Head Office

Strategy, Finance and Operations Division

YEAR END DISCLOSURE

DSK Bank

According to

Regulation 575/2013 on prudential requirements for

credit institutions and investment firms

2024



**TABLE OF CONTENTS**

[I. Capital and Risk Management and Capital Requirements of DSK Bank 4](#_Toc202175077)

[1. Policy and rules for risk management 5](#_Toc202175078)

[**1.1. Types of risk** 7](#_Toc202175079)

[**1.2. Structures for the management of the various risk types** 8](#_Toc202175080)

[1.3. Bank Strategy and Risk Management Policy 9](#_Toc202175081)

[**1.3.1.** **Capital / Solvency risk** 12](#_Toc202175082)

[**1.3.2.** **Credit risk** 13](#_Toc202175083)

[**1.3.3.** **Operational risk** 19](#_Toc202175084)

[**1.3.4.** **Market risk** 22](#_Toc202175085)

[**1.3.5.** **Liquidity risk** 22](#_Toc202175086)

[**1.3.6.** **Interest rate risk arising from non-trading book activities (IRRBB)** 24](#_Toc202175087)

[**1.3.7.** **Credit Spread Risk in the Banking Book (CSRBB)** 25](#_Toc202175088)

[**1.3.8.** **Business and Strategic risks** 26](#_Toc202175089)

[**1.3.9.** **Reputation risk** 26](#_Toc202175090)

[2. Regulatory Capital Requirements 26](#_Toc202175091)

[2.1. Regulatory capital and capital requirements 27](#_Toc202175092)

[2.2. Countercyclical Capital Buffer (CCyB) 28](#_Toc202175093)

[2.3. Pillar 2 Requirement (P2R) 28](#_Toc202175094)

[2.4. Capital requirements by types of risks 28](#_Toc202175095)

[**2.4.1.** **Capital requirements for credit risk** 29](#_Toc202175096)

[**2.4.2.** **Capital requirements for market risk** 30](#_Toc202175097)

[**2.4.3.** **Capital requirements for operational risk** 31](#_Toc202175098)

[**2.4.4.** **Detailed disclosure for exposure classes allocation according to criterion defined in Regulation 575** 32](#_Toc202175099)

[3. Leverage 33](#_Toc202175100)

[II. Internal Capital Adequacy Assessment Process (ICAAP) 33](#_Toc202175101)

[1. Capital Management and Internal Capital Structure 33](#_Toc202175102)

[2. Internal Risk Assessment 35](#_Toc202175103)

[3. Additional capital under ICAAP 36](#_Toc202175104)

[4. ICAAP stress tests 39](#_Toc202175105)

[III. Minimum Requirement for Own Funds and Eligible Liabilities (MREL) 41](#_Toc202175106)

[IV. Asset Encumbrance Policy 42](#_Toc202175107)

[V. Remuneration Policy and Practices 43](#_Toc202175108)

[1. Remuneration Policy of the Bank 43](#_Toc202175109)

[1.1. Information relating to the bodies that oversee remuneration 43](#_Toc202175110)

[1.2. Information relating to Design and structure of the remuneration system for identified staff: 45](#_Toc202175111)

[1.3. Description of the ways in which current and future risks are taken into account in the remuneration processes 46](#_Toc202175112)

[1.4. The ratios between fixed and variable remuneration set in accordance with point (g) of Article 94(1) CRD 46](#_Toc202175113)

[1.5. Ways in which the institution seeks to link performance during a performance measurement period with levels of remuneration 47](#_Toc202175114)

[1.6. Description of the ways in which the institution seeks to adjust remuneration to take account of long-term performance 47](#_Toc202175115)

[VI. Pillar 3 disclosure of environmental, social and governance risks (ESG) risks 49](#_Toc202175116)

**Please note, all tables containing quantitative information have been exported in a separate Excel file: *DSK Bank\_Disclosures\_2024\_EN* for better readability.**

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

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

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

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

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

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

The share capital of DSK Bank is BGN 1 329 m, distributed in 132 865 992 common registered shares with a nominal value of BGN 10 each.

In 2024 DSK Bank strengthened its position in the banking market by maintaining its leading position in the portfolio of loans and deposits in retail banking and managed to maintain its stability in terms of liquidity and capital position. The Bank ranks first in the credit market in terms of exposure to customers (excluding exposures to credit institutions) with a market share of 20.7% compared to 21.2% at the end of 2023. In terms of customer deposits (excluding those of credit institutions), the Bank also leads position in the banking system of the country with a market share of 19.7% which improved compared to a year ago, when the share was 19.3%. DSK Bank has the largest branch network in the country with 273 branches as of December 31, 2024, which accounts for a share of 16.4% in the banking system.

For 2024 DSK Bank reports a profit after tax of the amount of BGN 987.1 million.

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

This unconsolidated disclosure is published according to Part eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 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 its 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‘s Asset and Liability Committee reviews the level and trend of credit, market and operational risks and their effects on capital levels on a regular basis. In cooperation with OTP Bank Hungary the Bank's risk profile is assessed in order to determine whether the Bank allocates sufficient capital against the various risks and to assess future capital requirement either for regulatory purposes or from the internal understanding for its risk profile coverage according to its strategy.

1. **Policy and rules for risk management**

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

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

The Bank’s control and risk management has the following main goals:

* Achievement of the strategic goals of the Group in a way that ensures a reasonable balance between taken risks and realised earnings;
* The potential losses should be limited to an amount which the Bank is capable of bearing without endangering its long-term development. This goal is realised by regularly measuring 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 as well as by ensuring a risk profile in line with the risk capacity expressed via capital;
* DSK Bank and OTP Banking Group strive to develop processes for risk management which correspond to the applicable regulatory requirements and follow the good banking practices;
* DSK Bank and OTP Banking Group follow a common and consistent risk management policy, which corresponds to the risk profile of the banking group and is consistent with its size.
* To guarantee the achievement of the main goals of the Bank, systems and processes for risk identification, measurement, monitoring, and reporting have been developed. The risks are subject to ongoing control in order to ensure they are limited within acceptable boundaries.

DSK Bank uses stress tests for estimation and analysis of the capacity to meet negative effects from significant adverse changes in risk components that can appear in stressed situations or in rapid growth environments. Stress tests are performed for the material risks arising from the activities of the Bank. Stress test scenarios can range from adverse macroeconomic developments to measuring sensitivity to certain factors which increase the risk for specific risk types or for the entire Bank. Bank-wide stress scenarios are determined for every performed test taking into account the management view regarding relevant threats, potential changes in the environment and considering the bank-specifics. In this respect, the bank-wide stress test scenarios applied in relation to the 3-year business and capital plans are: baseline, optimistic, pessimistic and adverse scenarios. For ICAAP purposes the applicable scenarios, apart from baseline, are an internally developed adverse scenario and EBA Adverse scenario. Note: the EBA Adverse scenario considered for ICAAP is aligned with the EBA stress test macro framework, as the adverse scenario for the purpose of ICAAP should be at least as severe as the official consensus downside forecast. In addition, sensitivities analysis and reverse stress tests were also performed within ICAAP. Further details have been provided in Chapter II., Section 4. “ICAAP stress tests” of this document. Overall, each stress scenario impacts differently the profitability and capital position, providing a holistic view about the risk bearing capacity of the Bank. Results from the performed stress tests are presented to the Мanagement and are used as a basis for strategic managerial decisions and for operational steering of the institution.

**Information regarding the recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise**

DSK Bank has implemented the Policy on Suitability Assessment of members of Management Board / Board of Directors, Supervisory Board, executive officers, and key function holders of DSK Bank and Banking group (hereinafter referred to as the “Policy”), stipulating rules and principles concerning the selection of members of the management body and their actual knowledge, skills and expertise, More specifically, the following matters are covered by the Policy:

* **Roles and Responsibilities**

Various departments (Nomination Committee, HR Directorate, Legal Directorate, Compliance Directorate, Security Directorate) are responsible for the suitability assessment process, including selecting candidates based on education, experience, and personal skills. The process ensures that candidates have the required qualifications and adhere to the Bank's internal regulations.

* **Selection Criteria for Management Body Members**

The requirements of professional suitability, business reliability and good business reputation shall apply to the members of the Management Bodies, Executive Officers, and Key Function Holders. It is important for the operations of DSK Bank and companies of DSK Bank Group that they are managed by persons who are professionally fit and are of sufficiently good repute.

It is a general requirement for the members of the Management Bodies that they should be able to perform their functions not only individually but through their individual qualities to contribute to the collective suitability assessment of the management bodies, i.e. they shall also be suitable to perform the specified tasks collectively, as a collective body, at the necessary level of knowledge and experience.

Broadly qualified persons as possible shall be nominated for members of Management Bodies, Executive Officers, Managers and Key Function Holders.

* **The fitness and propriety of members of the management body is assessed against the following five criteria:**
1. Experience;
2. Reputation;
3. Conflicts of interest and independence of mind;
4. Time commitment;
5. Collective suitability.
* **Diversity**

In order to promote independent judgment and prudent decision-making, efforts should be made to ensure the diversity of management bodies to ensure the widest possible range of expertise and ability to be present. Aspects of diversity in the Management Bodies may include, but are not limited to, age, gender, expertise, education, and geographical location as per the Diversity, Equity, Inclusion and Belonging Policy of DSK Bank.

In the selection process for Management Body members, the reponsible parties shall endeavour to ensure that both genders are represented among the candidates.

In the Diversity, Equity, Inclusion and Belonging Policy of DSK Bank the organization commits to:

* adhere to the principles of equal treatment regarding employees' gender while planning the successors;
* promote diversity in the management bodies, in order to promote a diverse pool of members, with aim to engage a broad set of qualities and competences when recruiting members of the management bodies, to achieve a variety of views and experiences and to facilitate independent opinions and sound decision-making within the management bodies, aiming at an appropriate representation of all genders within the management bodies and ensuring that the principle of equal opportunities is respected when electing members of the management bodies;
* strive towards an adequate diversity in terms of educational and professional background, gender and age among the members of the management bodies, in order to ensure diversity in their qualifications and competences;
* ensure equal opportunities for all genders. Equal career prospects help to improve the representation of the underrepresented gender in the management bodies of institutions in the longer run, by facilitating the existence of a diverse pool of candidates for such positions;
* improve the gender ratio within the management bodies, while also taking into account the legal requirement that the members of the management bodies must have adequate knowledge, skills and experience;

In order to ensure that there is a sufficient number of internally appointed female candidates concerning the succession planning of the management of the company, the Bank determined a proportion of at least 25% of female candidates in the leadership succession planning practice.

* 1. **1.1. Types of risk**

The risk identification process is performed on an annual basis or ad-hoc in case of significant change in the operating environment. It is an integral building block from the annual business and risk management framework. The Bank recognises that risk-taking is a fundamental aspect of its operations. The risk identification establishes the necessary mechanisms to detect, quantify, and monitor risks at an early stage, as well as to manage their potential influence on the Bank’s business objectives. In this regard, the risk identification is a crucial component of the overall risk appetite framework, allowing the Bank to identify the risks it is exposed to, evaluate their materiality, and ultimately set appropriate processes and limits, having a forward-looking perspective.

The risk identification and assessment are an integral part of the general governance of the Bank.

Within the risk identification DSK Bank and all its subsidiaries are covered.

The risk identification process follows the so called “gross approach” meaning it does not consider specific techniques designed to mitigate the underlying risks.

For the purpose of identification and assessment of risk types, the internal definition of materiality is considered using the risk capacity (measured through capital) as a basis, as well as considering:

* + - * 1. If the risk is typical or applicable to the Bank’s business model;
				2. The probability (frequency) and the potential impact which the risk could have on the overall performance;
				3. The scope of impacted clients or products.

The types of risk are divided into the following categories:

1. Risks based on principles/rules:
* Risks – from mandatory regulatory requirements (Pillar 1);
* Risks – specific to the banking sector;
* Risks – embedded in DSK Bank business model & strategy;
* Overarching risks.
1. Risks from operating environment

The main output from the risk identification process is the risk taxonomy of the Bank which covers the following main risk categories:

* Capital and solvency risk;
* Credit risk;
* Market risk;
* Non-financial risks (incl. ICT risks);
* Liquidity risk;
* Interest rate risk of non-trading book activities (IRRBB);
* Credit spread risk of non-trading book activities (CSRBB);
* Business and strategic risks
* Climate-related and Environmental risk;
* Other overarching risks such as reputational risk (incl. step-in risk).
	1. **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 Governance Rules of DSK Bank.

DSK Bank employs the three lines of defence model to manage risks and implement internal controls. The three lines of defence are:

a) The functions that are responsible for the risks (risk owners) and manage those risks (first line);

b) The functions exercising independent control over the risks assumed by the risk owners (second line);

c) The functions providing independent assurance (third line).

The Risk Management Division plays a key role in risk management as a second line of defence. This is an independent from the business units division led by a Head, who is a member of the Management Board of DSK Bank and a chairman of the Credits and Limits Council, Operational Risk Management Committee, Retail Credit Risk Committee and Corporate Credit Risk Committee. Furthermore, the Head of the Risk Management Division is a member of the Data and Analytics Committee, the Product Development, Pricing and Sales Committee and the Asset and Liability Committee.

The independent Risk Management Division, as a second line of defence function, is responsible for defining and supporting the implementation of risk management frameworks and for identifying, monitoring, analysing, measuring and managing risks at the second level, in cooperation with or and independently of the first line of defence. In this role, it can initiate a review and provide recommendations for strengthening of controls set up at the first level, and support business areas in taking mitigation steps.

The compliance function is fulfilled by the Compliance Directorate of DSK Bank. It performs its activities in accordance with the legislative requirements, by focusing on controlling and managing the compliance risks associated with key areas of compliance, and namely: data protection, consumer protection, ethical issues, conflict-of-interest situations, adherence to international sanctions, anti-money laundering and counter-terrorism financing (AML/CFT), and capital market compliance. Compliance Directorate is also responsible for ensuring compliance with international tax agreements, participates in the process of coordination of internal banking documents and products and considers their compliance with the current legal framework and the supervisory requirements from the perspective of the key areas of compliance, and performs legislation monitoring.

Risk taking units, as the first line of defence, are primarily responsible for taking risks and managing them on an operational day-to-day basis in line with the institution’s policies, procedures and control mechanisms. To ensure this, risk taking areas are responsible for incorporating and operating appropriate first-level controls into their processes, which ensure timely identification, monitoring and management of risks (including adherence to risk appetite and other risk limits) and their reporting to second line of defence functions. Their responsibility also extends to compliance with legislative, supervisory and internal requirements for their own activities. Accordingly, the first line of defence plays a key role in establishing and operating a strong risk management of an institution and in complying with legal and supervisory requirements.

The audit function constitutes the third line of defense and strives to strengthen the Bank’s ability to create, protect and sustain value by providing independent, risk-based, and objective assurance, consulting, insight, and foresight. The internal audit function brings a systematic, disciplined approach to evaluate, and improve the effectiveness of governance, risk management, and control processes, as well as to enhance the reputation of DSK Bank.

The activities of the three lines of defense are supported by appropriate systems and controls, which are constantly evolving to address the ever-growing demand for timely and data driven decisions. Data from all key information systems is stored in a structured manner in data warehouse. It is used for steering management decisions and for regulatory reporting purposes. Numerous indicators are subject to constant monitoring through dashboards reviewed by relevant monitoring managers, specialized committees and the management in its executive and its supervisory function.

On that basis the management of DSK Bank considers the mechanism employed to manage risks adequate to the business model, the size and complexity of DSK Bank Group.

* 1. **Bank Strategy and Risk Management Policy**

The Risk Strategy of DSK Bank is fully aligned with its strategic priorities. The risk strategy highlights the risks arising from the changes in the macro and regulatory environment and the business cycle and defines the strategic priorities and programs to ensure effective management of the existing and emerging risk. The objectives of the risk strategy aim to protect while growing and digitalizing, keeping prudent, transparent and stable risk management and internal controls framework and compliance to the regulatory requirements. The risk strategy summarizes the risk management principles in respect of assuming, measuring, managing, monitoring and mitigating the risks, and the related risk appetites, as defined in the current Risk Appetite Statement (RAS), constituting integral and indivisible part of DSK Bank Risk Strategy. The risk strategy supports cascading down the principles and objectives to the relevant units and subsidiaries, thus managing key risks within the perimeter of the Bank and providing a transparent and prudent operation of risk management throughout the organization.

The main risk management objectives of DSK Bank comprise the following:

* Positive customer experience through the realization of the business strategies along with a balance of risks & returns.
* Maintain outstanding reputation by ensuring potential losses stay within the DSK Bank’s risk capacity, through:
* Adequate loan loss allowances reflected in pricing and profitability.
* Adequate capital buffer for unexpected losses.
* Strive to ensure inspiring and likable workplace by operating a risk management system consistent with the size and complexity of DSK Bank and in line with the expectations of the supervisors utilizing best international practices.
* Promote a risk-aware organization by proactive risk-aware support of business objectives in a dynamically changing environment.
* Ensure a risk management framework for a long-term stable operation of the Bank to realize value added goals by demonstration of social responsibility.

The Risk Strategy of DSK Bank summarises the approach to risk, the risk management vision, mission, values, objectives, and the strategic initiatives that support management of risks within the set risk appetite. The Risk strategy incorporates the Risk Appetite Statement.

**Risk Appetite Framework**

The Risk Appetite Framework (RAF) is the overall approach, including policies, processes, controls, and systems through which risk appetite is established, communicated, and monitored. It includes the process for developing a risk appetite statement, risk limits, and an outline of the roles and responsibilities of those overseeing the implementation and monitoring of the RAF. The RAF considers material risks to DSK Bank (as identified with the annual or ad-hoc risk identification process), as well as to the Bank’s reputation vis-à-vis policy holders, depositors, investors, and customers.

The Risk Appetite Framework sets the Bank’s Risk Appetite and forms part of the process of development and implementation of the Risk Strategy and determination of the risks undertaken in relation to the Risk Capacity. In this respect, both the Risk Appetite Framework and the Risk Appetite Statement (RAS) documents serve a central role within the Group’s Risk Strategy and complement it, since they define respectively the framework and the boundaries within which the Bank is to operate and maintain strict connection to other bank documents (i.e. policies/frameworks, processes and plans).

Specifically, the Risk Appetite Framework describes the main Risk Appetite objectives and principles, illustrates the underlying Risk Appetite procedures including the escalation and monitoring processes, presents the interaction with other key strategic processes, as well as outlines the key risk appetite governance elements, controls, and the supporting systems and IT infrastructure.

The Risk Appetite Statement represents the written articulation of the aggregate level and types of risk that the Banking Group is willing to accept, tolerate or to avoid, in order to achieve its business objectives. The Statement includes quantitative measures and qualitative statements for risks assessed as material through the RIMA process.

The Risk Appetite Statement (RAS) approved by the management bodies recognizes that risk-taking is a fundamental aspect of its operations and is addressing it with discretion through the Risk Appetite Statement. RAS is the expression of conscious risk-taking. It includes quantitative and/or qualitative statements for the material risks, identified through the Risk Identification and Materiality Assessment (RIMA) process, relating to solvency, liquidity, asset quality, profitability and other areas associated to the material risks. RAS are developed in alignment with the OTP Group and the Bank’s appetite for risk. The respectively applied key risk indicators (KRIs) and their thresholds/limits contribute to an adequate assessment of whether the Bank operates within its risk appetite. The Bank/Group sets KRIs’ thresholds considering the Business Strategy, the Financial Plan (Budget), NPL strategy, ICAAP, ILAAP, Stress testing analysis, Recovery Plan. The Risk Appetite Statement of the Bank constitutes a driver supporting the Bank in the implementation of its overall business strategy and objectives, under both normal and adverse economic conditions. It is based on the expectation that it should preserve its capital and liquidity position within the regulatory required levels to ensure sustainability and viability of the Bank and its operations. RAS is communicated within the Bank, generating a shared risk culture for the organization.

While the risk governance structure for each risk type is outlined in the Governance Rules of DSK Bank. Additionally, the Risk Appetite Framework contains detailed provisions regarding the setting, monitoring, reporting, escalation and resolution related to indicators by risk area regarding all material risk types. Escalation is executed based on the severity of the observed indicators` evolution and the level of the respective risk appetite indicator. Level 1 RAF indicators are always discussed at the Management Board and reported to the Supervisory Board. Lower-level indicators are first reported to operative committees supporting the Management Board of the institution.

**Measurement of the risk and risk data governance**

The risk reporting and measurement systems for the material risks is backed by strong data governance arrangements relying on a Centralized Data Management Office and decentralized data ownership with multiple data domains. All data domains, data owners and data stewards follow a consistent data management framework (data policies, processes and standards) to ensure reliable data quality. Data quality is measured continuously against predefined data quality indicators with the aim to constantly improve risk reporting and measurement.

The Management Board has established a centralised Data and Analytics Committee. It consists of senior executives (supported by a more operational forum). The Committee approves, supports and supervises prioritization, implementation and funding of core data governance activities.

The centralized data governance team develops the data governance methodology, framework and onboarding. It coordinates implementation of data and regulatory standards.

The data owners are accountable for the data domains’ activities, make all required operative decisions. They also engage the resources needed for data management activities in each respective domain. The data owners validate the business definitions, criticality of data and quality rules within the domain. They ensure performance of regular quality monitoring and demand remediation actions, validates usage and access requirements within the domain and ensure that Data Governance KPIs are met.

The data stewards apply the data domain policies and strive to achieve the established objectives. They coordinate the operational tasks in the respective domain involving subject matter experts with both functional and technical competences. More specifically data stewards maintain up-to-date reference data, participate in identifying data sources (systems) and relations in-between different data elements, execute regular monitoring on data quality and identify root causes for quality issues. They are responsible for setting-up and coordinating remediation plans, operational priorities and monitor execution of the required actions.

All data under governance is grouped into logical bundles:

* Data domains are sets of data grouped into logical clusters: **each data of the Bank must belong to one and only one data domain**
* Data **domains cover a specific topic and span across the organization**
* Domains are defined **at enterprise level to enable a consistent and holistic view** of (e.g., customer) while avoiding data duplications
* Data domains enable **governance of data as a business asset independent of applications and processes**

The main tools supporting that process are the:

* Business Glossary - provides terms definition to unify understanding and define key attributes, to manage business terms and their relation to data within the organization and to Reference data;
* Reference Data Management - to create and manage Referential data with their attributes and Hierarchies, mapping of Source data to Referential data;
* Data Dictionary - to facilitate tracking of data transformation and aggregation from source to usage;
* Power BI data visualization – a cloud-based business analytics service for development, visualization and sharing of interactive dashboards and reports, provides self-service functions for advanced data users.

The data governance process is the basis for providing and storing reliable data in the data warehouse as a single source of truth. That data is further used to measure the respective material risks or to calculate more complex or stressed estimations with more advanced tools and technologies (e.g. Power BI, Power Apps, SAS, etc.). The calculated data, stress results and estimations are then reported to the relevant operative committees supporting the Management Board, to the Management Board itself and to the Supervisory Board.

**Specialized committees and their role in risk management**

Considering the size and complexity of DSK Bank’s activities the Management Board of the bank is supported by specialized committees. Setting up risk committees at executive level aims to exploit the collective experience of the risk management. To preserve efficient and lean operation, the number of the risk relevant committees is limited to that which is optimal for adequate governance. Currently, the relevant committees in DSK Bank that support the management body on the material risks are:

* Corporate Credit Risk Committee;
* Retail Credit Risk Committee;
* Credits and Limits Committee;
* Operational Risk Management Committee;
* Assets and Liabilityty Committee;
* Work-Out Committee (reported some of RAF ratios plesee see the CH\_CEO\_1.09\_02 DSK Bank Governance Rules);
* ESG Committee (reported some of RAF ratios, plesee see the CH\_CEO\_1.09\_02 DSK Bank Governance Rules).

The detailed scope, composition and processes rules outligning how the information flows from the committees to the management body are defined in Rules of Operation of each of the committees.

Apart from that the management bodies receive reports from the control units and have access to various dashboards and reports, easily accessible in Power BI.

**Role of the Risk Committee**

DSK Bank has a Risk Committee supporting the Supervisory Board of the institution. The Committee is established in compliance with Directive 2013/36/EU and Ordinance No7 of the Bulgarian National Bank (BNB) on the Organization and Management of Risks in Banks and operates on the basis of the Guidelines of the European Banking Authority (EBA) on internal governance EBA/GL/2021/05. It is a constantly acting collective body of DSK Bank., whose functions are laid down in the Bank’s Governance Rules and in the Rules of Operation of the Risk Committee, to advice the Supervisory Board as follows:

1. advises and assists the Supervisory Board regarding the monitoring of the current and future risk appetite and strategy of the Bank, taking into account all types of risks to ensure that they are in line with the business strategy, goals, corporate culture and values of the Bank;
2. assists the Supervisory Board in connection with the control in the implementation of the risk strategy of the Bank and the respective set limits;
3. examines – without prejudice to the tasks of the Remuneration Committee - whether the incentives provided by the remuneration system take into consideration the risk, capital, liquidity and the likelihood and timing of planned earnings;
4. oversees the implementation of the strategies for capital and liquidity management, the strategy on environmental, social and governance decisions, as well as for all other relevant risks of the Bank, such as market, credit, operational (including risks controlled by the compliance function, including compliance function related to anti-money laundering and countering the financing of terrorism (AML/CFT), legal and IT risks) and reputational risks, in order to assess their adequacy against the approved risk appetite and strategy;
5. provides the Supervisory Board recommendations on necessary adjustments to the risk strategy resulting from, inter alia, changes in the business model of the Bank, market developments or recommendations made by the risk management function;
6. provides advice on the appointment of external consultants that the Supervisory Board may decide to engage for advice or support;
7. reviews a number of possible scenarios, including stress scenarios, to assess how the Bank’s risk profile would react to external and internal events;
8. oversees the alignment between all material financial products and services offered to clients and the business model and risk strategy of the Bank. The Risk Committee should assess the risks associated with the offered financial products and services and take into account the alignment between the prices assigned to and the profits gained from those products and services;
9. assesses the recommendations of internal or external auditors and supervisors and follows up on the appropriate implementation of measures taken;

The Risk Committee meets regularly, at least quarterly. Extraordinary meetings can be convened, if deemed necessary.

* + 1. **Capital / Solvency risk**

The capital and solvency risk is managed through the following processes:

* **Annual and strategic capital planning**

The capital planning process aims to ensure a sufficient level of capital resources for coverage of the bank’s business activity and the risks arising from it or from the operational environment.

* **Monthly capital forecasting**

The purpose of updating the forecast for capital consumption and capital adequacy on a monthly basis is to identify potential deviations from the original capital plan. The forecast enables the bank to take timely measures in case of adverse deviations.

* **Internal Capital Adequacy Assessment**

The internal capital adequacy assessment is an ongoing process for evaluating the risks arising from the bank's activities from both a regulatory and economic perspective. The analysis is based on internally developed methodologies and is oriented toward assessing the necessary capital resources for future periods.

* **Capital Allocation Process reflecting Internal Capital Adequacy Assessment (ICAAP)**

 The process of establishing capital limits for the purpose of appetite determination is regulated in the Rules for the Capital Allocation of DSK Bank. Starting point for the capital allocation is the Common Equity Tier 1 (CET 1) which is defined as risk–bearing capacity because it includes capital elements that are sustainable in time and cannot be reduced without a permission by the Bulgarian National Bank and is also primarily aimed to cover losses.

* **Monitoring of the allocated capital allocation through the risk appetite framework**

As the Risk Appetite Framework is a key tool for maintaining the risk levels and potential losses within the risk bearing capacity, CET 1 is distributed to the separate risks and portfolios when determining the capital limits in RAF.

The capital limits in RAF are forward-looking through stress testing and sensitivity measurement. The limits are also based on the 3-year capital plan which reflects both ICAAP normative perspective (providing alignment with regulatory requirements) and economic assessment.

* + 1. **Credit risk**

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

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

For the retail segments the management of the risk is done on a portfolio basis. The process is supported through rules, regulations and procedures, as well as by appropriate limits subject to a review and approval on an annual basis or more frequently, if needed (e.g. in case of material changes in the operating environment).

In the non-retail segment decisions are taken on a case-by-case basis for each client/client group, whereby the delegated authorities in accordance with the Governance rules of DSK Bank apply. The monitoring and the administration of these credits is set in an appropriate manner in the Credit Control and Administration of Business Clients Regulation and the Credit Monitoring of Business Clients of DSK Bank.

As of 31.12.2024 the Risk Management Division consists of the following units engaged in the management of risks:

* Strategic Risk Management Directorate with the following functions:
	+ Provides a reliable framework for risk identification and management (risk strategy, risk appetite, overarching risk management policies) with view on expected and unexpected risks;
	+ Provides a second line of defence for market and liquidity risk management;
	+ Maintains an adequate risk data governance framework to support regulatory and management reporting.
* Risk Data and Credit Risk Reporting Department with the following functions:
	+ Ensures the development and maintenance of appropriate registries for the data used in risk management, as well as dashboards for tracking their quality and processes for their management;
	+ Develops and maintains the appropriate databases as well as functions in systems to provide for an adequate regulatory and management reporting (loan portfolio, clients data, relatedness between clients, Segmentation, collaterals) related with the credit risk.
* Integrated Risk Management Department with the following functions:
	+ Conducts forward-looking risk identification analysis and document update. Forward-looking capital and impairments sensitivities and scenarios impact estimations. Considers stress testing and scenario analysis for the relevant risk management processes;
	+ Organizes the process for the measurement, reporting and management of the market and liquidity risks.
* Credit Risk - Corporate Clients Directorate with the following functions:
	+ Provides methodological assistance to customer relationship managers and credit analysts on corporate loans;
	+ Performs independent credit risk assessment on proposed loans to business clients and approves/proposes for approval those with an acceptable level of credit risk. The employees and the units in the Management take decisions on loans, according to the powers granted to them under Section V. Decision making mechanism of the Governance Rules;
	+ Prepares the meetings of the Credit and Limits Council, submitting its own proposals;
	+ Responsible for the movement of credit files and administers the process of approving loans to business clients of its own and higher competence;
	+ Organizes and coordinates the activities related to implementation of the Operational Lending Limits and Principles for the Bank for Corporate Clients Business Line;
	+ Performs monitoring procedures in relation to corporate clients.

* Approval of Corporate Client Loans Section (Team 1, Team 2, Team 3) with the following functions:
	+ To provide methodological assistance as regards corporate loans to the managers engaged with customer relations and to the credit analysts;
	+ To make independent evaluation of the credit risk based on the proposals for financing of business clients and to approve / propose for approval the proposals with acceptable level of credit risk;
	+ The employees will make decisions on loan approval depending on the powers granted to them under Section V. Decision making mechanism of the Governance Rules;
	+ To be responsible for the credit file circulation and to administer the process of approval of loans of corporate clients within his and higher competencies.
* Administration Section with the following functions:
* Responsible for the technical reporting of the movement of credit files of corporate clients included in the management;
* Prepares the meetings of the Credit and Limits Council.
* Retail Credit Risk Directorate with the following functions:
* Develops, maintains and implements models and analytical systems for credit risk assessment;
* Performs monitoring and provides internal reporting on the loan portfolio quality. Develops early warning mechanisms for increased credit risk;
* Performs verification and independent credit risk assessment of the proposals for private individuals and MSE financing according to the provided competences;
* Organizes and coordinates the activities related to implementation of the Operational Lending Limits and Principles for the Bank for the Retail Business client segments;
* Provides timely and high-quality support to the business when developing new products for Retail Business client segments by reconciling the product parameters influencing credit risk and providing overall risk statement;
* Provides timely communication with OTP Bank in relation to the approval of new loan products or amendments of existing ones for Retail Business client segments;
* Provides high-quality periodical review of the loan products and monitors their risk triggers. Initiates the necessary actions upon hitting the trigger levels of the applicable indicators.
* Credit Portfolio Analytics Department with the following functions:
* Performs monitoring of loan portfolio quality (by products, regions, branches, portfolio age, etc.) and develops early warning mechanisms for increased credit risk;
* Provides internal reporting and assists in providing the responsible units the relevant information for regulatory reporting on credit risk and loan portfolio quality;
* Maintains an analytical system for internal reporting and monitoring of credit portfolio quality.
* Risk Assessment And Control Department with the following functions:
* Performs verification and independent assessment of credit risk on the proposals for financing enterprises in the segment "Small Business" and private individuals;
* Takes decisions on credit exposures in accordance with the powers granted to them under Section V. Decision making mechanism of the Governance Rules, approving / proposing for ap-proval those with an acceptable level of credit risk;
* Prepares and submits proposals for the meetings of the Credit and Limits Committee;
* Accounts for the movement of credit files and administers the process of approving loans to enterprises in the Small Business segment and private individuals of its own and higher competence.
* Credit Control and Administration Department with the following functions:
* Executes independent centralized credit control and centralized credit administration of business clients in order to minimize the credit and operational risk;
* Develops and applies the Bank’s policy in respect to Credit control and administration of the business clients;
* Centralized preparation of the loans contracts for the companies in segment SME.
* Creates and supports the internal bank regulations which treat the activities of credit control and credit administration to business clients;
* Makes 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;
* Executes an effective control for collection of the initially due fees for Credit Deals to Business Clients.
* Risk Management and Leasing Sales Section with the following functions:
* Provides methodological assistance and advises business units on leasing transactions.
* Performs independent credit risk assessment on proposed leasing transactions with individuals and / or legal entities, approves / proposes for approval those with an acceptable level of credit risk. The employees of the Department shall make decisions in accordance with the powers granted to them under Section V. Decision making mechanism of the Governance Rules.
* Prepares proposals for the meetings of the Credit and Limits Committee, as for clients / client groups to which DSK Bank Group has exposure both in the form of leasing and other type of credit exposure gives an opinion / proposal, in coordination with the unit that assesses non-leasing credit exposures.
* Administers the decision-making process of its own and higher competence.
* Credit Risk Monitoring and Risk Advancement Directorate with the following functions:
* Creates and maintains the internal bank regulatory framework, regulating the credit monitoring of loans to legal entities;
* Optimizes the inherent credit risk in the management of legal entities loans and assists in maintaining an adequate credit risk quality of the loan portfolio;
* Performs centralized monitoring based on early warning signals indicating deterioration of the borrower creditworthiness in order to minimize the credit risk;
* Performs legal entities loan portfolio management activities;
* Develops and maintains low code digital applications.
* Climate and Environmental Risk Directorate with the following functions:
* Ensures sustainable development through implementation and update of the Bank’s strategy regarding the environmental, social and governance (ESG) factors and management of the related ESG risks.
* Monitors, analyzes and plans implementation for new ESG regulations and supervisory guidelines
* Develops and maintains C&E risk assessment methodology and related integration in bank’s processes; performs monitoring and management of C&E risks
* Acts as a center of excellences, providing training, support and interaction with units within DSK Bank functionally involved in implementation of ESG-related actions;
* Performs independent assessment of the compliance of credit exposures with established international taxonomies for “sustainable” and/or “green” classification;
* Develops all internal and external reporting and disclosures related to sustainability and ESG themes
* Non-Financial Risk Management Directorate with the following functions:
* Maintains an adequate framework and methodology for managing non-financial risks in line with the risk appetite and the adopted risk management strategy;
* Ensures effective operational risk management, in order to minimize loss due to inadequate or poorly functioning processes, systems, human errors or external events;
* Develops and maintains an adequate system for measuring, reporting, and managing the risks of fraud in the Bank;
* Establishes and maintains a framework for effective risk management and the processes in the field of information and communication technologies.
* Operational Risk Management Department with the following functions:
* Adapts the operational risk management system to the changes occurring in the Bank’s internal and external environment, as well as to regulatory changes;
* Collects in Bank register all operational events occurred in the Bank for post factum analysis and taking measure for avoiding future occurrence;
* Coordinates the process of self-assessments of the operational risks, scenario analyses and system of key risk indicators;
* Participates in the preparation of the Internal Capital Adequacy Assessment Process at DSK Bank in terms of the operational risk, as well as of the stress tests related to this process;
* Prepares reports for the Operational Risk Management Committee at the Bank regarding the operational risk level, which reports include proposals for measures to avoid or mitigate the operational risk;
* Assists the Risk Responsible Persons to identify and manage the operational risks, and to develop procedures for the control of these risks;
* Participates in the preparation of regulatory reports related to operational risk capital requirements and the ECB's supervisory activities;
* ICT Risk Management Department with the following functions:
* Implementation of efficient risk management framework and process to manage information and communication technology (ICT) risks;
* Conducts second line of defense functions related to third party service providers’ risk management and outsourcing risk management for ICT systems and services;
* Prepares reports for the ICT Risk Management Forum and Operational Risk Management Committee of the Bank regarding the risk level. Proposes measures to avoid or mitigate ICT risks;
* Manages the planning and timely performance of all activities related to the maintenance of DSK Bank’s readiness to recover its critical processes, as well as conducting regular tests regarding the readiness of the Business Continuity Plan’s fulfilment. Exercise control of the Disaster Recovery tests execution;
* For the purposes of the recovery and resolution planning process and/or in case of an actual recovery or resolution of the Bank and/or OTP Group, organizes the collection and updating of information for the purpose of the continuity of operations in the conditions of resolution and for the purposes of the recovery of the activity, and assuming recovery or resolution actions are taken, it is provided to the resolution authority in a timely manner.
* Fraud Risk Management Department with the following functions:
* Establishes and maintains a framework for effective risk management of fraud risks;
* Coordinates the process of timely reporting of identified cases of fraud in a register, organizes the analysis of the root causes of fraud, submits action plans and tracks the implementation of said action plans;
* Participates in the preparation and presentation of information to the Operational Risk Management Committee and/or its equivalent;
* Suggests a risk appetite formula based on losses due to fraud and provides risk metrics on a strategic and operational level.

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

* Retail Collection Directorate - Performs operational and methodological functions establishing and ensuring application of processes, rules and procedures in order to effectively collect overdues and improve the quality of the portfolio.
	+ Central Collection Department - Processes and manages loans to individuals and business clients in early delinquency phase with the main task for full payment of overdue amounts and restoring loan exposures to regularity.
	+ Network Collection Department - Organizes, manages and controls the activity of management of overdue and problem loans to individuals after the period of early delinquency, aiming effective collection and/or restructuring of the overdue exposures and improvement of the quality of the portfolio of loans to individuals by coordinating and supporting the work of all participants in the process.
	+ Legal Collection Department - Manages, coordinates and controls the process of initiating and enforcement of court executive actions on collection of receivables from individuals.
	+ Centralized Collection Processes Department - Manages, coordinates and controls the centralized receivables collection processes, including approvals of financial solutions, administrative handling (back office activities) of overdue loans, actions for data update/retrieval about the debtors (skip tracing actions) in order to accelerate and optimize the process of collecting overdue loans at each stage of their management.
	+ Collection Methodology Department - Performs methodological functions in outlining processes, elaborating rules and procedures, training/coaching/mentoring of the employees in the Directorate; in optimizing the processes while aiming at efficient collection of the overdue loans, fulfillment of the set targets, and improvement of the portfolio quality.
* Business Clients and Leasing Collection Directorate - Performs operational and methodological functions for the management of overdue and problem loans of business clients. Monitors and coordinates the implementation of group standards and strategy in order to optimally organise the collection of loan and lease receivables.
	+ Management of Problem Loans of Business Clients Department - Organises, coordinates and controls the overall activity of managing problem loans of business clients in the Bank and their related exposures to individual’s collection function.
	+ Management of Judicial Loans of Business Clients Department - Manages the process of collecting problem loans to business clients, transferred for centralised collection by decision of the Monitoring Committee.
	+ Legal Servicing of Business Problem Loans Department - Ensures the compliant collection and management of centralized problem exposures of business clients.
* Analysis, Reporting and 3rd Party Relations Directorate - through analysis and reporting, monitors and controls the process of managing overdue and problem loans and supports the operational process. Manages the relationship with external counterparties regarding the collection or sale of packages of problem loans. Responsible for the coordination and preparation of an Operational Plan for the implementation of the strategy for reducing problem loans in the banking group.
	+ Management and Regulatory Reporting Section
	+ Data Analytics Section
	+ Third-party Relations Section
* Real Estate Department - Organises, assists and performs actions for the implementation of the Bank's policy on sale of real estate used as collateral of problem loans. Manages acquired real estate collateral and performs other functions in the Bank related to real estate.

**Lending guidelines**

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

* the primary repayment sources of lending should be the cash flows generated from the enterprise’s activity or, in the case of private individuals, long-term, regular income;
* when developing the conditions of new products and upon the review of existing schemes, risk parameters should comply with group standards, reflecting country-specific differences;
* identical risks within the Group should be managed along the lines of the same principles, aligned with the degree and nature of the risk exposure.
* The definitions of “default”, “impaired” and “forborne” applied in the regulatory reporting, are fully compliant with the EBA definitions.

Climate-related and environmental risk management is on the top of the agenda for DSK Bank. DSK Bank aims at becoming the regional leader in financing a fair and gradual transition to a low-carbon economy and building a sustainable future. The Bank is committed to considering all relevant factors in loan origination and to further incorporate them into existing risk management frameworks taking a proportionate and risk-based approach.

* + 1. **Operational risk**

DSK Bank considers operational risk as a natural consequence of business operations pursuing the achievement of the business objectives. The Bank aims to minimize potential financial loss, inefficiencies and reputational damage arising from operational risk through continuous improvements on its operational risk management framework, and by designing and implementing effective controls to reduce operational risk while supporting business development. The purpose of operational risk management is to generate added business value for the Bank by reducing the cost of operational risk. In order to achieve this goal, the fundamental part of the framework is the determination and monitoring of the level of risk appetite, taking risk-reducing measures in the event of threshold breach, introducing new controls, and testing existing controls.

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

DSK Bank has adopted the following categorisation of operational risk events:

|  |  |
| --- | --- |
| **Event-Type Category** | **Definition** |
| Internal fraud | Any intentional act or omission, most often related to non-compliance with or circumvention of laws, regulations or internal prescriptions, in which at least one employee of DSK Bank participates and which aims at the perpetrator or another person receiving undue benefits, at the expense of loss or damage suffered by the victim. |
| External fraud | Any intentional act or omission, most often related to non-compliance with or circumvention of laws, regulations or internal prescriptions, in which no employee of DSK Bank participates and which aims at the perpetrator or another person receiving undue benefits, at the expense of loss or damage suffered by the victim. |
| Employment Practices and Workplace Safety | Operational events related to non-compliance with labor legislation or serious violation of the ethical rules as per the Code of Ethics of DSK Bank, whether unintentionally, due to negligence or intentionally. |
| Clients, Products & Business Practices | Operational events due to non-fulfillment of the Bank's obligations to its clients or non-compliance with main regulatory and legal requirements for the Bank's activities (market abuse in relation to trading with financial instruments, violation of anti-money laundering measures and financing of terrorism, unfair competition, misuse of confidential information, etc.) as well as all types of unfair commercial practices - misleading advertising, aggressive commercial practices such as persistent and unsolicited messages to customers and others. |
| Damage to Physical Assets | Operational risk events causing destruction or damage of the Bank's physical assets, besides normal wear and tear, waste and depreciation, most often caused by natural disasters or human actions, even intentionally. |
| Business disruption and system failures | Operational risk events that disrupt the business continuity, interrupt some of the activities of the Bank, cause difficulties in the functioning or failure of the information and communication systems and services, used in the Bank for executing its activity and providing services. |
| Execution, Delivery & Process Management | Operational events due to unintentional or negligent errors in the execution of processes, omissions in the activity, poor management of business processes and relationships with business partners, suppliers and external vendors. |

The Bank uses the following methods for managing operational risk:

* Internal operational risk events data collection and analysis - starting from 2010, all operational risk events are registered in a single electronic register of OTP Bank – SAS. Each operational event includes the following basic information: date, description, business line, taxonomy (type of event) related to credit/market risk, geography, gross loss amount, recovery amount (including from insurances). The internal data is used for the capital calculation according to the Advanced Measurement Approach (AMA) at OTP Banking Group level;

Data collection and analysis of the operational risks inherent for the particular business processes, conducted within the regular process of risk-control self-assessment and definition of appropriate measures to mitigate the identified high risks. Data is used for the capital calculation according to the Advanced Measurement Approach (AMA) at OTP Banking Group level;

* Data collection and analysis of the potential impact of significant operational risk events with catastrophic consequences, conducted within the scenario analysis process. Data is used for the capital calculation according to the Advanced Measurement Approach (AMA) at OTP Banking Group level;
* Maintaining and updating the Key Risk Indicators system, regular monitoring and reporting of their values, undertaking the adequate measures in cases of deviations and increase of the risk;
* Regular model risk assessment;
* Regular business impact analysis;
* Regular risk assessment the locations where DSK Bank and its subsidiaries operate;
* Regular conduct risk assessment;
* Regular control testing of the efficiency of some of the controls implemented in the business processes to mitigate operational risks;
* Maintaining an up-to-date system for risk tolerance and regular monitoring of the risk tolerance level in relation to the actual internal losses from operational risk events;
* Root cause analysis, implementation of mitigating measures and monitoring of an action plan in case of an extraordinary event;
* Regular risk assessment of the outsourced critical or important functions in accordance with the Outsourcing and Third-party Risk Management Policy;
* Regular assessment of the risk that may arise from the usage of information and communication technologies;
* Analysis of events that occurred with other participants in the banking sector and which, under certain circumstances, could affect DSK Bank;
* Regular identification of positions having a material impact on the risk profile of DSK Bank Group, and on the assessment procedure;
* Regular assessment of the adequacy of the allocated capital for operational risk, calculated by OTP Group on the Advanced Measurement Approach (AMA approach) the purpose of which is to assess the adequacy of capital for operational risk for internal purposes and thus verify whether the capital set aside by the Group adequately covers the unexpected loss from operational events. The components used in the calculation are the following: internal loss data, external loss data, scenario analyzes and risk and control self-assessment results;

The hierarchical reporting of occurred operational events is based on the "bottom-up" approach. Responsibility for identifying and managing risk lies upon the so-called Process owners, as per DSK Process Catalogue. For this purpose, Internal Rules for Operational Risk Management have been developed and are in force.

The Departments at the Non-financial Risk Management Directorate, part of the Risk Management Division carry out methodological and operational control over the operational risk management in DSK Bank and support the execution of the above activities, the results of which are regularly reported to the Operational Risk Management Committee, the Bank's Management Board and OTP Bank.

Every year the bank performs a stress test for operational risk. Its main purpose is to provide a forward-looking, quantitative assessment of the operational risk losses that the Bank may suffer in case of certain unfavorable changes in the macroeconomic conditions or other factors in the operating environment. A key component of the stress testing is to estimate weather and to what extend various economic, political, geopolitical, environmental, social or other changes affect the materialization of the operational risk. For that reason the Operational Risk Stress Testing process covers all possible different types of events according the classification above with realistic scenarios for possible aggravation of both their severity and/or frequency. The purpose is to analyze whether the Bank has sufficient capital in hypothetical adverse operational risk scenarios. The Stress Testing program includes analysis of the main pillar of those involved in AMA modelling for the purpose of the calculation of the operational risk capital requirement – the Internal operational loss data.

DSK Bank has concluded several insurance policies that cover losses arising from operational risk (e.g. material damage, theft of valuables) detailed in the insurance policy. The need to ensure a new risk or change the parameters of an insurance contract for already covered risk can be identified as a result of: analysis of data from annual processes of self-assessment of operational risk and scenario analysis, analysis of occurred operational events, the results of key risk indicators, the analysis of the insurance claims and the received or refused insurance indemnities, normative or regulatory requirement that require the Bank to insure against the occurrence of a certain risk, another change in the circumstances and environment in which the Bank operates. This need to insure a new risk or change the parameters of an insurance contract for already covered risk can be identified by the Operational Risk Management Department, the unit managing (owner of) the insurance contract and the owners of business processes in the Bank.

The process of identifying, measuring and managing the risks related to the outsourcing of banking activities to external providers is also within the scope of operational risk management and reflects the current requirements of the European and national legislation. The classification of the outsourced activities and the determination of the critical or important ones for the Bank, the established mechanisms for control and surveillance on the external providers by the Bank and the supervisory bodies, the defined minimum obligatory contractual conditions, the risk assessments and the due diligence of the external providers and the developed exit strategies aim to limit the risks from the execution of activities by external providers, to avoid the risk of concentration and strong dependence on external contractors as well as to ensure the business continuity in case of unforeseen circumstances related to the ability of the vendor to perform the assigned activity.

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

Another method of assessing operational risk is the valuation of potential losses arising from the use of information and communication technologies (ICT risk) and in particular from disruptions in the availability and expected functioning of information and communication services and systems used in the Bank.

The framework for assessing operational risk includes another emerging risk - environmental, social or governance risk - ESG (risk to sustainability). It represents an environmental, social or governance event or condition that, if it occurs, could cause a negative material impact on the value of the investment and/or assets, financial and earnings situation, or reputation of the Bank. This risk is taken into account in the annual self-assessments of the business processes, as well as in the process of collecting information on operational events.

An inventory of the products provided by the Bank is carried out annually. The purpose of the process is to assess the risk resulting from incorrect sales practices that could lead to financial loss and loss of customers’ trust. The Operational Risk Management Policy of DSK Bank stipulates that when the development and implementation of a new process, system or product, or the implementation of significant changes in existing ones, they must be analyzed and assessed in terms of all risks associated with them, including the various categories of operational risk in order to determine their impact on the risk profile of the Bank and to ensure the introduction of appropriate measures for their management and control.

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

Operational risk is subject to periodic review by DSK Bank's Internal 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 Policy and the respective Rules and procedures and activities, related to Operations Risk Management is performed once a year. The current trends in the development of risk regarding major Bank activities are analyzed and measures are proposed for its elimination or limitation. The residual risk is reported to the Management Board.

* + 1. **Market risk**

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.

It is performed by defining and maintaining an adequate limit system and by closing positions as necessary, while interest rate and exchange rate risks are maintained at a level that is consistent with the strategy and risk appetite.

The Bank aims to ensure low volatility regarding trading and banking book results and to minimize its sensitivity to yield curve shifts, exchange rate or financial instruments price changes. Market risks presented in the banking book or those undertaken for trading purposes are managed and monitored separately both in terms of organization and in terms of tools.

* + 1. **Liquidity risk**

Liquidity risk is the risk of loss for the Bank arising from a lack of cash and cash equivalents, or more specifically, the risk of loss arising from Bank’s inability to obtain funding at economically reasonable levels, or to sell/pledge an asset at market price, in order to cover either expected or unexpected payment obligation.

DSK Bank maintains a conservative liquidity risk appetite, aligned with the OTP Group standards and internal governance framework. Liquidity risk management is embedded into the B nk’s overall risk strategy and includes forward-looking planning, active monitoring of liquidity position, and pre-defined contingency measures.

 Stress testing is an important part of risk management and DSK Bank pays significant attention to it within its liquidity management framework. The purpose of the stress testing is to determine whether the Bank has enough level of liquidity to survive periods of severe liquidity stresses under different scenarios. Reverse stress testing is used to identify extreme conditions under which liquidity metrics would be breached and Bank could fall under a resolution event.

Liquidity risk is governed in line with the principles of the three-lines-of-defense model. The Asset and Liability Committee (ALCO) is the main body for liquidity risk management. It assesses the liquidity position, approves risk limits, activates the Contingency Funding Plan (CFP) when needed and approves ALM mandates under which the first line of defense can operate.

The Assets and Liabilities Management (ALM) Directorate is first line of defense for liquidity risk and reports directly to ALCO. The unit is responsible for having appropriate processes and controls in place to ensure that liquidity risk is identified, analyzed, measured, monitored, managed, reported, and kept within the limits of the Bank’s risk appetite, while ensuring compliance both the external and internal requirements.

Strategic Risk Management (SRM) Directorate and Compliance Directorate are responsible respectively for the risk management function and compliance function from the second line of defense. The SRM Directorate report directly to ALCO and Risk Committee and has responsibility for further controlling the liquidity risk. The Compliance Directorate monitors compliance with legal and regulatory requirements. Both functions may intervene to ensure the modification of internal control and risk management systems within the first line of defense where necessary.

The Internal Audit Directorate, as the third line of defense, is in charge also of the independent review of the first two lines of defense. The internal audit function performs its tasks fully independently of the other lines of defense and reports directly to the Audit Committee and Supervisory Board.

Irrespective of the level of centralisation of the liquidity management function, the Bank applies group methods and standards for measurement and reporting of liquidity.

Liquidity position is monitored on a daily by using various regulatory, group, internal and market indicators for liquidity risk. Reports include LCR, NSFR, ALMM, SSM/JLT, survival period projections, and early warning indicators. These are presented to ALCO on a regular basis.

The Bank has a formal CFP which purpose is to ensure sufficient liquidity and funding in order to respond quickly in stressed liquidity conditions. It formulates the potential triggers and escalating procedure, roles and responsibilities, management actions to address the crisis, communication plan, monitoring, and reposting. DSK Bank has robust liquidity risk management practices and a strong liquidity position. Throughout the reporting period, the bank maintained all key metrics — including LCR, NSFR, and internal survival horizon — well above regulatory and internal limits. There are no significant positions in terms of liquidity that are not considered in the LCR and NSFR.

The Bank’s low risk appetite ensures that it remains resilient under normal and stressed circumstances. Liquidity risk is proactively managed through strong governance, stress testing, funding diversification, and a clear operational response framework. The bank remains committed to ensuring operational continuity and customer confidence under all plausible liquidity conditions. DSK Bank maintains adequate level of liquidity buffer, so that it can fulfil its obligations in different currencies when they come due.

The 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.

All of the above information is well integrated into the Internal Liquidity Adequacy Assessment Process (ILAAP). The final ILAAP package is reviewed and approved by the Management Board before being submitted to the regulator.

LCR disclosure template on quantitative information of LCR which complements Article 435(1)(f) of Regulation (EU) No 575/2013 is provided in the following attached Excel table: ***EU LIQ1: Quantitative information of LCR.***

NSFR disclosure template on quantitative information in accordance with Article 451a(3) CRR is provided in the following attached Excel table: ***EU LIQ2: Net Stable Funding Ratio***.

* + 1. **Interest rate risk arising from non-trading book activities (IRRBB)**

Exposure and management of interest rate risk of non-trading book activities:

1. Interest rate risk of non-trading book activities relates to the current or prospective risk to both the earnings and the economic value of an institution arising from adverse movements in interest rates that affect interest rate sensitive instruments from non-trading book activities. Management of the interest rate risk seeks to maintain the level of interest rate risk exposure according to the risk strategy and predefined limits.
2. The Bank uses two core indicators:
* Change in Net Interest Income (∆NII) - Earnings-based measure
* Change in Economic Value of Equity (∆EVE) - Economic value measure
1. DSK Bank manages interest rate risk of non-trading book activities in accordance with the regulatory guidelines and OTP Group rules. DSK Bank controls its exposure to interest rate risk of non-trading book activities by determining acceptable thresholds for risk levels. These acceptable thresholds are defined by limits that reflect the overall strategy and risk appetite of the Bank for this risk type. The risk appetite is expressed in terms of acceptable level of impact of interest rates on both the earnings capacity and economic value of the Bank.

The Management board is ultimately responsible for the management of the interest rate risk of non-trading book activities. Asset and Liability Committee (ALCO) develops the interest rate risk strategy and develops the interest rate risk management framework in accordance with the defined interest rate risk appetite. ALCO ensures that the appropriate controls, procedures and information flows are in place to support implementation of the Bank’s strategy and follow-up. DSK Bank Risk Committee monitors and oversees the current and future risk appetite and strategy of the Bank, considering all types of risks as well as the implementation of the strategy for capital and liquidity management, in order to assess its adequacy against the approved risk appetite and strategy.

The Bank uses models and calculation tools developed by the group which are independently confirmed by an independent unit. Management of the interest rate risk seeks to maintain the level of interest rate risk exposure according to the risk strategy and predefined limits. Interest rate risk exposure is managed by minimizing discrepancies between repricing volumes and repricing dates of interest-bearing assets, liabilities and off-balance sheet items.

1. Interest rate risk of non-trading book activities is monitored on an ongoing basis. The change in Net Interest Income (∆NII) and change in Economic Value of Equity (∆EVE) indicators are calculated on a quarterly basis. Ad-hoc analyses are performed when circumstances mandate it. The main sources of risk are:
	* Gap risk – Risk resulting from the term structure of interest rate sensitive instruments that arises from differences in the timing of their rate changes, covering changes to the term structure of interest rates occurring consistently across the yield curve (parallel risk) or differentially by period (non-parallel risk).
	* Basis risk – Risk arising from the impact of relative changes in interest rates on interest rate sensitive instruments that have similar tenors but are priced using different interest rate indices. It arises from the imperfect correlation between the interest rate indices used as a base for interest rates earned and paid on different instruments with otherwise similar repricing characteristics.
	* Option interest rate risk – a type of interest rate risk that arises from interest rate option derivative positions or from optional elements embedded in bank’s assets, liabilities or off-balance sheet items, where the bank or customer can alter the level and timing of cash flows on contracts.
2. Quarterly stress test and scenario analysis are performed to assess the magnitude of interest rate risk. For regulatory purposes DSK Bank reports NII and EVE measures for the 6 interest rate shock scenarios defined by EBA:
	* Parallel shock up – A constant parallel shock up across all time buckets;
	* Parallel shock down – A constant parallel shock down across all time buckets;
	* Steepener shock – Involving rotations to the term structure of the interest rates, whereby both the long and short rates are shocked (short rates down and long rates up);
	* Flattener shock – Involving rotations to the term structure of the interest rates, whereby both the long and short rates are shocked (short rates up and long rates down);
	* Short rates shock up – Shock up that is greatest at the shortest tenor midpoint;
	* Short rates shock down – Shock down that is greatest at the shortest tenor midpoint;
3. The primary means of hedging the interest rate risk of non-trading book activities exposure are government bond purchases and interest rate derivative contracts. Further, long-term organic adjustment is initiated via the fund transfer pricing system. The interest rate risk of non-trading book activities exposure is managed on a currency basis. The exposure related to the core deposit portfolio in the respective currencies is managed directly while the rest of the balance sheet is managed on a portfolio level. Interest rate derivatives accounting treatment is based on fair value.
4. Assumptions are necessary to address on the one hand the circumstantial modelling parameters which are not covered by contractual attributes of the deals (business and other assumptions) and on the other hand the factors that modify the contractual repricing characteristics (behavioural assumptions). In order to address this the Bank uses prepayment and withdrawing modelling. The elasticity of adjustment of product rates to changes in market rates is assessed and migration of balances between product types dependent on the interest rate environment is considered. Non-maturing accounts are separated to core and non-core depending on their interest rate sensitivity.
5. The variations in Net Interest Income (∆NII) and Change in Economic Value of Equity (∆EVE) between 31.12.2023 and 31.12.2024 are due to the increased balance sheet of the Bank and changes in market interest rate expectations, including interest rate cuts during the year.
6. The average repricing maturity assigned to non-maturity deposits from retail and non-financial wholesale counterparties is 3.6 years.
7. The longest repricing maturity assigned to non-maturity deposits from retail and non-financial wholesale counterparties is 12 years.

Relevant quantitative information is provided in the following attached Excel table: ***EU IRRBB1: Interest rate risks of non-trading book activities***.

* + 1. **Credit Spread Risk in the Banking Book (CSRBB)**

Credit Spread Risk in the Banking Book (CSRBB) is a risk of loss or decrease in capital due to changes of the market price for credit risk, for liquidity and for potentially other characteristics of credit-risky instruments, which is not captured by another existing prudential framework such as IRRBB or by expected credit / (jump-to-) default risk. CSRBB captures the risk of an instrument’s changing spread while assuming the same level of creditworthiness. It does not include the effect of rating changes situations during the observation period or instruments under default situation.

The perimeter of application in the CSRBB rules is the portfolio of fixed income securities accounted in the fair value through other comprehensive income (FVOCI) portfolio of the Bank and fixed income securities accounted at amortised cost (AC) portfolio of the Bank. The Bank measures its exposure to the CSRBB in the FVOCI and AC portfolio by performing stress tests under two scenarios. The effect on the capital is assessed by applying credit spread shocks (widening of credit spreads) to the positions in the portfolio. The shocks are defined per country / counterparty and maturity bucket.

* + 1. **Business and Strategic risks**

The business and strategic risks refer to the possibility that the Bank may fail to deliver the expected results for various stakeholders. In the identification process, the Bank has evaluated two main components of the business and strategic risks and the underlying categorisation:

1. Pure business and strategic risk, further divided intro three sub-categories:

- Demographic risk (long-tern component of the business and strategic risk): the risk related to the decreasing potential of our client base to generate the necessary economic value in a long-term perspective;

- Digital risk (mid-term component of the business and strategic risk): the risk related to digitalisation;

- Transitional risk (short-term component of the business and strategic risk): representing a risk category of the climate and environmental risks.

2. Risks from the operational environment:

- Risk related to the adoption of the Euro in Bulgaria;

- Risk related to the labour market shortage.

* + 1. **Reputation risk**

The main goal of reputation risk management is not to allow unfavourable perceived image of the Bank, loss of trust of clients, counterparties, shareholders, investors, regulatory bodies, rating agencies and employees as a result of Bank activity or the activities of the Bank employees. That could therefore lead to lower sales and market share, deteriorated relations with contractors and customers, as well as weakened financial indicators, losses imposed by negative public attitude, publications and statements in the mass media and e-media and other affecting the institution events which lead to a reduction in the client base or income or to court procedures.

In addition, DSK Bank assesses the risk related to the need for providing financial support to connected unconsolidated entities in order to prevent possible adverse reputational impact on the Bank Group (step-in risk).

DSK Bank is reluctant towards reputational risk. Reputational risk management is integrated within the risk management philosophy of the Group. All activities of the Bank are subject to reputational risk assessment, whereas respective measures are taken to minimize this risk. DSK Bank considers reputation as crucially depending on its corporate identity and the way this identity is communicated to its stakeholders. The Bank aims at preserving a sustainable reputation as a reliable business partner and continuing building positive image through various programs, initiatives, corporate social responsibility, transparent communication and public relations management.

1. **Regulatory Capital Requirements**

As of 31.12.2024 the Bank has to maintain the minimum amount of or above the sum total of the capital requirements for:

* Capital requirements for:
* credit and dilution risk in the banking book;
* position risk in the trading book;
* counterparty and settlement risk from the entire activity;
* exchange rate and commodity risk from the entire activity, and
* operational risk from the entire activity.
* Pillar 2 Capital requirement (P2R) of 1.85%. If applied to Tier 1 the Pillar 2 Requirements is 1.39% and if applied to the Common Equity Tier 1 the P2R is 1.04% .
* Capital buffers, required by the 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 – 1.96%
* Other Systematically Important institution buffer – 1 % of total risk weighted exposure.
* Pillar 2 Capital Guidance of 1.50%.
	1. **2.1. Regulatory capital and capital requirements**

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.

**Capital indicators**

Quantitative information on total own funds and capital ratios is provided in the following attached Excel table: ***Capital:*** ***Total Own Funds.***

Total own funds and capital ratios

The Bank calculates the total capital adequacy (the “Basel ratio”) as a ratio between total own funds for solvency purposes and the total of the risk-weighted assets for credit, market and operational risks. The Tier 1 capital adequacy is assessed by the division of the Tier 1 capital by the total risk weighted assets and it shall exceed the regulatory minimum level of 17.06% incl. combined capital buffer and P2G. The CET 1 capital adequacy reported by the Bank should be higher than 15.22%. The total capital adequacy, according to the regulatory framework, ratio should be higher than 19.53 % incl. capital buffers and P2G.

Quantitative information showing the reconciliation between balance sheet items used to calculate own funds and regulatory own funds is provided in the following attached Excel table with the same name**:** ***EU CC2 : Reconciliation of regulatory own funds to balance sheet in the audited financial statements.***

Capital instruments’ main featuresare presented in the following attached Excel table**: *EU CCA****:* ***Main features of regulatory own funds instruments and eligible liabilities instruments****.*

The completed own funds disclosure template for 2024 is provided in the following attached Excel table: ***EU CC1: Composition of regulatory own funds*.**

Quantitative information covering available own funds, risk-weighted exposure amounts, combined buffers, leverage ratio, Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) is provided in the following attached Excel table: **EU KM1: Key metrics template.**

There is no difference between accounting and regulatory scopes of consolidation. The respective quantitative information is provided in the following attached Excel table: ***EU LI1: Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories.***

Quantitative information on the main sources of regulatory exposure amounts and carrying values in financial statements is provided in the following attached Excel table: ***EU LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements.***

Template EU LI1 shows that the accounting scope and the scope of prudential consolidation coincide. The EU LI1 template illustrates the main differences between the carrying amounts reported in the financial statements within the scope of prudential consolidation and the exposure amounts treated for prudential purposes as the basis for calculating risk-weighted exposures for each risk.

Items that reflect a deduction from regulatory capital are related to the intangible assets and the prudential treatment of software assets.

Template EU LI2 shows the main differences between the carrying amounts in the financial statements within the scope of prudential consolidation and the amounts of exposures to be treated for regulatory purposes as a basis for calculating risk-weighted exposures under each risk framework.

The main differences for the counterparty credit risk framework stem from the use of the Simplified Standardized Approach for the calculation of derivative exposure amounts.

EU LI2 also reports two differences in the credit risk framework, mainly due to a decrease in credit adjustments related to the easing of the effect of the introduction of IFRS9, according to Art. 473a of Regulation (EU) No 575/2013 (CRR) and an increase in the amount of provisions resulting from insufficient coverage for non-performing exposures (Art. 36, para.1, letter m)), which has a direct impact on the exposure - the basis for calculating the RWEA for regulatory purposes. The table also reflects the effect of credit conversion factors.

* 1. **Countercyclical Capital Buffer (CCyB)**

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

The CCyB is regulated with Ordinance No. 8 of the Bulgarian National Bank for capital Buffers of the banks. BNB discloses information for the fixed level of CCyB and updates it quarterly.

As of 2024 YE the CCyB level stood at 2%, while the The specific for the Bank CCyB was 1.96%.

Relevant quantitative information is provided in the following attached Excel tables:

* **EU CCyB1: Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer**
* **EU CCyB2: Amount of institution-specific countercyclical capital buffer**
	1. **Pillar 2 Requirement (P2R)**

The Pillar 2 requirement (P2R) is a bank-specific capital requirement, which is determined on the basis of the Supervisory Review and Evaluation Process (SREP).

Under Articles 431(1), 433a(1) and 438(b) of the Capital Requirements Regulation (CRR), large institutions (as defined in Article 4(1)(146) of the CRR) are required to disclose their P2Rs on an annual basis.

As a result of the performed in 2023 Supervisory Review and Evaluation Process (SREP) the Joint Supervisory Team (JST) determined for DSK Bank microprudential capital requirement of 1.85% for 2024 as Pillar 2 Requirement on consolidated and individual level of DSK Bank to be held in the form of:

* 56.25% of Common Equity Tier 1 (CET1) capital /1.04% as CET 1/;
* 75% of Tier 1 (T1) capital / 1.39% as T1/.

The total SREP Capital Requirement of DSK Bank for 2024 is 9.85%.

Effective from January 2025 the P2R becomes 2.30% on consolidated and individual level of DSK Bank to be held in the form of:

* 56.25% of Common Equity Tier 1 (CET1) capital /1.29% as CET 1/;
* 75% of Tier 1 (T1) capital / 1.73% as T1/.

The total SREP Capital Requirement of DSK Bank for 2025 is 10.30%.

* 1. **Capital requirements by types of risks**
		1. **Capital requirements for credit risk**

DSK Bank applies the standardised approach for calculating its risk-weighted assets for credit risk. For this purpose the Bank multiplies its Banking book positions by risk weights fixed from the Regulation or BNB when there is possibility for local regulator’s discretion, based on the external credit assessment of each asset issuer. The risk-weighted assets should consist of: risk-weighted on-balance sheet assets, risk-weighted off-balance sheet equivalents, OTC derivative instruments weighted for counter party risk and Trading portfolio positions weighted for counterparty risk.

For risk weighted calculation of rated exposures the Bank uses external credit assessments of the following credit agencies: Standard & Poor's, Moody's and Fitch Ratings with strict observation of the requirements of the Regulation. ECAIs assessments are used for the next exposure classes: central governments or central banks, multilateral banks, institutions and covered bonds.

Quantitative information regarding the amounts of risk weighted assets and capital requirements is provided in the following attached table: ***EU OV1: Overview of RWAs***.

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

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

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

The Bank has approved rules concerning detailed rights and responsibilities of different units of DSK Bank 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. The Council of Credits and Limits (CCL) approves counterpary limits under the competences of Management Rules of the Bank.

The Bank 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 uses the approved relative risk weights as per type of transactions and counterparties. If there is no approved counterparty limit as a rule the Bank accepts as collateral in transactions with financial institutions cash freezed on account.

DSK Bank calculates the derivatives’ exposure value applying the Simplified standardised approach, according to article 281 CRR as the sum of the replacement cost and the potential future exposure, adjusted by coefficient α. For the purpose of the application of this method the Bank complies with the requirement of article 273a, paragraph 2, which sets specific conditions / requirements in relation to the size of its on- and off-balance-sheet derivative business.

Quantitative information analysing the CCR exposure by approach and the exposures to CCPs is provided in the following attached Excel tables, respectively: ***EU CCR1: Analysis of CCR exposure by approach*** and ***EU CCR8: Exposures to CCPs*.**

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

Quantitative information on the credit risk mitigation techniques is provided in the following attached Excel table: ***EU CR3: CRM techniques overview: Disclosure of the use of credit risk mitigation techniques*.**

Quantitative information on the credit risk exposure following the Standardised approach, as well as the credit risk mitigation effects is provided in the following attached Excel table: ***EU CR4: Standardised approach – Credit risk exposure and CRM effects*.**

* + 1. **Capital requirements for market risk**

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

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 of the Bank and requires special regulation.

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

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

Concerning the bearing of market risk the strategy of DSK Bank as a part of Bank OTP is in compliance with strategic aims adopted by the Group, local risk appetite and characterizes as a conservative one.

The primary focus is on servicing the Bank’s customers, with any significant exposure generating market risk being promptly closed on international markets. Only client-driven hedging derivative transactions aimed at mitigating currency, interest rate, and commodity risks are encouraged, while speculative transactions are not permitted. Proprietary trading in equities is not allowed, and the Bank’s trading portfolio may consist solely of Bulgarian government securities.

Market risk is observed and controlled through strict build limits system, composed of limits for FXR and IRR. The system of market risk limits are defined in manner which requires on time close-outs of positions with minimum losses. For this purpose there are approved limits for open currency positions by financial instruments, distributed by currencies and maturities, turnover rate for bonds and maturity limits, stop-loss limit and triggers, VaR (Value at Risk) and BPV (Basis Point Value) 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 actualisation minimum every year taking in account new business targets, possible changes in determined risk appetite or business strategy.

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

The interest risk of the trading portfolio is controlled daily by Market and Liquidity Risk Management Тeam of Integrated Risk Management Department based on limits of maximum exposures divided by categories as per issuer of securities and maturities; BPV limits as per time bands and currency through permitted currencies BGN, EUR and USD; VaR and ES (Expected Shortfall) limits and stop loss limits and triggers.

For the purpose of market risk management parametric and historical stress test model is used for calculating VaR. Assesment of market risk of portfolio is detrmined by VaR calculation which indicates loss in value within confidence level of probability for time horizon that won’t be exceeded. At present moment DSK Bank uses historical model for determination of Value at Risk for period 252 days, 1 day maintenance period, confidence level 99% and standard deviation 2.33.

Organisation structure of the Bank related to process of market risk undertaking is built to ensure independency of the unit responsible for control of business units. The market risk in trade portfolio is controlled by Market and Liquidity Risk Management Team of Strategic Risk Management Directorate, which is part of Risk Management Division. The management of the risk in Banking book is performed by Assets and Liabilities Management Directorate (ALM) as a part of Strategy, Finance and Operations Division. Business units which performs all deals related to purchase and sale of financial instruments for corporate customers and individuals, purchase and sale of securities, for trade portfolio or for Banking book, deals on money market as well as management of open currency position of the Bank are independent activities of the two departments – Strategic Risk Management Directorate and Assets and Liabilities Management Directorate (ALM).

Market Risk angement TeamStrategic Risk Management Directorate, is responsible for second line of defence of banking book (ALM). Risk-weighted assets for position risk on the trading book and risk-weighted assets for exchange rate risk on both the Trading and the Banking books compile the risk-weighted assets for market risk.

* *Capital requirements for position risk*

Capital requirements for both general and specific risk in each currency are calculated applying standardised approach for the Bank's debt securities in the Trading portfolio.

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

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

Quantitative information on the risk-weighted assets for market risk under the standardised approach is provided in the following attached Excel table: *EU MR1: Market risk under the standardised approach.*

* *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. Quantitative information regarding the FX risk capital requirements is provided in the following attached Excel table: ***FX risk: Capital requirements for foreign exchange risk as at 31 December 2024***.

* *As of December 31, 2024 the Bank does nоt calculate capital for settlement risk.*
	+ 1. **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.

Quantitative information on the operational risk own fund requirements and risk-weighted exposure is provided in the following attached Excel table: ***EU OR1: Operational risk own funds requirements and risk-weighted exposure amounts*.**

* + 1. **Detailed disclosure for exposure classes allocation according to criterion defined in Regulation 575**

Relevant quantitative information is provided in the following attached Excel tables:

* ***EU CR1-A: Maturity of exposures***
* ***EU CR1: Performing and non-performing exposures and related provisions***
* ***EU CQ1: Credit quality of forborne exposures***
* ***EU CQ2: Quality of forbearance***
* ***EU CQ3: Credit quality of performing and non-performing exposures by past due days***

Due to the achieved significant decline in the ratios of non-performing loans from 2024 DSK Bank is officially no longer designated as “High NPL” Bank by the European Central Bank.

In 2024, DSK Bank continued to maintain a stable decreasing trend in the volume of non-performing loans as well as the corresponding ratio despite the accelerated growth in the new lending. By end of year the achieved NPL ratio is below the average of EU (according to the information published in the EBA Risk Dashboard). The inflow rate in the non-performing portfolio of newly deteriorated loans continues to decrease compared to previous years, although the inflow volume increases due to the organic business growth. All segments report improved dynamic.

The bank continued to implement various of initiatives which contribute positively to the dynamic of the non-performing portfolio, whereby in 2024 some of them having the strongest impactful are:

* Continuous system developments and improvements in the operational reporting which strongly support operational management;
* Further improvements in the internal rules and procedures and implementation of process control points and data quality reports which ensure the prompt and accurate process flow;
* Improving efficiency through digitalization and automation in the various phases of the problem loan management process;
* A significant progress was achieved in the portfolio cleaning process through a structured system flagging concept which enables clear segmentation and the regular application of the exit and closing phase;
* Changes in the restructuring process resulted in significant increase in the share of realized restructuring in the earlier phases of delinquency on the account of the later ones;
* Segmentation, pooling prioritization and strategies applied are continuously improved and tested for increasing efficiency;
* A number of robotisation initiatives were implemented which significantly improve the efficiency.

Relevant quantity information is provided in the following attached Excel tables:

* ***EU CQ4: Quality of non-performing exposures by geography***
* ***EU CQ5: Credit quality of loans and advances by industry***
* ***EU CQ6: Collateral valuation - loans and advances***
* ***EU CQ7: Collateral obtained by taking possession and execution processes***
* ***EU CQ8: Collateral obtained by taking possession and execution processes – vintage breakdown***
* ***EU CR2: Changes in the stock of non-performing loans and advances***
* ***EU CR2-A: Changes in the stock of non-performing loans and advances and related net accumulated recoveries***
* ***EU CR5: Standardised approach –*** Note: Since 3Q 2021 onwards DSK Bank Group has applied the alternative approach with risk weight of 1 250% for the calculation of the risk weighted exposures for investments and shares in collective investment undertakings.
* ***EU CCR3: Standardised approach – CCR exposures by regulatory portfolio and risk***
* ***EU CCR5-A: Impact of netting and collateral held on exposure values –*** Note: DSK Bank Group has no netting agreements.
* ***EU CCR5: Composition of collateral for CCR exposures*** – Not applicable. DSK Bank Group does not have such type of activity.
* ***EU CCR6: Credit derivatives exposures*** - Not applicable. DSK Bank Group does not have such type of activity
1. **Leverage**

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

As of 31 December 2024 the leverage ratio was 11.32 %. The leverage ratio in general depends on the Tier 1 capital, as well as the balance- and off-balance sheet assets. In this regard, the leverage ratio is considerably higher than the minimum requirement of 3%. On the one hand, that is associated with the interim capitalisation of 1H profit in 2024, which strengthened the capital position. As regards the year-on-year balance-sheet asset development, the main drivers are increases in debt securities, as well as loans and advances.

Quantitative information connected with the fulfilment of Regulation (EC) 575/2013, Art. 451 and Commission implementing regulation – EU 2016/200 is provided in the following attached Excel tables:

* ***EU LR1 - LRSum: Summary reconciliation of accounting assets and leverage ratio exposures***
* ***EU LR2: LRCom - Leverage ratio common disclosure***
* ***EU LR3 - LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures).***
1. **Internal Capital Adequacy Assessment Process (ICAAP)**
2. **Capital Management and Internal Capital Structure**

The determination of the required ratios and levels of capital is a part of the annual business planning and risk management process of the Bank and revision of its long-term strategy. The internal management and analysis of the capital adequacy aim at maintaining an adequate amount of internal capital according to the level determined by the Bank’s management which corresponds to the risk profile of the bank and to its quality of management through respective systems for risk management. The following principles should be followed:

* A transparent corporate structure which ensures effective and reasonable risk management;
* Clearly defined levels of reporting and distribution of the tasks and responsibilities;
* The entire process of risk management in the Bank is managed by the Management Board;
* Comprehensible and effective systems for risk control and internal control which are independent from the controlled activities;
* The effective internal control system consists of three independent functions – risk control, adherence to rules, and internal audit;
* Public disclosure and transparency of the bank’s activity and operations;
* The Bank regulates the management process of every significant type of risk within separate rules.

The plan for development of the capital base is consistent with the goals for development of the Bank’s activity and the acceptable levels of risk for achieving these goals. So far, the short- and long-term goals of the Bank have always been set within its current risk profile without predicting significant changes in the levels of influence of the separate risk components. This allows a relatively reliable assessment of the necessary development of the capital base and respective planning of an adequate capital position.

The Bank calculates the capital requirements during each process of planning, forecasting, or long-term strategic goal setting. On a regular basis the Bank conducts an updated rolling forecast in order to assesses the sustainability of the approved business plan and strategy and to assesses the impact from deviations from plan on capital adequacy.

The necessity of capital calculated according to regulatory requirements, as well as according to the Internal Capital Adequacy Assessment Process (ICAAP), represented by two different approaches – according to DSK Bank’s policy and based on the supervisory assessment (SREP). The regulatory requirements shall be fulfilled with a reasonable reserve above the stipulated minimum. In case the ability to provide capital to cover the higher of the two (with a reasonable reserve above the minimum capital requirement according to the regulatory requirements or the result reached under ICAAP) is under question, the Bank reviews its objectives and risk profile.

**Structure of the total capital resource of the Bank**

The Bank has the following structure of its capital resource as of the end of 2024 in accordance with Directive 2013/36/EU and Regulation (EU) №575/2013, according to the Internal Capital Adequacy Assessment.

**Capital Structure in the Normative perspective**

The calculated capital in the normative perspective is equal to the regulatory own funds, according to the approved capital plan of DSK Bank.

Relevant quantitative information is provided in the following attached Excel table: ***ICAAP - Capital structure - Normative perspective***.

**Capital Structure in the Economic perspective**

The economic capital or the so called Available Financial Resources (AFR) represents the economic view on the amount of the capital that is available to cover losses in a going concern perspective, in line with the chosen ICAAP approach.

The core elements of the regulatory Own Funds (Regulatory capital in normative perspective) are the starting point for the quantification of AFR – in line with Principle 5 – Internal capital of high quality and clearly defined from ECB Guide to the internal capital adequacy assessment process (ICAAP). The share capital and the general reserves (which includes Reserve fund) are considered as most sustainable capital elements, which have permanent character and sound quality as they can be reduced only with a prior permission of the Bulgarian National Bank according to Art. 29 and Art. 41 of the Law on Credit Institutions.

CET 1 elements that have a permanent character and are available for unrestricted loss coverage or diminish the loss coverage potential participate in the formation of the AFR. The table below presents the reasoning the specific treatment of the CET 1 positions, where the components having major contribution are the paid-up capital instruments, the other reserves and the other comprehensive income.The table shows details how the AFR in the economic perspective are formed, along with the reason behind the inclusion / exclusion of the respective elements.

Relevant quantitative information is provided in the following attached Excel table: ***ICAAP - Capital structure – Economic perspective***.

In addition to the capital elements with long-term character (as presented above), the concept of the economic capital further includes FV adjustments on balance-sheet items – i.e. eventual difference between fair value and book value is included in the AFR to assure consistency with economic capital calculation and coherence with overall risk assessment. The calculation steps on the residual maturity structure of the portfolio as of 31.12.2024 and the methodology is based on NPV of cash flows.

Relevant quantitative information is provided in the following attached Excel table: ***ICAAP - Capital adequacy parameters.***

The Bank has a stable and adequate capital position which allows coverage of the risks specific to its operations. DSK Bank estimates a capital buffer compared to both the regulatory requirements for capital adequacy and the necessary capital base obtained as a result of internal capital adequacy assessment under the economic perpsective. This capital buffer is a result mainly from the followed policy for capitalisation of profit from previous years, as well as a reasonable risk management and defining risk appetite in the activity. As a result of these, the Bank has a sufficiently stable position of Tier 1 capital.

1. **Internal Risk Assessment**

The identified risks are divided in their assessment based on their nature into:

* Risks evaluated in normative perspective;
* Risks evaluated in economic perspective.

The ICAAP normative and economic perspectives follow different risk assessments approaches and they are supplementary in their nature. The economic perspective allows for identification of potential risks that may not be fully captured by regulatory requirements, while the normative perspective ensures that the institution remains compliant with regulatory standards. Together, they offer a comprehensive understanding of capital adequacy from both an internal and external viewpoint, which is a prerequisite for sound risk management and strategic planning.

Based on the above consideration DSK Bank’s ICAAP integrates both perspectives in a single capital target level per risk or portfolio / sub-portfolio. The higher from the normative (=regulatory) and the economic perspective is considered under baseline scenario.

1. **Additional capital under ICAAP**
* **Additional capital for credit risk**

The internal methodology resides on a Group-developed macro-based credit risk model estimating the RWA. To calculate the risk weights, knowing the PD, the formulas determined by the CRR are used. The final risk weight takes into consideration the migration and model risks.

To assess the unexpected loss, DSK Bank uses the higher between the regulatory capital requirements based on the standardized approach and the capital requirements estimated internally through a calculation following Internal Rating-Based approach. The internal model is based on portfolio level data distributed by internal ratings.

Based on the materiality of FX lending in the retail segment no need for an add-on. In non-retail segments, no add-on applied since individual assessment is made at loan origination and at review. Considered is also that the BGN is pegged to EUR at 1.95583 and Bulgaria is preparing for Euro adoption in 2026, which means no FX fluctuations causing any additional credit risk.

Based on analysis of the increase of the residential real estate prices and increase of purchase power of the population no significant gap has been identified. Therefore, no capital allocation is applied.

To assess the unexpected loss from credit concentration risk, DSK Bank use the regulatory capital requirements calculation formula for the Internal Rating-Based approach. For the non-granular portfolio, the actual EAD of the clients is used to calculate the simulated F-IRB RWA and for the second scenario (Infinitely Granular) we assume perfect granular distribution between the client (equal EAD for all client exposures).

For country risk the assessment is focused on the possible impairment of the Russian bonds held by DSK Bank. As starting from 2025 DSK Bank will deduct from its CET 1 the prudential provisions on the Russian bonds that are not accrued, this is reflected in the CET 1 plan and leads to a gradual decrease of the amount reflected in the economic assessment for country risk.

Rating migration risk for countries and financial institutions is based on the published available data from Fitch ratings (PD and transitional matrices), as well as on OTP Group “Modelling counterparty and sovereign LGD and PD”. The output of the model (incl. under the stress test scenario) is point in time default probabilities calculated for each year of the time horizon.t. evaluating the potential negative effects from the probability of rating migration throughout the change in the expected loss under 68.59% quantiles (Q) in the Stress scenario simulation for financial institutions and Sovereign counterparties.

Finally, for estimating the impact on credit risk, the approach is to forecast default rates of corporate clients and related potential increase in credit losses under a stress scenario, characterized by a sudden negative reassessment of transition risks by market participants and flight-to-quality from brown to non-brown assets.

The required capital for credit risk for 2024 is assessed at BGN 1 859 482 thousand.

* **Additional capital for operational risk**

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

In the еconomic perspective DSK Bank assesses additionally aspects related to external fraud, business disruption risk, cyber risk, compliance risk, as well as environmental risk.

The assessed required capital for operational risk at the end of 2024 amounts to BGN 104 574 thousand under the economic perspective.

* **Additional capital for market risk:**
* Additional capital for currency risk*:*

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

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

* Additional capital for interest rate risk in the trading portfolio

In the assessment of the interest rate risk in the trading portfolio of the Bank are applied models which generally assess the exposure and VaR. The applied VaR has a confidence level 99% and 1 day time horizon. As most of the assets in the portfolio are not actively traded on the market, the management considers that VaR is not an adequate tool for the allocation of the capital requirements. Therefore for the assessment of the capital requirements of the trading portfolio is applied the result from the standardised method ., while the additional capital requirements are based on the applied stress-test scenario.

Overall, the total required capital for market risk for 2024 is assessed at BGN 1 166 thousand under the economic perspective, the main driver being interest rate risk in the trading portfolio.

* **Additional capital for interest rate risk of non-trading book activities (IRRBB)**

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 of non-trading book activities – EBA/GL/2022/14. The Bank calculates two main indicators – change in the net interest income (NII: an earning- based indicator) and change in the economic value of equity (EVE: a 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 assessed and calculated as a sum of positive and negative changes in net interest income and economic value of equity. This is done for every significant currency. Then, the results for each of the indicators are taken into consideration accordingly.

Based on 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 2024 is assessed at BGN 24 618 thousand.

* **Additional capital for credit spread risk of non-trading book activities (CSRBB)**

Credit spread risk is part of the IRRBB process. It is the risk driven by changes of the market price for credit risk or other potential characteristic that is not captured through the other existing IRRBB metrics. The Bank holds available for sale (AFS) and held to maturity (HTM) securities that are subject to credit spread risk. CSRBB is calculated based on the IRRBB management policy, taking into consideration bond market value, bond modified duration and an applied spread shock. The required capital for CSRBB for 2024 under the economic perspective is assessed at BGN 39 167 thousand.

* **Additional capital for liquidity risk**

The liquidity risk management principles of the Bank are following all regulatory and OTP Group requirements and sound bank practices. The Bank has set in place a Liquidity Risk Management policy (LRMP). The policy sets out a robust liquidity management framework which is well integrated into the Bank risk management process. It clearly defines the internal liquidity governance and the liquidity risk measurement and control practices. The Bank has established monitoring system for all regulatory, OTP Group and internally defined indicators. On a regular basis are executed liquidity stress tests to assess the sufficiency of the liquidity position. In addition, DSK Bank incorporated Contingency Funding Plan which defines the management actions during periods of liquidity stress.

The Bank considers that the capital is not an adequate tool for covering liquidity risk.

* **Additional capital for business and strategic risks**

The business and strategic risk is assessed considering two main components:

1. Pure business and strategic risk, further divided into three sub-categories:
2. Long-term component - Demographic (client base) risk: This is a risk related to the decreasing potential of our client base to generate the necessary economic value in a long-term perspective. There are two main directions of the decreasing potential: (a) overall demographic trend in Bulgaria and (b) client base composition effect (the age buckets split). Considering the scale of the organisation, the direct correlation between DSK Bank customer base and the demographic trends in the country is quite obvious. In this respect, the following key factors are considered in the assessment:
* Overall demographic trend in Bulgaria - the assessment of the effect from the overall demographic trend in Bulgaria (without changing anything in our business model or strategy) resulting in a loss of potential clients under adverse and pessimistic scenarios.
* Client base composition effect (the age buckets) - тhe other impact which is a subject of analysis is the composition effect of our customer base which means disproportional concentration of the different age buckets.
1. Mid-term component - Digital Transformation: The risk related to digitalisation is considered the mid-term pillar of business risk (with 3-5 years’ time horizon). The risk is related to deviations from the strategy of the Bank and depends on the successful implementation of the transformation program which includes: change of the operating model, renew of core technology and ensure that all of that is performed in secured environment. The risk will result in inability to meet clients’ expectations which respectively will lead to lower number of clients and lower market share of digital sales.
2. Short-term component – Transition risk: Climate and environmental risks could have a substantial impact on banking sector, influencing banks’ financial stability and profitability. More specifically, transition risk is a significant concern for banks due to the financial and operational challenges that arise as economies shift toward low-carbon, sustainable practices. In this respect, DSK Bank has identified and assessed the transition risk as the short-term component of business risk (i.e. 1-year horizon),
3. Risks from the operating environment, categorised into:
	* 1. Euro adoption - the introduction of the Euro in Bulgaria was connected with high degree of uncertainty in terms of meeting the criteria for joining the Euro zone, the timing and the general political instability in the country.
		2. Labour market shortage - the high intensity of regulatory initiatives and digitalisation projects and the simultaneous launching of bank-wide projects requires allocation of additional expertise and human resources in order to ensure smooth “run the bank” activities” and successful implementation of the projects. The limited labour market In Bulgaria and the competition between employers lead to longer period needed for staffing of high-expertise positions. In this respect, the Bank targets sustainable development of its human resources considering the dynamic regulatory and operating environment and the strategic advantage provided by the available high-level expertise at the Bank.

The capital requirement for business and strategic risks in the economic perspective stands at BGN 63 102 thousand.

* **Additional capital for reputational risk**

For the purpose of reputation risk assessment in the economic perspective the Bank has developed a monitoring system which reflects different aspects related to the image of the Bank. In case the indicators breach a predefined threshold additional capital for reputation risk shall be allocated. Furthermore, DSK Bank assesses step-in risk in relation to possible adverse reputational impact from connected unconsolidated entities based on historical data for provided financial support to these companies in order to avoid negative customer perceptions and publicity.

In 2024 the above-mentioned indicators remained below the given thresholds but because of the inherent risk of events which are not under the direct control of the Bank and which could not be foreseen, 0.01% of the total assets has been allocated for coverage of any potential reputational risk.

In addition, DSK Bank has assessed reputation risk in the economic perspective due to possible negative impact on the bank’s image from OTP’s subsidiaries in Russia and Ukraine. In general, in situations where the attention of the mass public is drawn by specific events, media representatives contact proactively the credit institutions due to the relevance of the topic. This media approach gives the opportunity to banks to share deliberate information and influence the mass public without additional cost. However, due to the retail business model of DSK Bank in case of events which impact negatively the image and perception of the Bank, it is highly probable that an image campaign would be launched. Respectively, the expected cost for such an image campaign is allocated as capital for reputation risk in the economic perspective.

Therefore, taking all of the above considerations, the total internal assessment for reputation risk in the economic perspective amounts to BGN 8 481 thousand.

1. **ICAAP stress tests**

The ICAAP stress tests are based on severe but plausible scenarios developed on the basis of the Risk Identification and Materiality Assessment (RIMA) and are mainly focused on estimating the impact from potential losses on the over the capital adequacy in the normative and economic perspectives.. The ICAAP stress tests in economic perspective are performed in order to place focus on economic value considerations, unexpected losses or long-term threats that can materially diminish DSK Bank’s risk bearing capacity. The stress test in the economic perspective therefore aims to reveal possible threats which could lead to higher allocated capital for risk coverage and lower available financial resources. The results of the economic stress tests supplement the normative stress test outcome, which is rather short-term oriented due to its alignment with the business planning time horizon of three years.

The combination of both indicates the extent to which DSK Bank is resilient to the joint realisation of risks under economic considerations. It is also indicative of the realisation potential of the separate risk categories when an assumption for stress is applied as these could deviate significantly from their baseline values.

The results from the ICAAP stress tests shall be used for assessment of the capital depletion in case of adverse development of the environment, which in its essence is comparable with the determined by the competent authority P2G.

In order to enhance the stress-testing process and to ensure that all the material risks are properly integrated, the Bank applies several different approaches for stressing risks in the above-mentioned perspectives:

* Bank-wide stress-testing (risks impacted by the macroeconomic environment) – assuming simultaneous stress of all risks covered by ICAAP. There are two scenarios covered in this process: adverse scenario ad EBA adverse scenario, the specifics of which are as follows:
* Adverse scenario - developed for the purpose of the business and capital plan and the assumptions are grounded on DSK Bank’s RIMA outcome.

Тhe curves of the key macroeconomic parameters (i.e. GDP, inflation, unemployment) were derived by the macroeconomic model developed at OTP Bank, the rationale for the scenario locally developed by DSK Bank’s Research team.

This scenario ensures consistency of ICAAP with the 3-year business and strategic plan which is crucial for the ICAAP integration into RAF;

Overall, business and strategic risks are the main drivers of the higher capital consumption under stress scenario. Capital needed for the coverage of operational risk, IRRBB and CSRBB also increases. However, the increased capital consumption of the above-mentioned material risks is offset by the lower capital allocated for credit risk capital as a result of the shrinking net performing portfolio in the negative scenario.

The available financial resources under adverse scenario are negatively impacted by lower profit capitalisations under stress and by the fair value of the Held-to-Maturity (HTM) portfolio. However, the loss absorption capacity remains considerably above the limit.

- EBA adverse scenario – a second negative scenario applied grounded on the macroeconomic framework of the 2025 EBA Stress Test in order to apply for ICAAP a scenario that is at least as severe as official consensus downside forecast. The dynamic of the capital consumption per risk is similar to the adverse scenario. However, the credit risk capital consumption declines further as the EBA adverse scenario assumes even faster loan quality deterioration under greater macroeconomic shock.

Given that the Available Financial Resources are impacted by the continuous profit capitalisations into CET 1 the capacity for risk coverage in stressed environment remains considerably above the defined limit of 110%.

* Sensitivity analysis – credit risk-related sensitivity analysis focused on specific portfolios / sub-portfolios aimed at drilling down specific portfolios’ vulnerabilities in relation to changes in economic conditions or borrower behaviour.

As a result of the conducted calculations, stress tests, as well as sensitivity analysis, a conclusion could be made that the Bank has sufficient capital to meet the regulatory requirements, along with a sufficient capital buffer to adapt to a more risk-sensitive environment.

*Reverse stress test conduction*

DSK Bank performs a reverse stress under both the normative and economic perspectives in order to estimate potential factors that could lead to insufficient capital coverage and to explore which conditions in the macroeconomic environment could lead to such events.

The ICAAP reverse stress test is part of overall reverse stress testing process of the solvency position of DSK Bank which includes also recovery and resolution reverse scenarios, which incorporate assumptions for higher severity of the capital adequacy deterioration.

*Reverse stress testing in the normative perspective*

Within the reverse stress test process the bank assumes also idiosyncratic losses to occur as these might lead to breach of the management buffer also in an environment which is less deteriorated.

This approach enables the management of bank to recognise potential threats in the operating environment within its early screening processes and timely react to evolving adverse developments.

The breach of the management buffer in the ICAAP reverse stress test is considered a natural hand-over point to recovery processes. Such situation shall be assessed as the first hard criterium indicating potential issues with the solvency position of the bank which need to be addressed by implementing short-to-mid term measures or recovery tools in order to restore compliance with the internal management buffer.

The reverse scenario assumes that the bank reports significant losses, which fully offset the banking revenues in the financial year and lead to a deduction from CET 1 in the amount needed to breach the management buffer.

Following the reverse stress test approach, which is based on the combined effect from credit risk losses and severe idiosyncratic event, the bank applied an assumption for the most severe event with operational and compliance risk character, namely a massive GDPR. It is assumed that the competent authorities apply to DSK Bank the highest penalty which is equivalent to as 4% of OTP Group turnover for Q3 2024 (which is the latest data available at the time of preparation) /considering the highest level of consolidation of the parent company/. In addition to the above losses, sharp loan quality deterioration is expected to deteriorate the financial result of the bank to an extend in which loss is reported and deducted from CET 1.

*Reverse stress testing in the economic perspective*

The main purpose of the ICAAP reverse stress test in the economic perspective is to identify possible threats for available financial resources which contribute to the strong loss absorption capacity of the bank.The trigger for the reverse stress test a loss absorption capacity of 110% as this ratio includes the internal management buffer of 10% for the economic perspective. The severity of the reverse stress test is reached through the following assumptions impacting the loss absorption capacity of the bank:

* The risks to which DSK Bank is exposed in the economic perspective are considered with their stressed value from the regular stress test;
* The available financial resources as risk bearing capacity are challenged through possible negative impact from the environment (i.e. interest rates curves).
1. **Minimum Requirement for Own Funds and Eligible Liabilities (MREL)**

The MREL requirement has been introduced by Directive 2014/59/EU. Effective from 1 January 2022 the defined for DSK Bank MREL requirements became binding. A 3-year transitional period has been set by the resolution authorities allowing for gradual increase of the MREL targets until 1 January 2024.

According to the Joint Decision of the Resolution Authorities DSK Bank has to comply with the following MREL requirements as of the end of 2024 on a standalone basis:

* 18.72% MREL requirement with respect to the relation of total own funds and eligible liabities to the total risk exposure amount (TREA); On top of the MREL target as a % of TREA, the bank has to meet the CBR;
* 5.90% MREL requirement with respect to the relation of total own funds and eligible liabities to the total exposure measure (TEM).

To comply with the above-mentioned minimum requirements, the Bank meets the requirements with the necessary amount of own funds and eligible liabilities through:

* Common Equity Tier 1 Capital;
* Tier 2 instruments with a residual maturity of at least one year to the extent they do not qualify as Tier 2 items;
* Eligible liabilities instruments (in the form of loans), issued directly that are subordinated to excluded liabilities.

DSK Bank reported 32.07% MREL as % of TREA and 16.06% MREL as % of TEM as of 31 December 2024.

Relevant quantitative information is provided in the following attached Excel tables:

* ***EU TLAC1: Composition - MREL and, where applicable, G-SII Requirement for own funds and eligible liabilities***
* ***EU ILAC: Internal loss absorbing capacity: internal MREL and, where applicable, requirement for own funds and eligible liabilities for non-EU G-SIIs***
* ***EU TLAC2a: Creditor ranking - Entity that is not a resolution entity***
1. **Asset Encumbrance Policy**

The Bank has integrated the framework for encumbered assets within its Rules for Liquidity Risk Management as part of the overall liquidity risk management framework. According to the Rules, an asset is treated as encumbered if it has been pledged or is subject to any form of arrangement, which it cannot be freely withdrawn from. Based on this definition, the Bank identified the following cases where assets are considered as encumbered:

* Collateralization for budget funds – according to the Public Finance Act (Ministry of Finance), banks are obligated to collateralize in full the attracted funds from budget entities by blocking of eligible state bonds and/or amounts held in special accounts with the Central bank. The amount of the blocked securities is revised on a daily basis following the amount of attracted deposits from budget entities. The blocking of securities or receivables has the effect of a legal special pledge on them in favor of the Ministry of Finance.
* Collateralization in the case of OTC derivatives deals – according to Regulation 2016/2251 and Regulation 648/2012, the Bank is obligated to post a margin for its deals with OTC derivatives and depends on the deal type and the movement of fair value. The pledge is in the form of receivables from other banks. The details are specified in bilateral contracts between counterparties and are monitored on a daily basis.
* Collateralization in the case of repo deals – the underlying security may be sold or to be pledged by the opposite counterparty while the deal is active. In both cases the security is not available to the Bank and cannot be used in case of a liquidity need.
* Other specific cases – all other cases that may arise from the commercial activity of the Bank. The Management Board can approve the specific cases for encumbrance of assets as well as the mechanism for implementation unless the decision is not within the competence of another unit.

In accordance with disclosure requirements related to liquidity risk and the management of encumbered assets, DSK Bank applies a comprehensive framework for identifying, monitoring, and controlling assets that are not available to obtain liquidity. Encumbered assets are treated in line with internal policies and regulatory standards, covering all cases where assets are subject to contractual or legal constraints that limit their free transferability. The Bank ensures ongoing monitoring, accountability, and control of these assets in order to maintain a sound liquidity position and full compliance with applicable regulations.

Relevant quantitative information as of the end of the year is provided in the following attached Excel tables:

* ***EU AE1: Encumbered and unencumbered assets***
* ***EU AE2: Collateral received and own debt securities issued***
* ***EU AE3: Sources of encumbrance.***
1. **Remuneration Policy and Practices**
2. **Remuneration Policy of the Bank**

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

* 1. **Information relating to the bodies that oversee remuneration**

An independent Remuneration Committee (the Committee or RemCo) that oversees the remuneration operates in DSK Bank. The Committee consists of three members, elected by the Supervisory Board from among its members for a period of 3 (three) years, currently with a mandate until 31.03.2026. The majority of the committee members are independent within the meaning of art. 10a, point 2 of the Credit Institutions Act.

The Committee is delegated to review, and make recommendations to the Supervisory Board on the Group’s remuneration policy and practices. The RemCo ensures that all employees and identified staff are appropriately remunerated in accordance with the Group’s strategy as well as its long-term and short-term performance. In 2024, the Committee held 4 (four) meetings.

Scope of remuneration policy: a. Institutional scope – all subsidiaries of DSK Bank are included in prudent consolidation; b. personal scope - Members of the Management Board, Supervisory Board, Executive Directors and Heads of Divisions of DSK Bank and Banking Group Subsidiaries are classed as identified staff members. According to the classification of art. (10), members of the management bodies of DSK Bank belong under the consolidated-level personal scope.

The personal scope of the Remuneration Policy has been determined on three levels:

* **consolidated-level** personal scope includes those (staff members identified at consolidated level) whose professional activity has a material impact on the risk profile of the entire OTP Group;
* **sub-consolidated-level** personal scope includes those staff members whose professional activity has a material impact on the risk profile of the DSK Bank and their subsidiaries;
* **local-level** personal scope includes those staff members whose professional activity has a material impact only on the risk profile of DSK Bank only.

DSK Bank applies the same rules as for the identified staff for all the other managers out of the scope of the Remuneration policy but directly reporting to executive directors.

Remuneration Committee directly oversees the remuneration of the senior officers in the independent control functions, including the risk management, internal audit and compliance functions, and make recommendations to the Supervisory Board on the design of the remuneration package and amounts of remuneration to be paid.

• Whether the management body or the remuneration committee where established reviewed the institution’s remuneration policy during the past year, and if so, an overview of any changes that were made, the reasons for those changes and their impact on remuneration.

The Remuneration Committee and the Supervisory Board of DSK Bank have reviewed the Bank's remuneration policy over the past year 2024.

I. Remuneration Committee held on 1st February 2024 concerning the adoption of Remuneration Policy for unidentified staff of DSK Bank and DSK Bank Group.

Aim with the introduction of this policy:

* To outline the main framework of the remuneration of the unidentified staff;
* To ensure pay transparency;
* The Policy applies DSK Bank Group's business strategy, risk appetite, goals, values, and long-term interests;
* To define the roles and responsibilities of the units in the process,
* To comply with the requirements of the regulatory authorities (BNB/ECB)

Overall impact of the introduction of the Remuneration Policy for unidentified staff of DSK Bank and DSK Bank Group on the remunerations:

The policy provides a more transparent, structured, and compliant approach to the remuneration of unidentified staff, which should lead to more fair and sustainable compensation practices that are aligned with the institution’s long-term goals and regulatory requirements.

II. Remuneration Committee held on 16th May 2024, during which the personal scope of the identified staff as of March 2024 was reviewed

Aim: In light of the structural changes that took place within the bank, the list of identified staff was updated as well as the variable ration for the new positions and deferred payments scheme, to reflect the changes to the personal scope.

Revisions:

* The total positions increased with +1- to 84 out of them 64 identified and 20 unidentified B-1.
* Corporate positions were listed on the right side.
* 1 new position was added on the local level – Head of Data Science Department under command of CEO Division.
* 4 new B-1 unidentified positions appeared – 3 in Transformation and Change Management Division (Process governance, Agile Excellence and Customer Experience and Service Design Directorate), and 1 in Digital (Core Banking Technology Transformation Directorate).
* 4 vacancy positions exist on sub-consolidated level in CEO Division / Compliance (Consumer protection Team, Integrity Team, International Tax Agreements Team, Subsidiaries Oversight Team).
* Variable ration for the new positions – standard level is applied as per respective group of identification.

III. Remuneration Committee held on 3rd December 2024 during which the personal scope of the identified staff and Remuneration Policy for staff involved in the provision of investment and additional services in DSK Bank were reviewed.

Revisions:

* New rule was added to adjust the variable remuneration when unlawful behaviour is discovered after the payment or provision of the remuneration.
* Ex-post adjustment mechanisms such as withholding, recovery, cancellation or partial advance or deferred payment may be applied.
* One additional main principle was included to avoid encouraging short-term gains that could create conflict of interest or harm the client’s interest.
* Requirements for balancing qualitative and quantitative criteria when evaluating the performance were added as well.

IV. Remuneration Committee held on 4th February 2025 concerning the Annual review of the Remuneration Policy for identified staff of DSK Bank and DSK Bank Group (the “Remuneration Policy”).

Aim of the revisions:

The revisions and amendments to the Remuneration Policy focus on enhancing fairness, transparency, and accuracy in the calculation and eligibility for different forms of compensation, while also introducing measures that increase the complexity and variability of certain bonuses based on market factors.

* Revision of the Personal Scope in the Remuneration Policy

Overview: The revised policy introduces a more specific criteria for identifying individuals who fall under the scope of the remuneration policy. Specifically, it excludes individuals occupying identified positions for a period of less than three months within a given business year.

* Changes to the Retention Bonus Structure

Overview: The new provision clearly prohibits the application of preferentially priced share awards in the settlement of retention bonuses. Furthermore, in the case of deferred retention bonuses, it introduces a complex formula for calculating the share price based on the weighted average exchange rate over a set period. It also specifies the exchange rate used to determine the number of shares based on a specific currency (HUF or others).

* Adjustment of the Economic Profit Definition in Performance Metrics

Overview: The amendment refines the method of calculating the adjusted after-tax profit or loss. It now specifies that "economic profit" should be used, which adjusts the accounting profit or loss for one-off effects not related to business operations, such as acquisition-related items or special taxes on banks.

* Eligibility for the Extraordinary Bonus Pool

Overview: A new condition for eligibility to receive payment from the Extraordinary Bonus Pool is that the identified staff member must be employed on the date the bonus is granted and not be relieved from work obligations on that date. Derogations to this rule will be made according to specific provisions outlined in the policy.

Overall impact of the amendments of the Remuneration Policy on the remunerations:

* Shorter Tenure Exclusion: The exclusion of short-tenured staff (less than three months) reduces the scope of individuals eligible for certain remuneration packages.
* Retention Bonus Calculation: The change in the method for calculating retention bonuses introduces a more complex and variable formula based on market conditions, which may impact the predictability and value of the bonuses.
* Refined Performance Metrics: The introduction of "economic profit" as a key performance metric for determining after-tax profit adjusts the performance indicators for better accuracy, leading to fairer compensation structures.

Eligibility for Extraordinary Bonuses: The stricter conditions for receiving payments from the Extraordinary Bonus Pool ensure that only employees still active at the time of the bonus payment are eligible, which could affect overall bonus distributions.

* 1. **Information relating to Design and structure of the remuneration system for identified staff:**

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 basic principle of the performance measurement and assessment system is to link the rate of performance-based remuneration – with ex-ante and ex-post assessment of risks – to the degree of the accomplishment of Bank strategic-level and objectives in the framework of a **two-level performance measurement system:** to the level of fulfilment of strategic goals, and individual objectives (numerical indicators, individual targets and competences).

By placing emphasis on institutional targets, the two-level system contributes to the clear definition and monitoring of priorities, and ensures the better tracking of individual performances, thereby improving the flexibility of the performance assessment system.

The criteria of institutional-level performance assessment are as follows:

* For **DSK Bank**, group-level RORAC+ (risk-adjusted ROE/COE), C/I (Total non-interest expense in % of total income), Market Share indicators,
* For **leasing company**, the return on assets (ROA).

Individual targets are assigned among the number of specific indicators (qualitative KPI’s) carefully précised every year and focused on the specific business targets and risks measurement.

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.

Performance measurement system applied in DSK Bank is very sensitive to the key risks and business strategy performance. Institutional goals are combined with individual targets depending on the business line and position of the manager in the hierarchy of the Bank in particular proportions, which form final evaluation of contribution of each manager.

In DSK Bank no award of guaranteed variable remuneration is applied. Mandatory severance payments are paid to identified staff, according to the provisions of Labor Code of Bulgaria.

* 1. **Description of the ways in which current and future risks are taken into account in the remuneration processes**

The link between risk and remuneration is guaranteed by directly linking the variable remuneration ratio with the relevant risk profile.

The main criterion for performance measurement related to performance-based remuneration is return on risk adjusted capital (RORAC+ (ROE/COE)), which is included in the strategic goals for each assessed person. Set of indicators measuring different type of risks (credit risk, liquidity risk, ESG risk) are included in the KPI library.

KPI library is reviewed on an annual basis. Depending on the position and level of hierarchy mandatory indicators are stipulated. *Prudent operation and pursuit of controls* is a mandatory KPI for all the positions.

* 1. **The ratios between fixed and variable remuneration set in accordance with point (g) of Article 94(1) CRD**

In DSK Bank, the variable elements of the remuneration of the identified staff do not exceed 100% of the fixed elements from the total remuneration for each person, in compliance with the applicable regulatory provisions.

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 five years following the performance evaluation, during which period the deferred instalments shall be paid at an equal rate (12%-12%-12%-12%-12%) in accordance with the procedure and deadline set forth in the applicable internal regulation.

The performance remuneration based on performance appraisal of the managers identified on sub-consolidation 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 four years following the performance evaluation, during which period the deferred instalments shall be paid at an equal rate (10%-10%-10%-10%) in accordance with the procedure and deadline set forth in the applicable internal regulation.

It is possible to omit the application of the deferral and share based payment rules in case of those consolidated, sub-consolidated or local level identified positions, where the established performance-based remuneration on a yearly basis:

* 1. does not exceed EUR 50 000;
	2. provided that the ratio of performance-based remuneration to total remuneration does not exceed 33.33%.

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 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 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.
	1. **Ways in which the institution seeks to link performance during a performance measurement period with levels of remuneration**

Individual bonus amounts are defined within the annual performance appraisal process, based on the principles of transparency and clarity to ensure a direct link between variable remuneration and performance. The final evaluation reflects the individual performance and is directly applied in the calculation of the variable remuneration.

Performance-based remuneration based on performance evaluation is provided uniformly in the form of a cash bonus and share awards, in equal (50/50) proportions. The form of share awards differs among the identified people at consolidated or sub-consolidated and local level.

The share-based portion of variable remuneration for staff identified at consolidated level is settled, as a general rule, either in the form of remuneration converted into shares or as preferentially priced share award:

* **Remuneration converted into shares** means the conversion of the share-based portion of performance-based remuneration into OTP Bank’s virtual shares, at the share price determined by the Supervisory Board of OTP Bank Plc. The number of units of remuneration converted into shares, per individual, is determined by the ratio of the amount of performance-based remuneration given in shares and the price of the share.
* A **preferentially priced share award** is the right to purchase OTP Bank ordinary shares at a discounted price, under the parameters determined by the Supervisory Board of OTP Bank Plc. In the case of a preferentially priced share award, the number of shares per individual is determined by the ratio of the amount of the share-based variable remuneration and the value of the share award.
	1. **Description of the ways in which the institution seeks to adjust remuneration to take account of long-term performance**

**Deferral and retention rules relating to performance-based remuneration**

* The performance-based remuneration payable to identified persons under a deferred payment schedule is divided up into short-term (non-deferred) and deferred instalments.
* 50% of the share-based part (shares or virtual shares) of the short-term (non-deferred) instalment of the performance-based remuneration is retained for one year in the case of staff identified at consolidated level. Accordingly, for staff identified at consolidated level, half of the short-term (non-deferred) instalment of the share-based performance-based remuneration is the non-retained part, while the other half is the retained part.
* DSK Bank may specify a retention period which is longer or of higher proportion.
* With respect to the deferred instalments, the ex post risk adjustment is applied. With respect to the retained part, an ex post risk adjustment only needs to be applied insofar as the clawback rules are applicable in respect of the retained part.
* For staff identified at consolidated level, 60% of the performance-based remuneration awarded at the individual level is deferred.
* For staff identified at sub-consolidated and local level, 40% of the performance-based remuneration awarded at the individual level is deferred.
* For staff identified at sub-consolidated and local level, 60% of the performance-based remuneration is deferred if the total remuneration awarded to the identified person in the year preceding the assessed year exceeded the amount of EUR 250,000.
* The deferred part of the performance-based remuneration is paid out in equal instalments. It may be required that the deferred performance-based remuneration is only paid out in the last year of the deferral period.
* At the earliest, the short-term (non-deferred) instalment may be paid out in the year following the assessed year, the first deferred instalment and the retained part in the second year following the assessed year, and the remaining deferred instalments annually thereafter.
* In respect of those shares which make up the share-based part of the share-based performance-based remuneration, and which will be paid to the identified employee in the future (deferred and retained part, ESOP member’s share), the employee does not have a right of disposal (so as an example for this part. He/she is not entitled to conclude a preliminary or binding contract, and cannot offer it as a collateral), and moreover, concerning these shares he/she is not entitled for dividends until the time of acquiring such shares.

Relevant quantitative information is provided in the following attached Excel tables:

* ***EU REM1: Remuneration awarded for the financial year***
* ***EU REM2: Special payments to staff whose professional activities have a material impact on institutions’ risk profile (identified staff)***
* ***EU REM3: Deferred remuneration***
* ***EU REM4: Remuneration of 1 million EUR or more per year***
* ***EU REM5: Information on remuneration of staff whose professional activities have a material impact on institutions’ risk profile (identified staff)***

**The description of the main parameters and rationale for any variable components scheme and any other non-cash benefit is in accordance with point (f) of Article 450(1) CRR.**

The incentive system provides a balanced structure of “upfront” and “deferred” payments, in cash and/or in shares, to be paid over a multi-year period for all Identified Staff.

**EU OVB: Disclosure on governance arrangements (per Art. 435.2 a), b), c))**

**Number of directorships held by members of the governing body.**

According to the Declaration for the time spent, the members of the management body hold up to 3 director positions, and the chairman of the management body - up to 6 positions outside DSK Bank.

**Information about the selection policy of the members of the governing body and about their actual knowledge, skills and expertise.**

The selection decision-making process is in accordance with Policy on Assessment of Suitability of members of Management Board / Board of Directors, Supervisory Board, executive officers, and key function holders of DSK Bank and Bank Group in compliance with the standards of the OTP Banking Group.

The policy is to establish the basic rules of the selection, suitability, evaluation criteria and test methodology, applying the diversity policy and to clarify the tasks and responsibilities related to suitability assessments, which meet the requirements of the legislation and the recommendations of OTP Group.

The requirements of professional suitability and business reliability, as well as the provisions pertaining to Good Business Reputation shall apply to the members of the Management Bodies, Executive Officers, and Key Function Holders. It is crucial for the safety of the operations of DSK Bank and the other Financial Institutions under Paragraph (13) that they are managed by persons who are professionally fit and commercially reliable and are of sufficiently good repute.

**Information on the policy for equal representation in the composition of the governing body.**

In order to promote independent judgment and prudent decision-making, efforts should be made to ensure the diversity of management bodies to ensure the widest possible range of expertise and ability to be present. Aspects of diversity in the Management Body may include, but are not limited to, age, gender, expertise, education, and geographical location.

DSK Bank shall ensure equal treatment when establishing the composition of the Management Bodies.

In the selection process for Management Body members shall endeavour to ensure that both genders are represented among the candidates.

Diversity and Inclusion Policy determines targets for employment of under-presented gender in the Management Board and Supervisory Board of DSK Bank.

**Information on whether the institution benefits from a derogation laid down in Article 94(3) CRD in accordance with point (k) of Article 450(1) CRR.**

With reference to the remuneration paid in 2024 no derogation was applied pertaining to Art. 94 paragraph 3 of the CRD on Institutional level.

1. **Pillar 3 disclosure of environmental, social and governance risks (ESG) risks**

Under Article 449a of Regulation (EU) No 575/2013, large institutions which have issued securities that are admitted to trading on a regulated market of any Member State shall disclose information on environmental, social and governance (ESG) risks. Pursuant to Article 18a(3) of Commission Implementing Regulation (EU) 2021/637 of 15 March 2021 in conjunction with Article 1(1) of Commission Implementing Regulation (EU) 2022/2453 of 30 November 2022, institutions shall disclose the information referred to in Article 449a of Regulation (EU) No 575/2013 as from 31 December 2022. The qualitative and quantitative information that institutions in scope must disclose and the associated instructions for the disclosures of ESG risks are defined in Annex XXXIX and Annex XL respectively to Commission Implementing Regulation (EU) 2021/637 of 15 March 2021.

DSK Bank has been designated as an Other Systemically Important Institution (D-SII) and is accordingly a large institution under Article 4 (146) (b) of Regulation (EU) No 575/2013, but has not issued securities that are admitted to trading on a regulated market of any Member State. Considering the above mentioned, DSK Bank is outside the scope of Article 449a of Regulation (EU) No 575/2013 and does not disclose information on environmental, social and governance risks.

