151 628	26 (1)
3a	Funds for general banking risk	1 225 197	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)
	Public sector capital injections grandfathered until 1 January 2018	-	483 (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**	**2 704 307**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	(2 120)	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	(199 287)	36 (1) (b), 37
9	Other transitional adjustments to CET1 Capital	31 114	
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	Deflned-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 entitles (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 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)**	**(201 407)**	
29	**Common Equity Tier 1 (CET1) capital**	**2 502 900**	
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)**	**2 502 900**	
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 entitles (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)**	**2 502 900**	
60	**Total risk weighted assets**	**13 079 762**	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	19.14%	92 (2) (a)
62	Tier 1 (as a percentage of risk exposure amount)	19.14%	92 (2) (b)
63	Total capital (as a percentage of risk exposure amount)	19.14%	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)	14.87%	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)	За рисково претегляне	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)	-	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	2 817 949	2 817 949	2 817 949	-	-	-
Financial assets held for trading	208 318	208 318	-	-	208 318	-
Derivative financial instruments	31 535	31 535	-	31 535	31 535	-
Loans and advances to banks	2 838 875	2 838 875	2 838 875	-	-	-
Loans and advances to customers	13 101 321	13 101 321	13 101 321	-	-	-
Investments in securities	1 656 162	1 656 162	1 656 162	-	-	-
Net receivables from finance lease	176 331	176 331	176 331	-	-	-
Current tax assets	7 447	7 447	7 447	-	-	-
Investments in associates	3 773	3 773	3 773	-	-	-
Property, plant and equipment and investment property	528 514	528 514	528 514	-	-	-
Intangible assets	199 287	199 287	-	-	-	199 287
Other assets	76 027	76 027	76 027	-	-	-
Total assets	**21 645 539**	**21 645 539**	**21 206 399**	**31 535**	**239 853**	**199 287**
Liabilities						
Deposits from banks	69 141	69 141	-	-	-	69 141
Derivative financial instruments	43 493	43 493	-	43 493	1 219 962	-
Loans from banks and financial institutions	34 255	34 255	-	-	-	34 255
Deposits from customers	18 083 016	18 083 016	-	-	-	18 083 016
Current tax liabilities	1 251	1 251	-	-	-	1 251
Deferred tax liabilities	15 700	15 700	-	-	-	15 700
Provisions	101 488	101 488	-	-	-	101 488
Trade and other liabilities	227 530	227 530	-	-	-	227 530
Total liabilities	**18 575 874**	**18 575 874**	**-**	**43 493**	**1 219 962**	**18 532 381**

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)**	**21 477 787**	**21 206 399**	**31 535**	**239 853**
2	Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	1 263 455	-	43 493	1 219 962
3	Total net amount under the regulatory scope of consolidation	20 214 332	21 206 399	(11 958)	(980 109)
4	Off-balance-sheet amounts	2 749 668	1 147 441	-	-
10	**Exposure amounts considered for regulatory purposes**	**22 964 000**	**22 353 840**	**(11 958)**	**(980 109)**

2.8. Capital requirements

2.8.1. Capital requirements for credit risk

DSK Bank Group applies the standardized approach for calculating its risk-weighted assets for credit risk. For this purpose the Bank Group multiplies its Banking book positions by risk weights fixed from the Regulation or BNB when there is possibility for local regulator's discretion, based on the external credit assessment of each asset issuer. The risk-weighted assets should consist of: 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 Group uses external credit assessments of the following credit agencies: Standard & Poor's, Moody's and Fitch Ratings with strict observation of the requirements of the Regulation. ECAIs assessments are used for the next exposure classes: central governments or central banks, multilateral banks and institutions.

In the table below are represented the amounts of 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)	11 725 236	6 468 246	938 019
2	Of which the standardised approach	11 725 236	6 468 246	938 019
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	85 775	56 884	6 862
7	Of which mark to market	85 775	56 884	6 862
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	84 388	73 638	6 751
20	Of which the standardised approach	84 388	73 638	6 751
21	Of which IMA	-	-	-
22	Large exposures	-	-	-
23	Operational risk	1 158 738	586 688	53 223
24	Of which basic indicator approach	493 450	-	39 476
25	Of which standardised approach	25 625	-	2 050
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**	**13 079 762**	**7 185 456**	**1 004 855**

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 settlent of transaction.

Bank Group 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 Group 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 Group 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 counterpary limits set. Approved counterparty limits are obligatory before conclusion of deals with financial institutions. Approvement of counterpary limits are under competences of Management Rules of the Bank and lowest level of approvent is Council of Credits and Limits (CCL).

The Bank Group acts through policy of CCR reducement 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 Group 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 Group accepts as collateral in transactions with financial institutions cash freezed on account.

To measure the exposure to counterparty risk for over-the-counter derivatives DSK Bank Group assesses a capital charge based on the current market value (current exposure) of each contract and an estimate of additional credit exposure (referred to as the add-on for potential future exposure) that may arise as a result of fluctuations in prices or rates. The current exposure of a derivative contract is the market value of the contract if that value is positive, or zero if the market value is zero or negative. The add-on for potential future exposure is estimated by multiplying the notional principal amount of the contract by a credit conversion factor that is determined by the remaining maturity and type of contract.

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		31 535	151 469			151 469	85 775
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)						2 635 100	224 552
9	Financial collateral comprehensive method (for SFTs)						-	-
10	VaR for SFTs						-	-
11	**Total**							**310 327**

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

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	11 236 268	2 951 899	2 784 037	167 862	-
2	Total debt securities	1 807 882	-	-	-	-
3	**Total exposures**	**21 155 638**	**2 951 899**	**2 784 037**	**167 862**	**-**
4	Of which defaulted	1 093 860	-	-	-	-

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

In thousands of BGN / %

		Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	Exposure classes	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	3 574 331	4 425	3 610 493	21 812	262 170	7%
2	Regional government or local authorities	40 831	10 429	34 517	5 086	14 520	37%
3	Public sector entities	75 457	11 834	73 120	2 410	75 530	100%
4	Multilateral development banks	-	-	39 306	472	-	0%
5	International organisations	-	-	-	-	-	0%
6	Institutions	593 673	24 405	646 495	19 444	343 561	52%
7	Corporates	3 015 999	1 747 818	2 908 324	638 971	3 461 400	98%
8	Retail	4 852 952	507 730	4 786 862	189 957	3 563 370	72%
9	Secured by mortgages on immovable property	4 799 375	412 998	4 788 274	208 340	2 719 221	54%
10	Exposures in default	349 884	30 029	349 884	11 511	382 408	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	2 167	-	2 167	-	2 167	100%
15	Equity	26 500	-	26 500	-	26 500	100%
16	Other items	1 240 131	-	1 305 358	49 438	649 837	48%
17	**Total**	**18 571 300**	**2 749 668**	**18 571 300**	**1 147 441**	**11 500 684**	**58%**

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 Group'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 form 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 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 Group in currency different from local one as the assets and liabilities are every day revalueted.

The policy of the Bank Group regarding management of FXR aims bearing of currency exposures which do not generate losses endangering income of the Bank Group or its safety under observation of all regulatory boundaries. The Bank Group 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 the Bank Group 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 contolled 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 there are 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 approvement by OTP Bank. These limits are subject of review and actualization every year taking in account new business targets, possible changes in determinated risk apetite 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 releated 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 permited currencies BGN, EUR and USD; VaR limits and stop loss limits.

With purpose for the management of market risk is used historical stress test model for calculation of VaR. Assesment of market risk of portfolio is detrmined by VaR calculation which indiacates 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 detrminated change in the portfolio toward current market value. At present moment models are used for determination of Value at Risk for period 252 days, 1 day maintenance period, confidance level 99 % and standard deviation 2,33.

Organisation structure of the companies from the Bank Group related to process of market risk undertaking is builded to ensure independency of the units responsible for control of business units.

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 Group's debt securities in the Trading portfolio.

To calculate the capital requirements for general position risk, the Bank Group uses maturity approach where the net position in each debt instrument is assigned a risk weight depending on its residual term to maturity. Fixed-rate instruments shall be assigned on the basis of residual maturity, and variable-rate instruments - on the basis of the period until the next interest rate change.

To calculate the capital requirements for specific risk, the net position in each debt instrument is assigned a risk weight related to the instrument issuer, its external credit assessment and its residual term to maturity.

Capital requirements for position risks as of 31 December 2019

EU MR1 – Market risk under the standardised approach

In thousands of BGN

		RWAs	Capital requirements
	Outright products	84 388	6 751
1	Interest rate risk (general and specific)	84 388	6 751
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**	**84 388**	**6 751**

- *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 of 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 Group 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.

As of 31.12.2019 Expressbank AD applies the Basic indicator approach for calculating the capital requirement for operational risk.

The capital requirement as of 31.12.2019 is BGN 92 699 thousand.

In thousands of BGN

	Capital requirement
Capital requirement according to Basic indicator approach (BIA)	493 450
Capital requirement according to Advanced Measurement Approach (AMA)	665 288

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

In thousands of BGN

		Net value of exposures at the end of the period	Average net exposures over the period
16	Central governments or central banks	3 578 756	3 555 952
17	Regional governments or local authorities	51 260	37 833
18	Public sector entities	87 291	68 539
19	Multilateral development banks	-	-
20	International organisations	-	-
21	Institutions	3 376 554	3 633 805
22	Corporates	4 791 830	4 136 323
23	Of which: SMEs	904 342	711 285
24	Retail	5 360 682	4 728 864
25	Of which: SMEs	1 078 020	876 442
26	Secured by mortgages on immovable property	5 212 373	4 760 525
27	Of which: SMEs	670 732	571 116
28	Exposures in default	379 913	408 244
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	2 247	2 371
33	Equity exposures	26 500	25 988
34	Other exposures	1 240 131	1 030 219
35	**Total standardised approach**	**24 107 537**	**22 388 662**

EU CRB-C – Geographical breakdown of exposures

In thousands of BGN

		Net value																		
		Europa	Bulgaria	Hungary	Romania	Poland	Spain	France	Italy	Slovenia	Russian Federation	Germany	United Kingdom	Other countries	North America	USA	Canada	Asia	Other geographical areas	Total
7	Central governments or central banks	3 429 836	2 831 067	111 445	185 250	137 679	117 443	-	-	39 259	7 693	-	-	-	148 920	148 920	-	-	-	3 578 756
8	Regional governments or local authorities	51 260	51 260	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	51 260
9	Public sector entities	87 291	87 291	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	87 291
10	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Institutions	3 358 920	9 853	3 218 273	3 057	375	-	69 315	342	-	28 871	11 226	4 395	13 213	15 436	14 945	491	906	1 292	3 376 554
13	Corporates	4 781 048	4 599 053	3 909	21 379	4 807	6 433	7 081	58 399	7 433	-	13 103	3 766	55 685	6 450	4 720	1 730	962	3 370	4 791 830
14	Retail	5 358 852	5 323 247	144	727	390	616	1 166	1 998	188	1 771	3 807	15 928	8 870	347	289	58	697	786	5 360 682
15	Secured by mortgages on immovable property	5 208 654	5 190 856	22	247	556	120	1 473	1 522	-	2 528	1 314	2 976	7 040	905	905	-	2 120	694	5 212 373
16	Exposures in default	379 723	377 977	-	23	8	39	26	46	-	331	41	565	667	1	-	1	138	51	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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2 247
21	Equity exposures	16 217	16 136	-	-	-	-	-	-	-	-	-	-	81	10 283	10 283	-	-	-	26 500
22	Other exposures	1 240 131	1 240 131	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1 240 131
23	**Total standardised approach**	23 914 179	19 729 118	3 333 793	210 683	143 815	124 651	79 061	62 307	46 880	41 194	29 491	27 630	85 556	182 342	180 062	2 280	4 823	6 193	24 107 537

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 communicatios	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	2 288 913	5 631	741 595	542 617	-	3 578 756
8	Regional governments or local authorities	-	9 247	31 801	10 212	-	51 260
9	Public sector entities	-	28 669	30 303	28 319	-	87 291
10	Multilateral development banks	-	-	-	-	-	-
11	International organisations	-	-	-	-	-	-
12	Institutions	248 464	680 250	2 257 773	190 067	-	3 376 554
13	Corporates	590 301	1 770 550	1 503 905	927 074	-	4 791 830
14	Retail	88 593	1 075 204	3 121 204	1 075 681	-	5 360 682
15	Secured by mortgages on immovable property	6 471	1 272 883	1 886 144	2 046 875	-	5 212 373
16	Exposures in default	-	97 390	24 288	258 235	-	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	-	80	-	-	2 167	2 247
21	Equity exposures	-	-	-	-	26 500	26 500
22	Other exposures	655 888	39 947	19 288	22 773	502 235	1 240 131
24	**Total**	**3 878 630**	**4 979 851**	**9 616 301**	**5 101 853**	**530 902**	**24 107 537**

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

In thousands of BGN

		Gross carrying values of		Specific credit risk adjustment	Accumulated write-offs	Net values
		Defaulted exposures	Non-defaulted exposures			
		a	b	c	e	(a+b-c)
16	Central governments or central banks	-	3 579 690	934	-	3 578 756
17	Regional governments or local authorities	-	51 328	68	-	51 260
18	Public sector entities	-	87 541	250	-	87 291
19	Multilateral development banks	-	-	-	-	-
20	International organisations	-	-	-	-	-
21	Institutions	-	3 377 596	1 042	-	3 376 554
22	Corporates	-	4 845 438	53 608	237 441	4 791 830
23	Of which: SMEs	-	909 484	5 142	-	904 342
24	Retail	-	5 434 347	73 665	241 934	5 360 682
25	Of which: SMEs	-	1 084 669	6 649	-	1 078 020
26	Secured by mortgages on immovable property	-	5 252 789	40 416	169 845	5 212 373
27	Of which: SMEs	-	672 932	2 200	-	670 732
28	Exposures in default	1 093 860	-	713 947	-	379 913
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	-	2 247	-	-	2 247
33	Equity exposures	-	26 500	-	-	26 500
34	Other exposures	-	1 258 261	18 130	-	1 240 131
35	**Total**	**1 093 860**	**23 915 737**	**902 060**	**649 220**	**24 107 537**
37	Of which: Loans	1 061 759	13 982 950	856 542	649 220	14 188 167
38	Of which: Debt securities	-	1 808 741	859	-	1 807 882
38a	Of which: Other exposures	-	5 380 110	18 290	-	5 361 820
39	Of which: Off-balance-sheet exposures	32 101	2 743 936	26 369	-	2 749 668

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
			Of which non-performing		Of which loans and advances subject to impairment		
				Of which defaulted			
		a	b	c	d	e	f
1	Agriculture, forestry and fishing	311 446	13 579	13 579	311 446	(10 954)	-
2	Mining and quarrying	63 851	114	114	63 851	(618)	-
3	Manufacturing	1 621 338	72 180	72 180	1 621 338	(63 071)	-
4	Electricity, gas, steam and air conditioning supply	285 024	2 485	2 485	285 024	(4 595)	-
5	Water supply	72 865	15 400	15 400	72 865	(14 181)	-
6	Construction	298 852	58 690	58 690	298 852	(42 832)	-
7	Wholesale and retail trade	1 564 604	47 432	47 432	1 564 604	(45 454)	-
8	Transport and storage	475 698	19 554	19 554	475 698	(12 391)	-
9	Accommodation and food service activities	415 059	16 435	16 435	415 059	(14 503)	-
10	Information and communication	61 709	4 399	4 399	61 709	(3 842)	-
11	Financial and insurance actvities	-	-	-	-	-	-
12	Real estate activities	412 055	25 524	25 524	412 055	(21 123)	-
13	Professional, scientific and technical activities	126 196	1 770	1 770	126 196	(3 599)	-
14	Administrative and support service activities	106 389	994	994	106 389	(1 771)	-
15	Public administration and defense, compulsory social security	22 479	26	26	22 479	(239)	-
16	Education	14 920	91	91	14 920	(182)	-
17	Human health services and social work activities	53 339	290	290	53 339	(1 279)	-
18	Arts, entertainment and recreation	11 438	54	54	11 438	(189)	-
19	Other services	47 406	7 544	7 544	47 406	(7 840)	-
20	**Total**	**5 964 668**	**286 561**	**286 561**	**5 964 668**	**(248 663)**	**-**

Template 5: Quality of non-performing exposures by geography

In thousands of BGN

		Gross carrying/nominal amount				Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing		Of which subject to impairment			
				Of which defaulted				
		a	b	c	d	e	f	g
1	**On-balance-sheet exposures**	**19 006 183**	**1 061 759**	**1 027 708**	**19 006 183**	**887 847**	**-**	**-**
2	Bulgaria	15 799 175	1 047 350	1 013 299	15 799 175	872 908	-	-
3	Hungary	2 941 253	-	-	2 941 253	351	-	-
4	France	71 361	210	210	71 361	232	-	-
5	United kingdom	34 297	1 241	1 241	34 297	993	-	-
6	Russion Federation	26 147	7 011	7 011	26 147	6 688	-	-
7	Netherlands	20 918	-	-	20 918	115	-	-
8	USA	19 826	532	532	19 826	856	-	-
9	Germany	16 797	564	564	16 797	593	-	-
10	Italy	14 689	277	277	14 689	525	-	-
11	Romania	8 287	137	137	8 287	231	-	-
12	Other countries	53 433	4 437	4 437	53 433	4 355	-	-
13	**Off-balance-sheet exposures**	**2 811 303**	**32 100**	**32 100**	**2 811 303**	**-**	**45 060**	**-**
14	Bulgaria	2 655 010	31 797	31 797	2 655 010	-	42 761	-
15	Italy	48 627	-	-	48 627	-	815	-
16	Romania	18 586	-	-	18 586	-	286	-
17	France	16 497	-	-	16 497	-	102	-
18	Germany	13 590	-	-	13 590	-	224	-
19	Czech Republic	9 204	-	-	9 204	-	129	-
20	Portugal	7 395	-	-	7 395	-	124	-
21	United Kingdom	6 272	-	-	6 272	-	86	-
22	Poland	5 506	-	-	5 506	-	82	-
23	Hungary	5 117	-	-	5 117	-	61	-
24	Other countries	25 499	303	303	25 499	-	390	-
25	**Total**	**21 817 486**	**1 093 859**	**1 059 808**	**21 817 486**	**887 847**	**45 060**	**-**

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	228 002	43 335	43 158	39 407	40 707	558 339
2	Debt securities	-	-	-	-	-	-
3	**Total exposures**	**228 002**	**43 335**	**43 158**	**39 407**	**40 707**	**558 339**

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	19 006 183	127 328	89 613	1 061 759	1 027 708	1 061 759	486 429	175 972	8 632	711 875	317 323	295 225	179 464
030	Off-balance-sheet exposures	2 811 303	-	3	32 100	32 100	-	45	32 311	-	12 749	17	5 632	-

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

In thousands of BGN

		Accumulated specific credit risk adjustment
1	**Opening balance**	**(832 939)**
1a	Changes on initial application of IFRS 9	-
2	Increases due to amounts set aside for estimated loan losses during the period	(410 738)
3	Decreases due to amounts reversed for estimated loan losses during the period	305 344
4	Decreases due to amounts taken against accumulated credit risk adjustments	36 273
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**	**(902 060)**
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

In thousands of BGN

		Gross carrying value defaulted exposures
1	**Opening balance**	**962 218**
2	Loans and debt securities that have defaulted or impaired since the last reporting period	394 380
3	Returned to non-defaulted status	(194 585)
4	Amounts written off	(4 063)
5	Other changes	(64 090)
6	**Closing balance**	**1 093 860**

EU CR5 – Standardised approach

In thousands of BGN

	Exposure classes	Risk weight										Total	Of which unrated
		0%	10%	20%	35%	50%	75%	100%	150%	250%	Deducted		
1	Central governments or central banks	4 206 218	57 303	1 195 197	-	159 126	-	-	-	-	-	5 617 844	203 774
2	Regional government or local authorities	-	-	31 354	-	-	-	8 249	-	-	-	39 603	39 603
3	Public sector entities	-	-	-	-	-	-	75 530	-	-	-	75 530	75 530
4	Multilateral development banks	39 778	-	-	-	-	-	-	-	-	-	39 778	39 778
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	-	-	268 449	-	346 626	-	174 240	-	-	-	789 315	364 828
7	Corporates	-	-	2 061	-	-	-	3 573 248	-	-	-	3 575 309	3 573 248
8	Retail	-	-	-	-	-	4 976 820	-	-	-	-	4 976 820	4 976 820
9	Secured by mortgages on immovable property	-	-	-	2 521 203	811 629	708 186	955 596	-	-	-	4 996 614	4 996 614
10	Exposures in default	-	-	-	-	-	-	319 370	42 025	-	-	361 395	361 395
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	-	-
12	Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-	2 247	-	-	-	2 247	2 247
15	Equity	-	-	-	-	-	-	26 500	-	-	-	26 500	26 500
16	Other items	512 548	-	228 499	-	19 224	-	594 525	-	-	-	1 354 796	1 354 796
17	**Total**	**4 758 544**	**57 303**	**1 725 560**	**2 521 203**	**1 336 605**	**5 685 006**	**5 729 505**	**42 025**	**-**	**-**	**21 855 751**	**16 015 133**

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	109 484	-	77	123 376	71 738
7	Corporates	-	-	-	28 013	28 013	28 013
8	Retail	-	-	-	-	-	-
9	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
10	Other items	-	-	-	80	80	80
11	**Total**	**13 815**	**109 484**	**-**	**28 170**	**151 469**	**99 831**

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	151 469	-	-	-	151 469
2	SFTs	-	-	-	-	-
3	Cross-product netting	-	-	-	-	-
4	**Total**	**151 469**	**-**	**-**	**-**	**151 469**

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 regular and 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 on individual basis as the Bank doesn.t report liquidity coverage ratio on subconsolidated basis.

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

In thousands of BGN / %

		Total unweighted value				Total weighted value			
Quarter ending on:		**31.3.2019**	**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 Group 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 11,26 %.

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

In thousands of BGN

		Applicable Amount
1	Total assets as per published financial statements	21 645 539
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	(199 287)
5	Adjustment for securities financing transactions (SFTs)	-
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	1 133 884
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	(79 352)
8	**Leverage ratio total exposure measure**	**22 500 784**

Table LRCom: Leverage ratio common disclosure

In thousands of BGN

		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)	21 414 718
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)**	**21 357 885**
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	31 349
5	Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method)	(199 287)
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)**	**(167 938)**
	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	2 749 668
18	(Adjustments for conversion to credit equivalent amounts)	(1 615 784)
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**1 133 884**
	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 mesure	
20	**Tier 1 capital**	**2 534 014**
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**22 500 784**
	Leverage ratio	
22	**Leverage ratio**	**11.26%**
	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:	21 414 718
EU-2	Trading book exposures	208 318
EU-3	Banking book exposures, of which:	21 206 400
EU-4	Covered bonds	-
EU-5	Exposures treated as sovereigns	6 245 593
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	146 943
EU-7	Institutions	646 495
EU-8	Secured by mortgages of immovable properties	4 788 274
EU-9	Retail exposures	4 786 862
EU-10	Corporate	2 908 324
EU-11	Exposures in default	349 884
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	1 334 025

5. Countercyclical Capital Buffer (CCyB)

According to Directive 2013/36/EC, Part VII, Chapter 4 the Bank Group have to keep CCyB which purpose is to protect against potential losses, resulting from accumulated system cyclical risk in period of exess 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 Group CCyB is also 0,5%.

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

In thousands of BGN / %

Row		General credit exposures - exposure value for SA	Trading book exposure - sum of long and short position of trading book	Own funds requirements			Own funds requirement weights	Countercyclical capital buffer rate
				Of which: General credit exposures	Of which: Trading book exposures	Total		
		010	030	070	080	100	110	120
010	Breakdown by country							
	Bulgaria	15 114 776	-	853 856	-	853 856	0.99	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	-	2 671	-	2 671	0.50	0.00%
020	**Total**	**15 293 681**	**-**	**866 640**	**-**	**866 640**		

Amount of institution-specific countercyclical capital buffer

In thousands of BGN / %

Row		Column
		010
010	Total risk exposure amount	15 293 681
020	Institution specific countercyclical buffer rate	0.49%
030	Institution specific countercyclical buffer requirement	866 640

II. Internal Capital Adequacy Assessment Process (ICAAP)

DSK Group identifies the following types of risk, specific for its risk profile:

- Credit risk
- Concentration risk
- Market risk
- Operational risk
- Credit valuation adjustment
- 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 Group'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 Group's management which corresponds to the risk profile of the Group 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 Group is managed by the Management Board of DSK Bank;
- 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 Group 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 Group's activity and the acceptable levels of risk for achieving these goals. So far, the short- and long-term goals of the Group 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

DSK Group 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 Group 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 Group reviews its objectives and risk profile.

Stress test conduction

The Group 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 Group 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 DSK Group

The Group 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	**2 534 014**	**2 789 784**
Common equity Tier 1 capital	**2 534 014**	**2 789 784**
Ordinary share capital	1 327 482	1 327 482
Reserves	1 225 197	1 480 967
Goodwill	(78 547)	(78 547)
Intangble assets	(120 740)	(120 740)
Accumulated other comprehensive income	151 628	151 628
Adjustments to CET1 due to prudential filters	(2 120)	(2 120)
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	31 114	31 114
Tier 2 capital	-	-
Accumulated other comprehensive income	-	-
CET1 instruments of financial sector entites where the institution does not have a significant investment	-	-
CET1 instruments of financial sector entities where the institution has a significant investment	-	-
Tier 2 instruments of financial sector entities where the institution does not have a significant investment	-	-
Excess of deduction from T2 items over T2 Capital (deducted in CET1)	-	-

According to the approved policy of the Group, for the purposes of internal capital analysis, tier-one capital includes the 2019 annual profit of DSK Bank 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:

In thousands of BGN / %

	Basel III 2019 Regulatory	Basel III 2019 ICAAP
Own Funds for Solvency Purposes	**2 534 014**	**2 789 784**
Common equity Tier 1 capital	2 534 014	2 789 784
Risk-weighted assets	**13 079 762**	**13 446 904**
Credit risk	11 811 011	11 811 011
Position, foreign exchange and commodity risk	84 388	96 672
Operational risk	1 158 738	851 096
Credit valuation adjustment	25 625	25 625
Other risks	-	662 500
Interest rate risk in Banking book	-	562 500
Reputation risk	-	50 000
Strategic risk	-	50 000
Solvency ratio (%)	**19.37%**	**20.75%**
Original own funds ratio (%)	19.37%	20.75%
Capital Conservation Buffer (2.5%)	326 994	326 994
Systemic Risk Buffer (3%)	392 393	392 393
O-SII Buffer	98 098	98 098
Countercyclical capital buffer	65 399	65 399
Free Capital	**604 749**	**831 148**

DSK Group has a stable and adequate capital position which allows coverage of the risks specific to its operations. Group 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 Group has a sufficiently stable position of tier I capital.

Capital requirements and ratios for 2019

In thousands of BGN / %

		SREP		ICAAP	
Risk profile	**Regulatory Capital Requirement**	**Additional capital according to SREP**	**Total Capital Required SREP**	**Additional capital according to ICAAP**	**Total Capital Required ICAAP**
1. Credit risk	944 881			-	944 881
2. Concentration risk	-			-	-
3. Market risk	6 751			983	7 734
4. Interest rate risk in Banking book	-			45 000	45 000
5. Operational risk	92 699			(24 611)	68 088
6. Liquidity risk	-			-	-
7. Credit valuation adjustment	2 050			-	2 050
8. Other risks	-			8 000	8 000
Capital requirement excl. capital buffers	**1 046 381**	**146 493**	**1 192 874**	**29 371**	**1 075 752**
9. Capital Conservation Buffer (2.5%)	326 994	-	326 994	-	326 994
10. Systemic Risk Buffer (3%)	392 393	-	392 393	-	392 393
11. O-SII Buffer	98 098	-	98 098	(98 098)	98 098
12. Countercyclical capital buffer	65 399	-	65 399	(65 399)	65 399
Capital requirement incl. capital buffers	**1 929 265**	**146 493**	**2 075 758**	**(134 126)**	**1 958 636**
Effective minimum required adequacy ratio (capital requirement/risk assets ratio according to regulatory requirements)	14.75%		15.87%		14.97%

4. Additional capital under ICAAP

- Additional capital for credit risk

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

CR = Unexpected Loss (UL) – Expected Loss (EL)

As at 31.12. 2019 the capital requirement for credit risk according to ICAAP of DSK Group 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 Group'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 Group 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 od separate risk categories.

The Group 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 Group'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 Group's 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 Group. 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 Group periodically.

The additional capital that the Group 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 Group 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 45 millions.

- Additional capital reserve for liquidity risk

The liquidity risk analysis in the Bank are according to the Liquidity Risk Management Policy (LRMP). 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 responcibilities of the different units in management of crisis are set-up in the plan of liquidity crisis as well.

The LRMP 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 Group 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 92 699 thousand. It is calculated through the Enhanced Method of tier I. The calculation for the fourth quarter of 2019 under ICAAP amounts to BGN 68 088 thousand.

- *Additional capital for reputational risk*

The management of the Group 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 Group 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 Group 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 Group to allocate an additional capital for strategic risk coverage.

Inspite of that, with regards to the still unstable national and international economic environment, the dymanic banking system environment and the existing factors which are out of the control of the Group, which could impact the fulfilment of the strategic goals, DSK Group 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 Group'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 Group. The assessment is being accomplished through plan, forecast or stress test on the entire balance sheet and income statement of the Group. 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 Group'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 Group on possible adverse changes of key parameters.
- Analysis of the client base substitution – the Group 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 Group 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 Group'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 2% of total assets. The Group regularly (annually) monitors the current evaluation of the real estate book value and verifies the need for reassessment. The Group 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 conductions 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 consolidated asset encumbrance data to be disclosed is as follow:

1. Assets of DSK Bank Group

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		21 365 981	
030	Equity instruments	-	-	24 895	-
040	Debt securities	277 544	277 544	1 738 372	-
120	Other assets	1 623		1 484 769	

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**	-	3 285 540
150	Equity instruments	-	-
160	Debt securities	-	3 285 540
230	Other collateral received	-	-
240	**Own debt securities issued other than own covered bonds or ABSs**	-	-

3. Encumbered assets

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

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

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	252 655	21 645 539

IV. Remuneration Policy and Practices

1. Remuneration Policy of the Bank Group

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 Group the performance appraisal connected to performance-based remuneration takes place on the basis of the return on risk-adjusted capital (RORAC). The ratio is calculated on the basis of the figures of those Bank Group member affiliates, operating as group members, which belonged to the circle of consolidation throughout the appraised fiscal year for controlling purposes.

The main criteria for identify the personal scope of the Remuneration Policy are as follow:

- 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 Europian legal framework - regulatory technical standarts.

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

2. Total remuneration broken down by business activities of the Bank Group

In thousands of BGN

	Remuneration for 2019
Credit activity	84 671
Asset management	1 144
Corporate functions	37 799
Independent control functions	10 368
Other activities	14 216
Top management	5 701
Total	**153 899**

4. 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 8 909 thousand / 83 persons;
  Variable annual remuneration - BGN 3 461 thousand / 70 persons.

- the amount and form of variable remuneration is BGN 1 959 thousand – cash and BGN 1 502 thousand – shares and relevant to shares instruments;
- the total amount of outstanding deferred remuneration, accounted in previous years, is BGN 3 428 thousand;
- there is no amount of deferred remuneration awarder 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 and the Group has been realized diversity policy, regarding recruitment of key management personnel.

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

Violina Marinova
Chief Executive Director

Slaveyko 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	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

Appendix 2: Index of templates