BULGARIAN-AMERICAN CREDIT BANK AD

CONSOLIDATED FINANCIAL STATEMENTS PREPARED
IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
APPROVED BY EU
ANNUAL CONSOLIDATED REPORT ON THE ACTIVITIES

FOR THE YEAR ENDED 31 DECEMBER 2019

TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

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Management Board

Mr. Vasil Simov – Chairman of the Management Board and Executive Director;

Mr. Ilian Georgiev – Member of the Management Board and Chief Executive Officer;

Mrs. Loreta Grigorova – Member of the Management Board and Executive Director;

Mr. Alexander Dimitrov - Member of the Managing Board and Executive Director;

Mrs. Silviya Kirilova – Member of the Management Board and Chief Legal Officer.

Seat and Registered Address

Slavyanska 2 str.

Sofia, Bulgaria

Registration number

UIC 121246419

Joint Auditors

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38, Oborishte Str.

1504 Sofia, Bulgaria

During the entire year 2019 Bulgarian-American Credit Bank AD (BACB, the Bank) continued to pursue its main strategic goals related to its development as a universal bank offering a full range of banking services aimed at the green economy, including financing of small and medium-sized enterprises, and expanding retail banking services by offering various products in the field of consumer lending and transaction banking. The Bank strives to meet customer needs by providing a comprehensive range of services through modern banking technology and, as a result, expanding its customer base.

Economic review

External environment

The real GDP growth worldwide (excluding the Eurozone) weakened in the first half of 2019, but signs of stabilization began to emerge towards the end of the year. The slow momentum of growth was characterized by a slowdown in both the processing industry and the investments, which was compounded by the increased economic and political uncertainty, especially with the escalating tensions in the trade relations and the Brexit-related events. More recent information, however, points to a stabilization of the global growth, which has been confirmed by research data. In particular, PMIs show a moderate recovery in the growth of production in the processing industry and some slowdown in services. In the long term, the recovery in the global economic activity is expected to be weak, reflecting the slower growth in advanced economies and the sluggish recovery in some emerging market economies. The global trade slowed this year and is projected to grow at a slower pace in the medium term than the global activity. The global inflationary pressure remains subdued and the balance of the risks to the global economic activity continues to show its overestimation, although the risks are less pronounced.

In Q3 2019, a 0.2% real GDP growth of the Eurozone was observed on a quarterly basis - unchanged from the previous quarter. The still weak international trade in an environment of persistent global uncertainty continues to adversely affect the Eurozone processing industry sector and inhibits the investment growth. At the same time, the incoming economic data and the observational information, although generally weak, show some stabilization of the slowdown in the economic growth in the Eurozone. The services and construction sectors remain stable despite some slowdown in the second half of 2019. In the future, the economic upturn in the Eurozone will continue to be supported by the favourable financing conditions, the further increase in the employment along with the rising wages, the slightly expansionary fiscal position of the Eurozone and the continuing - albeit somewhat slower - growth of the economic activity globally.

This assessment was broadly reflected in the Eurosystem experts' macroeconomic projections for the Eurozone as of December 2019. The annual GDP growth in real terms is projected to be 1.2% in 2019, 1.1% in 2020 and 1.4% in 2021 and 2022. Compared to the macroeconomic projections of the ECB's experts of September 2019, the real GDP growth forecast is revised slightly downwards for 2020. The risks to the growth prospects of the Eurozone, related to the geopolitical factors, the increased protectionism, and the vulnerability of the emerging market economies, continue to tend to be overestimated, but become somewhat less pronounced.

According to Eurostat estimates, the annual HICP inflation in the Eurozone increased from 0.7% in October 2019 to 1.0% in November, reflecting mainly the higher inflation rate in services and food prices. Based on current oil futures prices, the overall inflation is likely to increase slightly in the coming months. The indicators of inflation projections are at low levels. The core inflation indicators remain broadly suppressed, although there are signs of a slight increase in line with the previous expectations. Despite the increased pressure on labour costs in the context of a tightening labour market, the weak inertia of growth slows its transfer to the inflation. In the medium term, the inflation is expected to increase, supported by the measures of the management Board on the monetary policy, the continuing economic upturn and the significant increase in wages.

Bulgaria

The real GDP growth in Bulgaria in the first half of the year reached 4.1% compared to the relevant period in the previous year. Higher growth was generated in Q1, while in Q2 the real GDP growth slowed down, largely influenced by the decline in exports and the decrease in inventories. The GDP growth is expected to slow down in the second half of the year, with growth forecast for 3.4% for the entire year 2019. The economic growth will reach 3.3% in 2020, driven by consumption and investment. Exports are expected to recover, but the negative contribution of net exports to the GDP growth will increase due to the acceleration of imports.

In the first half of 2019, the number of employees increased and the unemployment rate reached a historic low. The favourable developments in the labour market are expected to continue in the second half of the year. The unemployment rate is projected to decline to 4.4% in 2019. In 2020, employment growth is expected to slow down to 0.2%, driven by restrictions on labour supply. The growth in employment benefits per employee is projected to reach 8% this year supported by both the private and the public sectors as a result of income increase policy in sectors such as education and government. In 2020, the increase in employment benefits per employee is expected to slow down slightly to 7.4% due to the weakening in the positive dynamics of the labour market.

The inflation rate at the end of 2019 is projected to be 2.8% (by 0.4 percentage points higher than in the spring forecast) and the annual average – 2.5%. Services and groceries will have the highest contribution to inflation at the end of the year. The impact of energy goods (directly and indirectly) on inflation processes in the country is expected to gradually diminish. Next year inflation is expected to be lower than that in 2019, as the international commodity prices, especially crude oil prices, are not expected to act as a pro-inflation factor.

The main risk of the forecast is the deterioration of the external environment, which threatens the growth of Bulgarian exports. As a result of trade restrictions, China's economy has begun to slow its growth, affecting a number of countries, some of which are Bulgaria's major trading partners. Although Turkey's GDP decline turned out to be less than the expected in Q2 2019, the risks of deepening the country's recession remain.

Forecast of the Ministry of Finance

	2019	2020	2021	2022
GDP (billion BGN)	118.6	126.8	134.9	143.3
GDP (real growth %)	3.4	3.3	3.3	3.3
Contribution:				
- Consumption	5.7	5.2	4.5	3.7
- Gross capital formation	1.9	3.9	3.7	5.8
- Export	-0.4	2.3	2.5	2.5
- Import	0.2	4.9	4.2	3.8
Unemployment (%)	4.4	4.1	4.0	4.0
Inflation (%)	2.5	2.1	2.2	2.1
Foreign direct investments (% of GDP)	2.4	2.6	2.6	2.5
Loans granted to companies (%)	5.9	6.8	8.1	8.3
Loans granted to households (%)	9.8	8.8	8.4	8.2

The major risks to the macroeconomic forecast are related to the uncertainties in the development of the external environment and the expectations regarding prices at international markets, as well as the unfavourable demographic trends in the country.

<u>BACB – business presentation</u>

At 31.12.2019, the total loan portfolio of the Bank grew by 9.62% net, or EUR 49.754 million, compared to the end of the previous year 2018. The total newly granted loans increased by EUR 65.142 million net or +16.26%, and the companies by segment accounted for an increase by EUR 24.199 million net or +6.06%, while for the individuals it is by EUR 29.188 million or +76.31%. The old legacy portfolio in the part of legal entities decreased by –EUR 11.354 million or - 31.97%, and that of individuals by – EUR 278 thousand or -

18.25%. At the same time, by active actions for collection of problem loans, for the same period their amount was reduced by -4.32% or – EUR 3.421 million.
The following initiatives have also helped to extend credit operations to business customers:
- The FORWARD Program, implemented jointly with BDB to finance micro, small and medium-sized enterprises has supported 62 SMEs with a total of over 1,550 employees;
- Since 2018, the Bank has signed an agreement with Bulgarian Development Bank AD for financing of small and medium-sized enterprises with guarantee facility and counter- guarantees under the COSME Program of the European Investment Fund with the support of the European Fund for Strategic Investments - COSME+ Program in the amount of EUR 10,000,000. As at 30.09.2019, BACB AD has supported 76 enterprises with over 1,213 employees, with loans amounting to over EUR 5.113 million
- The Financing Innovative Start-ups Program of Sofia Municipality with a guarantee scheme of the Municipal Small and Medium-Sized Enterprise Guarantee Fund (MSMEGF).
- The guarantee agreement with NGF EAD, the Ministry of Agriculture and Food and the Executive Agency for Fisheries and Aquaculture to guarantee loans to companies in the Fisheries sector with a guaranteed amount of up to EUR 409 thousand.
- The work of BACB AD under a guarantee scheme to facilitate SMEs' access to finance by commercial banks through a Risk Sharing Scheme of the National Guarantee Fund EAD and the Ministry of Agriculture and Food.
- In the future, we will also rely on the new guarantee program signed on 30.09.2019 with NGF EAD to support SMEs for guaranteeing loans to small and medium-sized enterprises in the amount of BGN 26 million.

In terms of lending, BACB is working actively to continue the diversification of the loan portfolio by increasing the share of loans to Individuals and MEs and increasing cross sales both between customer segments and BACB’s non-credit products and services to borrowers of the Bank. The following activities in this regard are reflected in the result:
- The Bank continues the successful development and promotion on the market of its innovative product for individuals - fast consumer loan "BACB Express", offered at specialized points of sale in the big Mall-type shopping centers by increasing its territorial coverage in the cities of Plovdiv, Varna and Burgas. Absorption of the approved cash limit without the need for a bank card at any ATM offering Cash M service, is a unique feature of the product on the competitive local banking market.
- During the last quarter, the bank offered a paperless process for granting the fast consumer loan "BACB Express", whereby all documents are signed with a digital certificate.
- A new mortgage loan product - "For Tomorrow" was launched for customers – individuals that is without analogue on the local banking market. The loan product meets the customers’ demand for products with flexible interest periods.
- The Bank improved its conditions on consumer and mortgage loans for high-income customers, which helped to boost growth and maintain the very good quality of the retail loan portfolio.
- BACB is actively working on student loans under the Undergraduate and Graduate Student Loans Act, with a total state guarantee limit of EUR 1.534 million. In 2019, the MES loan scheme allows BACB AD to expand and strengthen its cooperation with government institutions in the country, as well as to attract new customers - natural persons - undergraduate and graduate students in accordance with the Bank's development strategy.

In its quest to be closer to the customers - natural persons and to offer them first class service, BACB has developed the opportunity to open the deposit "Everything is Right" online. The Bank also updated the Online Deposit product by setting preferential terms and conditions for its new customers. The promotional offer for opening a current account without a service fee for 12 months using a debit card exempted from withdrawal charges for all ATMs on the territory of the country for 12 months also remains valid.

<u>Transactional business</u>

During Q4 2019 the Bank demonstrated an increase in transfers and documentary transactions compared to the same period in 2018. The number of transfers ordered has grown by 11%, and their volume – by 49%. With respect to letters of credit, cash collection and guarantees, the Bank reports an increase in number by 25%.
The growth in business had an impact on the fees and commissions collected on payment transactions. At the end of 2019 they reached EUR 3.784 million, which represents 34% increase compared to the figure in 2018.

The Bank has completed the strategic project to migrate its network from ATM devices to the new card infrastructure and is the first bank in Bulgaria to service a total of 28 ATMs through the BORICA's new software and host. In the meantime, BACB has started a pilot project with BORICA on the implementation of the new MasterCard and Visa security standards for card payments on the Internet in the context of the second European Payment Services Directive.
In Q4 2019, BACB started the application differentiated charging to merchants with POS according to the realized monthly turnover, which allows offering a flexible pricing policy for SMEs and Corporate customers with significant transactional business. At the same time, improvements were made to the card system in order to bring the Card Business of the Bank in compliance with the international regulatory requirements. During the period, the basic tests of the new applications for online banking were completed, and the Bank switched to the implementation of a migration plan for employees - new test and production environments were created and the relations between them were completed, several tasks were performed in order to optimize the data transfer processes for customers, consumers and products to the new banking mode.

BACB continues its strategy for entering the market of instant payments, known as "portfolio services" - for this purpose in 2019 BACB AD and BTC EAD started a joint venture by establishing a limited liability company with the trade name Paytech OOD. During the period, the Bank fully purchased the share of BTC EAD in the company and as of October 2019 the entity is 100% owned by BACB AD.

In April 2019, the Group set up a new investment fund – “IDS Fund” AD, with main purpose to support companies with good business ideas that strive to realize their full potential on the market. The Fund will provide support in the form of debt financing instruments, guarantees, standard financing, share acquisition with buyback options, etc.

In EUR '000 consolidated	2019 (audited)	2018 (audited)	2017 (audited)
Net interest income	20 506	18 086	14 749
Fees and commissions, net	5 110	3 531	2 957
Total operating income	26 554	22 735	19 230
Total operating expenses	-15 978	-14 321	-12 610
Operating profit/(loss)	10 576	8 414	6 620
Impairment of financial assets (provision allowance)	-2 498	-1 904	-2 567
Revaluation of non-financial assets	-104	-47	3
Profit/(Loss) before tax	7 974	6 463	4 056
Profit/(Loss) for the period	7 671	6 404	4 031
Total assets	858 213	731 172	634 143
Loans to customers, net	522 554	463 816	391 710
Deposits from customers	721 138	604 133	511 018
Shareholders' equity	102 653	94 750	91 172
Capital Adequacy Ratio	15.39%	16.47%	18.67%

As at 31.12.2019, the Group's assets amounted to EUR 858 213 thousand, as compared to the 2018 audited data, showing an increase of EUR 64.955127.1 million or a growth of 17.4%.
At the end of 2019, the Group recorded an increase in the loan portfolio at a book value of EUR 52.1 million or 10.1% reaching EUR 568.1 million compared to the volume at the end of 2018. The accumulated credit losses and impairments on loans under IFRS 9 amounted to EUR 45.6 million and provided coverage of 8% of the loan portfolio with a volume of EUR 52.3 million at the end of 2018, a coverage of 10.1% and an average level for the banking system of less than 7% at the end of 2018. At the end of 2019, impairments on loans decreased by EUR 6.7 million or 12.8%.

As at 31.12.2019 the net loan portfolio amounted to EUR 522.6 million and formed a 60.9% share of total assets. The loan portfolio includes receivables under finance leases for EUR 12 854 thousand at book value of EUR 15 986 thousand at the end of the previous year.
In the Y 2019, the Group granted new loans amounting to EUR 325.1 million and the amount of repaid loans for the same period was EUR 271.9 million, including debt reduction of EUR 2.8 million against acquired collateral and deregistered receivables of EUR 6.2 million.
As at 31.12.2019, overdue loans over 90 days represented 12.1% of the total loans at book value, compared to the reported 16.3% as at 31.12.2018.
The share of non-performing loans is above the average for the banking system with a continuing steady downward trend. The main reason for the higher share is the sectoral orientation of the Bank - financing of projects in the construction and real estate sector before the global financial crisis. The loan policy applied in recent years and at the moment is focusing on poorly cyclical and promising economic sectors, aiming at effective diversification both in terms of sectoral positioning and size and timing so as to provide a sustainable basis for development and limit the impact of individual exposures in a given industry. As a result and due to the revitalization in the construction and real estate sectors, the negative effects gradually diminished in 2017 and the share of non-performing loans decreased by more than 7 percentage points and in 2018 by 6 new percentage points, and from the beginning of Y2019 by 3.4 percentage points (on a separate basis). To improve the quality of the loan portfolio, continuous control of problem loans is carried out and adequate procedures for their management are applied. The regular internal analyses developed and complex stress tests help timely assess the effects of a possible deterioration of the business environment on the bank's portfolio.

As at 31.12.2019, the debt and equity financial assets held measured at fair value through other comprehensive income amounted to EUR 35.6 million or 4.2% of the total assets compared to EUR 26.3 million and 3.6% share at the end of 2018. The portfolio consists of 65.4% first-rate government securities of the Republic of Bulgaria, 31.7% corporate bonds and 2.9 % equity instruments. In Q4 of 2019, an increase of EUR 9.1 million was reported, mainly due to two bond issues acquired in December. The equity instruments of EUR 1 million (end of 2018 – EUR 0.9 million) include equity interest in a special investment vehicle of EUR 326 thousand at book value (end of 2018 – EUR 364 thousand), equity shareholding of Class C preference shares of Visa Inc.'s capital amounting to EUR 656 thousand (end of 2018 – EUR 445 thousand) and interest in BSE of EUR 50 thousand (31.12.2018 – EUR 55 thousand).

The portfolio of debt instruments measured at amortized cost comprises bonds of the Bulgarian government with fixed payments and maturity. Within the reporting quarter, there was a slight increase to EUR 11.3 million or 1.3% of total assets compared to EUR 10.3 million at the end of 2018 or 1.4% of total assets.

In 2019 BACB and BTC (Bulgarian Telecommunication Company) established a joint arrangement – a limited liability company with the trade name “Paytech” OOD. Each of the parties holds 50% shareholding of the initial registered capital of the company in the amount of BGN 1 million divided into one million shares with a nominal value of BGN 1 each. In October 2019 BACB signed an agreement with BTC for the acquisition of the rest 50% of the company’s capital thus becoming the sole shareholder. The transaction is in line with the BACB’s strategy for entering the instant payments market known as "portfolio services".

In April 2019, the Group set up a new investment fund – “IDS Fund” AD, with main purpose to support companies with good business ideas that strive to realize their full potential on the market. The Fund will provide support in the form of debt financing instruments, guarantees, standard financing, share acquisition with buyback options, etc. IDS Fund is a joint stock company, registered in Bulgaria on 10.04.2019. The shareholders - founders of the Fund are the BACB’s subsidiary “BACB Finance” EAD and CSIF AD - the largest shareholder in BACB, which hold 50% of the registered capital. As of 31.12.2019 the registered capital of IDS Fund is BGN 1 million, divided in one million registered and indivisible voting shares and a nominal value of BGN 1 each, and the paid-in capital amounts to BGN 450 thousand. The investment is determined as a jointly controlled asset under IFRS 11 and is presented using the equity method in the Group's consolidated financial statements.

As at 31.12.2019 the investments of the Group in joint ventures amount to EUR 98 thousand.

As at 31.12.2019 the receivables from banks amounted to EUR 76.9 million and accounted for a share of 9% of total assets compared to EUR 34.3 million and a share of 4.7% at the end of 2018. The reported increase of 124% as compared to the end of 2018 is formed by growth both in sight deposits and in fixed-term deposits.

Cash in hand and cash with the central bank increased by 13.8% to EUR 134.9 million at the end of Q4 2019, compared to EUR 118.5 million at the end of 2018, but its share in total assets decrease from 16.2% to 15.7 %. The main reason for the reported growth in Q4 is the increase in current account balances with the BNB.

Tangible and intangible fixed assets held by the Group increased by EUR 3.8 million compared to the end of 2018 by book value to EUR 9.3 million, and their share in total assets increased from 0.7% to 1.1%. The reason is the introduction of IFRS 16 Leases as at 1.01.2019 and the resulting changes in the reporting of lease contracts (mainly real estate rental contracts) as finance leases rather than operating leases.

As at 31.12.2019, the assets acquired and classified as "assets held for sale" and "investment property" amounted to EUR 55.4 million or 6.5% of total assets compared to EUR 57.4 million and 7.8% at 31.12.2018. During the reporting period, “investment properties" of EUR 1 406 thousand and "assets for sale" of EUR 2 848 thousand at book value were sold and "assets for sale” of EUR 2 921 thousand and "investment property" of EUR 23 thousand at book value were acquired. As from the beginning of 2019, assets amounting to EUR 9 168 thousand were reclassified from "assets for sale" to “investment property" and assets amounting to EUR 807 thousand were reclassified from “investment property" to „assets under development“ and are presented in Other assets item in the statement of financial position.
The Bank set up and operates a specialized department for the realization of the acquired assets, as well as for the organization and administration of the accompanying activities.
As at 31.12.2019 there were impaired "assets for sale in the amount of EUR 14 thousand and revaluation of "investment property"as a result of which their fair value is increased by EUR 150 thousand.

FINANCIAL STATEMENTS AND MANAGEMENT REPORT OF BULGARIAN-AMERICAN CREDIT BANK 2019

The following is a discussion of the results of operations and financial condition of the Bulgarian-American Credit Bank (BACB or the Bank) and its subsidiaries ("the Group") for the year ended 31 December 2019. Investors should read this discussion together with the Bank's historical financial statements and the related notes and should not rely just on the key summarized information contained in this document. The Bank has prepared its financial statements for the year ended 31 December 2019 in accordance with IFRS. The financial information in this section has been extracted without material adjustment from the Bank's financial statements for the years ended 31 December 2019 and 2018 and the related notes there to or from the Bank's accounting records that formed the underlying basis of the financial information in those financial statements.

This section contains forward looking statements. These statements are subject to risks, uncertainties and other factors that could cause the Bank's future results of operations or cash flows to differ materially from the results of operations or cash flows expressed or implied in such forward looking statements. Save for the discussion contained herein management is not aware of any other trends, circumstances or risks for which there is a significant chance to affect the financial position and the results from operation of the Bank.

Certain figures contained in this document, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables contained in this document may not conform exactly to the total figure given for that column or row.

I. OVERVIEW AND SELECTED STATISTICAL INFORMATION

The following section contains a review that presents honestly and truly the development and the financial results of the Group and its condition, together with a description of the main risks the Group faces.
The following section contains an analysis of the main financial and non-financial activities results with regard to the economy activities of the companies in the Group, including information on the matters of ecology and employees.

The Bank is specialized in providing of secured finance to small- and medium-sized businesses in Bulgaria and at the same time searches for diversification of its portfolio through exposures to corporate customers and other sectors of strong fundamentals such as renewable energy as well as financing of projects that are contracted under the EU operational programs and last but not least - by expanding the range of services and products offered in the retail banking segment.

At 31 December 2019 the Group employed 369 people compared to 358 people on 31 December 2018.

The Group reports its results of operations in BGN and EUR.

The incorporation meeting of the Bank's shareholders was held on 22 December 1995. After being granted a banking license by the BNB, the Bank was registered with the Sofia City Court pursuant to a court resolution dated 3 December 1996 under court file No. 12587/1996, batch No. 35659, volume 397, register I, page 180 as a joint stock company under the Commercial Act 1991. The Bank is registered in the Trade Register with the Registry Agency under EIK 121246419 The Bank is registered as an issuer of publicly traded bonds with the Bulgarian Financial Supervision Commission's (FSC) Public Companies and other Securities Issuers register pursuant to resolution No. 296-E /2001 under batch No. 05-1082.
The Bank is duly incorporated and validly existing under the laws of Bulgaria. The existence of the Bank is not limited by term.

The Bank is a public company, its shares are registered with the FSC and are listed on the Bulgarian Stock Exchange – Sofia (BSE ticker: 5BN).

The registered, head office and principal place of business in Bulgaria of the Bank is at 2 Slavyanska Street, 1000 Sofia, Bulgaria, phone number: +(3592) 9058 377, fax number: +(3592) 9445 010, email: bacb@bacb.bg, and web page: www.bacb.bg.

The activities of BACB are conducted through its headquarters in Sofia and representative offices in the cities of Sofia, Plovdiv, Varna, Bourgas, Stara Zagora, Russe, Pleven, Kardjali, Veliko Turnovo, Kozlodui, Chepelare and Pamporovo. The representative offices, offer the full range of services provided by BACB.

The principal legislation under which the Bank operates is in compliance with Regulation (EU) 575/2013 on prudential requirements for credit institutions and investment firms, Credit Institutions Act 2007 and the BNB Regulations on its application, the Public Offer of Securities Act 2000 (POSA) and the FSC Regulations on its application as well as the Commercial Act 1991. Issues related to the public offering of shares of the Bank and important information to the investors are settled in the following legislative acts:

- Regulation (EU) No 597/2014 of the European Parliament and of the Council on market abuse;
- Ordinance No 2 on the prospectuses in the case of public offering of securities and admission to trading on a regulated market and on the disclosure of information by the public companies and other issuers of securities;
- Corporate Tax Act;
- Personal Income Tax Act;
- Currency Act;
- Implementation of Measures Against Market Abuse With Financial Instruments Act,
- Markets in Financial Instruments Act;

The regulations of Section I, Chapter 11 of the POSA and the Ordinance on disclosure of share capital participation in a public or investment company specify the disclosure requirements for significant participation in the voting stock of the Bank. The transactions of the Bank with own shares are settled in art. 111, par. 2 and 5 of the POSA and in the Commercial Act. Obligatory takeover bids are regulated with Art.149, Art. 150-157a of the Public Offer of Securities Act 2000, the Regulation on requirements for the contents of the memorandum on the price of the shares of a public company, including valuation methods applied to corporate transformations, joint ventures and takeover bids, as well as Regulation 13/22.12.2003 on takeover bids for the purchase and exchange of shares. The requirements for delisting the Bank as a public company from the registry kept under the requirements of Art.30.(1).3 of the Act on FSC are set out in the Public Offer of Securities Act 2000 and FSC Regulation 22 on the requirements and procedure for listing and delisting public companies, other issuers of securities and issues of securities in the FSC registry.

The Banks's accounting policies are similar to the ones implemented through the previous reporting period. There are no significant changes in the accounting policy, with the exception of the "Basic Elements of Accounting Policies" referred to in item 3 of the Annual Consolidated Financial Statements.

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OPERATING AND FINANCIAL REVIEW AND RESULTS OF OPERATIONS

Results of Operations for the Years Ended 31 December 2019 and 2018

The following table sets out the Group's net profit for the year and the principal components thereof for the years ended 31 December 2019 and 2018, as well as the percentage variation within each line item.

	As of December 31		
	2019	2018	Change 2019/2018
	(' 000 EUR)		%
Data from the Consolidated Statement of Income			
Interest income	24 304	22 031	10.3
Interest expense	-3 798	-3 945	-3.7
Net interest income	20 506	18 086	13.4
Fees and commission income, net	5 110	3 531	44.7
Other non-interest income, net	940	1 118	-16.0
Operating Income	26 556	22 735	16.8
Operating expenses	-15 978	-14 321	11.6
Impairment of financial assets	-2 498	-1 904	31.2
Impairment of non-financial assets	-104	-47	120.7
Profit/(Loss) before tax	7 974	6 463	23.4
Tax income / (expense)	-303	-59	414.8
Profit/(Loss) for the year	7 671	6 404	19.8
Data from the Consolidated Cash Flows Statement			
Net cash provided by (used in) operating activities	68 642	21 118	225.0
Net cash provided by (used in) investing activities	-10 399	1 818	-671.8
Net cash provided by (used in) financing activities	234	1 737	-86.5
Net change in cash and cash equivalents	58 937	25 965	127.0

	As of December 31	
	2019	2018
Key Ratios		
Return on average total assets, %(1)	0.97	0.94
Return on average total equity, %(2)	7.77	6.89
Earnings per share, in € (3)	0.61	0.25
Shares Outstanding	24 691 313	24 691 313
Registered capital (in EUR)	12 624 468	12 624 468
Declared dividend (EUR per share) (4)	See (4)	See (4)
Cost/income ratio, % (5)	60.17	62.99
Shareholders' equity/Total assets, % (6)	12.0	13.0
Tier 1 capital ratio	15.39	16.47

1) Return on average total assets is calculated by dividing net profit/(loss) for the year by the average of total assets at the end of the period and at the end of the previous period.

(2) Return on average total equity is calculated by dividing net profit/(loss) for the year by the average of total shareholders' equity at the end of the period and at the end of the previous period.

(3) Earnings-per-share is calculated by dividing net profit/(loss) for the year by the average number of shares outstanding during the period.

(4) At the date of this report no dividend payment has been proposed to the Annual General Meeting of the Shareholders.

(5) Cost/income ratio is calculated by dividing operating expenses for the period by operating income for the period (excluding any losses or gains from foreign currency revaluation).

(6) Shareholder equity/Total assets is calculated by dividing total shareholders equity at the end of the period by total assets at the end of the period.

Among other things, the discussion below addresses the requirements of Appendix 10, Section IVa of Ordinance No.2 of the Financial Supervision Commission, taking into account the specific activities of the Bank as a lending institution.

Net Interest Income

A number of factors affect the Group's net interest income. It is primarily determined by the volume of interest earning assets, such as loans and advances to customers, interest-earning securities which the Bank holds and loans to other credit institutions, and the volume of interest bearing liabilities, such as debt securities issued, loan facilities from international financial institutions, deposits from other credit institutions and customer deposits, as well as the difference between rates earned on interest earning assets, on the one hand, and rates paid on interest-bearing liabilities on the other.

Note 4 to the Consolidated Financial Statements for 2019 contains detailed breakdowns of the principal components of net interest income for the years ended 31 December 2019 and 2018.

Interest income is comprised of interest on loans and advances to customers paid to the Bank (95.5% of interest income for 2019), interest earned on inter-bank placements (2.1% of interest income for 2019), as well as these from "recognized at fair value through other comprehensive income" (1.8% of interest income for 2019) and interest on "measured at amortized cost" (0.6 % of interest income for 2019).

Interest income increased by EUR 2.3 million, or 10.3%, from EUR 22.03 million in the year ended 31 December 2018 to EUR 24.3 million in the year ended 31 December 2019. This increase was primarily a result of the loan portfolio dynamics during the year ended 31 December 2019, which registered progress to the expected recovery.

During the year ended 31 December 2019, interest income from loans and advances to customers report an increase and reach EUR 23.2 million or an increase by 11.1%, from EUR 20.89 million as at the end of 2018. This improvement is partly due to the recovery of the loan activity, which registered progress by offering versatile loan products to wider group of customers. Although Bulgaria macro economy is relatively stable, the negative influence of the economic crisis over the current loan portfolio, as well as over the demand, the approval process and the number of new loans continued during the period.

The interest income from "recognized at fair value through other comprehensive income" has been immaterial due to the limited size of such investments in the Bank's assets. Despite that in 2019 seeking higher profitability from its liquid assets BACB continued to maintain and increased its portfolio of Bulgarian government securities and corporate securities debt but the interest income generated from financial assets "recognized at fair value through other comprehensive income" decreased – from EUR 0.457 million as at the end of 2018 to EUR 0.435 million as at the end of 2019. The share of this type of interest income is on third place with 1.8% compared to 2.1% in 2018. The formed a portfolio of debt securities "measured at amortized cost" generated interest income in the amount of EUR 149 thousand which represents 0.6% of the interest income for 2019 (2018 - EUR 151 thousand and 0.7%).

Interest expense comprises amounts paid by the Bank as interest on funds deposited by customers and banks, interest on debt securities issued and other attracted funds, as well as interests on the asset.

Interest expense decreased by EUR 0.15 million, or 3.7%, from EUR 3.95 million in the year ended 31 December 2018 to EUR 3.80 million in the year ended 31 December 2019.
Interest expense on deposits from customers decreased by EUR 0.4 million, or 12.7%, from EUR 3.1 million in the year ended 31 December 2018 to EUR 2.7 million in the year ended 31 December 2019. The decrease resulted mainly from the significant decrease of the interests on deposit products repeatedly throughout the year, despite the reported increase of the total amount of the deposits from clients at the end of the year.

The interest expense on debt securities issued also decreased with EUR 55 thousand in 2019 or 62.2% - from EUR 88 thousand in 2018 to EUR 33 thousand in 2019. The decrease is mainly because of the two amortization payments (in the amount of EUR 1 600 thousand) under the issued in September 2014 mortgage bond in the amount of EUR 5 million and its full repayment at the end of September 2019.

At the year ended 31 December 2019 the Bank registered interest expense on other borrowed funds in the amount of EUR 432 thousand, while for 2018 the reported expense was EUR 390 thousand (increase by EUR 42 thousand or 10.9%). These interest expenses are mainly under the credit line from the Bulgarian Development Bank under the NAPRED program for BGN 35 million low-interest resource and signed in November 2018 a new agreement with BDB which is the first agreement for BDB under the EU COSME+ Program to support the small and medium-sized business in Bulgaria to 10 million EUR for a 10 year period.

During the period, the Bank recorded interest expense of EUR 541 thousand, which was formed from the paid negative interest on assets, mainly held by BNB (2018 - 331 thousand).

For the reported period the Group registers a significant increase of the net interest income (increase by EUR 2.4 million or 13.4%) on an annual basis or total amount of EUR 20.5 million. This is a result of increase of the interest income by EUR 2.3 million (10.3%) and decrease of interest expenses by EUR 0.15 million (-3.7%) with increase by EUR 117 million of the deposit basis. For the reported period the determinating factor for the formation of the net interest income remain the income from the credit activities. Reported income from interbank deposits amounted to EUR 514 thousand in Y 2019 against EUR 513 thousand for the previous year. Interest income from security portfolios amounted to EUR 0.583 million at the end of the year 2019. In line with the trend of decreasing the interest on deposit products in 2019 and 2018 in the banking system, BACB also decreased the interest on deposits levels in the past year. These levels still remain attractive to clients. Despite the significant increase in the deposit base at the end of 2014, there was also a decrease in resource costs on an annual basis.

Net fees and commissions income

Fees and commission income is composed of fees in connection with current accounts, such as maintenance and money transfer fees; loan fees, such as prepayment, appraisal and guarantee fees; asset servicing fees and fees and commissions on settlement and brokerage operations.

Note 5 to the Consolidated Financial Statements for 2019 contains detailed breakdowns of the principal components of fees and commission income, and fees and commissions expense, for the years ended 31 December 2019 and 2018.

For the twelve months of 2019 Group reports net fees and commissions income in the amount of EUR 5.11||||””” million. This result outmatches by EUR 1.58 million (an increase by 44.7%) the result registered in 2018 and is mainly because of the targeted efforts for broadening of the services and products provided by the Bank.

With the greatest contribution to the increase of this income are the fees and commissions under payment services which report EUR 3.6 million compared to EUR 2.6 million in 2018 (increase by 43.6%) and share of 67.4%. The fees and commissions under deposit accounts increased by 113.9% from EUR 358 thousand in 2018 to EUR 765 thousand in 2019 and form 14.2% of the total amount of the fees and commissions income. The fees and commissions income under guarantees and letters of credit in the amount of EUR 453 thousand reports decrease by 2.9% and share of 8.4%. The fees and commissions income under loans and advances to clients (EUR 483 thousand) form 8.9% of the total fees and commissions income and report an decrease by 7.4% compared to EUR 522 thousand reported in 2018. Other fees and commissions – share 1.1%.

The positions forming the Group’s expenses for fees and commissions report a decrease EUR 94 thousand or -24.1% from EUR 392 thousand in 2018 to EUR 298 thousand in 2019. The fees and commissions under bank cards report EUR 257 thousand with share of 86.3%, compared to EUR 181 thousand in 2018 with share 46.2% (an increase by 42%). The fees and commissions expenses under payment and other services in 2019 report EUR 41 thousand - also an decrease by 66.5% (2018: EUR 122 thousand) and form 13.7% of all fees and commissions expenses. In 2019 cost of guarantees and letters of credit have not been reported, compared to EUR 89 thousand in 2018.

Other non-interest income

Other net non-interest income decreased on net basis by EUR 0.18 million from EUR 1.12 million in Y2018 to EUR 0.94 million in the end of Y 2019 or -16 %.

The profit from debt securities held for sale reach EUR 2 thousand, reporting a decrease compared to EUR 82 thousand in 2018.

The net income from foreign exchange transactions decrease by 21.2% - from EUR 1.151 million in 2018 to EUR 0.92 million in 2019.

The direct administrative costs of investment properties and assets held for sale, as well as the generated revenue from the management of these properties, also affect the result.

Notes 6, 7 and 8 to the Consolidated Financial Statements for 2019 contain detailed breakdowns of the principal components of other non-interest income.

Operating Income

At the year ended 31 December 2019 the operating income (net) of the Group reach EUR 26.55 million compared to EUR 22.74 million in 2018, A number of factors affect the Group's operating income. The net interest income has the highest weight in total operating income for 2019 with share of 75.9%, followed by net fees and commissions income with 20.6% and other non-interest income (net) with 3.5%.

Operating Expenses

Operating expenses comprise administrative expenses incl. salaries and benefits and depreciation and amortization. Total operating expenses increased by EUR 1.66 million, or 11.6%, from EUR 14.3 million during the year ended 31 December 2018 to EUR 15.98 million during the year ended 31 December 2019.

Personnel cost, incl. social security cost, increased by EUR 0.515 million (9.3%) and represent 38.1% of the administrative expenses. The expenses to the Guarantee Insurance Fund and the Restructuring of Banks Fund amounted EUR 2.35 million. The total amount of these costs increased by 22.7% on an annual basis compared to the expenses in 2018. The share of these expenses is 28.6% of the total administrative expenses in 2019. Rent cost decreased by 81.4%, from EUR 1.16 million reported at the end of 2018 to EUR 0.2 million as at December 31st 2019, which is result from changes in accounting for leases in accordance with IFRS 16 introduced since the beginning of 2019.

The expenses for professional services increased by EUR 456 thousand - from EUR 2.232 million in 2019 to EUR 2.688 million in 2019

For further analysis of administrative expenses please refer to Note 9 of the consolidated financial statements.

The Group's depreciation and amortization expenses increased compared to 2018 by EUR 1.1 million. At the year ended 31 December 2019 depreciation and amortization expenses of the Group reach EUR 0.61 million compared to EUR 1.7 million in 2019.

Expenses for Impairment

The annual expense accrued for impairment of loans and advances to customers and financial assets (provisions) increased by EUR 0.594 million from EUR 1.90 million in 2018 to EUR 2.50 million in 2019.

In 2019 the Bank has written off from the balance sheet unrecoverable receivables against allocated impairment provisions in the amount of EUR 8.4 million. The write-offs relate to loans, which the Bank believes are non-recoverable.
The total amount of provisions at 31 December 2019 was EUR 45.59 million compared to 52.25 million as at 31 December 2018, which is a decrease by 12.8%.

The NPLs with overdue more than 90 days decreased from 16.3% of the gross loan portfolio as at December 31, 2018 to 12.1% as at December 31, 2019.

The aggregate amount of all classified loans, decreased from 23.3% of the Bank's gross loan portfolio at 31 December 2018 to 19.8% at 31 December 2019.

As a percentage to the gross amount of loans to customers, the provisions for impairment decreased from 10.1% at December 31, 2018 to 8% at December 31, 2019.

For further details, please, refer to Selected Statistical Information below.

Taxes

Tax expenses comprises the current tax expense and income or the deferred tax expense and income.

In 2019 the Bank reported profit before tax in the amount of EUR 7.974 million, current tax expense in the amount of EUR 268 thousand and a deferred tax expenses of EUR 35 thousand.

A pretax profit of EUR 6.463 million was recorded in 2018 and a current tax expense in the amount of EUR 40 thousand and deferred tax expense of in the amount of EUR 19 thousand.

Net financial result for the year

The Group reported net profit of EUR 7.671 million for 2019 in comparison to net profit of EUR 6.404 million for the previous financial year.

The net profit for the year ended 31 December 2019 was caused by a combination of the factors discussed above in details.

CAPITAL RESOURCES

Liabilities and Shareholders' Equity

The following table sets out the structure of liabilities and equity of the Bank at 31 December 2019 and 2018.

	As of December 31		Change
	2019	2018	2019/2018
	(' 000 EUR)		%
Liabilities			
Deposits from banks	0	3 200	-100
Deposits from customers	721 138	604 133	19.4
Other borrowed funds	21 606	18 708	15.5
Debt securities in issue	0	1 616	-100
Other liabilities	12 816	8 765	46.2
Total Liabilities	755 560	636 422	18.7
Shareholders' Equity			
Share capital	12 624	12 624	0.0
Share premium	18 944	18 944	0.0
General reserve	59 970	53 565	12.0
Current year profit	7 671	6 404	19.8
Revaluation reserve	3 444	3 213	7.2
Total Shareholders' Equity	102 653	94 750	8,3
Total Liabilities and Shareholders' Equity	858 213	731 172	17.4

In 2019 the liabilities structure of the Bank has changed slightly compared to the previous period Mainly, this is due to the full repayment of the mortgage bond, respectively, lapse of this source of funding, applied under IFRS 16 and reporting the leasing liabilities for the whole period of the agreement.

And in the past year the international banks and other wholesale market participants remained cautious to small issuers from the CEE region including Bulgaria. In response to these developments in the wholesale funding markets the Bank continued the successful implementation of its funding strategy with a focus on building a diversified customer deposit base. In 2019 the deposits from customers increased by 19.4% to reach EUR 721.14 million (2018 – EUR 604.13 million) and were the major funding source for the Bank accounting for 95.4% of total attracted funds at the year-end (2018 – 94.1%).

In the end of July 2015 the negotiation of the line of credit from the Bulgarian Development Bank under the Napred program for a BGN 25 million low-interest rate financing concluded. Mainly because the significant interest in the program BACB concluded an increase of the line by BGN 10 million reaching total amount of BGN 35 million. Till September 30, 2016 BGN all 35 million were utilized under the line. BACB has to provide SME loans under preferential terms and conditions for the development of the economy, creating new jobs and investing in regions with high unemployment. In November 2018 The Group signed a new agreement with BDB which is the first agreement for BDB under the EU COSME+ Program to support the small and medium-sized business in Bulgaria. COSME+ Program is implemented with the support of the European Fund for Strategic Investments. Its purpose is to facilitate the access to long-term and cheap financing for SME companies while reducing the requirements towards the collateral under the loans. Under the agreement the Group will receive up to 10 million EUR for a 10 year period for providing investment loans, working capital and guarantees to its clients.

The share of other attracted funds in the BACB liabilities increased by 15.5% compared to the reported at the end of 2018 - from EUR 18.7 million to EUR 21.6 million. This determines the second position of the entry in the structure of the liability with 2.9%.

On September 25 2014 the Bank issued its eight mortgage bond in the amount of EUR 5,000,000, ISIN BG2100006142.. In March 2015 the bond was registered for trade on Bulgarian Stock Exchange-Sofia. In 2018 the Bank was compliant with the terms and conditions of the bond issue. Amortization payments in the amount of EUR 1 600 thousand were performed in 2019, as well as interest payments.

As a result at the end of 2019 the bond was fully repaid compared to the reported period at the end of 2018 with share from 0.3% (EUR 1.6 million).

As at 31.12.2019 the Group does not recorded borrowed funds from banks, but the end of 2018 there were amounting to EUR 3.2 million.

The Bank started accepting institutional deposits in 2000 and retail deposits in 2001. In 2013 The deposits form customers kept its high level, reporting nominal decrease to EUR 310 million. The level is kept in 2014, reporting a slight increase to EUR 317 million. In 2015 the deposits reach EUR 411 million and in 2016 - 430.3 million in 2017 – EUR 511.02 million, in 2018 – EUR 604.13 million and in 2019 – EUR 721.14 million. Aiming to achieve independence and diversification of the sources for financing in 2015 the Bank begun presenting deposit products for persons and households on the German market, and from beginning Q2 2017 begun presenting deposit products for persons and households on the Spanish market. At Y/e 2019 the deposits from Germany represent 7.6% and deposits from Spain represent 2.5% of the total deposit base, banks excluded. Due to the large number of clients, there is no separate client with a share of BACB's expenses larger than 10%

As at Dec 31, 2019 the Bank had no loans from international financial institutions or international banks.

As a result of the changed liabilities structure, as discussed above, the Bank's average cost of funding decreased from 0.65% for 2018 to 0.56% for 2019.

The Bank is subject to, and is in compliance with, the capital adequacy requirements of the BNB. The minimal levels of capital adequacy in Bulgaria are set forth in Regulation 575/2013, as per which the institutions in any moment have to qualify the following capital requirements:

- Ratio of the basis Tier 1 capital 4.5%;
- Ratio of Tier 1 capital 6%;
- Total capital adequacy ratio 8% (before buffers);

As at 31 December 2019 the Group's total capital adequacy ratio amounts to 15.39% (above the requirements of BNB) despite of the additional provisions for credit risk.

Management believes that the high capital ratio of the Bank is consistent with the risk profile of its assets.

LIQUIDITY

As of 01.01.2018 г. the Liquidity Asset Ratio (under BNB Ordinance 11) was replaced by a Liquid Coverage Ratio (LCR), which was 179.14 % as at 31.12.2019.

The Bank follows the principles of diversification of sources of financing and optimization of interest costs in pursuance of the strategy for securing its liquidity needs.

At the end of 2019, the Bank maintained a stable deposit base and reported an increase in customer deposits of 19.4% compared to the end of 2018. The Bank's active deposit activity contributed to a reduction in its dependence on external financing. The Bank continues to carry out successful deposit-taking of individuals from Germany, as of March 2017 started collecting deposits for individuals and on the Spanish market.

The ratio of gross customer loans to customer deposits is 78.8% at December 31, 2019.

The liquidity position of the bank remains strong as the liquid assets (cash and balances and funds on accounts with BNB, short-term loans and advances to banks and liquid securities - government and corporate) amounted to EUR 228.2 million. The ratio of the liquid assets to the total deposit amounts (clients and banks) is 31.64% at December 31, 2019.

In 2019 the Group formed a debt securities portfolio, accounted with fair value in other comprehensive income in the amount of EUR 34.6 million (2018: EUR 25.4 million or an increase by 36.1%). The cash and advances with BNB and other banks increased by EUR 16.4 million.

As at 31 December 2019 the Group reports a portfolio of debt securities held for accounting with amortization value in the amount of EUR 11.32 million (2018: EUR 10.33 million), which includes Bulgarian and foreigh government bonds with fixed payments and maturity. The Bulgarian securities are held entirely in connection to the regulatory requirement of securitization of the attracted funds from government and budget clients.

As at 31 December 2019 the government bonds portfolio is with balance value of EUR 34.6 million (2018: 31.6 million), from which financial assets, appraised by fair value in other comprehensive income of EUR 23.3 million and financial assets, accounted by amortization value of EUR 11.3 million (2018: EUR 21.3 million and EUR 10.3 million).

Since the beginning of the period in connection to completed investments in debt securities accounted with fair value in other comprehensive income, the Bank reports profit in the amount of EUR 2 thousand (2018: EUR 82 thousand). The unrealized profits and losses from reappraisal of the financial assets, accounted with fair value in other comprehensive income, are deferred in equity account, net of taxes. In the period in which the asset is dispositioned or is identified as impaired, the result of the reappraisal is included in the income statement.

SELECTED STATISTICAL INFORMATION

Average Balances and Related Interest Rates: Assets

	As of December 31					
	2019			2018		
	Average Balance (1)	Interest income	Average interest rate (2)	Average Balance (1)	Interest income	Average interest rate (2)
	000 EUR	000 EUR	%	000 EUR	000 EUR	%
Due from other banks	55 589	514	0.62	34 733	513	1.03
Loans and advances to customers, net	493 185	23207	4.79	427 763	20 894	4.98
Investment securities-available-for-sale	30 023	432	1.72	27 172	457	1.78
Investment securities-hold-to-maturity	10 827	149	1.37	10 415	151	1.46
Total interest earning assets	589 624	24 302	4.02	500 083	22 015	4.35
Non interest earning assets	205 020	2		182 575	16	
Total Assets	794 644	24 304	3.11	682 658	22 031	3.3

(1) Average balance is the arithmetic average of the opening and closing balances for each period. Note that the average balance calculated on a daily basis, monthly basis, or weighted average basis may be different to the average balance calculated on an annual or semiannual basis, and these differences may be substantial.;

(2) Average interest rates were calculated on the basis of management accounts using average monthly balances.

Average Balances and Related Interest Rates: Liabilities

	As of December 31					
	2019			2018		
	Average Balance (1)	Interest expense	Average interest rate (2)	Average Balance (1)	Interest expense	Average interest rate (2)
	000 EUR	000 EUR	%	000 EUR	000 EUR	%
Deposits from banks	1 600	0	0	6 992	0	0
Deposits from customers	662 636	2 736	0.43	557 576	3 136	0.57
Other borrowed funds	20 157	295	1.58	17 260	245	1.60
Debt securities outstanding	808	33	4.09	2 195	88	4.06
Interest bearing liabilities	685 201	3 064	0.49	584 023	3 469	0.6
interest bearing liabilities	5 745	137	3.35	2 367	145	6.12
Non interest bearing liabilities	5 049	-	-	3 306	-	-
Shareholders' Equity	98 649	-	-	92 962	-	-
Total Liabilities and Shareholders' Equity	794 644	3 201	0.56	682 658	3 614	0.65

(1) Average balance is the arithmetic average of the opening and closing balances for each period. Note that the average balance calculated on a daily basis, monthly basis, or weighted average basis may be different to the average balance calculated on an annual or semiannual basis, and these differences may be substantial.

(2) Average interest rates were calculated on the basis of management accounts using average monthly balances.

Volume and Rate Analysis

	As of December 31					
	2019			2018		
	Net Change Due to			Net Change Due to		
	Volume (1)	Rate (2)	Total	Volume (1)	Rate (2)	Total
	(€ 000)			(€ 000)		
Due from other banks	146	-145	1	206	154	360
Loans and advances to customers	2 753	-787	1 966	3 171	-1 435	1 736
Investment securities-available-for-sale	-9	-15	-24	-46	29	-17
Investments securities – hold-to-maturity	6	-8	-2	-1		-1
Change in interest income	2 896	-955	1 941	3 330	-1 252	2 078
Deposits from banks	0	0	0	-1	0	-1
Deposits from customers	374	-774	-400	446	-1 829	-1 383
Other borrowed funds	247	-4	243	-28	-1	-29
Debt securities outstanding	-54		-54	-42	-1	-43
Change in interest expense	567	-778	-211	375	-1 831	-1 456
Net change in interest income	2 329	-177	2 152	2 955	579	3 534

(1) The net change due to a change in volume is the change in the average monthly outstanding balance multiplied by the average interest rate for the current period.;

(2) The net change due to a change in interest rate is the change in the average interest rate multiplied by the average monthly outstanding balance for the prior period.

Average Interest Earning Assets, Yields, Margins and Spreads

	As of December 31	
	2019	2018
	(€ 000, except in %)	
Average Interest Earning Assets	589 623	500 083
Interest Income	23 957	22 031
Net Interest Income	20 890	18 086
Average Yield (1)	4.02%	4.35%
Average Margin (2)	3.42%	3.62%
Average Spread (3)	3.53%	3.75%

(1) Average yield is interest income expressed as a percentage of average monthly interest earning assets for the period.

(2) Average margin is net interest income divided by average monthly interest earning assets for the period.

(3) Average interest spread is the spread between average interest on assets and average interest on liabilities, the latter presented as a percentage of the interest expenses to interest on liabilities

Loan Portfolio: By Currency

	As of December 31			
	2019		2018	
	000 EUR	%	000 EUR	%
EUR	293 573	51.7	297 373	57.6
USD	33 268	5.9	31 547	6.1
BGB	241 302	42.4	187 149	36.3
Total	568 143	100	516 069	100

Loan Portfolio: By Size

	As of December 31					
	2019			2018		
	No. of loans	(€ 000)	% of LP	No. of loans	(€ 000)	% of LP
Under 10,000	10 540	11 233	2.0	8 299	7 923	1.5
10,000 - 100,000	1 939	63 213	11.1	1 164	39 798	7.7
100,000 - 1,000,000	440	124 311	21.9	376	117 981	22.9
Over 1,000,000	100	369 386	65.0	100	350 367	67.9
Total	13 019	568 143	100	9 939	516 069	100

Loan Portfolio: Diversification under Industry Sectors

Industry Sector	2019		2018	
	Loan portfolio, Gross	Loan portfolio, Net	Loan portfolio, Gross	Loan portfolio, Net
Real estate construction	72 230	53 616	70 375	51 630
Hotels	66 775	63 942	60 392	57 657
Wholesale distribution	63 231	61 387	53 597	51 831
Primary agriculture and farming	41 143	39 781	43 915	41 968
Transportation	40 349	39 853	45 466	45 286
Mortgage loans - residential	38 349	37 869	21 139	20 418
Consumer loans to induvidials	27 158	25 568	15 877	14 734
Electricity production	25 948	25 937	23 191	23 150
Furniture and wood products	23 833	20 867	21 161	18 750
Manufacture of chemical products	20 242	20 236	1 682	1 682
Real estate investment&Land development	16 248	9 556	18 832	12 185
Waste collection and recicling	15 097	15 074	19 856	19 811
Professional and other services	14 190	13 498	12 949	12 268
IT Services	12 458	12 455	0	0
Mortgage loans - commercial	10 430	7 214	12 362	8 619
Entertainment and Recreation	9 141	8 593	14 659	9 479
Food processing	8 812	8 785	12 922	12 911
Retail	7 956	7 534	12 434	11 904
Warehousing and storage	7 837	7 835	5 023	5 020
Financial services	7 663	7 598	7 049	6 991
Light industry	7 512	4 745	10 361	5 654
Other	31 541	30 611	32 827	31 868

Loans and advances to customers	568 143	522 554	516 069	463 816

Credit portfolio analysis: Large exposures

Large Exposures (Including Unutilized Loan Commitments) before impairment

	As of December 31			
	2019		2018	
	(€ 000)	% of Capital base	(€ 000)	% of Capital base
Largest total exposure to a single client group	20 917	22.4	23 188	26.5
Agregate of five largest exposures	93 069	99.5	98 429	112.5
Agregate of all largest exposures – over 10% of equity	174 563	186.6	144 282	164.8

Non-Equity Funding: Sources of Non-Equity Funding by Category, Amount and Percentage

	As of December 31			
	2019		2018	
	(€ 000)	% of Total	(€ 000)	% of Total
Deposits from Banks	0	0.0	3 200	0.5
Deposits from Customers	721 138	97.1	604 133	96.3
Other attracted funds	21 606	2.9	18 708	3.0
Debt Securities	0	0.0	1 616	0.3
Total Funding	742 744	100	627 657	100

Non-Equity Funding: Deposits by Type and Currency

	As of December 31	
	2019	2018
	000 EUR	000 EUR
Demand deposits		
in EUR	189 750	41 765
in BGN	128 516	82 216
in USD	13 084	11 596
in GBP	918	802
Total	332 268	136 379
Term deposits		
in EUR	143 567	237 707
in BGN	200 214	184 088

in USD	44 515	48 817
Other	574	342
Total	388 870	470 954

Non-Equity Funding: Deposits by Type and Customer group

	As of December 31	
	2019	2018
	000 EUR	000 EUR
Demand deposits		
Bank	-	-
Institutional	296 279	109 271
Individual	35 989	27 108
Total	332 268	136 379
Term deposits		
Bank	-	3 200
Institutional	63 295	121 869
Individual	325 575	345 885
Total	388 870	470 954

Off-Balance Sheet Liabilities: By Type

	As of December 31			
	2019		2018	
	(€ 000)	%	(€ 000)	%
Bank Guarantees	17 619	27.9	19 325	45.5
Letters of Credit	303	0.5	0	0.0
Unutilised Loan Liabilities	45 289	71.6	23 185	54.5
Total	63 211	100	42 510	100

Off-Balance Sheet Liabilities: By Maturity

	As of December 31, 2019				
	Maturity within 1 month	Maturity after 1 month but before 3 months	Maturity after 3 months but before 6 months	Maturity after 6 months but before 12 months	Maturity after 1 year
			000 EUR		
Bank Guarantees	2 535	2 664	2 848	4 854	4 718
Letters of Credit	303	0	0	0	0
Unutilised Loan Liabilities	1 840	3 383	15 272	14 387	10 407
Total	4 678	6 047	18 120	19 241	15 125

ECOLOGY AND EMPLOYEES

Ecology

In 2019 the Bank continued to pursue its aim of strengthening the position of a "green bank", in support of "green economy" initiatives and sustainable development, offering its customers qualitative and reliable financial services and ensuring profitability for the shareholders.

An emphasis in the lending policy of the Bank are the projects for development of green economy, financing business initiatives related to energy saving and renewable energy sources, projects under the European funds in the area of energy efficiency and environmental protection as well as providing innovative solutions for the business.

In 2019 the Bank took part in the following “green” initiatives and programs:

- InterSki congress together with Pamporovo AD – sponsorship of BACB BGN 15,000 VAT included;
- Park(ing) day project in Plovidv, together with Credo Bonum Foundation – Sponsorship of BACB – BGN 12,000 VAT included;
- Green BACB Express – implementation of the first in Bulgaria entirely digital consumer loan product; BACB developed a paperless procedure, which saves the printing of 140 pages of paper when signing a standard consumer loan agreement; BACB received the “Annual Technology Innovation” award on the annual b2b Media Annual Awards 2019 for the product;
- “Knigi za Smet” initiative together with Credo Bonum Foundation – Sponsorship of BACB – BGN 3,230 VAT included;

Employees and personnel management

The Group’s strategy on human resources management aims at increasing the efficiency of the employees and improving the performance results.
The program for professional development of the Bank’s employees allows for professional development tailored to the individual abilities, knowledge, experience, expertise, interests and motivation of the employees. The framework for human resources management regulates the working conditions and improvement of the working environment, stimulates building and maintaining relationships of integrity, fairness, trust, teamwork and continuity, provides an objective assessment of employment and workload of individual employees and departments.

In 2019 the Group incurred expenses for trainings, seminars and enhancing the qualification of the employees at the amount of EUR 17.4 thousand.

RISK FACTORS

Risks relating to the Bank

The Bank’s activities are subject to risk factors that could impact its future performance or its ability to continue as a going concern. Certain of these risks can be mitigated by the use of safeguards and appropriate systems and actions. Some risks, however, are outside the Bank’s control and cannot be mitigated. The principal factors that may affect the Bank’s performance are set out below. These factors should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties because there may be risks and uncertainties of which the Bank is not aware and which the Bank does not consider significant but which in the future may become significant.

The Bank’s growth and success depend substantially on the health of the Bulgarian and the global economy and the Eurozone in particular

Banking activity in Bulgaria is dependent on the overall level of economic activity in the country and the global economy, in particular the Eurozone. As a result, the Bank’s business, results of operations and financial condition largely depend on the global, European and local economic condition, which in turn affects loan growth, interest income and costs and customers' ability to meet their obligations on time. Any negative change in one or more macroeconomic factors, such as interest rates, inflation, wage levels, unemployment, foreign investment and international trade, could have a material adverse effect on the Bank's business, results of operations, and financial condition.

The rate of diversification of the funding sources and the changes in the regulatory framework may cause changes in the strategies of the funding and lending policies

A substantial portion of the Bank's funding requirements have historically been met through long-term funding sources, including loans from international financial institutions, loans from various European banks and by issuing bonds in the Bulgarian debt capital markets. In the years following the world financial crisis the access to outer wholesale funding sources of the Bank is limited. After a period of limited access to external wholesale financing resulting from the world financial crisis , the Bank successfully managed to diversify its funding sources by focusing on the local market, emphasizing of deposits from clients, attracting credit lines from SME financing from local credit institution, and issuing corporate bonds. Continuous limitations of the wholesale funding may result in lower business growth and/or lower profitability. As a result the Bank's liquidity, its financial position and the operational results may be influenced negatively..
At present the Bank's cost of borrowing is influenced mainly by competitive conditions of the local market while the price of the institutional funding depends on the rating/profile of the Bank.

On 17.04.2019 "BACR - Credit Rating Agency" AD updated the ratings assigned to BACB AD.

Financial strength rating	Primary Rating July 27, 2016	Updated Rating July 26, 2017	Updated Rating July 26, 2018	Updated Rating April 17, 2019 г.
Long-term rating	**B**	**B**+	**B**+	BB-
Outlook	stable	stable	positive	stable
Short-term rating	**B**	**B**	**B**	**B**
National-scale long-term rating	**B**+ (BG)	BB- (BG)	BB (BG)	**BB**+ (BG)
Outlook	stable	stable	positive	stable
National-scale short-term rating	**B** (BG)	**B** (BG)	**B** (BG)	**B** (BG)

Increased competition in the Bulgarian banking sector may reduce net interest margins for market participants or otherwise affect the Bank's competitive position

The strong competitive environment and the economic conditions in the country may determine reduction of the Bank's interest margin as a result mainly by the reduced interests on loans. This could lead to limitation of the recapitalization effects and on the Bank's business results of operation and financial condition. The continuation of Bank's success in increasing its deposit base will depend on its willingness and ability to structure deposit products that offer competitive terms and rates and promote and sell these products in the context of its limited branch network. The Bank's success in lending will depend on its ability to remain competitive with other financial institutions through maintaining its superior flexibility and efficiency and offering a wider range of products and services.

Clients/structural orientation and customers sensitivity to adverse developments in the economy

In general, small- and medium-size companies are more likely to be negatively affected by adverse developments in the economy than large companies with diversified markets and counterparties. The

structural orientation of the Bank in SME lending cause a relatively higher degree of risk than if it were focused more heavily on lending to broader range of services to large companies. The Bank continues to successfully generate new business by disbursing new loans in various economic sectors. The newly generated business still cannot neutralize the negative effect of the lending in the constructions sectors, provided in the years before the economic crisis. The emphasis in the Bank's lending policy remain focused on balancing and diversification of the loan portfolio through exposures to SMEs and economic sectors with stable parameters such as manufacturing industry and agriculture.
A continuous downgrade in some of the main sectors where BACB actively disburses loans may cause permanent financial difficulties for the Bank's clients and increasing the risk of loan losses. This may influence negatively the Bank's activities, operations results and financial condition.

A substantial percentage of the Bank's customer base is concentrated in a limited number of industry sectors

The loan portfolio of BACB is diversified between different economic sectors. The decision to increase the financing in specific sector depends on the Bank's estimation of the expected development of the sector. The proper diversification of the portfolio (as a whole and within the specific sector) is one of the main goals of the Bank's credit risk management. The process of annual review of the risk management policy stipulates development of the system of applied limits and border thresholds in order to provide adequate control and management of the risks. To achieve better diversification the risk management stipulates maximum loan exposure to a specific economy sector not more than 15% of the total.
Notwithstanding these limits, a continued down-turn in any one or more of the key industry sectors in which the Bank's customers are involved may cause prolonged financial difficulties for the Bank's customers in those sectors, increasing the risk of default, which may have a material adverse effect on the Bank's business, results of operations and financial condition

A substantial percentage of the Bank's loan portfolio is concentrated in a limited number of customers

The Bank limits the credit risk and the concentration risk by defining limits for the credit exposures to single borrower or to a group of related borrowers. The adherence of the limits is subject to an ongoing control, while the adequacy of the defined limits is reviewed regularly. At the end of 2019 part of the loan portfolio is concentrated in a limited borrowers. There is a possibility for the Bank's activity, financial condition and activity results to be negatively influenced by continuous slowdown of the business climate recovery, which may result in default of the obligations of some of the largest borrowers. As at Y/E 2019 and 2018 the twenty largest exposures (including loans, bank guarantees and other credit forms) represent 42.1% and 40.5% of the loan portfolio before impairment respectively.

Risks concerning borrower and counterparty credit quality are inherent in the Bank's business

Adverse changes in the credit quality of the Bank's borrowers and counterparties including a deterioration in Bulgarian, European or global financial systems associated with uplift in systemic risks, could reduce the recoverability and value of the Bank's assets. Further increase in the Bank's level of provisions for bad and doubtful debts could have a material adverse effect on the Bank's business, results of operation and financial condition.
For 2019 the Bank accrued provisions for impairment of loans and advances to customers in the amount of EUR 8 365 thousand compared to EUR 10 855 thousand in 2018. The impairment costs in 2019 report EUR 2.5 million (2018 – EUR 1.89 million)

Failure to manage and monitor Bank's loans and advances to customers could have a material adverse effect on the business

The loan portfolio has grown consistently since 2014, when an increase by 9.48% was reported mainly because of the growth in the gross loan portfolio. This trend continued in 2015, 2016, 2017, 2018 and 2019 with 14.60%,16.30%, 10%, 13.9% and 10.1% respectively. The Bank performs continued review of the quality of the credit and the adequacy of its provisioning levels, together with continued development of its risk management strategies and systems. In particular, the recent negative developments in the loan portfolio imposed intense management and supervision of problem cases. On the other hand the Bank actively seeks diversification of its loan portfolio aiming to exposures to corporate clients and sectors with strong fundamentals. Failure to manage and maintain the quality of assets or to develop the growth of the Bank's assets successfully could have a material adverse effect on the Bank's business, results of operations and financial condition.

The Bank faces a number of types of risk that could adversely affect it should its risk management policies not succeed

As with any bank, the Bank faces a number of risks that could adversely affect it. These include but are not limited to: interest rate, liquidity, foreign exchange, credit, investment and operational risk. Although the Bank invests substantial time and effort in its risk management strategies and systems, these strategies and systems may nevertheless fail in certain circumstances, particularly when confronted with risks that the Bank did not identify correctly or in a timely fashion. Furthermore, risk methodologies and techniques may not cover the entire spectrum of risks to which the Bank may be subject. If any such risks materialize, the associated losses could be greater than the Bank may have anticipated which could have a material adverse effect on the Bank's business, results of operation and financial condition.

The Bank is a highly regulated entity and changes to applicable law or regulation, the interpretation or enforcement of such law or regulation, or the failure to comply with such law or regulation could have a material adverse effect on the Bank

The Bank is subject to a number of regulations designed to maintain the safety and soundness of banks, ensure their compliance with economic and other obligations and limit their exposure to risk. These regulations include Bulgarian laws and regulations, particularly those of the Bulgarian National Bank. These regulations may limit the Bank's activities, and changes in these regulations may increase the Bank's cost of doing business. In addition, breach of regulatory guidelines could expose the Bank to potential liabilities and sanctions, including, in extreme cases, loss of license. Changes in these laws and regulations may have a material adverse effect on the Bank's business, results of operations and financial condition.

The Bank may need to raise additional capital in the future

The Bank's capital requirements depend on numerous factors, including the growth of its balance sheet and earnings, regulatory capital requirements and potential acquisitions. The deterioration in credit quality of the Bank's loan portfolio may exceed expectations and generate additional capital requirements. Effective management of the Bank's capital is critical to its ability to operate its businesses, to grow organically and to pursue its strategy. Any change that limits the Bank's ability to manage its balance sheet and capital resources effectively (including, for example, reductions in profits and retained earnings as a result of write-downs or otherwise, increases in risk weighted assets, delays in the disposal of certain assets or otherwise) or to access funding sources could have a material adverse impact on its financial condition and regulatory capital position. The management of the Bank cannot accurately predict the timing and amount of any such requirements.

The minimal levels of capital adequacy in Bulgaria are set forth in Regulation 575/2013, as per which the institutions in any moment have to qualify the following capital requirements:

- Ratio of the basis Tier 1 capital 4.5%;
- Ratio of Tier 1 capital 6%;
- Total capital adequacy ratio 8%;

In addition, Ordinance 8 of BNB stipulates additional capital buffers that banks have to keep above the minimum capital requirements and which as at December 31 2019 and December 31 2018 are the following:

- Precautionary capital buffer equal to 2.5% of the amount of the total risk exposure of the Bank;
- Anti-cycle capital buffer – 0% of the of the amount of the total risk exposure of the Bank;
- System risk buffer – 3% of the amount of the total risk exposure of the Bank

The Bank reviews and analyses on a monthly basis its capital position and prepares quarterly reports for supervision purposes, which are presented to BNB pursuant to the regulatory requirements. The gradually performed of stress tests review the effect of the portfolio quality deterioration and/or the impairment of the existing collaterals on the portfolio quality as well as on the capital position of the Bank. The capital buffers are evaluated periodically and measures for their maintenance and increasing are undertaken.
The Group's capital adequacy ratio as at 31 December 2019 of 15.39% is above the minimum levels set by Regulation 575/2013. The capital position of the Bank depends on many factors such as the increase of the loan portfolio and income, regulatory capital requirements. Any change that limits the capability of the Bank to actively manage its balance and capital requirements, for example additional deterioration of the loan portfolio quality, decrease of the profit as a result of accruing additional impairment provisions, increase of the risk assets, slowdown of the assets disposition, may lead to decrease of the capital buffers and additional capital requirement. Events outside the Bank's control may also result in additional funding requirements, including changes to regulatory capital requirements or worsening of the global economic and market conditions.

Any additional equity financing may be dilutive to the Bank's shareholders and debt or other forms of financing, if available, may affect the Bank's profitability and may involve restrictions on the Bank's future financing and operating activities. In addition, if adequate capital is not available, the Bank may be subject to increased regulatory supervision or even intervention, and its business, operating results and financial condition could be adversely affected.

The Bank depends on experienced personnel and competition for such employees may be intense

The Bank's continuing success depends, in part, on its ability to continue to retain, hire and motivate current senior management and other qualified and experienced banking and management personnel. If the Bank is not capable to attract, encourage and keep its qualified personnel, it may have a significant negative effect on the Bank's activity, operational and financial results. The successful implementation of the Bank's business plan will, in part, depend upon its ability to hire and retain qualified operating, financial and technical personnel in the Bulgarian labor market.

The Bank's compliance systems might not be fully effective

The Bank's ability to comply with all applicable laws and rules is largely dependent on the establishment and maintenance of compliance, audit and reporting systems and procedures, as well as its ability to retain qualified compliance and other risk management personnel. Although the management of the Bank believes that it has adequate compliance systems and procedures in place, no assurance can be given that these systems and procedures are fully effective within a changing market environment. The Bank is subject to extensive oversight by regulatory authorities, including regular examination activity. In the case of actual or alleged non-compliance with regulations, the Bank could be subject to investigation and judicial or administrative proceedings that may result in substantial penalties or civil lawsuits, including by customers for damages. Any of these could have a material adverse effect on the Bank's business, results of operations or financial condition. To mitigate this risk the Bank is regularly reviewing its internal rules and procedures.

The Bank depends on complex information technology systems

The Bank depends on sophisticated information technology systems, including its management information systems, to conduct its operations and the failure, ineffectiveness or disruption of these systems could have a material adverse effect on the Bank.

Information technology systems in general are vulnerable to a number of problems, such as computer virus infection, malicious hacking, physical damage to vital information technology centers and software or hardware malfunctions. Any failure or interruption or breach in security of these systems could result in failures or interruptions in customer relationship management, risk management, general ledger, deposit, servicing and/or loan organization systems. If the Bank's information technology systems were to fail, even for a short period of time, the Bank could be unable to serve some customers' needs on a timely basis and could thus lose their business. Likewise, a temporary shutdown of the information systems could result in extraordinary costs for information retrieval and verification. In addition, any failure to update and develop the existing information systems as effectively as competitors do may result in a competitive disadvantage. Although the management of the Bank believes that it has adequate security and continuity-of-business programs and protocols in place, including maintaining a fully equipped disaster recovery center, no assurance can be given that these will be sufficient to prevent these problems or to ensure that the Bank's operations are not significantly disrupted as a consequence.

Any of these or other systems-related problems could have a material adverse effect on the Bank's business, results or operations or financial condition.

Risk Management

Overview

The Bank has established a set of risk management policies and procedures to identify monitor and manage the levels of risk to which it is exposed. The Risk Management Policy is adopted by the Management Board and additionally approved by the Supervisory Board. The Policy sets forth the organization of the activities for reaching the strategic goals, the risk management framework and the risk appetites adopted by the Supervisory Board and the Management Board of the Bank. The risk policy and the rules for control and management of the risks define the methods for evaluation of the different types of risks (such as credit risk, liquidity risk, interest rate risk, currency risk etc.), define the connections between the separate units in risk management and stipulate a system of limits and indicators for early warning that reflect the risk appetite adopted by the Bank.

The main objective of the Bank's Risk Management Policy is to impose clearly defined parameters on the Bank's operations to limit the Bank's risk exposure. Compliance with the various requirements of the risk policies is reviewed on a regular basis, depending on the level of risk and potential impact on the Bank's operations. Any variances from the Bank's standards are reported to the Bank's management for remedial action. The Risk Management policy is reviewed annually to implement adequate and effective risk management and control systems.

The Risk Management Policy is reviewed on annual basis aiming to apply adequate and effectively functioning systems for risk management and control. In addition, the Internal Audit function performs independent review of the quality and compliance with the risk management policies.

For a detailed discussion on the financial risks relating to the Bank please see Note 32 to the Bank's consolidated financial statements for the year ended 31 December 2019.

Strategic Risk

The sustainable development of the Bank is in direct dependence of the successful performance of the prescribed goal in the respective terms. The strategic choice based on the adequate evaluation of the risks and economic conditions provides the good management. The regular review and reassessment of the performance create conditions for respective supplementation and amendment of the goals. Positive effect is provided by the Bank's policy to ensure that it always has sufficient capital to cover the risks arising in the ordinary course of its business and to cover unforeseen emergencies

Credit Risk

The credit risk represents the current or the potential risk for the income and the capital, emerging from the incapability of the borrower to perform the requirements of an executed loan agreement with the Bank or the incapability to act in accordance with the requirements set forth in the agreement. The credit risk arises in connection to the Bank activities in lending, placing interbank deposits, as well as investment in securities. Credit risk is the most important risk for the Bank's financial profile. Management therefore carefully manages exposure to credit risk. The Bank's lending policy and instructions are developed by the respective departments responsible for credit risk management, credit activity and the Legal department and are approved by the Management Board.

The system of internal rules, procedures and standardized loan products represents the Bank's activities and strategy, regulates the credit analysis and approval process, defines loan approval authorities, sets rules on the loan documentation required by the Bank, prescribes processes for loan disbursement and ongoing monitoring, defines the criteria for acceptable collateral, types of insurance and other risk mitigation techniques. The Bank performs regular stress tests for evaluation of the exposure to credit risk, evaluation of the effect on the capital position of the Bank, identification of critical loan exposures and marking out measures for mitigation of the credit risk and maintenance of the capital position. As disclosed below, there is a concentration of risk in the loan portfolio, both in relation to a limited number of borrowers and to a limited number of economic sectors that are adversely affected by the global economic crisis.

Liquidity Risk

The liquidity risk refers to the risk that a bank might not have sufficient cash to meet deposit withdrawals or other financial obligations or mismatches in cash flows.
The main goals in the Bank's liquidity management are providing a permanent capability of the Bank to meet its payment obligations, providing resources that meet the lending demand and achieving positive financial results of the management of own and attracted funds. The goals and the strategy are correlated with the creating of stable structure of financing and adequate performance of the liquidity standards.
The liquidity management principals are:

- Centralized control on the liquidity performed by the body responsible for the liquidity management;
- Ongoing monitoring and evaluation of the cash and balances necessary within time periods in the future, evaluation of the sufficiency of the liquid assets of the Bank;
- Diversification of the funding sources;
- Adequate planning of the actions in emergency circumstances;

The Bank adopted internal rules for determining and monitoring of the liquid buffers in order to maintain additional liquidity that is promptly accessible in the event of liquid shock for a short period of time. The rules stipulate the composition of the liquidity buffer, the characteristics and the frequency of the applied stress scenarios and the funding sources in the scenario of going concern and the scenario liquidity crisis.

The liquidity position management framework includes internal limits for providing adequate coverage of the attracted funds with liquid assets, regular stress tests for evaluation of the quality and the stability of the liquid buffer as well as indicators, complying with the requirement in the regulatory framework – leverage, stable financing ration, liquidity coverage ratio.

The Bank typically uses interbank deposits to bridge temporary funding mismatches rather than to fund loans.

Targeting optimization of its liquidity management, the Bank has some limited investments in debt securities. The Bank typically invests in Bulgarian government securities and in the past has also made some investments in Bulgarian corporate bonds in order to enhance the yield earned on its liquid funds. Such investments are approved by ALCO on a case-by-case basis. The Bank's debt securities are generally booked as "available for sale" in its investment portfolio. The Bank aims to keep no more than 50% of its liquid funds in the form of debt securities and, to date, has kept below this limit.
As a result of the consistent and risk-oriented liquidity management policy the Bank succeeded in overcoming the liquidity shock in the banking system in the middle of 2014. Additional internal limits for limiting the concentration risk and consolidating the liquidity buffers were implemented. The applied methodology for evaluation of the stability of the resource at the end of December 2019 shows ration of renegotiation of deposits around 82% (2018: 84%) on an annual basis.

Interest Rate Risk

The interest rate risk relates to the potentially adverse impact of interest rate fluctuations on BACB's net income and equity value. .It is BACB's policy to reduce the interest rate risk by extending floating rate loans combined with fixed interest rate floor in order to limit the potentially negative impact as a result of non-parallel movements in interest rates. In addition and aiming to limit the interest rate risk by limiting the possibility of prepayments under business loans (SME loans, corporate clients loans and municipality loans) the Bank charges prepayment fees under disbursed business loans as a percentage of the prepaid funds on the principal. This do not apply to the disbursed consumer and mortgage loans to clients – customers, where the Bank implements the respective provisions of the Consumers Loans Act. The Bank does not charge prepayment fees under these types of loans as per the requirements of the Consumers Loans Act.

The Bank does not trade with interest rate derivatives. This policy means that the risk for the Bank to undergo significant loses in the event of major fluctuations of the interest rates markets is relatively small.

The Bank's interest rate position is monitored and managed by the Treasury Department, which reports to the ALCO. The ALCO takes an integrated view of the interest rate risk across all of the Bank's operations. Risk Management Department independently checks the interest rate risk management reports, monitors the internal interest rate risk indicators and reports its findings to BACB management on a quarterly basis.

For detailed evaluation and application of extended approaches the Bank applies the methodology as defined in Guidelines on the Management of Interest Rate Risk Arising from Non-trading Book Activities of EBA and the Principles for the Management and Supervision of Interest Rate Risk published by the Basel Committee on Banking Supervision. As per the latter the open interest rate positions are calculated under time intervals and the effect of the changes of the interest rates as percentage of the Bank's capital is measured. The model calculates the open interest rate position per time bands and measures the effect of a 200bps change in interest rates as a percentage of the Bank's capital (standardized framework based on duration estimates). The Bank has set a 10% internal limit for the effect on capital from a sudden shift in interest rates (200 bps).
As of 31 December 2019, the effect of a 200 basis points parallel shift in interest rates would amount to 0.88% of the Bank's capital base. (2018: 0.24%).

Exchange Rate Risk

The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

Whilst the Bank operates in Euro, US dollars and Leva and occasionally in GBP and Swiss francs, it has relatively limited foreign exchange exposure because since 1997, the Lev has been pegged to the Deutsche mark and, subsequently to the Euro through a currency-board system. Compliance with foreign exchange limits is monitored daily by the Treasury Department and is reviewed by the ALCO on a monthly basis.

The exchange rate risk management policy aims to maintain an open US dollar position that is as close as practicable to neutral by attempting to match the amounts of its US dollar liabilities with its US dollar denominated loan receivables and other assets. The Bank maintains a limit on its US dollar open position of 10% of its capital base and this limit was not exceeded at any time during the reporting periods ended 31 December 2019 and 2018, respectively. The Bank maintains a long Euro position (i.e. its Euro-denominated assets are greater than its Euro-denominated liabilities), equal to or greater than the Bank's equity. The Bank does not trade in foreign exchange for its own account.

The Bank only offers foreign exchange services to its clients upon request. The limit for such open overnight foreign exchange positions in all currencies is EUR 100,000. In special circumstances, this limit may be exceeded with the approval of the Executive Directors. Due to the currency board arrangement, the position of the Euro against the Lev is not considered to be an open position.

The Group from time to time is using short term foreign currency swaps in EUR/USD and EUR/BGN to manage its respective operational currency flows and also as an instrument that allows the Bank to decrease its cost of borrowing in some of those currencies by taking advantage of the existing interest rate differences.
At 31 December 2019 there are no active contracts for foreign currency swaps.

Counterparty Risk

The Bank has interbank limits with banks operating in Bulgaria (including branches of foreign banks), and with its main Euro and US dollar correspondent banks. Limits on each of these lines are approved by the ALCO.

Exposure limits for the Bank's interbank lines are approved based on a review of the capital strength, liquidity position and shareholding structure of the counterparty bank. The list of the approved counterparties is reviewed and updated at least once a year.

Investment Risk

The investments are approved by the ALCO after a review of the credit risk of the issuer. The total amount of the securities portfolio at 31 December 2019 is EUR 34.6 million (2018: EUR 31.65 million), divided in two sections - Financial assets, appraised by fair value in other comprehensive income in the amount if EUR 23.3 million and and Financial assets, accounted by amortization value - in the amount of 11.3 million. As of the same date EUR 12.3 million including EUR 11.3 million corporate debt securities and EUR 1 million equity securities, of the securities portfolio of the Bank represent corporate debt securities.

Operational Risk

Managing operational risk is an important component of sound risk management practices in modern financial institutions. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events. In this context, the most important types of operational risk involve breakdowns in internal controls and corporate governance. Such breakdowns can lead to financial losses through error, fraud, or failure to perform in a timely manner or cause the interests of the bank to be compromised in some other way.

BACB has adopted internal rules for operational risk management which regulate the process of control and management of the risk. The organizational model for operational risk management is based on the principle of division of the responsibilities between the control and the management of the risk in three main sections:

- Identification and risk management by the separate business lines;
- Independent review, evaluation and reporting of the risk by the unit for operational risk management;
- Independent verification of the controls, processes and systems used for management of the operational risk by the internal/ external auditors.

Operational risk management and mitigation is achieved through implementing internal controls, transfer of risk, monitoring or avoiding risk by exiting certain activities or processes. The main principles of the internal control include determination and delegation of the distinct powers and responsibilities of the persons responsible and providing an ethical organizational culture, adoption of rules and procedures for approval, execution and reporting of the operations, including the exceptions, analyzing of factors increasing the manifestation of the operational risk and the adoption of the mitigation measures etc.

The Bank has adopted a disaster recovery plan which ensures business continuity in emergency cases.

Custodian activities

In its capacity as an investment intermediary the Bank is safeguarding assets on behalf of its clients. As disclosed in Note 3 (Summary of Significant Accounting Policies) to the Bank's separate financial statements, no such assets are presented in the statement of financial position as they are not an asset of the Bank. It is disclosed in Note 32.5. to the separate financial statements that the Bank carries out its custodian activities in accordance with the requirements of Ordinance No 38 of the FSC.

Hedging

For a short summary of hedging instruments and the types of risks being hedged, please refer to the Notes to Bank's Consolidated Financial Statements for 2019.

Recovery Plan / Directive 59/15.05.2014

Pursuant to the requirements of the Directive 59/15.05.2014 of the European Parliament for establishing a framework for the recovery and resolution of credit institutions and investment firms, article 73d of the Credit Institutions Act and article 25 of Ordinance No. 7 of BNB all banks are obliged to prepare a recovery plan that includes actions and measures for recovery of the financial condition in the event of financial difficulties.

The Recovery Plan adopted by the Bank consists of four main sections that describe the process of the plan's preparation, the order of its activation, the options for recovery in separate scenarios and the manner for internal and external communication in the event of the plan's activation.

The Recovery Plan includes analysis of the influence of unfavorable events which may strongly influence the financial condition of the Bank, including crisis that reflect on the financial market as a whole. The processes of formation and activation of the plan, as well as the used limits and indicators connected to the preventive appraisal of the vulnerability of the liquid and capital position, profitability and risk profile of the Bank are described. Also the Plan describes and analyses the structure and key activities of the Bank, as well as the main points of its strategy. Main part of the Plan describes the recovery options – the measures for recovery chosen, evaluation of the quality/ quantity effect, realization period and probability of execution and evaluation of the stress tests results. A plan for communication with the internal structures of the Bank and outside organizations is developed, as well as stages, sequence and range of actions connected to the activation of the recovery Plan.

II. IMPORTANT DEVELOPMENTS AFTER THE DATE OF THE LAST ANNUAL BALANCE SHEET

After the date of the last Annual Balance Sheet of BACB there are no important developments.

III. EXPECTED DEVELOPMENT OF THE BANK

The Financial Plan of BACB AD for 2020 is prepared taking into account the medium-term goals, guidelines and vision of the Management for the development of the institution for the following financial year based on new regulatory changes and increased requirements for banking, as approved in the Strategy for the period 2018-2020, on the grounds of the results achieved during the nine months and the estimates for the closing of 2019, the goals and option to build on what has been achieved and seek new directions for expression. At the same time, the conditions and prospects for the development of the world and European economies were taken into account, as well as the estimates and forecasts included in the draft budget of the country for the next year. According to the autumn forecast of the Ministry of Finance (MF), the global economic growth will slow more than the expected in 2019 and 2020, but the global GDP growth will remain stable over the medium term. In their macroeconomic projections, international institutions such as the IMF, EC, ECB maintain their expectations for higher growth of the European economy in 2020 compared to this year. Negative impact has been imposed by the customs restrictions between the USA and China, the uncertainty about the exit of the UK from the EU and the unstable environment in Turkey, which is one of Bulgaria's main trading partners. According to data from the Ministry of Finance for the period 2020 to 2022, there are expectations for growth of the world economy of 3.5% to 3.6%, decline of the EU economies of 1.8% to 1.7% and growth of the Bulgarian economy by 3.3%. The draft budget of the country, as in the previous year, provides for priority development of education, defence, healthcare, social sphere activities and raising the income of the population.

According to recent BNB reporting data, at the end of the third quarter of 2019, the banking system reported stable performance, high liquidity, rising assets, credit and earnings, despite the increasing competition in the sector and the declining interest rates. In the following year, the credit institutions will face new challenges related to introducing new regulations, growing cyber risk, implementing the Payment Directive, and increased competition in the financial services sector. In compliance with the new and increased regulatory requirements, the following actions and steps must be taken in 2020:

- Maintaining an anti-cyclical capital buffer of 0.50% of the total risk exposure as of 1 October 2019 and 1.00% as of 1 April 2020;
- Maintaining an additional common equity of 1%
- through the supervisory review and evaluation process

The 2020 Strategy of the Bank sets out the following main points and expectations for the development of BACB:

- approved three-year strategic plan for the development of the Bank for the period 2018-2020, updated and supplemented at the end of the reporting period in accordance with the expectations for the completion of 2019, the main directions being the growth of the attracted funds in improving the structure and raising sustainability; increasing the realization of the acquired assets; and improving the quality of the exposures;
- credit growth, decreased relative share of problem exposures;
- increasing non-interest bearing revenues;
- upgrade of the established model for the development of the branch network with separate business centres and personal service in order to improve the quality and expand the scope of the services offered focusing on online and electronic services;
- development and refinement of the electronic service channels through introducing a new Virtual Bank and implementing new payment requirements;
- elaboration of new products for loans and borrowed funds;
- achieved high returns in the face of significant challenges to the banking sector, including unprecedented interest rates and narrow interest rate spreads for the Bulgarian market, and on this basis - effective management of the capital position;
- growth of interest revenues in conditions of high competition and low interest rates;
- growth of the net fee and commission income and increase the coverage in the administrative expenses;
- reduced cost of the borrowed funds and the interest expenses in the application of market-oriented interest rate policy;
- optimization of administrative costs;
- compliance with the regulatory requirements for liquidity, capital adequacy, minimum reserve requirements

RESEARCH AND DEVELOPMENT

BACB is a bank and as such it does not have a specialized research and development unit. The Bank provides loans tailored to the specific needs of each client. Since the beginning of 2012 the Bank started offering standardized credit products to its clients of the credit programs for retail financing and SME financing. BACB prioritizes the financing of projects with approved grants under the EU operative programs. There is a specialized unit within the Bank’s structure targeted to the activities with EU programs and financial institutions., aiming to provide the full range of services to BACB clients on each stage of the completion of EU programs projects.

TREASURY STOCK AND TRADING WITH THE BANKS OWN SHARES

The Bank does not own any treasury stock and has not bought or sold any of its own shares for its own account.
As of December 31, 2019 BACB Finance EAD (previous name Kapital Direct EAD) BACB Trade EAD and Paytech EOOD are the only subsidiaries of the Bank. As at the same date the Bank has indirect shareholding of 50% of the registered capital of IDS Fund AD. The financial results of these companies are included in the Group's financial statements on consolidated basis at 31 December 2019.
BACB Finance EAD BACB Trade EAD and IDS Fund do not own any treasury stock, have not bought or sold any of their own shares for their own account. None of the above mentioned companies own any of the shares of the Bank.

OFFICES OF THE BANK

The Bank does not have registered branches within the meaning of the Commercial Act.

Other than its headquarters in Sofia, 2 Slavyanska Str. (principal management address), the Bank has representative offices in the cities of Sofia (5), Burgas (2), Plovdiv (2), Varna (2), Kozlodui (1), Kurdjali (1), Pamporovo (1), Chepelare (1), Pleven (1), Russe (1), Stara Zagora (1) and Veliko Turnovo (1). All of the offices provide the full range of banking services, provided by the central office. The purpose of the new offices is to provide additional support of the clients base growth and service provided. The Bank has not registered any branches. Information about the locations of the five offices may be found on the Bank's web site.
The Group subsidiaries do not have any branches. BACB Finance EAD and BACB Trade EAD and Paytech EOOD locate their activities in the central office of BACB.

FINANCIAL INSTRUMENTS ISSUED BY THE BANK, BACB FINANCE EAD AND BACB TRADE EAD

In 2019 the Bank or the companies in the Group have not issued any new corporate or mortgage bond issues.

On 25 September 2019 the Bank paid on maturity the mortgage bond issue with face value of EUR 5.0 million.

As at 31 December 2019 the Bank or the companies in the Group have no obligations under bond issues.

DECLARATION FOR CORPORATE GOVERNANCE

1. Information about compliance, where applicable, with the Corporate Governance Code approved by the Deputy Chairperson of the Financial Supervision Commission (FSC) under Art. 100n, paragraph 8 of the Public Offering of Securities Act (POSA)

Pursuant to the requirements under Art. 100n, paragraph 8 of POSA, the Bulgarian American Credit Bank AD hereby declares that in 2019 it has complied, where applicable, with the National Corporate Governance Code ("the Code") approved by decision № 461-ККУ of 30.06.2016 of the FSC member exercising the powers of Deputy Chairperson of FSC in charge of the Investment Activities Supervision Department on the Corporate Governance Code under Art. 100n, paragraph 8, item 1, letter "a" of POSA.

The text of the National Corporate Governance Code is published on the web site of the Financial Supervision Commission www.fsc.bg

2. Information of the practices of corporate governance applied by the Bank in addition to the National Corporate Governance Code

The Bank reckons that the provisions of the National Corporate Governance Code sufficiently cover the requirements for good corporate governance of companies. In addition to that the Bank does not apply any additional practices for corporate governance, different from the ones stipulated by the Code.

3. Explanations as to which parts of the Corporate Governance Code approved by the Deputy Chairperson of FSC under Art. 100n, paragraph 8 of POSA are not complied with by the Bank and the grounds for that

(1) Art. 7.4, the last sentence of the Code: "The Management Board shall adopt and comply with a Code of Conduct."

By a decision of April 2012, by a decision of May 17 2018 the Management Board adopted a Code of Conduct (Code of Ethics) for the Bank's employees, which sets out the basic principles, norms of conduct and corporate values underlying the policies and business plans, rules and procedures governing the everyday operating activities in the Bank, and based on which employees perform their duties.
The Management Board has not adopted a Code of Conduct applicable only and solely to the Management Board members.

(2) Art. 9.2 of the Code: "it is recommended that the remuneration of Management Board members consist of basic remuneration and incentives"

The remuneration of the executive members of the Management Board (Executive Directors) of BACB AD consists of only basic remuneration, respectively no additional incentives are provided for.
For his/her activities a Management Board (MB) member not engaged in the operating management and representation of the Bank before third parties (nonexecutive MB member) receives no remuneration.

(3) Art. 11.6 of the Code: "It is recommendable for the Supervisory Board to assess, at least once a year, the activities of the Management Board and the work of each of its members"

At the Bulgarian American Credit Bank AD, this provision is viewed as recommendatory. In its practice, the Supervisory Board of the Bank has not assessed the work of the Management Board as a whole and/or of MB members individually.

(4) Art. 13.3, the second sentence of the Code: "It is recommendable to limit the number of consecutive terms of office that the independent members (of the Supervisory Board) can serve."

Given the recommendatory nature of the provision and the absence of such a requirement in the applicable legislation, no such limitation was introduced in the Bank. At BACB AD we believe the requirements of independence under Art. 116a of POSA guarantee sufficiently the interests of the company and the shareholders (including the minority shareholders).

(5) Art. 13.6, the second sentence of the Code: "It is recommendable that the Articles of Association of the company set the number of companies in which Supervisory Board members may take managerial positions"

Given that the Bank is a "credit institution" within the meaning of the Credit Institutions Act, applicable to it are the provisions of BNB Ordinance No. 20 Art. 10, para.5 on Issuance of Approvals to Members of Management Board (Board of Directors) and Supervisory Board of a Credit Institution and Requirements to Performing their Duties. Article 4a of the Ordinance regulates in detail the positions, which a Management and Supervisory Board member of a bank has the right to take. BACB AD finds that the regulatory provisions are sufficient and there is no need such matters to be regulated in the documents of incorporation (Articles of Association) of the Bank.

(6) (6)Art. 20 of the Code: "It is recommendable to apply a principle of rotation in proposing and selecting an external auditor"

With a view to the specifics of BACB as a credit institution and the provision of Art. 76, paragraph 4 of the Credit Institutions Act (CIA), BACB coordinates in advance with the BNB the selection of the Bank's auditors. Due to regulatory changes, a joint audit of BACB AD is carried out in 2019 by two audit firms.

(7) Art. 22.2.3 of the Code: "Corporate managements shall draw up rules for organizing and conducting the company's regular and extraordinary General Meetings of Shareholders, which shall ensure equal treatment of all shareholders and the right of each one of them to express an opinion on the items on the General Meeting agenda.

The Bank has not adopted explicit rules for organizing General Meetings of Shareholders, as it believes the legally established rules under the Commerce Act and POSA sufficiently guarantee the equal treatment and rights of shareholders at General Meetings of Shareholders.

4. Description of the main characteristics of internal control and risk management systems in relation to financial reporting

Organizational and operating independence of the risk control function from the business departments the Bank monitors and controls

The risk control function in BACB is performed by the Risk Management Directorate, which reports directly to an Executive Director in charge of Risk Management. In the organizational structure of the Bank, the Directorate is directly subordinated to the responsible Executive Director of the Bank. According to the rules of procedure and the organizational structure of the Bank, the Risk Management Directorate is independent from the business departments responsible for lending, customer transactions and investments, which are directly subordinated to another Executive Director.

To ensure consistency between the Bank's strategic goals set by the management and the operation of the directorates, including the Risk Management Directorate, the management has developed a matrix of risk indicators, which are monitored by the Audit Committee on quarterly basis.

A system of control processes for risk identification, assessment and management

The system of control processes for risk identification, measurement and management in the Bank is based on internal rules and procedures, functional descriptions of individual units and job descriptions of employees.

The procedure for setting limits in the Bank is strictly regulated, and depending on the level in the organizational structure it is approved and discussed by the higher levels in the hierarchy.
In 2019, no infringements were found of the procedure of setting powers and limits.

Credit Risk

The lending process in the Bank is based on the principle of separation of functions and competences of analysis, loan approval decision-making, management and control of lending transactions. The independence of the units engaged in control functions from the business ones they control is ensured.

The activities of credit risk identification, monitoring and management, and limiting the negative impact of credit risk are regulated in the adopted internal regulatory documents – the Risk Management Policy, Lending Policy, Guidelines on Lending to SMEs and Corporate Customers, Guidelines on Granting Consumer and Mortgage Loans to Natural Persons, Rules of Control, Management and Collection of Troubled Exposures, Internal Rules for Financial Market Transactions – Limits by Counterparty Bank, Procedure Manuals. The rules are mandatory for compliance by the Bank's structural units directly involved in lending. They consider in detail the transactions entailing credit risk, the powers of the structural units and employees directly engaged in lending, the authorization powers, procedures and activities of ex-ante, current and ex-post control, the type and quantity of accepted collateral, the required insurance, and other risk mitigation techniques.
The credit transaction approval process, respectively the levels of decision-making are clearly set forth in the existing rules and were approved by the MB of BACB AD. The composition of the committees making lending decisions is determined by the MB, and each of them consists of persons representing the Bank.

Credit risk monitoring is done on a transaction-by-transaction basis, as well as on portfolio level.
Periodic reporting with regard to credit risk, including information of the condition of the loan portfolio , compliance with internal and statutory limits, the level of concentration risk, etc. is submitted both to the Bank management, and at the regular meetings of the Independent Audit Committee, Risk Committee and the Supervisory Board.
Limits related to the Bank's lending operations are compliant with the provisions of the Credit Institutions Act, the external regulatory framework – directives, regulations, BNB ordinances and best banking practices. Cases of exceeded limits are reported in writing to the Bank's top management.
Exposure limits by counterparty are set by the Asset and Liability Committee (ALCO) within the powers delegated to that Committee by the MB. The Markets and Liquidity Division reviews new proposals of limits by counterparty; it coordinates these with the Risk Management Directorate and submits them to ALCO at least once a year. The Markets and Liquidity Division may propose for approval by ALCO change, deletion or inclusion of counterparties, where required and in case of change in the market situation or a particular counterparty's position.
The bank has adopted an internal policy and procedures for monitoring and classification of its risk exposures and estimation of expected credit losses. These documents define the approach and rules for identifying changes in the credit quality, increased credit risk, and establishing possible impairment. The specialized Committee of Monitoring, Assessment, and Classification of Risk Exposures reviews and assesses the available information and defines the amount of expected credit losses on a monthly basis..

Market risk
Management of market risk in the Bank is aimed at systematic identification, assessment, analysis, mitigation and reporting of market risk. The functions and responsibilities of the units identifying the Market Risk Management Framework is defined in the Internal Rules of Identifying, Measuring and Management of Market Risks in the Activities of BACB AD, Market Risk Management Policy, Rules of Financial Market Transactions, Rules of Management of Securities in a Banking and Trading Portfolio, Approval Procedures for Transactions of the Payments Division.

The core principles underlying market risk management are: defining and approval by the BACB MB of a market risk strategy as part of the overall risk management strategy; separation of duties among persons assuming and managing risk on current basis, and those controlling it. Current management and carrying out transactions in the financial markets is performed in BACB by the Markets and Liquidity Division in conformity with the strategy of the Bank and the decisions of the Asset and Liability Committee (ALCO) and the Management Board. Market risk control and methodological guidance of the processes is done by the Risk Management Directorate.
The Bank has a set system of limits, by which it aims to limit market risks in its day-to-day operations. Limits are grouped by the relevant market risk category. Limits/competence levels are also set by type of activities of the staff of the Markets and Liquidity Division.

Currency Risk

The Internal Rules of Transactions in Financial Markets contain a list of actively-traded currencies in which the Bank effects transactions, limits for transactions in the domestic and international interbank forex market, and limits for open forex positions. Compliance with the restriction on currency trading is systematically monitored. Any change of the limits is made after the respective approval by ALCO. The limits and/or daily open forex position ratios by counterparty, instrument, etc. are exceeded only with the permission of an Executive Director. No infringement of the set limit thresholds were reported in 2019.

Interest Rate Risk

The interest position of the Bank is monitored and managed on current basis by the Markets and Liquidity Division, which reports to the Asset and Liability Committee on a monthly basis. The Asset and Liability Committee assesses interest rate risk for the Bank in the overall context of all banking operations and activities. The Operational, Interest Rate and Other Risks and Business Continuity Division in the Risk Management Directorate performs independent current control of the reports on the open interest position prepared by the Markets and Liquidity Division, monitors the risk indicators as regards interest mismatches, and prepares quarterly reports to the management.
BACB's policy is to reduce interest rate risk by extending loans at a floating interest rate, in combination with applying fixed minimum interest thresholds for limiting the potential negative impact of nonparallel or mismatched timing of changes in the interest rates on assets and liabilities.

Price Risk

The Bank is aiming at optimal management of price risk, thus investments in securities are approved by the Asset and Liability Committee after an analysis of credit risk of the respective issuer and the potential profit on transaction level. The Bank does not maintain a trading portfolio. The portfolio is conservative in terms of counterparty risk – investments are primarily in Bulgarian securities.

Operational Risk

The operational risk control system includes developed rules and methodologies applied in the management of operational risk, and effective systems limiting errors and abuses.

The operational risk control framework comprises:

1. The Bank's risk management strategy and the degree of risk tolerance as defined in the Risk Management Policy;
2. An organizational model based on the principle of separation of duties between risk management and control, including three main pillars – identification and management of risks by individual business lines; independent review, assessment and reporting of risks by the operational risk management function; independent verification of controls, processes and systems used for operational risk management by internal and/or external auditors;
3. A reporting system covering preparation of reports and information about the nature and causes of occurrence of major operational events, as well as a comprehensive analysis and assessment of the dynamics of registered events by category and business line, aims at providing timely and accurate

information to assist business unit managers, the management and the Management Board in making appropriate decisions for enhancing the efficiency of the operational risk management framework.
As of 31 December 2017, operational risk management was performed by the Risk Management Directorate assisted by the managers of individual units in the Bank under the direct management of the MB.

The Bank has developed a Contingency and Business Continuity Plan for the Bank, adopted by the Management Board on 30 August 2012, updated with a decision of the Management Board of July 2016, aiming at ensuring business continuity. BACB has an UPS (for the head office and offices) that would keep business continuity in case of emergency power supply failure. No techniques described in the Plan were implemented in 2019.

Compliance Risk

Related to legal and regulatory sanctions, material financial losses or loss from impaired reputation as a result of noncompliance of laws, regulations, internal rules and standards, the business conduct code applicable to banking operations (collectively called compliance).
The Bank has a compliance function – the Regulatory Compliance and Control Division, which identifies and assesses the risk of regulatory noncompliance in the Bank; monitors and controls all activities, measures pursued to minimize the risks of regulatory noncompliance; Controls transposing of amendments to the regulations applicable to banking into the internal policies, rules and procedures for the Bank's compliance with them; Reports the compliance risks to the Management and Supervisory Boards of the Bank; provides training and consultancy support on compliance issues within the Bank; Regulatory compliance is a responsibility of all employees and management staff of the Bank, and it is part of its corporate culture. As a priority of regulatory compliance and control, the scope of the function covers all banking regulations, legal acts, ordinances, guidelines. The whole internal banking framework should be ensured by a sufficient, in terms of quantity and quality, set of policies, rules and procedures, which are compliant with the regulatory and legal requirements. The regulatory compliance and control unit in the Bank regularly reports to the top management on important amendments to the regulatory framework influencing internal bank policies and rules. Compliance risks identified and the measures slated for their minimization and effective management are reported. The Bank has developed a policy and rules of the introduction and organization of the compliance and control function, which are brought to the attention of all BACB employees, and the latter should know and strictly comply with them.

Additional audit services
The audit companies auditing the annual financial statements of the Bank (individual and consolidated) also issue a Report on factual findings with regard to the reliability of the internal control systems pursuant to Article 76, paragraph 7, item 1 of the Credit Institutions Act and Ordinance 14, Article 5 on the content of the audit report for supervisory purposes as at December 31, 2019(Ernst & Young Audit OOD has issued such a report for the Bank as of December 31, 2018).

5. Information under Art. 10, paragraph 1, letters "c", "d", "f", "h" and "i" of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids

(1) Major direct or indirect shareholdings (including indirect shareholdings through pyramid structures and cross shareholdings) within the meaning of Art. 85 of Directive 2001/34/EC

As of 31 December 2019, the shareholding structure of the Bank is as follows:

Shareholder	31.12.2019 Number of shares held	% of equity
CSIF AD	15,199,133	61.56%
LTBI Holdings LLC	8,814,402	35.70%
Other shareholders	677,778	2.74%
Total	24,691,313	100.00%

Based on the above, holdings of the shareholders CSIF AD and LTBI Holdings LLC can be deemed major direct shareholdings in the Bank's capital.

Ms. Tsvetelina Borislavova Karagyozova is a person who holds more than 50 percent of the shares in the General Meeting of Shareholders; and may determine more than half of the members of its Board of Directors.

On the basis of this, the indirect holding of Ms. Tsvetelina Borislavova Karagyozova can be deemed a major indirect shareholding in the Bank's capital.

(2) Holders of all securities with special controlling rights and description of these rights

The Bank has not issued any securities with special controlling rights.

(3) All limitations on the voting rights.

The Articles of Association of the Bank provides for no limitations on the shareholders' voting power. Such limitations may arise by the force of law in two cases: (a) exceeding the set shareholding thresholds without obtaining in advance the consent of the BNB pursuant to CIA and (b) voting particular transactions with related parties under Art. 114 of POSA.

(4) Rules regulating the appointment or replacement of members of the Supervisory Board and Management Board and making amendments to the Articles of Association

The Bulgarian American Credit bank AD has a two-tier management system comprising a Supervisory Board and a Management Board. Supervisory Board members may be both natural and legal persons, while Management Board members may be only natural persons.

Supervisory Board

Bulgarian legislation and the Bank's Articles of Association provide that the Supervisory Board must consist of not less than three and not more than seven members; presently the BACB Supervisory Board consists of three members. Supervisory Board members are elected and released from office in accordance with a resolution of the General Meeting of Shareholders adopted by a majority of two thirds of the shares represented at the meeting. According to the Public Offering of Securities Act, at least one third of the Supervisory Board members must be independent persons (i.e. who: are not shareholders holding 25% and more of the Bank's equity, are not employees of the Bank or of persons keeping long-term business relations with the Bank, are not persons related to those mentioned above, with another member of a board of the Bank, and of the Bank itself).

The Supervisory Board appoints and releases from office Management Board members and approves the selection and authorization of the Executive Directors (two or more executive members of the Management Board) as well as withdrawing this authorization.

Management Board

Bulgarian legislation and the Bank's Articles of Association provide that the Management Board must consist of not less than three and not more than nine members; presently the BACB Management Board consists of four members, three of whom are executive members (Executive Directors). Management Board members are elected and released from office by the Supervisory Board, with a requirement to obtain the approval of BNB.

The Bank's Articles of Association envisage that at least half of all Management Board members must be present for conducting a valid session and making valid decisions. By rule, Management Board decisions are made by a simple majority, unless the law or the Articles of Association provide otherwise. The Management Board with the approval of the Supervisory Board, elects at least two of its members as executive members (Executive Directors), who represent the Bank and are responsible for its activities. Management Board members may be reelected without limitation, and may be released from office at any time by the Supervisory Board. According to the provisions of the applicable legislation, each Management Board member may present his/her resignation with a six-moth notice addressed to the Bank.

Amendments and Supplements to the Articles of Association

The Bank's Articles of Association provides that a resolution for amendments and supplements to the Articles of Association of the Bank must be adopted by a majority of at least two thirds of the voting shares represented at the General Meeting of Shareholders. In addition, any amendment to the Articles must be approved in advance by the BNB.

Amendments and Supplements to the Articles of Association of the Bank come into effect from the date of the registration of the resolution in the Commercial Register and the approval by the BNB.

(5) Powers of Supervisory and Management Board members, and more specifically the right to issue or buy back shares.

Supervisory Board

The main powers of the Supervisory Board are to exercise ongoing control over the activities of the Management Board, including to approve the Bank's business strategy and its 3-year business plan. The Supervisory Board also monitors the operation of risk management and control systems, and the management information systems. The Supervisory Board has the powers to appoint and release from office Management Board members, and to approve the election and authorization of executive directors (two or more executive members of the Management Board), as well as the withdrawal of this authorization.

Management Board

The Management Board manages the activities of the Bank in conformity with the law. The Management Board makes decisions on all matters that are not within the exclusive competence of the General Meeting of Shareholders and the Supervisory Board. The Management Board reports its activities to the Supervisory Board and the General Meeting of Shareholders.

Issuance of Shares

The Bank's equity is increased by issuing new shares pursuant to the existing legislation, including: (1) for the purpose of raising new funds, (2) converting part of the Bank's profit into equity, (3) transforming part of the funds in the Reserve Fund into equity and (4) converting into shares bonds issued as convertible ones.

The Bank's equity may not be increased by increasing the nominal value of already issued shares, neither by converting into shares bonds not issued as convertible ones.

The Bank's equity may not be increased by nonmonetary contributions, or provided the shares are acquired by specific persons in violation of the preemptive right of shareholders (pursuant to Articles 193, 195 and 196, paragraph 3 of the Commerce Act) except in cases that are specifically provided for by law.

By way of exception, under the conditions of Art. 113, paragraph 2 of POSA (within a rehabilitation program of the Bank or an order by the BNB, if this is needed to perform a merger, or a commercial offer for replacement of shares, as well as to ensure the rights of holders of convertible bonds or warrants) the Bank's equity may be increased pursuant to Articles 193, 195 and 196, paragraph 3 of the Commerce Act. For the increase by nonmonetary contributions, the written permission of the BNB is required.

Pursuant to Art. 24, item 2 of the Articles of Association of BACB AD, the General Meeting of Shareholders is the competent authority to make decisions on increasing the Bank's capital.

Buyback of Shares

The decision for buyback of shares is of the exclusive competence of the General Meeting of Shareholders. Besides, the Bank may buy back its shares if it has obtained the written approval of the BNB pursuant to the Credit Institutions Act, the Commerce Act, POSA and other applicable legislation.

The bank may not exercise its rights on the bought back shares. These rights may be exercised only after the Bank has transferred the shares to third parties.

In 2018 the Bank did not pursue any buyback of its shares. The Bank does not hold any of its own shares. The Bank has not granted loans against its shares, neither has it accepted its own shares as a collateral. The Bank has not been a party to any transaction under Articles 187e and 187f of the Commerce Act.

6. Membership and Operation of the Bank's Management and Supervisory Bodies and their Committees

Supervisory Board

As at December 31, 2019 The Supervisory Board of BACB consists of three members:

1. Mrs. Tsvetelina Borislavova Karagyozova, Chairperson;
2. Mr. Serge Lioutyi;
3. Mr. Martin Boychev Ganev, independent member.

The main powers of the Supervisory Board are to exercise ongoing control over the activities of the Management Board, including to approve the Bank's business strategy and its 3-year business plan. The Supervisory Board also monitors the operation of risk management and control systems, and the management information systems. The Supervisory Board has the powers to appoint and release from office Management Board members, and to approve the election and authorization of executive directors (two or more executive members of the Management Board), as well as the withdrawal of this authorization. The approval of the Supervisory Board is required also for decisions of the Management Board on the following:

- the Bank's internal and organizational structure and significant organization changes;
- internal rules governing the scope, conditions and procedure of carrying out the transactions and operations of the Bank;
- opening and closing of branches;
- increasing the Bank's capital, in accordance with the authorization of the Management Board under the Articles of Association;
- acquisition and alienation of share interests, in the cases provided for by law and in the Articles;
- draft amendments and supplements to the Articles;
- real estate transactions outside the ones related to enforced foreclosure of security for loans, and which exceed the thresholds set in the Rules of the Supervisory Board and other internal rules of the Bank;
- authorization of procurators;
- extending loans that constitute a large exposure in excess of 10% of the bank's capital, and loans to board members and administrators of the Bank; and
- issuance of bonds at nominal value of the issue exceeding 1/3 of the Bank's capital base.

Management Board

As at 31 December 2019 the BACB Management Board consists of five members:

1. Mr. Vassil Stefanov Simov, Chairman and Executive Director;
2. Mr. Ilian Petrov Georgiev, member of the Management Board and Chief Executive Officer;
3. Mr. Alexander Dimitrov Dimitrov, member of the Management Board and Executive Director;
4. Ms. Loreta Ivanova Grigorova, member of the Management Board and Executive Director
5. Ms. Silvia Kirilova, member of the Management Board;

The Management Board manages the activities of the Bank in conformity with the law. The Management Board makes decisions on all matters that are not within the exclusive competence of the General Meeting of Shareholders and the Supervisory Board. The Management Board reports its activities to the Supervisory Board and the General Meeting of Shareholders.

The most important decisions of the Management Board, which require approval by the Supervisory Board are described above.

Audit Committee

The BACB Audit Committee consists of three members, two of whom are members of the Supervisory Board, and one is independent from the Supervisory Board, as follows:

1. Mr. Martin Boychev Ganev, member of the Supervisory Board, Chairman of the Audit Committee;
2. Mr. Serge Lioutyi, member of the Supervisory Board till 29 September 2017;
3. Ms. Rayka Stoyanova Ontsova, independent member of the BACB Audit Committee;

The Audit Committee is a specialized body of the Bank with functions in accordance with the Independent Financial Audit Act.

The Audit Committee is elected by the General Meeting of Shareholders of the Bank and performs the following functions:

- controls the quality and integrity of the accounting policy, financial reports and information disclosure practices;
- monitors financial reporting processes;
- monitors the compliance with applicable regulatory provisions, tax liabilities and relevant internal rules of procedure and business conduct rules;
- monitors the independence and effectiveness of internal audit;
- monitors external (independent) auditors and their independence in accordance with the requirements of the existing legislation or the regulatory authorities, including where additional services are provided;
- monitors the efficiency of the internal control systems;
- monitors the efficiency of the risk management systems;
- makes recommendations to the General Meeting of Shareholders on the selection of external (independent) auditors to perform an independent financial audit.

Risk Committee

The BACB Risk Committee was established with a decision of the Supervisory Board of BACB of 9 September 2014, with functions and duties of the Committee pursuant to the requirements of BNB Ordinance No. 7 on Organization and Risk Management of Banks. The Risk Committee consists of three members of the Supervisory Board, as follows:

1. Mr. Serge Lioutyi, Chairman;
3. Mrs. Tsvetelina Borislavova Karagyozova;
3. Mr. Martin Boychev Ganev.

The Risk Committee supports the Supervisory and Management Boards in the management, monitoring and control of the risks assumed by the Bank. The Risk Committee performs the following functions:

- advises and consults the Supervisory and Management Boards with regard to present and future risk tolerance/appetite, and with regard to control of the implementation of the Bank's strategy;

- monitors the efficiency of the framework, systems and processes related to risk management and proposes to the Supervisory and Management Boards measure to improve the existing organization and controls;
- checks the adequacy of the incentives provided under the Remuneration Policy compared to the capital, liquidity and business plan performance;
- monitors the implemented price policy and proposes to the Supervisory and Management Boards adjustments in case of established deviations from the business model and risk strategy;
- assists the Supervisory and Management Boards in controlling and assessing capital adequacy, liquidity and sources of funding of the Bank;
- monitors compliance with internal rules and their conformity with the regulatory framework.

Remuneration Committee

As of 10 September 2019 and in compliance of the changes in the regulatory framework in the reporting period the Remuneration Committee of BACB does not function as a separate advisory body to the Supervisory Board. As of the same date and pursuant to the BACB Remuneration Policy and Ordinance 4 of BNB for the remunerations in banks all of the functions, rights and obligations related to the remuneration management in the Bank continue to be performed by the Supervisory Board.

7. Diversity Policy of the Bank with Regard to Management and Supervisory Bodies

Special legally established criteria for the selection and approval of candidates for board members of the Bank, including but not limited to, requirements to education, qualification and professional experience, reliability and suitability, etc. are applicable to BACB as a credit institution within the meaning of CIA.
BACB states the following information in relation to diversity with regard to the Supervisory and Management Boards:

Supervisory Board

- All members of the Supervisory Board have university education with a graduation degree not lower than “master’s”;
- All members of the Supervisory Board have sufficient, for the relevant education, banking qualification and professional experience.
- All members of the Supervisory Board meet the remaining requirements to taking the relevant position in accordance with the Credit Institutions Act and BNB Ordinance No. 20 on Issuance of Approvals to Members of Management Board (Board of Directors) and Supervisory Board of a Credit Institution and Requirements to Performing their Duties;
- The membership of the Supervisory Board included persons of male and female gender (the Chairperson of the Supervisory Board is a female and the other two members are males);

Management Board

- All members of the Management Board of BACB AD have university education with a graduation degree not lower than “master’s”, and three of the Management Board members have a university degree in economics/finance, and one Management Board member has a university degree in law;
- The executive members of the Management Board (Executive Directors) have worked at least 5 years on managerial positions in a bank or a comparable company or institution;
- All members of the Management Board meet the remaining requirements to taking the relevant position in accordance with the Credit Institutions Act and BNB Ordinance No. 20 on Issuance of Approvals to Members of Management Board (Board of Directors) and Supervisory Board of a Credit Institution and Requirements to Performing their Duties;
- The membership of the Management Board included persons of male and female gender (two of the members of the Management Board are females and other three of the members are males);

In addition, the Bank implements and complies with the following principles, as part of the diversity of composition of the Supervisory and Management Boards:

- the membership of the Supervisory and Management Boards is so composed as to guarantee the professionalism, impartiality and independence of their decisions in relation to the activities of the Bank;
- after their election, board members are acquainted with the main legal and financial matters in relation to the Bank's activities;
- board members continuously enhance their professional qualification;
- board members have the necessary time to perform their tasks and duties; the executive members of the Management Board (Executive Directors) are present on a daily basis at the registered address of the company;

Based on the above, BACB believes the compliance with the described principles and norms sufficiently guarantees greater transparency in the information provided by the Bank, results in improved performance with limited costs, better management of nonfinancial risks, etc. Compliance with and disclosure of these principles act as a catalyst for increasing and improving the Bank's performance in terms of corporate and social responsibility, which can impact positively the manner in which the Bank is perceived by the general public and by consumers, respectively.
The disclosures contained in this Annual Report of Activities in relation to the activities and policies of the Bank in the area of ecology and environmental protection results in better resource management and internal sustainability awareness.

Other information, related to the bank's performance in 2019 (Appendix 10, Ordinance 2 of the FSC)

Sources of revenue and their dynamics in 2019

The table below provides a breakdown of the sources of income of the Bank on a consolidated basis, as well as the variance in revenue by source in 2019 as compared to 2018.

	2019		2018		2019/2018
INCOME	000 EUR	%	000 EUR	%	%Δ
Interest Income	24,304	80.07	22,031	82.58	10.3%
Fees and commission income, net	5,110	16.84	3,531	13.23	44.7%
Other non-interest income, net	938	3.09	1,118	4.19	-16.0%
TOTAL	30,352	100%	26,680	100%	13.77%

The interest income represented over 80.1% of the Bank's total income for 2019. For a further discussion, please see section Results of Operations above.

Main markets, sources of funds and concentration of borrowers and lenders

The Bank operates in Bulgaria, where it generates its income.

BACB does not have investments abroad except for funds placed in the interbank money markets and current accounts with international banks with high level credit rating. The debt securities portfolio of the Bank includes mainly Bulgarian government bonds. In 2019 the Bank continued and broadened the presenting of deposit products for individuals and households on the German and Spain Markets. at Y/e 2019 the deposits from Germany represent 7.6% and these from Spain – 2.5% of the total deposits from clients and 7.3% and 2.4% of the liabilities of the Group. Because of the significant number of clients from Germany, there is no single client on the German market with share larger than 10% of the total expenses.

The Loan Portfolio of the Bank includes mainly loans to clients from Bulgaria. As of December 31 2019 and 2018 there are no exposures towards other countries that exceed 10% of the amount of the Bank's assets. Meanwhile there is no single client which have received more than 10% of the operating expenses of BACB (including interest expenses, fees and commissions expenses and non-interest expenses).

For a detailed discussion on sources of funds, please, see section Capital Resources above.

Large transactions or transactions with significant influence for the Bank's operations

Pursuant to the requirements of Ordinance No. 2 the Bank acknowledges for threshold for materiality of its transactions the thresholds under art. 114 of POSA.

In 2019the Bank has not executed any large transactions pursuant to art. 114 (1) of the POSA concerning the Bank's assets and liabilities.

Transactions with related parties, transactions outside of the normal scope of activity or unusual transactions

In 2019 the Bank has executed transactions with related parties within the scope of its regular activities and under the market conditions. The main transactions with related parties represent deposits to the managerial and control bodies, credit exposures to subsidiaries and other related parties. For details on transactions with related parties, please see Note 31 to the Consolidated Financial Statements for 2019.

Unusual events, circumstances or ratios that may have material impact on the Bank's activity or results from operations

There were no such events in 2019.

Off-balance sheet exposures

The unutilized commitments on loans represent funds that are committed but not yet disbursed to borrowers. At 31 December 2019 unutilized commitments on loans represented 8.7% of net loans. For a detailed breakdown of off-balance sheet exposures, please see the Selected Statistical Information above and Note 28 to the 2019 Consolidated Financial Statements of the Bank.

Information of the transactions of the Issuer, its subsidiaries and its mother company as borrowers

As stated above, the Bank uses financing from the Bulgarian Development Bank AD under the partnership program of the BDB called "Forward". Detailed information on the parameters of the financial agreement is given above in Section I "Overview and selected financial information", section "Capital resources" of the current Annual report.

Based on the information provided by the company in 2019 CSIF AD - a company owning more than 50% of the shares with voting rights of the Bank's capital, used bank loans in 2019. Detailed information on the terms and conditions under the bank loans is provided in the tables below.

Agreement for a loan-overdraft № 81 dated 27.05.2008

Creditor	Unicredit Bulbank AD
Initial amount	EUR 16 200 000
Unpaid part of the loan as at 31.12.2016	BGN 8,773,248.84
Maturity	31.05.2020
Pricing:	Upon utilization in EUR interest: 1 m EURIBOR+2% margin, but not less than 3,9% Upon utilization in BGN interest: Average Deposit Index+2,55% margin, but not less than 2,7%
Collateral:	Mortgage of a Land Plot with area 36 812 sq.m. and buildings constructed on it with are 6 870 sq.m. in Sofia, 2, Veslets Str. Mortgage on a 5-storey massive administrative building having a basement and attic floor with total built-up area of 3 193,19 sq.m., together with the land plot with area 554,48 sq.m. on which the building in the city of Sofia, 2, Slavyanska Str., was constructed.

The Bank's subsidiaries – BACB Finance EAD and BACB Trade EAD use funding in the form of bank loans, provided by the Bank as a creditor. Detailed information on the parameters of the bank loans is given in the tables below.

BACB Finance EAD

Loan Agreement № 003940.03 dated 30.09.2014

Creditor	BACB AD
Initial amount	Up to EUR 1 000 000

Unpaid part of the loan as at 31.12.2017	EUR 491,711.32
Maturity	20.09.2020
Pricing:	6M Euribor + margin, but not less than 4%
Collateral:	Pledge of the funds under a bank account at the amount of EUR 516,404.80

BACB Trade EAD

Loan agreement № 026158.01 dated 12.02.2014

Creditor	BACB AD
Initial amount	BGN 200 000
Unpaid part of the loan as at 31.12.2017	BGN 0.00
Maturity	20.02.2020
Price conditions:	Management fee: 0,25% Engagement fee: 0,25% Interest rate – 5%
Collateral:	Pledge on current and future receivables

Loan Agreement № 026158.03 dated 12.02.2014

Creditor	BACB AD
Initial amount	BGN 400 000
Unpaid part of the loan as at 31.12.2017	BGN 0.00
Maturity	20.04.2021
Price conditions	Management fee 0,25% Interest rate – 5%
Collateral	1. Second in a row pledge on the aggregation of all of the current and future receivables 2. First in a row pledge of goods in turnover / under the respective transaction

Equity interests, fixed assets and investment in securities

Details on the fair values of investments in securities classified "recognized at fair value through other comprehensive income" as of 31 December 2019 and at 31 December 2018, are provided in Note 16 to the Consolidated Financial Statements of the Bank.

At 31 December 2019 the Bank had the following participations in other companies:

Owner	Company	# of shares held	Nominal value of 1 share	Date of acquisition	% shareholding
BACB	BACB Finance EAD (previous name Kapital Direct EAD)	3,000,000	1.00	4/13/2006	100.00
BACB	BACB Trade EAD	50,000	1.00	6/13/2013	100.00
BACB	Paytech EOOD	1,000,000	1.00	04/17/2019	100.00

				10/14/2019	
BACB	ERG Capital – 3 ADSIP	96,667	1.00	6/26/2007 – 7/26/2007	4.60
BACB	Bulgarian Stock Exchange	20,000	1.00	13/03/2003	0.30

All material properties owned or leased by the Bank for operational purposes are:

Address	Description	Tenure	Area (sq. m.)
2 Slavyanska Str. 1000 Sofia	Head office	Lease Agreement expiring in December 2021	2,691.43 (78.912% of the total build-up area)
16 Krakra Str. 1504 Sofia	Operational purpose building	Ownership title	2,321 sq. m.
202 Vitosha Blvd. Sofia	Office	Lease Agreement expiring in December 2027	177.22
159 Tsarigradsko Shose Blvd. Sofia	Office	Lease Agreement, expiring in May 2021	182
13 Henrich Ibsen Str. Sofia	Office	Lease agreement expiring in December 2023	205.30
6 Belgrad Str. 4000 Plovidv	Office	Lease Agreement expiring in March 2022	287
125 6-ti Septemvri Blvd. 4000 Plovdiv	Office	Lease Agreement expiring in July 2022	115
76 Tzar Simeon Veliki 6000 Stara Zagora Bulgaria	Office	Lease Agreement expiring in March 2018	179
91-93 Slivnitza Street 9000 Varna	Office	Leasehold expiring May 2022	171
100 Osmi Primorski Polk Bldvd. Varna	Office	Lease agreement expiring in March 2024	102.66
5 Adam Mitzkevitch Street 8000 Bourgas	Office	Ownership title	157
57 Ferdinandova Str. Burgas Bulgaria	Office	Lease Agreement expiring in April 2022	592
1 Despot Slav Str. Kardjali	Office	Lease Agreement expiring May 2023	11
3 Stefan Karadja Str. Kardjali Bulgaria	Office	Lease Agreement expiring in February 2024	167

4 Alexandrovska Str. Russe Bulgaria	Office	Lease Agreement expiring in June 2024	182
15 Danail Popov Str. Pleven Bulgaria	Office	Lease Agreement expiring in May 2019	171
39 P.R.Slaveykov Str. Pleven	Commercial Property	Lease agreement expiring in August 2023	62.70
41 Hristo Botev Str. Kozlodui Bulgaria	Office	Lease Agreement expiring in September 2023	90,60
Hotel Orlotets Pamporovo Bulgaria	Reception	Lease Agreement expiring in December 2023	5
1 Ivailo Str. Veliko Tarnovo Bulgaria	Office	Lease Agreement expiring in February 2021	215,80
7 Han Asparuh Str. Chepelare Bulgaria	Office	Lease Agreement expiring in March 2023	107
1B Vassil Levski Str. Kazichene, Sofia	Commercial Property	Lease agreement expiring in October 2029	655.84

All of the investments described in the table below are financed with the Bank's capital resources.

As disclosed in the Group's consolidated financial statements for 2019, as of 1 January 2017 the Group has changed its accounting policies concerning the subsequent measurement of its investment properties and the latter have been measured at fair value in the Group's statement of financial position. In accordance with the requirements of the applicable IFRS the comparable information in the prior reporting periods has been restated appropriately and the investment properties held are presented as if they have always been carried under the fair value model. For the reported period Y 2019 the Bank disposed of real estate properties, classified as "investment properties" with gross balance value of EUR 1.4 million. For the reporting period upon Management's resolution investment properties with balance value of EUR 9.17 million were reclassified as "assets held for sale" and reclassified as fixed assets and inventory (assets under development) EUR 0.807 million. The balance value of the investment properties as of December 31, 2019 is EUR 51.69 million (2018: 44.56 million). The balance value of the assets held for sale as of the same date is EUR 3.7 million (2018: EUR 12.82 million), with newly acquired assets in the period in the amount of EUR 2.92 million and disposed assets with balance value of EUR 2.85 million.
The sum of the two positions show a total decrease by 3.5% compared to the previous year.
These assets are subject to future disposition that is facilitated by a specialized unit in the Bank.

Details on these categories at 31 December 2019 and 2018 are provided in Note 18 and Note 20 to the Consolidated Financial Statements of the Bank.

Loans received and extended by the Bank including guarantees and other commitments

The Bank is a lending institution which provides banking services, including through extending loans, providing bank guarantees and gathering deposits, which represent the core of its business activity. For details on the Group's loan portfolio and structure of funding, please, see the discussion above as well as Notes 15, 28, 32 and 22-25 to the Group's consolidated financial statements for 2019.

Use of proceeds from the issuance of new bonds or shares

As described herein above, on 25 September 2019 the Bank paid on maturity the mortgage bond issue with face value of EUR 5.0 million.

As at 31 December 2019 the Bank or the companies in the Group have no obligations under bond issues.

Earnings guidance and results forecasts

The Group has a policy not to provide earnings guidance and it does not publish forecasts of its expected results.

Funding strategy and management

Historically the Group's funding strategy has been designed around the longer-term funding requirements of its target markets, and has been aiming to raise wholesale funds from domestic and foreign debt capital markets and international banks. As a result, the Group has not developed a large network of branches as most of its competitors have done.. Results of the deposit raising strategy in the last financial years are excellent and the customer deposits reached EUR 721.14 million as at December 31, 2019.

Further information for the Bank's liquidity is provided herein above in sections "Capital Resources" and "Risk Management" above.

Planned investments and ability to finance

Loans and advances to customers form the main portion of the assets of the Bank. BACB shall continue to pursue its targets for small and medium-sized enterprise (SME) financing and will simultaneously search for diversification of its portfolio through exposures to corporate customers and other sectors of strong fundamentals such as renewable energy as well as the retail banking.

For details on the Bank's ability to finance its loan portfolio and the associated financial risks, please see sections Capital Resources, Liquidity and Risk Management above.

Changes to the general governance principles of the Bank and in its economic group

In 2019 the Bank has not changed its general governance principles.

The Bank declared adherence to the National Code for Corporate Governance adopted by the deputy governor of the Financial Supervision Commission in charge of "Investment Activities Supervision" division as a corporate governance code under art. 100n (7) of POSA.

A detailed analysis of the compliance with the corporate governance principles and guidelines as per the National Code for Corporate Governance can be found herein above in section VIII "Declaration for Corporate Governance"

Internal control, compliance and risk management

The Bank maintains clearly defined operating procedures with respect to its internal controls, which are updated as and when necessary to cope with the growth in the Bank's business. The Bank's organizational structure and human resources policies are designed to ensure that all areas of the Bank's operations, including those associated with financial reporting, are managed and supervised effectively by competent and well-qualified staff. The Internal Audit Department also reviews the operation of the Bank's internal control systems and reports the results of this review directly to the Supervisory Board and to the general meeting of the shareholders.

Management is confident that the Bank's internal control systems are adequate and the Bank continues to refine its systems to ensure that this remains the case.

For details on risk management, please see section Risk Management above.

Changes to the Bank's Management Board and Supervisory Board

In the reporting period no changes were made in the composition and size of the Supervisory Board and the Management Board of BACB AD

Payments by BACB and/or its subsidiaries to members of management and controlling boards and committees

For their services provided by the members of the Supervisory Board in 2019 under Management and Control Agreements as a member of the Supervisory the Bank has paid a total remuneration of EUR 30.0 thousand as follows:

Under Management and Control Agreement as a member of the Supervisory Board:	Payments in 2019 (in EUR '000)
Tzvetelina Borislavova Karagyozova	10.0
Martin Boychev Ganev	10.0
Serg Lioyti	10.0
Total	30.0

Ms. Rayka Ontzova – independent member of the Audit Committee received a payment in the amount of €10.0 thousand for the service provided as a member of the Audit Committee during 2019. The rest of the Audit Committee members were paid in their capacity of Supervisory Board members as disclosed above.

For the services, provided by the members of the Management Board in 2019 under Management Agreements the Bank has paid a total of EUR 286.3 thousand in 2019 as follows:

Under Management Agreement as a member of the Management Board	Payments in 2019 (in EUR '000)
Vassil Stefanov Simov	71.6
Ilian Petrov Georgiev	77.7
Alexander Dimitrov	65.4
Loreta Ivanova Grigorova	71.6
Total	286.3

For provided legal services in 2019 the Bank has paid a total remuneration in the amount of EUR 65.4 thousand (VAT excluded) to a law firm in which the member of the Management Board Ms. Silvia Kirilova Kirilova is managing partner.

Besides the above mentioned no other member of the BACB Supervisory Board, Audit Committee or Management Board in such capacity has received any other remuneration from the Bank for 2019.

Shares and options of the Bank owned by members of Senior Management

The table below sets out the interests of the Members of the Supervisory Board and the Management Board of the Bank in the Share capital of the Bank:

	Number of Shares currently held	% of issued share capital
Tzvetelina Borislavova Karagyozova	-	-
Jason Lyle Cook	-	-

Martin Boychev Ganev	-	-
Serge Lioutyi	-	-
Vassil Stefanov Simov	-	-
Ilian Petrov Georgiev	-	-
Alexander Dimitrov Dimitrov	-	-
Loreta Ivanova Grigorova	-	-
Silvia Kirilova Kirilova	1,600	0.0065%

It should be noted that Mrs. Tzvetelina Borislavova Karagyozova is a controlling person to the direct majority owner of BACB – CSIF AD (for additional details please refer to section 'Shares of the Bank' below, point 3 'Major Shareholders').

Save as set out above, no Member of the Supervisory Board or the Management Board of the Bank has any other interest in the share capital of the Bank.

Except as mentioned above, no member of the Supervisory Board or the Management Board of the Bank has bought or sold any shares of the Bank during 2019.

Rights or privileges of the Directors to buy shares or bonds issued by the Bank

Members of the Supervisory Board and the Management Board of the Bank do not have any special rights or privileges in acquiring securities issued by the Bank. The Bank does not have a stock option plan.

Other ownerships and directorships of the Directors

No member of the Supervisory or of the Management bodies of the Bank has participations in companies as unlimited partner.

As at December 31, 2019 in addition to their directorships of the Bank, the Members of the Supervisory Board and Management Board hold the following shareholding in the amount of more than 25% of the capital or are members of the following management and control bodies as at 31 December 2019.

MEMBERS OF THE SUPERVISORY BOARD

1. Ms. Tzvetelina Borislavova Karagyozova – information about shareholdings and/or directorships and are members of the following partnerships:

Name of the Company	Direct or indirect share capital patricipation	Participation in management or supervisory bodies
CSIF AD	Direct participation – owner of 99.99% of the share capital and indirect participation through the controlled Credo Bonum Foundation – owner of 0.01% of the share capital	Member of the Board of Directors and Chief Executive Director
ITP Bulgaria EOOD	Direct participation – owner of 100.00% of the share capital	-
Credo Bonum Foundation	-	Chairperson
Tipping Point Foundation	-	Executive Director

Global Bulgaria Initiatives Association	-	Chairperson
Bulgarian Counsel for Sustainable Development Association	-	Member of the Management Board
Digitalization and Implementation of New Technologies Foundation		Chairperson of the Management Board
National Tourism Board Association		Member of the Management Board
Bulgarian Ski School Association		Chairperson
CSIF Hydro EAD	Indirect participation through the controlled company CSIF AD – owner of 100.00% of the share capital	-
VETS Tsankova Reka EOOD	Indirect participation through the controlled company CSIF Hydro EAD – owner of 100.00% of the share capital	
ERT Hydro EOOD	Indirect participation through the controlled company CSIF Hydro EAD – owner of 100.00% of the share capital	-
Disib OOD	Indirect participation through the controlled company CSIF AD – owner of 87.43% of the share capital	-
Windex OOD	Indirect participation through the controlled company CSIF HYDRO EAD – owner of 99.04% of the share capital	-
Providenti EOOD	Indirect participation through the controlled company Disib OOD – owner of 35.70% of the share capital	
Libera Estate EOOD	Direct participation – 50.33% of the share capital are owned by Ms. Tzvetelina Borislavova Karayozova and Indirect participation through the controlled company CSIF AD – owner of 49.77% of the share capital	
Sunny Apple EOOD	Indirect participation through the controlled company CSIF AD – owner of 100% of the share capital	
Sunny Fruits Bulgaria OOD	Indirect participation through the controlled company ITP-Bulgaria EOOD – owner of 10% of the share capital, through the controlled company “Sunny Apple” EOOD – owner of 10% of the share capital and through the controlled company “Libera Estate” OOD – owner of 20% of the share capital	
Rival 5 EOOD	Indirect participation through the controlled company CSIF AD – owner of 100.00% of the share capital	-

Pamporovo AD	Indirect participation through the controlled company CSIF AD – owner of 84.486% of the share capital and through the controlled company "Despred" AD – owner of 15.323% of the share capital	-
Monek – South AD	Indirect participation through the controlled company CSIF AD – owner of 79.50% of the share capital	-
Port Bulgaria West EAD	Direct participation – 59.92% of the share capital are owned by Ms. Tzvetelina Borislavova Karagyozova and Indirect participation through the controlled company CSIF AD – owner of 25.90% of the share capita and through the controlled company "Disib" OOD – owner of 14.18% of the share capital	
PB Management EOOD	Indirect participation through the controlled company Port Bulgaria West EAD – owner of 100% of the share capital	
Sea Dream EOOD	Indirect participation through the controlled company Port Bulgaria West EAD – owner of 100% of the share capital	
Buljack EAD	Indirect participation through the controlled company CSIF AD – owner of 100.00% of the share capital	
Sea Food EOOD	Indirect participation through the controlled company CSIF AD – owner of 100% of the share capital	
PB Shipping OOD	Indirect participation through the controlled company "Port Bulgaria West" AD – owner of 94.54% of the share capital	
Despred AD	Indirect participation through the controlled company CSIF AD – owner of 93.78% of the share capital	-

2. Mr. Serge Lioutyi – does not have shareholdings and/or directorships and are members of partnerships except her position in BACB

3. Mr. Martin Boychev Ganev – information about shareholdings and/or directorships and are members of the following partnerships:

Name of the company	Direct or indirect share capital participation	Participation in management or supervisory bodies
Projects Energy Ecology Finance AD	Direct participation – owner of 90.00% of the share capital	

Passat Bulgaria AD	Direct participation – owner of 26.158% of the share capital	
Papia 1 EOOD*	Direct participation – owner of 100.00% of the share capital	Manager
OPM OOD*	Direct participation – owner of 99.00% of the share capital	Manager
Green Hills EOOD*	Direct participation – owner of 100.00% of the share capital	Manager
Green Strandja EOOD*	Direct participation – owner of 100.00% of the share capital	Manager
SMS Rodopi OOD*	Direct participation – owner of 33.33% of the share capital	Manager
Easy Service OOD*	Direct participation – owner of 25.00% of the share capital	Manager
Ansa Borima OOD	Direct participation – owner of 50.00% of the share capital	
Pomorie Vineyard AD		Member of the Board of Directors
DK-Domostroene AD	-	Member of the Board of Directors
Bulgarian Economic Forum Association		Member of the Management Board
French School Victor Hugo		Member of the Management Board

*The companies form a group of companies under §1, (13) (c) of the additional provisions of the Supplementary Supervision of Financial Conglomerates Act.

MEMBERS OF THE MANAGEMENT BOARD

1. Mr. Vasil Stefanov Simov, Executive Director – information about shareholdings and/or directorships and are members of the following partnerships

Name of the company	Direct or indirect share capital participation	Participation in management or supervisory bodies
CSIF AD	-	Member of the Board of Directors
Sofia Commodity Exchange AD	-	Member of the Board of Directors and Executive Director
Friends of Volleyball Association		Chairman of the Management Board
Stoychev-Kaziiski Volleyball Academy Association		Member of the Management Board

2. Mr. Ilian Petrov Georgiev, Chief Executive Officer - information about shareholdings and/or directorships and are members of the following partnerships:

Name of the company	Direct or indirect share capital participation	Participation in management or supervisory bodies
BACB Trade EAD	-	Chairman of the Board of Directors
BACB Finance EAD		Member of the Board of Directors
IDS Fund AD		Member of the Board of Directors
Nivel group OOD	Direct participation – owner of 50.00% of the share capital	
Stana Vineyard OOD	Direct participation – owner of 98.00% of the share capital	

3. Mr. Alexander Dimitrov Dimitrov, Executive Director - information about shareholdings and/or directorships and are members of the following partnerships:

Name of the company	Direct or indirect share capital participation	Participation in management or supervisory bodies
ALX Investments EOD	Direct participation – owner of 100.00% of the share capital	

4. Ms. Loreta Ivanova Grigorova, member of the Management Board - does not have shareholdings and/or directorships and are members of partnerships except her position in BACB.

5. Ms. Silvia Kirilova, member of the Management Board – information about shareholdings and/or directorships and are members of the following partnerships:

Name of the company	Direct or indirect share capital participation	Participation in management or supervisory bodies
Law office Kirilov and Kirilova		Managing Partner

Conflicts of interest (Article 240b of the Commercial Act)

In accordance with Art.116b.(1).2. of POSA and the Bank's Articles of Association the members of the Management Board and the Supervisory Board should avoid any direct or indirect conflicts of interest and if such conflicts arise they should disclose it in writing before the respective authority and should not participate in and should not try to influence the other Board members when taking a decision.

None of the Directors or the senior management of the Bank has any potential conflicts of interest between his or her duties to the Bank and his or her private interests.

No member of the Supervisory Board and the Management Board of the Bank or a party related to them has entered into any deals or agreements with the Bank outside of its ordinary course of business. All transactions between the Bank and members of the Supervisory Board and the Management Board, to the extent that there are any, are executed at an arm's length basis and following approval according to the Bank's bylaws and rules of operation.

Litigation

The Bank is not a party to any pending court, administrative or arbitration proceedings, regarding receivables or obligations exceeding 10 per cent of its capital.

Within its ordinary course of business, in particular the intense management of classified loans in 2019, the Bank is party to foreclosure and insolvency proceedings against borrowers for collection of delinquent loan amounts.

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X. INFORMATION UNDER APPENDIX 11, ORDINANCE 2 FSC

1. Capital structure

Share capital

As at 31 December 2019 and 2018 the registered share capital of the Bank is in the amount of BGN 24,691,313, divided into 24,691,313 ordinary book-entry voting shares with face value of BGN 1.00.

All shares issued are paid in full and are registered for trade on Bulgarian Stock Exchange – Sofia.

Each of the shares ranks pari passu amongst themselves, with no preferential rights attached to any of the shares. Each share entitles its holder the reight of one vote at the general meeting of shareholders, the right to receive dividends and the right of liquidation quota in the procedure of liquidation/ dissolution of the Bank

The following table shows the issued and outstanding share capital of the Bank at the dates indicated:

	Number of issued Shares	Paid-up share capital (BGN)
31 December 2019	24,691,313	24,691,313
31 December 2018	24,691,313	24,691,313

Pre-emption Rights

Each holder of shares has pre-emptive rights to subscribe for any new shares or convertible bonds issued by the Bank pro rata to its existing holding of shares. The number of Shares required to subscribe for one new share or convertible bond must be specified in the shareholder resolution approving the share capital increase. Under Bulgarian law, pre-emption rights may not be removed in any way, unless those pre-emption rights are automatically removed by operation of art. 113 (2) of POSA which occurs whenever shares are issued for the following purposes: (i) for implementation of a recovery program for alignment of the capital adequacy in compliance with the requirements of the law or in the event of compulsory administrative measure imposed, requiring an increase of the capital under art. 195 of the Commercial Act; (ii) for execution of a merger or a non-cash tender offer for exchange of shares or for guaranteeing of the rights of the holders of warrants or convertible bonds.

The competent body under para (a) above is the Bulgarian National Bank.

The persons who are shareholders of the Bank on the 14th day after the date of the resolution of the General Meeting of the Shareholders for a capital increase are entitled to participate in the capital increase. However, if the resolution for capital increase is adopted by the Management Board the right to participate in the capital increase is exercised by the persons, who are shareholders of the Bank on the 7th day after the date of publication in the Commercial Register of the announcement for the beginning of the public offering (the beginning of the subscription). On the business day following the ex-dividend date (or the seventh day after the announcement, as appropriate) the Central Depository opens rights accounts in the name of the relevant shareholders based on the register at the Central Depository at such date.

If the capital increase is authorized by a shareholder resolution, the pre-emption rights accrue to those persons registered as shareholders at the Central Depository on the ex-dividend date. If the capital increase is authorized by a unanimous resolution of the Management Board, the pre-emption rights accrue to those persons registered as shareholders at the Central Depository on the seventh day after the announcement of the rights issue in the Commercial Register.

The first date on which pre-emption rights may either be: (1) exercised to subscribe for new shares or convertible bonds; or (2) traded on the regulated market is determined in the decision for the capital increase and have to be specified in the announcement for the beginning of the public offering (the beginning of the subscription). The final date for the exercise of pre-emption rights must be between fourteen and thirty days from the date set for the first exercise of such rights. All rights not exercised within this period must be offered to the public by means of an one-day auction organized by the BSE on the fifth business day after the final date on which rights may be traded. Any right acquired pursuant to the auction must be exercised within ten business days of the auction.

2. Restrictions on Share Transfers

In general there are no limitations on the transfer of the shares and shareholders do not need the approval of the Bank or of any other shareholder in order to do so. However, due to the fact that BACB is in the banking business certain rules and regulations, stipulated in the Credit Institutions Act do apply.

Certain Permissions under Bulgarian Act on Credit Institutions

In general there are no restrictions on the transfer of shares and the shareholders do not need the Bank's or any other shareholders permissions for transfer of shares. Nevertheless certain provisions of the Credit Institutions Act are applicable because BACB is a credit institution.

Pursuant to the Credit Institutions Act, the pre-approval of the Bulgarian National Bank (BNB) is required whenever a person intends to acquire, directly and/or through related parties, a number of shares such that its interest in the bank's capital is considered qualified (equal to or exceeding 10%) or may reach or exceed the thresholds of 20%, 33%, 50%. If the acquisition is done on the Bulgarian Stock Exchange or without pre-approval, the acquirer has no voting rights at the general meeting of the shareholders until proper permission is obtained. If BNB declines to issue proper permission, it has the authority to demand the acquirer to sell the excess number of shares within 1 month.

Any shareholder intending to reduce its qualified ownership in a bank's capital is obliged to inform BNB of its intent to reduce its ownership and to specify the number of shares it intends to sell in that transaction not later than 10 days prior to executing the transfer.

3. Principal Shareholders

The shareholding structure of BACB as at December 31, 2019 is the following:

	31.12.2019 г.	
Shareholder	Number of shares	% of the share capital
CSIF AD	15,199,133	61.56%
LTBI Holdings LLC	8,814,402	35.70%
Other shareholders	677,778	2.74%
Total	24,691,313	100.00%

Mrs. Tzvetelina Borislavova Karagyozova is a person owns more than 50% of the voting shares of CSIF AD and may decide on more than a half of the members of the Board of directors of the company.

The table below shows details over the ownership/ control that Mrs. Tzvetelina Borislavova Karagyozova has in the CSIF AD.

Shares (voting rights) owned directly or indirectly through related parties in the GMS of CSIF AD	170 159 shares owned directly by Mrs. Tzvetelina Borislavova Karagyozova 5 shares owned by Credo Bonum foundation with a founder and chairperson Mrs. Tzvetelina Borislavova Karagyozova

Shares of the owned shares in the general meeting of CSIF AD	Directly and with related parties 100% of the share capital

Save as disclosed in the table above, the Bank is not aware of any person who is holding directly or indirectly, 5% or more of the Bank's registered share capital.

4. Controlling shareholders

As described above in p.3 as of December 31 2019 the total number of shares owned by CSIF AD is 15,199,133 representing 61.56% of the registered share capital of BACB. and the total amount of shares owned by LTBI Holdings LLC is8,814,402 representing 35.70% of the share capital of BACB

5. Employees and Directors as Shareholders

Bank's employees and directors hold certain interest in the Bank's shares. The Bank is not aware of any shareholder agreement, restriction or limitation being imposed on directors and employees in voting their shares. Each shareholder exercises his/her voting right or may choose to authorize a third party of its own choice to vote by proxy. The Bank is not aware of any employee shares being blocked or restricted.

6. Voting Rights Restrictions

The Bank is not aware of any restrictions or limitations on voting rights on any grounds. Two limitations may arise by law: (i) surpassing certain thresholds without BNB's preapproval and (ii) voting on certain deals with interested parties as stipulated in article 114 et sec. of POSA

7. Restrictive Shareholder Agreements

The Bank is not aware of any agreements between any of its shareholders that might lead to restrictions in transferring the Bank's shares or in exercising voting rights

8. Appointment of the Supervisory Board and the Management Board and amendments and supplements of Bylaws

The By-laws of the Bank provide for a two-tier management system consisting of a Supervisory Board and a Management Board. Members of the Supervisory Board may be either individuals or legal entities. Only individuals are able to serve on the Management Board, not legal entities.

Supervisory Board

Bulgarian law and the Bank's bylaws provide that a Supervisory Board must consist of at least three and not more than seven persons. The members of the Supervisory Board may be appointed and dismissed by a resolution passed by a two-thirds vote of the shareholders in the general meeting. Under the Public Offering of Securities Act at least one third of the members of the Supervisory Board should be independent (i.e. not related to the Bank, its majority shareholder, another board member or to a person in a long-term commercial relationship with the Bank).

The Supervisory Board has the power to appoint and dismiss members of the Management Board. It has the power to approve the appointment and the authorization of the Executive Directors (two or more executive members of the Management Board), as well as the withdrawal of such authorization.

Management Board

Bulgarian law and the Bank's bylaws provide that the Management Board should consist of at least three and not more than nine persons. Subject to the requirements for BNB consent, the members of the Management Board may be appointed and dismissed by the Supervisory Board.

The Bank's bylaws provide that a quorum of at least half of all Management Board members is necessary for a valid meeting and for passing of resolutions. A simple majority is sufficient for passing resolutions unless the law or the By-laws require otherwise. The Management Board has, with the approval of the Supervisory Board, authorized the Executive Directors to represent the Bank and to take responsibility for its daily operations. Board members may be re-elected without limitation and may be dismissed at any time by the Supervisory Board. A board member may resign and require to be deregistered as a Board member in the commercial register with notice in writing addressed to the Bank.

Amendments or supplements to the bylaws

The Bank's bylaws provide that the shareholder resolution to amend or supplement the bylaws require the approval of two-thirds of the voting shares present at the meeting. In addition, any amendment or supplement to the Bank's bylaws require the prior written approval of the BNB. The BNB and the Financial Supervision Commission each has the power to issue a "stop order" or a compulsory instruction or injunction to the Bank if any resolution of the shareholders in general meeting or resolution of the Management Board or Supervisory Board is found to be illegal. The BNB alone may issue such an order if a resolution would be detrimental to interests of the Bank or its depositors, or would be detrimental to the stability of the payment system. The Financial Supervision Commission alone may make such an order if a resolution of the Management Board or Supervisory Board would be detrimental to the interests of shareholders or other investors.

Amendments and supplements to the bylaws of the Bank are only effective at the date of the registration of the resolution at the Bulgarian commercial register and the approval of the BNB.

9. Powers of the Supervisory Board and the Management Board

Supervisory Board

The Supervisory Board supervises the activities of the Management Board and approves the Bank's annual and three-year business plans. The Supervisory Board also monitors the Bank's risk control mechanisms and its management information systems. The Supervisory Board has the power to appoint and dismiss members of the Management Board, and it must approve any resolutions of the Management Board to delegate the power to represent the Bank. The approval of the Supervisory Board is also required for resolutions of the Management Board for:

- changing the internal and organizational structure of the Bank and substantial organizational changes;
- changing the internal regulations and rules which set out procedures for the Bank's operations and transactions;
- opening and closing of branches;
- increasing the Bank's capital under the powers given to the Management Board in the bylaws;
- acquiring and disposing of equity interests;
- amending of the bylaws;
- real estate transactions, other than in relation to foreclosing security granted in connection with a loan, but only if the value of the transaction exceeds certain internal thresholds;
- authorizing a procurator;

- extending of (i)credit defined as large exposure which exceeds certain internal thresholds relative to the Bank's capital and (ii) credits to board members; and
- issuance of bonds of a total face value which exceeds certain internal thresholds relative to the Bank's capital

Management Board

The Management Board is responsible for securing the lawful and viable operation of the Bank. It resolves on all issues that are not of the exclusive competence of the General Meeting of the Shareholders or the Supervisory Board. The Management Board shall report on its activities before the Supervisory Board and the General Meeting of the Shareholders.

The most important resolutions of the Management Board are listed in the previous section and require the approval of the Supervisory Board, if not the approval of the General Meeting of the Shareholders.

Buy-back of Shares

Deciding on share buy-backs is of the sole competence of the General Meeting of the Shareholders. In addition, the Bank may repurchase its own shares upon written permission by the Central Bank pursuant to the Act on Credit Institutions, the Commercial Act, the POSA and the other applicable Bulgarian laws.

The Bank is not allowed to exercise any rights arising from the repurchased shares. Such rights are exercisable after the shares are transferred by the Bank to third parties.

In 2019 the Bank has not executed any share buybacks. The Bank has not extended any loans against its shares and has not accepted collateral in the form of its own shares. In summary, the Bank has not been a party to any of the transactions listed in Art. 187d and 187e of the Bulgarian Commercial Act.

Agreements Representing a Takeover Defense

The Bank is not aware of any agreements that shall become in effect, supplemented or cancelled in the event of change in control or a takeover bid.

Agreements on severance packages in case of termination of employment of employees or management bodies members without legal basis or in case of termination of employment on the grounds based on tender offers

The Bank is not aware of the existence of such agreements

Internal control and control environment

Internal control includes the following components:

(a) control environment – description of the control environment can be found in this report in the sections "Risk Management", i.VIII, Corporate Management Declaration, section 3. "description of the main characteristics of the internal control and risk management systems in terms of the financial reporting process".

(b) the company's risks valuation process – description of the control assessment of the Bank's risks can be found in VIII. Corporate Management Declaration, sections "Risk Management" and section System of control processes on finding, measuring, monitoring and management of the risks;

(c) information system, including related business processes, material to the financial reporting, and communication – description of the Bank's information system can be found in the sections "Risk Management" and section "The Bank depends on complex information technology systems";

(d) control activities - description of the Bank's control activities can be found in sections "Risk Management", "Organizational and operational independence of the function on risk control from the business directions, which the Bank monitors and controls" and "Composition and functioning of management and supervisory bodies of the Bank and their committees"; "Internal control and risk management";

(e) current control monitoring – description of the current monitoring and control of the Bank can be found in the sections "Organizational and operational independence of the function on risk control from the business directions, which the Bank monitors and controls", "Composition and functioning of management and supervisory bodies of the Bank and their committees", "Internal control and risk management".

Ilian Georgiev
Chief Executive Director

BULGARIAN AMERICAN CREDIT BANK
BULGARIA SOFIA

Loreta Grigorova
Executive Officer

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1124 Sofia, Bulgaria

Statutory Audit Firm # 015
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Independent auditors' report

To the shareholders of

BULGARIAN-AMERICAN CREDIT BANK AD

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Bulgarian-American Credit Bank AD and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the consolidated financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the requirements of the IFAA and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Emphasis of matter

- We draw attention to Note 34 Events after the reporting date to the consolidated financial statements which discloses significant non-adjusting event related to coronavirus pandemic (COVID-19). The disruption of the normal economic activity in Bulgaria following COVID-19 may affect adversely the operations of the Group, in particular, its credit activity and the quality of its credit portfolio. Due to the unpredictable dynamic of COVID-19, it is not practicable to provide a reliable estimate of the potential effects of the pandemic. Our opinion is not modified in respect of this matter.

- As described in Note 3 Summary of Significant Accounting Policies, Basis of preparation and presentation of the financial statements to the consolidated financial statements, the accompanying consolidated financial statements, presented in EUR, were issued by the Group in addition to the consolidated financial statements presented in BGN. We have audited and reported separately on the consolidated financial statements presented in BGN and issued our auditor's report dated 20 March 2020. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances to customers under the requirements of IFRS 9 Financial Instruments The Group's disclosures about impairment of loans and advances to customers are included in Note 15 "Loans and advances to customers" and Note 32.2 "Credit risk" to the consolidated financial statements.	
Loans and advances to customers represent a significant part (61%) from the total assets of the Group as at 31 December 2019 with aggregate	In this area, our key audit procedures included, amongst others: • We gained an understanding of the monitoring and impairment process

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gross carrying value of BGN 1,111,190 thousand and accumulated loss allowance of BGN 89,164 thousand. **Under the requirements of IFRS 9 "Financial instruments", the** Group applies an impairment model based on expected credit loss (ECL) estimation. The application of such an impairment model leads to increased complexity and degree of management judgment in the ECL estimations as disclosed in Note 32.2 "Credit risk". The key inputs, assumptions and related judgements in the model relate to developing significant increase of credit risk (SICR) criteria for staging of loans and advances to customers (Stage 1: Exposures with no SICR, Stage 2: Exposures with SICR but no objective evidence for impairment and Stage 3: Exposures with objective evidence for impairment), determining the probability of default (PD), the loss given default (LGD) and the exposure at default (EAD), imputing forward looking information (FLI) of macro-economic factors considering multiple scenarios in ECLs estimations. Higher degree of estimation uncertainty is involved in calculating the ECLs for the portfolios of loans and advances to customers in Stage 1 and Stage 2 assessed for impairment collectively in view of the availability of historical data for back testing and calibrating the PD and LGD estimates. Further to this, significant management judgement is also required in calculating the ECLs for loans and advances which are assessed for impairment individually due to inherent estimation uncertainty in determining the timing and amount of the expected cash flows, probability of scenarios as well as the value of the respective collaterals.	of the Group focusing on the applied measurement and calibration methodology, the impairment model used, and the underlying key assumptions, judgements and parameters as well as any changes made therein. • We evaluated whether the Group's impairment policy and estimation approaches were applied consistently in line with the requirements of IFRS 9. • Further, we assessed the Group's governance over the impairment model developed, including the model documentation and the reasonableness and frequency of overlays applied. • We obtained understanding and performed walk-throughs of the Group's processes and controls related to monitoring and assessment for impairment of loans and advances to customers focusing on any changes as a result of the implementation of calibration methodology. We involved our internal IT specialists to assess and test the IT general controls over these processes. • We designed and performed tests of the operating effectiveness of the controls over the monitoring and assessment for impairment of loans and advances to customers processes. • We assessed the impairment model for application consistency and continuing appropriateness in view of IFRS 9 requirements, the specifics of Group's loan portfolio and the availability of internal historical and forward-looking information. We evaluated the reasonability of SICR criteria and proper staging of loans and advances to customers. Further, we assessed for reasonableness the PD and LGD calculations by examining support for the key assumptions used and data sources.

Due to the significance of the loans and advances to customers, their potential effect on the capital adequacy calculation as well as the high estimation uncertainty, complexity and management judgments and assumptions involved in ECL calculations under the impairment model applied under the requirements of IFRS 9, this is considered a key audit matter.	• We also analysed the appropriateness of calibration approaches applied and the reasonableness of resulting changes and effects considering our understanding of the development of the loan portfolios and the quality of available data. . In addition, we tested the mathematical accuracy of the ECL calculations. • We performed analytical procedures on a disaggregated data to evaluate if the relationship in the trends in the recorded impairment expense and allowance follow the tendencies of development of the loan portfolios. • For a risk-based sample of loans and advances to customers from all stages that were subject to an individual impairment assessment and focusing on those with the most significant potential impact on the consolidated financial statements, we specifically assessed the Group's assumptions on the expected future cash flows, including the realizable value of collateral based on our own understanding and available market information. We involved internal experts to assist us in assessing the value of realizable collateral on a sample basis. • We performed subsequent events procedures focused on the development of the sampled loans as per the previous paragraph, post balance sheet date to assess the Group's assumptions on the expected future cash flows. • We assessed the relevance and adequacy of the disclosures for the impairment of loans and advances to customers under the requirements of IFRS 9.

Key audit matter	How our audit addressed the key audit matter
Estimates of fair values of non-financial assets used for fair value measurement or for impairment review purposes Information on the estimates of fair values of non-financial assets used for the purpose of valuation at fair value or for the impairment review of those assets are provided in Note 20 "Assets held for sale", Note 18 "Investment properties" and Note 30 "Information on fair values" to the consolidated financial statements.	
As disclosed in Note 20, Note 18 to the consolidated financial statements, as of 31 December 2019 the Bank reports assets held for sale of BGN 7,250 thousand and investment properties of BGN 101,102 thousand comprising real estate acquired mainly from foreclosed collaterals. The Group's accounting policy for subsequent measurement of the investment properties is under the fair value model of IAS 40. Considering the general volatility of the real estate market, the Group's management performs annual valuation of these non-financial assets in order to determine the fair value less costs to sell for assets held for sale and the fair value of the investment properties for their subsequent valuation. The fair value estimates of investment properties and assets held for sale are determined by independent external appraisers engaged by the Group or performed internally within the Group based on various valuation inputs, assumptions and approaches and are designated at Level 3 of the fair value hierarchy as per IFRS 13. As the fair valuation of the Group's non-financial assets involves high estimation uncertainty related to the fair value inputs and assumptions, this is considered to have significant impact on the carrying amounts of the non-financial assets as well as potential impact on capital adequacy calculation as at 31 December 2019, we have determined this matter as a key audit matter.	In this area, our audit procedures included, amongst others: • Consideration of the objectivity, independence and expertise of the external appraisers. • For a sample of investment properties and assets held for sale, we analyzed and evaluated the applied base real estate data inputs for the determination of their fair value utilizing our real estate valuation experts to assist us in the review and analysis of the applied valuation methods and the underlying key assumptions. • Involvement of our real estate valuation experts to perform relevance test to assess whether the fair value estimates of a sample of the Group's assets held for sale and investment properties fell within a range of comparable market prices for similar assets. • Assessment on the adequacy and relevance of the financial statement disclosures on the impairment testing of the Bank's assets held for sale and the fair valuation investment properties.

Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information, which we have obtained prior the date of our auditor's report, comprises the consolidated management report, including the corporate governance statement prepared by management in accordance with Chapter Seven of the Accountancy Act, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless and to the extent explicitly specified in our report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and presentation of the consolidated financial statements that give a true and fair view in accordance with IFRS, as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves true and fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

We are jointly and severally responsible for the performance of our audit and for the expressed by us audit opinion as per the requirements of the IFAA applicable in Bulgaria. In accepting and executing the joint audit engagement, in connection with which we report hereby, we also have followed the Guidance on Performing a Joint Audit issued on 13 June 2017 by the Institute of Certified Public Accountants in Bulgaria and the Commission for Public Oversight of Statutory Auditors in Bulgaria.

Report on Other Legal and Regulatory Requirements

Additional Matters to be Reported under the Accountancy Act and the Public Offering of Securities Act

In addition to our responsibilities and reporting in accordance with ISAs, described above in the *Information Other than the Consolidated Financial Statements and Auditor's Report Thereon* section, in relation to the consolidated management report, including the corporate governance statement of the Group, we have also performed the procedures added to those required under ISAs in accordance with the Guidelines on New and Expanded Auditor's Reports and Auditor's Communication of the professional organisation of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming opinions about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and in the Public Offering of Securities Act (Art. 100m, paragraph 10 of the POSA in conjunction with Art. 100m, paragraph 8(3) and (4) of the POSA) applicable in Bulgaria.

Opinion in connection with Art. 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, our opinion is that:

a) The information included in the consolidated management report referring to the financial year for which the consolidated financial statements have been prepared is consistent with those consolidated financial statements.
b) The consolidated management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act and of Art. 100(m), paragraph 7 of the Public Offering of Securities Act.

c) The corporate governance statement of the Group referring to the financial year for which the consolidated financial statements have been prepared presents the information required under Chapter Seven of the Accountancy Act and Art. 100 (m), paragraph 8 of the Public Offering of Securities Act.

Opinion in connection with Art. 100(m), paragraph 10 in conjunction with Art. 100 m, paragraph 8(3) and (4) of the Public Offering of Securities Act

Based on the procedures performed and the knowledge and understanding obtained about Group's activities and the environment in which it operates, in our opinion, the description of the main characteristics of Group's internal control and risk management systems relevant to the financial reporting process, which is part of the consolidated management report (as a component of the corporate governance statement) and the information under Art. 10 paragraph 1(c), (d), (f), (h) and (i) of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on Takeover Bids, do not contain any material misrepresentations.

Reporting in accordance with Art. 10 of Regulation (EU) No 537/2014 in connection with the requirements of Art. 59 of the Independent Financial Audit Act

In accordance with the requirements of the Independent Financial Audit Act in connection with Art. 10 of Regulation (EU) No 537/2014, we hereby additionally report the information stated below.

— Ernst & Young Audit OOD and AFA OOD were appointed as statutory auditors of the consolidated financial statements of Bulgarian-American Credit Bank AD for the year ended 31 December 2019 by the general meeting of shareholders held on 5 June 2019 for a period of one year.
— The audit of the consolidated financial statements of the Group for the year ended 31 December 2019 represents sixth total uninterrupted statutory audit engagement for that group carried out by Ernst & Young Audit OOD and third total uninterrupted statutory audit engagement for that group carried by AFA OOD.
— We hereby confirm that the audit opinion expressed by us is consistent with the additional report, provided to the audit committee of Bulgarian-American Credit Bank, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
— We hereby confirm that we have not provided the prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act.
— We hereby confirm that in conducting the audit we have remained independent of the Group.

Audit Firm Ernst & Young Audit OOD:	Audit Firm AFA OOD:
Nikolay Garnev	Valia Iordanova
Legal Representative and	Legal Representative and
Registered Auditor in charge of the audit	Registered Auditor in charge of the audit

Sofia, Bulgaria

20 March 2020

BULGARIAN-AMERICAN CREDIT BANK AD
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019
All amounts are in thousands of EUR unless otherwise stated

	Notes	2019	2018
Interest income		24,304	22,031
Interest expense		(3,798)	(3,945)
Net interest income	4	**20,506**	**18,086**
Fees and commission income		5,408	3,923
Fees and commission expense		(298)	(392)
Fees and commission income, net	5	**5,110**	**3,531**
Dividend income		10	5
FX trade net income		907	1,151
Net gain on debt instruments at FVOCI	7	2	82
Exchange differences, net	6	35	(38)
Other operating income	8	759	789
Other operating expenses	8	(758)	(871)
Share of (loss) of joint ventures		(17)	-
Net operating income before impairment		**26,554**	**22,735**
Impairment on financial assets	10	(2,498)	(1,904)
Impairment of non-financial assets		(14)	(47)
Revaluation of investment on businesscombination	21	(90)	-
Personnel expenses		(6,081)	(5,566)
Administrative expenses	9	(8,196)	(8,144)
Depreciation and amortization	19	(1,701)	(611)
Profit before tax		**7,974**	**6,463**
Tax expense	11	(303)	(59)
PROFIT FOR THE YEAR		**7,671**	**6,404**
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified subsequently to profit or loss			
Fair value changes on equity instruments at FVOCI, net of tax		142	50
Gain on revaluation of properties, net of tax		53	-
Items that may be reclassified subsequently to profit or loss			
Debt instruments at FVOCI, net of tax	27		
Change in fair value		19	(262)
Changes in allowance for ECL		20	(1)
Reclassification to profit or loss		(2)	(74)
Other comprehensive income for the year		**232**	**(287)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**7,903**	**6,117**

This financial statement has been prepared by the Management Board on 26.02.2020 and approved by the Supervisory Board on 04.03.2020

The acompanying notes to this financial statement from 1 to 34 are an integral part thereof.

Ilian Georgiev
CEO

Loreta Grigorova
Executive Director

Katya Bineva
Chief Accountant

BULGARIAN AMERICAN CREDIT BANK
BULGARIA SOFIA

Financial statements on which our auditors' report was issued dated 20th of March 2020

"Ernst & Young Audit" OOD	"AFA" OOD

BULGARIAN-AMERICAN CREDIT BANK AD
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2019
All amounts are in thousands of EUR unless otherwise stated

	Notes	2019	2018
Assets			
Cash and balances with the Central Bank	13.1	134,855	118,473
Loans and advances to banks	14	76,859	34,318
Loans and advances to customers	15	522,554	463,816
Debt instruments at FVOCI	16	34,610	25,435
Equity instruments at FVOCI	16	1,031	864
Debt instruments at amortized cost	17	11,316	10,337
Assets held for sale	20	3,707	12,816
Investment properties	18	51,693	44,564
Other assets	22	12,226	15,076
Investments in joint ventures	21	98	-
Tangible assets	19	8,480	5,019
Intangible assets	19	784	454
Total Assets		**858,213**	**731,172**
Liabilities and Shareholders' Equity			
Liabilities			
Deposits from banks	23	-	3,200
Deposits from customers	23	721,138	604,133
Other liabilities	26	12,691	8,715
Debt securities in issue	24	-	1,616
Other borrowed funds	25	21,606	18,708
Current tax liabilities		35	-
Deferred tax liabilities, net	11	90	50
Total Liabilities		**755,560**	**636,422**
Shareholders' Equity			
Share capital	27	12,624	12,624
Share premium	27	18,944	18,944
Reserves	27	71,085	63,182
Total Shareholders' Equity		**102,653**	**94,750**
Total Liabilities and Shareholders' Equity		**858,213**	**731,172**

This financial statement has been prepared by the Management Board on 26.02.2020 and approved by the Supervisory Board on 04.03.2020.

The acompanying notes to this financial statement from 1 to 34 are an integral part thereof.

Ilian Georgiev CEO	Loreta Grigorova Executive Director	Katya Bineva Chief Accountant

Financial statements on which our auditors' report was issued dated 20th of March 2020

"Ernst & Young Audit" OOD	"AFA" OOD

The accompanying notes to the financial statements are an integral part thereof.

All amounts are in thousands of EUR unless otherwise stated

	Share capital	Share premium	Revaluation reserve	Retained earnings and other reserves	Total
1 January 2018	**12,624**	**18,944**	**3,500**	**53,565**	**88,633**
TOTAL COMPREHENSIVE INCOME	**-**	**-**	**(287)**	**6,404**	**6,117**
Profit for the year	-	-	-	6,404	6,404
OTHER COMPREHENSIVE INCOME					
Net change in fair value of equity instruments at FVOCI	-	-	50	-	50
Debt instruments at FVOCI					
Net change in fair value	-	-	(262)	-	(262)
Changes in allowens for ECL	-	-	(1)	-	(1)
Reclassification to profit or loss	-	-	(74)	-	(74)
31 December 2018	**12,624**	**18,944**	**3,213**	**59,969**	**94,750**
TOTAL COMPREHENSIVE INCOME	**-**	**-**	**232**	**7,671**	**7,903**
Profit for the year	-	-	-	7,671	7,671
OTHER COMPREHENSIVE INCOME					
Net change in fair value of equity instruments at FVOCI	-	-	142	-	142
Gain on revaluation of properties, net of tax	-	-	53	-	53
Debt instruments at FVOCI					
Net change in fair value	-	-	19	-	19
Changes in allowens for ECL	-	-	20	-	20
Reclassification to profit or loss	-	-	(2)	-	(2)
31 December 2019	**12,624**	**18,944**	**3,445**	**67,640**	**102,653**

This financial statement has been prepared by the Management Board on 26.02.2020 and approved by the Supervisory Board on 04.03 2020.

The acompanying notes to this financial statement from 1 to 34 are an integral part thereof.

BULGARIAN AMERICAN CREDIT BANK BULGARIA SOFIA

Ilian Georgiev CEO	Loreta Grigorova Executive Director	Katya Bineva Chief Accountant

Financial statements on which our auditors' report was issued dated 20th of March 2020

"Ernst & Young Audit" OOD	"AFA" OOD

	Notes	2019	2018
Cash flows from operating activities			
Profit for the year		**7,671**	**6,404**
Adjustments to reconcile net income to net cash flow from operating activities:			
Tax expense	11	303	59
Depreciation and amortization	19	1,701	611
Increase in the impairment of financial assets	10	2,477	1,921
Impairment / (revaluation) of non-financial assets		(136)	58
Revaluation reserve on debt instruments at FVOCI, transferred to profit	10	(2)	(82)
Result on disposal of investment properties	10	(20)	6
Revaluation of investment on businesscombination		90	-
Share of loss of joint ventures		17	-
Changes in operating assets and operating liabilities:			
(Increase) / decrease in restricted funds	13	-	(87)
Increase in loans to customers		(63,321)	(76,394)
Decrease in assets held for sale, net	20	2,816	1,757
Decrease / (increase) in other assets		3,604	(2,068)
Increase in deposits from banks and customers	23	112,719	82,797
Increase / (decrease) in other liabilities	26	973	6,144
Net cash flow from operating activities before taxes		**68,892**	**21,126**
Taxes paid		(250)	(8)
Net cash flow from operations		**68,642**	**21,118**
Net cash from investments			
Purchases of financial assets	16,17	(11,943)	(2,587)
Sale and decrease of financial assets	16,17	1,807	4,297
Investments in joint ventures		(115)	-
Acquisition of a subsidiary, net of cash acquired		(90)	-
Acquisition of tangible and intangible assets	19	(1,440)	(1,257)
Sale of fixed assets	19	6	14
Acquisition of investment properties	18	(22)	(143)
Sale of investment properties	18	1,398	1,494
Net cash flow (used in) / from investing activities		**(10,399)**	**1,818**
Cash flows from financing activities:			
Proceeds from other borrowed funds	25	5,000	5,000
Repayments of other borrowed funds	25	(2,102)	(2,104)
Repayments of debt securities in issue	24	(1,616)	(1,159)
Payments under lease agreements		(1,048)	-
Net cash from / (used in) financing activities		**234**	**(1,737)**
Net effect of exchange rate changes on cash	32.3.1	460	1,292
Net change in cash and cash equivalents		58,937	25,965
Cash and cash equivalents at the beginning of the year	13.2	**151,259**	**125,294**
Cash and cash equivalents at the end of the year	13.2	**210,196**	**151,259**
Supplemental cash flow information:			
Interest paid		5,000	4,757
Interest received		(2,102)	19,613
Received dividends		(1,616)	5

This financial statement has been prepared by the Management Board on 26.02.2020 and approved by the Supervisory Board on 04.03 2020. The accompanying notes to this financial statement from 1 to 34 are an integral part thereof.

Ilian Georgiev	Loreta Grigorova	Katya Bineva
CEO	Executive Director	Chief Accountant

BULGARIAN-AMERICAN CREDIT BANK BULGARIA SOFIA

Financial statements on which our auditors' report was issued dated 20th of March 2020

"Ernst & Young Audit" OOD	"AFA" OOD

1 Corporate Information

The consolidated financial statements of Bulgarian American Credit Bank AD ("BACB"or the "Bank") present the financial position of the Bank and the companies controlled by it as a single reporting entity. As of 31 December 2019, the Group consists of BACB and three subsidiaries: BACB Finance EAD, BACB Trade EAD and Paytech OOD, as well as a joint venture in which the Bank exercises joint control, through its subsidiary BACB Finance EAD. The three subsidiaries are fully owned and controlled by BACB and they conduct their activities at their registered office located at 2 Slavyanska Str., Sofia, Bulgaria. The Bank generates the main part of the income and represents the substantial part of the assets and liabilities of the Group at 31 December 2019 and 31 December 2018, respectively.

The Bulgarian-American Credit Bank was registered as a Bulgarian joint stock company under the requirements of the Bulgarian Commercial Act in December 1996. Currently the BACB operates a full banking license, issued by the Bulgarian National Bank (BNB) for offering and performing the full scope of banking operations, permitted by the Credit Institutions Act (CIA). From a bank, specialist provider of secured finance with specific lending programs for financing companies and individuals BACB gradually affirmed itself as a universal bank, offering both corporate and transactional loan programmes, and retail banking through various products in the areas of consumer and mortgage financing. The activities of BACB are conducted through its headquarters in Sofia and operations offices in the country. The offices offer the full scope of banking services, provided by the headquarters.

In April 2006 the shares of the Bank's capital were listed for trading on the Bulgarian Stock Exchange (BSE) and as a result BACB became a public company.

At 31 December 2019 and 31 December 2018, the Group employs 369 and 358 employees respectively. The Bank's seat and registered office is located at 2, Slavyanska Str., Sofia, Bulgaria.

At 31 December 2019 and 31 December 2018 the Bank has a two-tier management system consisting of the Management Board and the Supervisory Board. The operating management of BACB is represented by the Management Board. Those charged with governance are represented by the Audit Committee and the Supervisory Board.

The ultimate parent company of the Bank at 31 December 2019 and 31 December 2018 is "CSIF" AD, possessing 61.56% of Bank's capital.

2 Regulatory Environment

Currently the Group's activities and operations are governed by the Credit Institutions Act and all the related legal regulations. The BNB is responsible for supervising the Bank's compliance with the banking laws and regulations. Following the Bank's listing on the BSE, the Bank's activity as a public entity is also subject to supervision by the Financial Supervision Commission (FSC).

3 Summary of Significant Accounting Policies

Basis of preparation and presentation of the financial statements

The consolidated financial statements comprise the accounts of the Bank and its subsidiaries. The Group prepares and presents its financial statements in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and the interpretations, issued by the International Financial Reporting Interpretations Committee (IFRIC), as approved by the European Union (the "EU") and applicable in the Republic of Bulgaria. Reporting framework "IFRS as adopted by the EU" is essentially the defined national basis of accounting "IAS, as adopted by the EU", specified in the Bulgarian Accountancy Act and defined in paragraph 8 of its Additional provisions.

3 Summary of Significant Accounting Policies (continued)

Basis of preparation and presentation of the financial statements (continued)

The consolidated financial statements comprise the consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes thereto. The financial year for the Group ends at 31 December.

When preparing the financial statements the Group uses the historical cost method as a basis for reporting the assets and liabilities, unless it is specifically indicated that the respective assets are evaluated at their fair value.

The figures in the consolidated financial statements are presented in EUR (euro) and rounded down or up to thousands (thousand EUR), unless otherwise specified. The Group prepares its financial statements in BGN which is its functional and presentation currency. The BGN is pegged to the EUR at the following rate 1 EUR is equal to 1.95583 BGN. These financial statements are prepared only for the purpose of the foreign investors of the Group.

In general, the group presents the statement of its financial position, based on the degree of liquidity. An analysis of the recovery of assets or the settlement of liabilities within twelve months after the financial position statement (current) and after more than 12 months after the financial position statement (non-current) is presented in the attachments to the financial statements.

The preparation of the consolidated financial statements in conformity with IFRS requires the management to make estimates and assumptions that affect the carrying value of assets and liabilities at the date of the financial statements and the amount of revenue and expenses during the reporting period and to disclose contingent assets and liabilities. The management made approximate estimates and assessments for the purposes of the accounting reporting and disclosure, which may be different from the actual results. The uncertainty, related to the estimations and assumptions made, could lead to actual results, requiring significant adjustments to the carrying value of the respective assets or liabilities in the future.

The Bank and its subsidiaries apply the same accounting policies for reporting similar transactions and other events in similar circumstances.

Changes to the accounting policies and disclosures

The accounting policies of the Group are consistent with those, applied in the previous reporting period, taking into account the amendments to IFRS adopted by the EU and effective for annual periods beginning on or after 1 January 2019. From these amendments, a specific impact on the Group's consolidated financial statements for 2019 has been caused by the first-time application of *IFRS 16 Lease* as of 1 January 2019 as disclosed below.

New and amended standards and clarifications

IFRS 16 Leases

IFRS 16 was published in January 2016 and replaces IAS 17 *Lease*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases – Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 establishes the principles for recognition, measurement, presentation and disclosure of a lease and requires lessees to account for all lease contracts under the same balance sheet model as that for the accounting for finance leases under IAS 17. The Standard includes two exemptions from lease recognition - leases of 'low value' assets (e.g. personal computers) and short-term lease (i.e. leases with a lease term of up to 12 months).

All amounts are in thousands of EUR unless otherwise stated

3 Summary of Significant Accounting Policies (continued)

New and amended standards and clarifications(continued)

IFRS 16 Leases (continued)

At the commencement date of the lease, the lessee recognizes an obligation to make lease payments (i.e. a lease liability) and an asset that represents the right to use the underlying asset over the lease term (i.e. a rights of use asset). The lessees are required to recognize a separate interest expense on the lease and depriciation expense on the right-of-use asset.

Under IFRS 16, the lessor's accounting is substantially unchanged from that applied under IAS 17. The lessors continue to classify lease contracts in applying the same classification principle as defined in IAS 17 and distinguish between the two types of lease: operating and finance leases.

The Group has chosen to apply IFRS 16 on a modified retrospective approach that does not require recalculation of comparative data and the cumulative effect, if any, is presented as an adjustment to the opening balance of the retained earnings. The information for 2018 is presented in accordance with the requirements of IAS 17 and is not comparable to the information on leases presented for 2019. The Group elected to use the transition practical expedient to not reassess whether a contract contains a lease at 1 January 2019. Instead, at the date of initial application, IFRS 16 has only been applied to contracts previously designated as leases under IAS 17.

For contracts previously determined as operating leases as of 1 January 2019:

- The Group has recognized right-of-use assets amounting to EUR 3,969 thousand, presented in the Statement of Financial Position within "Tangible Assets". Right-of-use assets are recognized at an amount equal to the value of the lease liabilities at the date of initial application.
- The Group has recognized lease liabilities in the amount of EUR 3,969 thousand, included in “Other Liabilities” in the Statement of Financial Position. Lease liabilities are measured as the present value of the remaining lease payments, discounted at an incremental discount rate of 1,584%.
- The adoption of IFRS 16 had no impact on the Group’s retained earnings.
- As a result of IFRS 16, additional depreciation costs of EUR 1,025 thousand and interest expense related to lease contracts amounting to EUR 56 thousand have been recognized in the Income Statement for the first year of application.

In adopting IFRS 16, the Group has also applied the following practically appropriate measures:

- It used the same discount rate on all its operating leases due to the similar characteristics of the contracts.
- It has applied the exemption for short-term leases for which the contract expires within 12 months of the initial application of the standard. The costs of these contracts are reported as rental expenses in profit or loss for the period.
- It has excluded the initial direct expenses on the measurement of the right-of-use asset as at the date of initial application

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments disclosed as at 31 December 2018, as follows:

Minimum operating lease commitments as at 31 December 2018	972
Commitments relating to short-term leases	(49)
Lease payments not included in minimum operating lease commitments*	3,203
Total	**4,126**
Incremental borrowing rate as at 1 January 2019	1.58%
Effect from discounting	(157)
Lease liabilities as at 1 January 2019	**3,969**

**Commitments under lease agreements with unused termination options,that were not disclosed at 31 December 2018*

3 Summary of Significant Accounting Policies (continued)

New and amended standards and clarifications(continued)

IFRIC 23 *Uncertainty over Income Tax Treatments*

The Interpretation is effective for annual periods beginning on or after 1 January 2019. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. The adoption of the interpretation did not have a material impact on the financial position or performance of the Group.

IFRS 9 *Financial Instruments*: *Classification and Measurement (Amendments): Prepayment Features with Negative Compensation*

The Amendments, effective for annual periods beginning on or after 1 January 2019 introduce a change to IFRS 9 for particular financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a negative prepayment feature. Specifically, for a financial asset that contains a prepayment option that may result in the payment of a reasonable negative compensation amount, the Amendments require the financial asset to be measured at amortized cost or at fair value through other comprehensive income, subject to the assessment of the business model in which it is held. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IAS 28 *Investments in Associates (Amendments): Long-Term Interests in Associates and Joint Ventures*

The amendments are effective for annual periods beginning on or after 1 January 2019. The amendments clarify that IFRS 9 Financial Instruments is applicable to long-term interests in associates and joint ventures that are, by their nature, part of the net investment in associates or joint ventures, but to which the equity method does not apply. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IAS 19 *Employee Benefits (Amendments): Plan Amendment, Curtailment and Settlement*

The amendments are effective for annual periods beginning on or after 1 January 2019. The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remaining period of the annual reporting period after the plan amendment, curtailment or settlement. Furthermore, the amendments clarify how the accounting for the plan amendment, curtailment or settlement affects the asset ceiling requirements. The adoption of the amendment did not have a material impact on the financial position or performance of the Group.

Annual Improvements to IFRSs – 2015-2017 Cycle

In the 2015-2017 cycle of the projected annual improvements to IFRSs, the IASB has published amendments that become effective for annual periods beginning on or after 1 January 2019. A summary of the amendments to the relevant standards is presented below:

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements – interpretation on the reporting of previously held interests in joint ventures;
- IAS 12 Income Taxes – interpretation on the tax effects on the income from payments in relation to financial instruments classified as equity;
- IAS 23 Borrowing Costs – interpretation on the borrowing costs eligible for capitalization.

The adoption of the amendments did not have any impact on the financial position or performance of the Group.

3 Summary of Significant Accounting Policies (continued)

Standards issued but not yet effective and not early adopted

Listed below are the issued standards that are not yet effective or have not been applied earlier by the Group as at the date of these financial statements. It is disclosed how reasonably they may affect the disclosures, the financial position and the performance when the Group adopts these standards for the first time. This is expected to occur when they become effective.

IFRS 17: Insurance Contracts

The standard is effective for annual periods beginning on or after 1 January 2021 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. IFRS 17 Insurance Contracts establishes the principles for recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide information related to insurance contracts in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. The standard has not been yet adopted by the EU. It is not applicable for the Group.

IFRS 3 Business Combinations (Amendments): Definition of business

The amendments are effective for annual periods beginning on or after 1 January 2020, allowing for their earlier application. The amendments clarify the minimum requirements for business and restrict the definition of business. The amendments also remove the assessment of whether market participants are able to change missing items, provide guidance to assist companies in assessing whether the acquired process is significant and introduce an optional test of fair value concentration. These amendments have not yet been endorsed by the EU. It is not expected that these amendments would impact the financial position or performance of the Group.

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of materiality

The amendments are effective for annual periods beginning on or after 1 January 2020, allowing for their earlier application. The amendments clarify the definition of materiality and how it should be applied by providing practical guidance that has so far been included in other IFRSs. The amendments also clarify that materiality depends on the nature and significance of the information. These amendments have not yet been endorsed by the EU. It is not expected that these amendments would impact the financial position or performance of the Group.

3 Summary of Significant Accounting Policies (continued)

Standards issued but not yet effective and not early adopted (continued)

Conceptual framework for financial reporting

The IASB published the Revised Conceptual Framework for Financial Reporting on 29 March 2018, effective for annual periods beginning on or after 1 January 2020. The conceptual framework presents the concepts of financial reporting, standards development, guidance on consistent accounting policies, and guidance on understanding and interpreting standards. The major changes introduced in the revised Conceptual Framework for Financial Reporting relate to the concept of assessment, including the factors to be taken into account when selecting an assessment basis and the concept of presentation and disclosure, including which income and costs are classified in other comprehensive income. The conceptual framework also provides updated definitions of asset and liability and criteria for their recognition in the financial statements. The Group will analyze and evaluate the impact of the amendments on the financial position or performance.

Reform of interest rate benchmarks - IFRS 9, IAS 39 and IFRS 7 (Amendments)

The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is permitted. In September 2019, the International Accounting Standards Board (IASB) published amendments to IFRS 9, IAS 39 and IFRS 7, thus completing Stage 1 of its work in response to the effects on the financial reporting of interbank interest rate reform. Stage 2 will focus on issues that may arise when interest rates are replaced by risk-free interest rates. The changes posted address issues that occur while replacing the existing interest rates with alternative interest rate indicators. The effects on specific hedge accounting under IFRS 9 Financial Instruments and IAS 39 Financial Instruments are addressed: Recognition and measurement which require future-oriented analysis. The amendments provide for temporary relief applicable to hedging requirements, where compliance with these requirements is directly influenced by the benchmark reform. The changes allow the hedge accounting to continue in the uncertainty period until the replacement of the existing benchmark interest rates with alternative risk-free interest rates. Amendments to IAS 7 Financial Instruments have been made: Disclosures requiring the submission of additional information on hedge uncertainty resulting from the reform. The Group does not expect the amendments to have a material effect on the financial position or performance.

3 Summary of Significant Accounting Policies (continued)

Principles of Consolidation

The principles of consolidation did not change compared to previous reporting period. The consolidated financial statements present the financial position and performance for the period of the Bank and its subsidiaries as of 31 December 2019.

The Bank consolidates its investments in other companies where it exercises control over them, i.e. when it defines these companies as subsidiaries. Exercise of control is available if the following conditions are simultaneously met:

- The Bank has real powers to determine, directly or indirectly, the financial and operating policies of the investee.
- The Bank is exposed to or has rights to the variable returns from its involvement with the investee
- The Bank is able to use its powers within the company to influence the amount of its return as an investor

There is a presumption that holding more than half of the voting rights in an entity results in the exercise of control, and on a case-by-case basis all the facts and circumstances available are considered and analysed in order to determine the exercise of control over the investment. At the reporting date, the Group assesses whether there is a change in any of the three control criteria for the consolidated companies. As of 31 December 2019, the Bank defines its investments in BACB Finance EAD, BACB Trade EAD and Paytech EOOD as subsidiaries, due to the fact that it is the sole owner of these companies.

The financial statements of the subsidiaries are fully consolidated from the date on which effective control is transferred to the Bank and are no longer consolidated from the date on which control ceases. The assets, liabilities, revenues and expenses of subsidiaries acquired or sold during the year are included in the consolidated financial statements only for the period in which the Bank exercised control over the investment.

At consolidation, all transactions, balances and unrealized gains between group members are eliminated. The entities in the Group apply consistent accounting and valuation methods for similar transactions, assets and liabilities under similar circumstances.

The change in the shareholding in a subsidiary without loss of control is reported as a capital transaction. If the Bank loses control over the subsidiary, then the related assets and liabilities are excluded from the consolidated financial statements, and any remaining gains or losses are recognized in profit or loss for the period. The rest of the investment, if any, is recognized at fair value.

Business combinations

Business combinations are accounted for by using the acquisition method. The acquisition method requires the investor to evaluate the investment acquired, which undergoes four steps as follows:

- Identification of the acquirer. All facts and circumstances related to the parties to the transaction shall be analysed.
- Determining the date and the cost of the acquisition. The cost of an acquisition in a business combination is determined based on the consideration transferred and the amount of the non-controlling interest in the acquiree. The consideration is the aggregate of the acquisition date fair value of the assets acquired, the liabilities assumed, and the equity instruments issued by the acquirer in exchange for the control acquired. The transaction costs are recognized in the profit or loss for the period.

3 Summary of Significant Accounting Policies (continued)

Principles of Consolidation (continued)

Business combinations (continued)

- Recognition and measurement of the identifiable assets acquired, liabilities and contingent liabilities assumed, as well as non-controlling interests in the acquiree. The acquired assets and liabilities are measured at fair value as at the acquisition date. The non-controlling interests may be determined by two alternative approaches - at fair value as at the acquisition date, or in proportion to the shares in the net assets of the acquiree. For each business combination, the Bank chooses which approach to apply, depending on the particular circumstances. In a business combination achieved in stages, the equity interest in the investment held before the acquisition of control is remeasured to fair value as at the acquisition date. Any differences resulting from the remeasurment are recognized on an ongoing basis in the profit or loss for the period or other comprehensive income, as appropriate.

- Recognition and measurement of goodwill or gain from a bargain purchase. The excess of the acquisition cost over the acquirer's share in the net fair value of the acquired identifiable assets, liabilities and contingent liabilities is recognized as goodwill. If the cost of acquisition is less than the investor's share of the fair value of the net assets of the acquiree, the difference is recognized directly in profit or loss for the period as gain from a bargain transaction. After initial recognition, goodwill arising from business combinations is measured at the acquisition cost less the accumulated impairment. An impairment test is carried out at least once a year, or more frequently if events or changes in circumstances indicate impairment.

Investments in joint ventures

A joint arrangement is an arrangement in which two or more parties have joint control. Joint control exists when decisions regarding the management and operation of the arrangement require unanimous agreement of the parties and neither of them controls the joint arrangement on its own. A joint venture is a type of joint arrangement whereby the parties that have joint control, have rights to the net assets of the arrangement. The parties that share control are joint venturers. For each specific case where the Bank is a party to a joint arrangement, all relevent facts and circumstances are considered and analysed to determine the exercise of joint control over the investment as well as the type of the joint investment. As of 31 December 2019, the Bank has made an analysis and determined that through its subsidiary BACB Finance EAD, it is a jointly controlling partner in IDS Fund AD and the investment is assessed as a joint ventur. The assessment was made on the basis of the following facts and circumstances:

- The joint activity is carried out through a separate registered company - IDS Fund AD.
- The share capital of IDS Fund AD is divided equally between two shareholders. BACB Finance EAD holds 50% of the registered voting shares.
- Each of the shareholders has assumed liabilities up to the amount of its equity holding in the company.
- There is a written agreement (Articles of Association) between the two members regulating the organization and management of the company, according to which valid decisions on all key business issues are taken by a majority of 50% + 1 share of all voting rights. This agreement presupposes joint control due to the fact that neither party can make a sole decision that would have material consequences for the assets, liabilities or the performance of the company.
- From the rights and obligations of the shareholders provided for in the Articles of Association, including in the event of liquidation, it becomes clear that each party is entitled to the net assets of the company up to the amount of its shareholding and thus designate the joint arrangement as a joint venture

3 Summary of Significant Accounting Policies (continued)

Principles of Consolidation (continued)

Investment in joint ventures (continued)

Investments in which the Bank, directly or indirectly through its subsidiaries, is a party to a joint venture, are presented in the consolidated financial statements using the equity method.

Under the equity method, an investment in a joint venture is initially recognized at cost. The carrying amount of the investment is Adjusted to recognise changes in the Group's share of the net assets of the joint venture since the date of the acquisition. Goodwill relating to the joint venture is included in the carrying amount of the investment and is not tested for impairment separately. The changes in the results of the joint venture after acquisition are recognized in profit or loss for the period up to the investor's share, and the changes in other comprehensive income of the company are reported as part of other comprehensive income of the Group.

The financial statements of the joint venture are prepared for the same reporting period as those of the Group. Where necessary, adjustments are made to align the investee's accounting policies with those of the Group.

At the end of the reporting period, the Group assesses whether there is objective evidence that the investment in joint venture is impaired. If there is such evidence, the Group determines the amount of the impairment loss as the difference between the recoverable amount of the investment and its carrying amount, and impairment loss is recognized in profit or loss in item “Share of profit / (loss) from investments in joint ventures".

All amounts are in thousands of EUR unless otherwise stated

3 Summary of Significant Accounting Policies (continued)

Foreign currency transactions and translations

The functional currency of BACB and its subsidiary is the national currency of Bulgaria - the Lev (BGN). Foreign currency transactions, i.e. transactions denominated in currencies other than BGN are accounted for at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currency are translated to the statement at the exchange rate valid at the reporting date. Non-monetary assets denominated in foreign currency and measured at historical cost are translated at the exchange rate as of the date of initial recognition. Income and expense items resulting from foreign currency transactions are translated at the exchange rates existing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currency are measured in BGN at BNB's official exchange rate on the date of preparation of the statements, as follows:

Currency	31-12-2019	31-12-2018
EUR*	1.95583	1.95583
USD	1.74099	1.71354

**fixed rate according to the Law on the Bulgarian National Bank*

The net result in transactions, involving the purchase and sale of foreign currencies are recorded in the comprehensive income statement, as "Income from foreign exchange trading, net". Gains and losses, resulting from the translation of monetary assets and liabilities in foreign currency are presented net in the comprehensive income statement, as "Exchange differences, net".

Financial instruments

Financial instrument is any contract that generates a financial asset for one party to the contract and a financial liability or equity instrument for the other party. A financial asset or financial liability is recognized in the statement of financial position when the Group becomes a party to the contractual terms of a financial instrument resulting in legal rights for the Group to obtain either legal obligations to pay cash or other equivalent. Planned future transactions are not reported as financial assets or liabilities until the Group becomes a party to the contract, regardless of the probability that the transaction may be realized.

Upon their initial recognition, financial assets and liabilities are measured at fair value. For financial assets and liabilities that are not subsequently accounted for at fair value through profit or loss, the transaction costs that are directly attributable to the generation of the financial asset / liability are added to the fair value of the instrument upon initial recognition. Transaction costs for financial instruments that are measured at fair value through profit or loss are recognized directly in profit or loss on initial recognition.

The fair value at the initial recognition of a financial instrument is usually the transaction price.

Financial assets and liabilities that are part of a hedging relationship are accounted for in accordance with the hedge accounting requirements.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial instrument and allocating the relevant interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (including all fees received and other premiums or discounts) through the expected life of the financial instrument, or where appropriate, for a shorter period to its carrying amount.

3 Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

Financial assets

Upon initial recognition, financial assets are classified as such and are subsequently measured at amortized cost, at fair value in other comprehensive income or as such at fair value through profit or loss. The management determines the classification of investments at their initial acquisition and reassesses their use at the end of each reporting period, if this is permitted and appropriate.

The classification of financial assets upon initial acquisition depends on:

- Business model that applies to their management
- Characteristics of the contractual cash flows of the financial asset

In order to be classified and measured at amortized cost or at fair value in OCI, the financial asset should generate cash flows that represent "principal and interest payments only" (PIPO) on the outstanding principal amount. This measurement is called the "PIPO test" and is performed at the level of the debt instrument concerned.

The business model applied by the Group to manage financial assets refers to the way in which it manages its financial assets for the purpose of generating cash flows. The business model determines whether cash flows will result from the collection of contractual cash flows, sale of financial assets, or both.

For the purposes of subsequent measurement, financial assets are classified into four categories:

1. Debt instruments measured at amortized cost

This category is the most significant category for the Group. The financial assets are measured at amortized cost if the following two conditions are met:

- The assets are managed in a business model in order to collect the contractual cash flows.
- Under the contractual terms of the instrument, cash flows arise on certain dates, which are only principal payments and interest on the outstanding principal.

In this category, the Group reports loans and receivables, investments in debt securities, trade receivables.

The amortized cost is the original value of the instrument adjusted by the principal repayments and the accumulated depreciation of the difference between the original value and the maturity value using the effective interest method and less the loss allowance. In determining the expected future cash flows, the Group takes into account all agreed terms and conditions of the transaction, including premiums, fees and other remuneration payable by the counterparty, which directly affect the yield on the transaction and are an integral part of the effective interest rate. In cases where the cash flows required to calculate the effective interest rate cannot be reliably measured, the Group uses the agreed cash flows over the full contractual term of the instrument for the purpose of calculating the effective interest rate. For credit line and overdraft contracts where future cash flows cannot be reliably determined, interest revenue is recognized on a monthly basis based on the agreed interest rate. Revenue from management fees under such credit agreements is deferred and depreciated on a straight-line basis over the term of the contract as a supplement to interest income.

3 Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

Financial Assets (continued)

2. Debt instruments measured at fair value through other comprehensive income (OCI)

The Group measures its debt instruments at fair value in other comprehensive income if the following two conditions are also met:

- The assets are managed in a business model that targets both the collection of contractual cash flows and the sale of financial assets
- Under the contractual terms of the instrument, cash flows arise on certain dates, which are only principal payments and interest on the outstanding principal.

In respect of debt instruments measured at fair value in other comprehensive income, interest income, currency revaluation and impairment losses or their reversal are recognized in profit or loss and are calculated in the same way as those for financial assets measured at amortized cost. The other changes in the fair value are recognized in other comprehensive income. When derecognized, the cumulative change in the fair value recognized in other comprehensive income is reclassified to profit or loss.

Debt instruments at fair value in other comprehensive income of the Group include investments in government securities as well as investments in corporate bonds.

3. Equity instruments determined for fair value measurement through other comprehensive income (OCI) upon initial recognition.

Upon their initial recognition, the Group may choose to classify irrevocably as equity instruments at fair value through other comprehensive income when they qualify for equity in accordance with IAS 32 Financial Instruments: *Recognition* and when they are not held for trading purposes. Classification is determined on an individual basis.

Gains and losses on these financial assets are never reclassified to profit or loss. Dividends are recognized as other income in the income statement when the entitlement to the payment is established except where the Company derives benefits from such proceeds as a refund of part of the acquisition cost of the financial asset in which case the gains are reported in another comprehensive income. Equity instruments determined as such at fair value in other comprehensive income are not subject to impairment testing.

The group has decided to classify in this category its equity investments, which it intends to hold in the long run.

3 Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

Financial Assets (continued)

4. Financial instruments measured at fair value through profit or loss

The financial assets measured at fair value through profit or loss include financial assets held for trading and financial assets designated at their initial recognition as such at fair value through profit or loss or financial assets that are required to be measured at fair value. The financial assets are classified as held for trading if they are acquired for sale or re-acquisition within a short period of time. The derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not only principal and interest payments are classified and measured at fair value through profit or loss regardless of the business model.

Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through other comprehensive income as described above, the debt instruments can be designated as such at fair value through profit or loss upon initial recognition, if the accounting mismatch is substantially eliminated or significantly reduced. The financial assets at fair value through profit or loss are reported in the statement of financial position at fair value and the net changes in the fair value are recognized in the income statement.

The Group has no practice to invest in financial assets for profit and has not determined financial assets to be measured at fair value through profit or loss when initially acquired.

Types of financial assets presented in the statement of financial position

Cash and cash equivalents

The cash flow statement shows the change in cash and cash equivalents arising during the reporting period from operating, investing and financing activities. For the purposes of the cash flow statement, cash includes cash in hand and deposits in accounts with BNB without restricted collateralized funds. The Group considers current accounts with correspondent banks without restricted funds as cash equivalents, as well as deposits with banks with an original maturity of up to three months, which are shown in the statement of financial position as "Loans and advances to banks".

Debt securities

Debt securities are presented in the statement of financial position depending on the business model under which they are managed and according to their initial classification.

Interest received on debt securities is presented as interest income in the statement of comprehensive income (in profit or loos).

Equity instruments

Equity instruments that are not designated as investments in subsidiaries, joint ventures or associates are presented in the statement of financial position at fair value through profit or loss, unless they have been selected for fair value presentation in another comprehensive income on initial recognition.

Dividends received from equity securities are presented in the statement of comprehensive income (in profit or loos) as dividend income when the Group acquires the right to receive dividends and the amount of dividends can be measured reliably. In the event that there is clear evidence that dividends represent a reversal of part of the initial cost of an investment, they are not recognized in profit or loss for the period but reduce the carrying amount of the investment.

3 Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

Financial Assets (continued)

Loans and receivables

The loans and receivables are non-derivative financial assets with fixed or determinable payments that are not traded in an active market. Initially, loans are recognized in the balance sheet at fair value which represents the cash outflow for the generation or purchase on credit, including all transaction costs. The initial recognition of the loan as an asset is the time of the extension of the funds to the borrower. The undrawn loan amounts are reported as off-balance sheet commitments. Loans and receivables are subsequently measured at amortized cost.

Repurchase agreements

Securities sold under a repurchase agreement in the course of banking are reported in the balance sheet in the category where they were initially recorded and their corresponding liability in "Deposits from banks" or "Deposits from customers".

Securities purchased under a sell-back agreement are reported in the balance sheet as "Loans and advances to banks" or "Loans and advances to customers".

The difference between the purchase and sale price of such transactions is accounted for as interest income or expense and is accrued for the period of the transaction based on an effective interest rate.

Derecognition of financial assets

Financial assets (or, if applicable, a part of a financial asset or a part of a group of similar financial assets) are derecognized, when:

- the rights for receiving cash flows from the asset have expired; or
- the rights for receiving cash flows from the asset have been transferred or the Group has undertaken the obligation to fully pay the received cash flows, without material delays, to a third party, under a transfer agreement; whereby (a) all risks and rewards of the financial asset's ownership are substantially transferred by the Group; or (b) all risks and rewards of ownership of a financial assets are neither transferred, nor retained, but the Group has not retained control over the financial asset.

When the Group has transferred its rights for receiving cash flows from the asset or has entered into a transfer agreement, it assesses whether and to what extent it retains the risks and rewards of ownership. When it has neither transferred, nor retained substantially all the risks and rewards of the financial asset's ownership, nor has retained control of it, it continues to recognize the transferred asset to the extent of its continued involvement in it. In this case, the Group also recognizes the related liability. The transferred asset and the related liability are measured on a basis that reflects the rights and obligations retained by the Group.

The on-going involvement in the form of a guarantee for the transferred asset is measured at the lower of the initial carrying amount of the asset and the maximum amount of consideration that may be required to be paid by the Group.

3 Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

Financial Assets (continued)

Impairment of financial assets

The Group recognizes an allowance (provision) for impairment of financial assets by applying the so-called model of "Expected Credit Losses" (ECL), i.e. a loss allowance is recognized regardless of whether a specific loss event has occurred. The model applies for initial recognition in respect of all debt instruments that are not reported at fair value through profit or loss, including lease receivables, loan commitments, financial guarantees and contractual assets arising from the application of *IFRS 15 Contracts with Customers.*

No loss allowance is reported for financial assets that are measured at fair value through profit or loss, since the change in fair value is presumed to include potential credit losses.

Loss allowance is also not reported for equity instruments measured at fair value in other comprehensive income due to the fact that any changes in their fair value are recognized in other comprehensive income and subsequently are not reclassified in the income statement.

ECLs are based on the difference between the contractual cash flows due under the terms of the contract and all cash flows that the Company expects to receive discounted to the original effective interest rate. Expected cash flows include cash flows from the sale of the collateral held or other credit enhancements that form an integral part of the terms of the contract.

ECLs are recognized in two stages. Where there is no significant increase in credit risk after the initial recognition of the asset, the loss allowance is based on the expected credit losses that arise as a result of non-performing events that may occur over the next 12 months (12-month ECLs).

For exposures for which there is a significant increase in credit risk from initial recognition, a loss provision is recognized in respect of credit losses expected over the remaining exposure period, irrespective of the occurrence of the default (ECLs over the lifetime of the instrument). In this regard, the credit risk assessment and its change over the initial provision period is a key point in determining the loss allowance. The loss allowance reflects not the level of credit risk in general, but its relative change at the reporting date and its measurement is related to many assumptions and estimates.

The change in the loss adjustment is recognized as a result of impairment in profit or loss for the period.

When in subsequent periods the credit quality of the financial asset improves so that there is no significant increase in credit risk compared to the initial recognition of the asset, the allowance is remeasured on the basis of the expected credit losses for 12 months.

With respect to trade receivables and assets under contracts with clients, the Group applies a simplified approach for ECL calculation. Therefore, it does not track the changes in credit risk but instead recognizes a provision for loss on the basis of the ECL for the entire duration of the instrument at each reporting date. The Group has created a provisioning matrix based on historical experience of credit losses, adjusted by forecast factors specific to the debtors and the business environment.

3 Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

Financial Assets (continued)

Impairment of financial assets (continued)

For receivables from banks and debt instruments at fair value in other comprehensive income, the Group applies low credit risk based impairment. For each reporting date, it determines whether the debt instrument is assessed as an instrument with low credit risk using all reasonable and substantiated information that is available without incurring unnecessary expenses or efforts. In this assessment, the Group analyses the available information on the credit rating of the instrument. In addition, the Group assesses whether there is a significant increase in credit risk in the cases where the payments on the instrument are past due over 30 days. The Group's policy is to assess the ECLs for these instruments (receivables from banks and debt instruments at fair value in other comprehensive income) on a 12-month basis. However, when there is a significant increase in the credit risk after the occurrence, the provision is based on the ECLs for the entire duration of the instrument. The Group uses the ratings to determine whether the credit risk of the debt instrument is significantly increased and to prepare an approximate assessment of the ECLs.

The Group considers a financial instrument as a non-performing instrument when the contractual payments are in arrears over 90 days. In certain cases, however, it may treat a financial asset as a non-performing asset when internal or external information indicates that it is unlikely that the Group will receive the full amount of the outstanding amounts under the contract before taking into account any credit improvements it holds.

Financial assets are derecognized when there is no reasonable expectation for the collection of cash flows under the contract. The amounts subsequently collected under derecognized loans are recognized as income for the current period in reduction of the expenses on the ECLs.

Reclassification of financial assets

Under certain circumstances, non-derivative financial assets at fair value may be reclassified at assets at amortized cost and vice versa. Such reclassification is only allowed if the business model in which the assets are managed is changed. The change of the business model is determined by the management of the Group as a result of external and internal changes that are material to the operating activities. Changes may also occur when reorganizing the operations as a result of changed goals of the business model. Changes to the initial classification of financial assets are expected to occur in relatively rare and limited cases.

The new accounting is applied for future periods after the reclassification date when the business model was changed without recalculating the results for previous periods. The reclassification date is the first day of the first reporting period following the change in the business model that resulted in the reclassification.

3 Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

Financial liabilities

Financial liabilities that are not derivatives or at acquisition are not classified as at fair value through profit or loss are measured at amortized cost. Initially they are recognized at 'cost', i.e. fair value of the cash flows received at the liability occurrence less the transaction costs. Subsequently any difference between net proceeds and the redemption value is recognized in the profit or loss over the period of the instrument using the effective interest method.

The Group's financial liabilities include deposits, borrowed funds, issued bonds and other trade payables and reflect the Group's commitments to repay the liabilities due at maturity through cash or other financial assets. The Group has not designated financial liabilities for accounting at fair value through profit or loss and recognizes all its financial liabilities at amortized cost using the effective interest method.

Financial liabilities are written-off from the balance sheet, if it has been repaid, i.e. when the liability, specified in the contract has lapsed or cancelled or expired. The replacement of an existing financial liability by another debt instrument, by the same creditor with significantly different terms and conditions, or significant modification of the terms and conditions of an existing financial liability, is reported as a derecognition of the initial financial liability and recognition of a new financial liability. The difference between the carrying values of the original and the new liability, is recognized in the statement of comprehensive income (in profit or loos).

Offsetting financial assets and liabilities

The Group does not allow the offsetting of financial assets and liabilities unless this is permitted by a specific standard or an explanation. Financial assets and liabilities may be offset and the net amount reported in the statement of financial position only when the Group has a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Derivative financial instruments and hedging

In the normal course of business, the Group enters into contracts whose value varies according to changes in certain market variables and require no initial investment, or require minor net investment compared with the nominal contract value. Such contracts are financial instruments called derivatives. Derivatives are classified as held for trading or for hedging depending on their purpose in purchasing.

Derivative financial instruments are initially recognized initially at their acquisition cost (including transaction costs) and subsequently are re-measured at their fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

3 Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

Derivative financial instruments and hedging (continued)

In its operations, the Group is exposed to various market risks. The defined Basic Banking Activities Development Strategy is geared to optimal management of the different types of risk in order to minimize their negative impact on performance. To mitigate the risks and under certain circumstances, the Group may choose to use different financial instruments to hedge individual risk components inherent in core banking assets and/or liabilities. Hedging is related to hedging instruments and hedged items. The use of hedging instruments with the intention of reducing the exposure to certain risks may result in accounting mismatches and reporting variable results that do not properly present the hedging objectives.

Such mismatches arise when the recognition and subsequent recognition bases of the underlying (hedged) position and the hedging instrument are different. In order to properly report the results of hedging and to harmonize the effect on the statement of financial position, hedge accounting rules apply. The Group has decided to apply the requirements of IFRS 9 in respect of hedge accounting. In cases where the reporting of gains/losses on the hedging instrument and the hedged item in profit or loss naturally coincides over time, it is not necessary to apply accounting hedging. By applying hedge accounting rules, the Group recognizes the gains/losses on the hedging instrument simultaneously with the occurrence of losses/gains on the hedged item up to the hedge effectiveness.

During the period, the Group did not report derivative financial instruments and/or hedges.

Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer of the guarantee to make specified payments to reimburse the holder as a result of the failure of a third party - debtor to comply with commitments made that have been guaranteed. Financial guarantee contracts are initially carried at their fair value on the date the guarantee was given, which is likely to be the premium received at inception. No receivables for the future premiums are recognized. The income from commission fees is deferred, based on the linear method, along the period, to which such fees refer. Subsequently, the Group's liabilities under financial guarantee contracts are measured at the higher of the amount initially recognized less amortization and the provision that should be accrued for the Group to meet its contractual obligations arising at the reporting date. The expected credit losses, related to the financial guarantees issued, are recorded in the statement of comprehensive income (in profit or loos), in the line "Impairment of non-financial assets". The likelihood of an obligation for payment by the Group under such contracts is estimated based on historical experience with similar instruments.

Investment properties

In the course of its operating activities and under certain circumstances, the Bank acquires real estate as a result of legal proceedings brought against debtors on loans for non-recovery. Such assets are classified as held for sale or as investment properties depending on the Management intention and on the possibility for quick disposal.

Investment properties are real estate - land and/or buildings held primarily to earn income from rent and/ or for capital appreciation or both and that are not occupied by the Group.

Recognition of investment properties as an asset takes place only when it is probable that the future economic benefits that are associated with the estate will flow to the entities in the Group and when the cost can be determined reliably. This is usually from the day when all the benefits and risks associated with the asset are transferred to the Group.

3 Summary of Significant Accounting Policies (continued)

Investment properties (continued)

Investment properties are measured initially at cost, including transaction costs. Ongoing costs associated with servicing the asset are not included in the carrying amount and are reported as an expense for the period. Improvements made after the date of initial recognition are included in the value of the investment property as long as it meets the criteria for recognition of an asset.

For subsequent reporting, there are two alternative methods - a fair value model and a cost model, and the Group has decided to use the fair value model. In accordance with IAS 40 *Investment Property*, this model requires, after initial recognition, that investment property to be measured and stated at fair value without depreciation. Gains or losses arising from a change in the fair value are included in the profit or loss for the period in which they arise. Determination of fair value is made in accordance with IFRS 13 *Fair Value Measurement* and reflects market conditions at the reporting date. Licensed independent valuators (appraisers) with the necessary professional qualifications and experience carry out the update of the fair value of the investment property annually.

When property, plant and equipment is transformed into investment property, as a result of change in use, the Group applies its accounting policy, regarding properties, plant and equipment, until the date of change of the use. The difference between the balance-sheet value and the fair value as of the date of the change is to accounted into the profit or loss for the period.

Under certain circumstances, the Group takes action to develop land classified as investment property in order to build residential and/or commercial premises that it subsequently intends to realize through a sale. When the Group becomes a party to a contract providing for similar developments, the asset ceases to be reported as an investment asset and is presented as an asset under development in the line "Other assets" in the statement of financial position.

The revenues from investment properties are recorded in the statement of comprehensive income (in profit or loos) in the Other operating income item. This amount includes the income from leased investment properties, which is recorded in the period to which it refers, in accordance with the lease contract signed. The result from the sale of property, classified as investment property is carried at Other operating income when the result is in the form of gain and – in Other operating expenses when the result is a loss, respectively. The current costs, related to the maintenance and operation of the investment properties are disclosed as a part of the Other operating expenses item in the comprehensive income statement. Detailed information regarding the income and costs, related to the investment properties is provided in Note 8 to these statements.

An investment property is derecognized upon its disposal or when it is permanently decommissioned and no economic benefits are expected from such disposal. The gains or losses, when derecognizing an investment property, are disclosed in the period of such derecognition.

Assets held for sale

Real estate and other tangible assets acquired from disposal of collateral on foreclosed loans or assets acquired exclusively with a view to subsequent disposal in the near future are classified as assets held for sale and are initially measured at cost. The classification of properties as assets held for sale happens at initial recognition and depends on the Management intention and their plan for assets disposal.

The Management is actively seeking realization of assets classified as held for sale, aiming to complete the sale within one year period after the classification. After initial recognition, such assets are carried at the lower of their carrying amount or at their fair value less the cost to sell. No depreciation is accrued on such assets.

Income and costs, related to assets, classified as Assets held for sale are recorded in the item lines “Other operating income” or “Other operating costs” of the comprehensive income statement, respectively. Detailed information regarding any such income and costs can be found in Note 8 of these statements.

All amounts are in thousands of EUR unless otherwise stated

3 Summary of Significant Accounting Policies (continued)

Tangible and intangible assets

Tangible and intangible assets are initially recognized at cost, including direct transaction costs. Two alternative models apply for subsequent reporting: the cost model and the revaluation model, depending on the class of asset. The properties, used in Group's operations – office buildings and the adjacent terrains – are reported based on the revaluation model, where after initial recognition the asset is carried at revalued amount, the latter being its fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses. Upon revaluation any depreciation accumulated to the date is eliminated against the gross amount of the asset and the net amount is restated in relation to the fair value.

If the asset's carrying amount is increased as a result of revaluation, the increase is recognized in other comprehensive income and is accumulated in equity as revaluation reserve of assets, net of taxes. In the event of a reduction in the carrying amount of the asset as a result of revaluation, netting with previous increases, the reduction shall be accrued against the revaluation reserve.

All other reductions in the carrying amount of the asset are reported to the profit or loss for the period. Revaluations are to be performed regularly to insure that the carrying amounts of the assets do not differ materially from their fair values at the reporting date. The depreciation of revalued assets is reported on a regular basis in the profit or loss for the period. Upon subsequent derecognition of a revalued asset, the relevant formed revaluation reserve is transferred directly to results from previous years, without being reported to the profit or loss for the period. All other fixed tangible and intangible assets are reported according to the cost model, i.e. at cost less accumulated depreciation and impairment losses.

Subsequent repair and maintenance costs are included in the profit or loss at the moment these are incurred, unless there is clear evidence that they will result in increased economic benefits from the use of the asset. Such costs are then charged to the carrying amount of the asset.

Land and buildings comprise the Bank's own premises. Land is not subject to depreciation. Depreciation and amortization of other assets is accrued based on the straight-line method over the estimated useful life of the asset. The assets' useful lives are periodically reviewed and adjusted if appropriate. No adjustments have been made during the reporting period.

Annual rates of depreciation and amortization used in the accompanying financial statements are as follows:

	2019	**2018**
Building	3%-4%	3%-4%
Computers and software	25%	25%
Office equipment	20%	20%
Vehicles	20%	20%
Office furniture	10%-15%	10%-15%
Leasehold improvements	Over the contracted period	Over the contracted period

Long-term assets are periodically reviewed for impairment. Where the carrying amount of an asset is greater than its recoverable amount, the asset is impaired and the Bank reports an impairment loss. On disposal of tangible assets, the difference between the carrying amount and the sales price of the asset is reported as profit or loss for the current period in the item line "Other operating income".

No residual value is recorded with respect to the aforesaid asset classes. At the end of the reporting period, the significance threshold value, adopted by the Group, for the recognition of tangible fixed assets, amounts to BGN 300. Properties, plant or equipment are derecognized upon their discard or when no further economic benefits may be expected from their continued use.

3 Summary of Significant Accounting Policies (continued)

Inventories

Inventories are valued at the lower of cost and net realizable value.

Costs incurred in bringing each product to its present location and condition are accounted for, as follows:

- Raw materials: purchase cost on a first-in/first-out basis
- Finished goods and work in progress: cost of direct materials and labor and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Leases

A lease contract is a contract or part of a contract under which the right to use an asset or assets for a specified period of time is transferred for consideration. The assessment of whether a contract is a lease or contains elements of a lease is based on the circumstances existing at inception of the contract.

Lease accounting policy after 1 January 2019

The Group as a Lessor

The adoption of IFRS 16 Leasing as of 1 January 2019 did not change the Group's accounting policy as a Lessor. The Group classifies its lease contracts as finance or operating leases at the conclusion of the contract. Contracts that provide for the transfer of all risks and benefits of use and ownership of the asset to the lessee are classified as finance leases. Assets sold under finance leases are recognized as receivables at their present value and included in “Loans and advances to customers” in the statement of financial position. Revenue for the reporting period from finance leases is recognized using the effective interest rate, which reflects a constant return on assets throughout the contract period.

Contracts that are not classified as finance leases at inception are recorded as operating leases. Rentals received under operating lease contracts are recognized on a straight-line basis over the term of the contract and are recognized in profit or loss for the period in item Other Operating Income.

3 Summary of Significant Accounting Policies (continued)

Leases (continued)

Lease accounting policy after 1 January 2019 (continued)

The Group as a Lessee

As disclosed in para 3 Summary of significant accounting policies, New and amended standards, IFRS 16 *Lease*, since the beginning of 2019 the accounting policy of the Group as a lessee has undergone significant changes.

The Group applies a single accounting model for all lease contracts the 'right-of-use-asset' model.

The Group is party to a number of long-term real estate lease contracts for the purposes of its operating activity. As a result of the changed accounting policy, the right-of-use-assets and corresponding liabilities, which represent the present value of the lease obligations for the term of the contract, are recognised in the statement of financial position. Lease assets and liabilities are recognised at the date on which the assets are available for use by the Group. The right-of-use-assets are presented in the statement of financial position within Tangible Assets item and the corresponding lease liabilities within Other Liabilities item.

The right-of-use-asset is initially measured at cost, considering:
- the amount of the lease liability recognised;
- the lease payments made so far (if any);
- the initial direct costs of the transaction
- the estimated future costs of disposing of the asset, recorded as a provision (if any).

For the subsequent reporting of these assets, the Group has chosen to apply the cost model. In applying this model, the right-of-use-asset is measured at cost, less any accumulated depreciation and impairment losses and adjusted for subsequent remeasurements of the lease liability. The right-of-use-assets are depreciated on a straight-line basis from the beginning of the contract to the end of the useful life of the asset or to the end of the lease term if the underlying asset is subject to return to the lessor. Depreciation expense is recognized in profit or loss for the period as part of the total depreciation expense.

The lease liability is initially measured at the present value of the lease payments to be made over the lease term, discounted at an incremental discount rate at the beginning of the lease because the interest rate set in the contract cannot be reliably determined. The incremental interest rate reflects the estimated cost of financing the lessee on market terms. To determine the incremental interest rate, the Group uses information about the cost of its long-term borrowings - the interest rate on deposits with a maturity of more than one year or other loans received. At the date of initial application of IFRS 16 Lease - 1 January 2019, the Group has chosen to use as a reference the interest rate on long-term financing received from BDB.

After initial recognition, the lease liability increases with the interest and decreases with the lease payments made. In addition, its carrying amount is remeasured if there is a modification, a change in the lease term, a change in the lease payments resulting from changes in the index or the interest rate used to determine them, or a change in the measurement of the option to buy the underlying asset. The remeasurements are treated at the same time as an adjustment of the liability and the right-of-use-asset.

3 Summary of Significant Accounting Policies (continued)

Leases (continued)

Lease accounting policy after 1 January 2019 (continued)

The Group as a Lessee (continued)

The subsequent lease payments are recognized in proportion as a decrease in the financial liability and as interest expense for the relevant period so as to achieve a constant interest expense on the remaining balance of the liability. Variable lease payments that do not depend on an index or interest rate are recognized as expense during the period in which the event or condition that triggers the payment occurs.

In the Income Statement, interest expense on lease liabilities is presented separately from the depreciation expense of the right-of-use-asset. In the Cash Flow Statement, payments related to the lease liability are presented as cash flows from financial operations.

Short-term leases and low-value asset leases

The Group applies the IFRS 16 exemption from the recognition of lease liabilities and the right-of-use-asset in respect of:

- short-term lease contracts with a term of up to 12 months with no purchase option
- lease contracts for assets designated as low-value assets - the value of a new analogous asset should not exceed approximately USD 5,000 (e.g. office equipment)

In these cases, the lease contracts are recognized as a rental expense in profit or loss for the period determined on a straight-line basis over the term of the contract.

Leases (Accounting policy before 1 January 2019)

The Group as a Lessee

The Group classifies a lease contract as a finance lease if it exceeds substantially all the risks and benefits of the ownership of a leased asset. At the beginning of the lease term, the financial lease is recognized in the balance sheet as an asset and a liability in amount, which, at the beginning of the lease term, is equal to the fair value of the leased asset or, if it is less, to the present value of minimum lease payments. Lease payments are allocated between the financial costs and the reduction of the lease liability so as to obtain a constant rate of interest on the remaining balance of the liability. Financial expenses are recognized directly in the income statement.

The assets acquired under finance lease are depreciated over the useful life of the asset. If there is no reasonable expectation that the Group will acquire the ownership over the asset by the end of the lease term, the assets are depreciated over the shorter of the useful life of the asset or the lease term.

Lease payments under operating lease contracts are recognized as a rental expense in the profit or loss on a straight-line basis for the term of the lease.

3 Summary of Significant Accounting Policies (continued)

Taxation

Income tax for the reporting period comprises current and deferred tax. Other taxes that are not directly related to income for the period are reported as operating costs.

The Group measures income tax in accordance with the applicable laws and regulations. The income tax is calculated, based on the taxable profit, obtained upon transformation of the financial result, according to the requirements of the Corporate Income Taxation Act.

The current tax assets and liabilities for the current and previous periods, are recognized at the amount, which is expected to be recovered from or paid to the tax authorities. The tax rates and tax laws and regulations, effective or significantly adopted at the date of the statement of financial position are applied for the calculation of the current taxes. In accordance with the Corporate Income Taxation Act, the tax rate for 2019 and 2018 is 10%.

Deferred taxes are calculated using the liability method by taking into account all temporary differences at the reporting date arising between the value of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates that are expected be in force in the period when the asset is disposed or the liability is settled as far as they may be reliably determined. The calculation of deferred tax liabilities and assets reflects the tax consequences related to the expectations of the Group at the reporting date for disposal of certain assets, respectively, the repayment of certain liabilities. Deferred tax is recognized regardless of when reversal of temporary differences is expected to occur. Temporary differences arise primarily in the context of different rates of depreciation of fixed assets and investment properties for taxation and accounting purposes, in terms of the valuation or revaluation of certain assets and liabilities, etc.

Deferred tax assets are recognized only to the extent that it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. At each reporting date, the Group reviews the recognized tax assets and revaluates them depending on the expectations for disposal. In case of reduced probability of achieving tax benefits, the deferred assets are reduced or removed. Deferred tax liabilities are recognized for all taxable temporary differences.

The Group offsets deferred tax assets and liabilities only when there is a legally enforceable right to deduct current tax assets against current tax liabilities and deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable enterprise.

Deferred taxes are charged directly in the equity, when resulting from positions, which are reported directly in the equity.

Share capital

The share capital is recorded at the nominal value of the issued and paid-in shares. The proceeds from the issued shares, exceeding their nominal value, are reported as premium reserves.

The costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes. Dividends on ordinary shares are recognized in equity in the period in which they are approved by the shareholders. Dividends for the period declared after the date of the financial statements, are disclosed as an event after the reporting date.

Cash dividends to the shareholders

Liabilities for cash disbursements to the owners are recognized, when the respective disbursement has been approved by them and do not depend on the Group. The corresponding amount is debited directly to the equity.

3 Summary of Significant Accounting Policies (continued)

Provisions

Provisions for legal claims or other obligations are recognized when the Group as a result of a past event, has a present legal or constructive obligation whose repayment is likely to be an outflow of economic benefits. Provisions are recognized in the event that the amount of future cash outflows can be reliably determined.

Employee benefits

The short-term employee benefits include salaries, remunerations, intermediate and annual bonuses, social security contributions, and annual compensable employee leaves, which are expected to be fully settled within 12 months after the end of the reporting period. When the Group receives the service, these are recognized as personnel costs in the profit or loss or are capitalized in the value of the asset. The short-term employee benefits are measured at the non-discounted amount of the expected settlement costs. Additional information can be found in Note 26.

The retirement compensations have been calculated in accordance with the Labor Code. By virtue of the applicable regulations, the Group is obliged to pay its employees upon retirement, either two or six gross monthly salaries, depending on the working experience of the respective employee. If an employee has worked at the Group for 10 years, he/she receives six gross monthly salaries upon retirement, and if he/she has worked for less than 10 years – two. The employee retirement benefits plan is partially funded only in respect of liabilities expected to arise in the next financial year. The Group determines its liabilities for the payment of employee benefits upon retirement, applying the actuarial method of the estimated credit units.

After the calculations made, the Group has established that the total amount of the retirement provisions is insignificant for the financial statements and therefore it has not undertaken any accounting operations, with respect to its reporting.

Fair value measurement

According to its accounting policy, the Group measures certain financial assets at fair value at the reporting date, as well as certain non-financial assets such as land, buildings used for own purposes and its investment properties.

The fair values of the financial instruments measured at amortized cost and non-financial fixed assets, accounted for at their acquisition cost, less the accumulated depreciations and impairment losses, are disclosed in Note 30.

Fair value is the price that would be received from the sale of an asset or paid for the transfer of a liability in a normal transaction between market players (an arm's length transaction) at the evaluation date. The fair value evaluation is based on the assumption that the transaction for the sale of an asset or the transfer of a liability takes place:

- on the main market for the respective asset or liability, or
- if there is no main market, on the most favorable market for the respective asset or liability.

The main or most favorable market must be accessible by the Group.

The fair value of the asset or liability is measured, applying the assumptions, which the market players would make when determining the price of the asset or liability, if they act to their best economic interest.

The measurement of the fair value of non-financial assets, takes into consideration the capability of a market player, to generate economic benefits from using the asset, according to its most efficient and best use, or by selling the asset to another market player, who will use the asset, according to its most efficient and best use.

3 Summary of Significant Accounting Policies (continued)

Fair value measurement (continued)

The Group uses evaluation methods, suitable for the respective circumstances and providing sufficient data for the evaluation of the fair value, maximizing the use of appropriate monitored input data and minimizing the use of non-monitored input data.

All the assets and liabilities, evaluated at their fair value or requiring disclosure of the fair value in the financial statement, are placed in categories, based on the fair value hierarchy, as detailed below, based on the lowest level of used input data, having significant effect on the measurement of the fair value in general:

Level 1 – Bid (non-adjusted) prices on the asset markets for identical assets or liabilities are used

Level 2 – Evaluation methods are employed, where the lowest level of used input data, significant for the fair value measurement, is monitored either directly or indirectly

Level 3 – Evaluation methods are employed, where the lowest level of used input data, significant for the fair value measurement, is not monitored

For assets and liabilities, measured on a regular basis at their fair value, the Group reviews their categorization at the relevant level in the fair value hierarchy (based on the lowest level of used input data, having significant effect on the measurement of the fair value in general) at the end of the reporting period and determines whether it is necessary to make transfer(s) from one level to another.

Usually the evaluation of the fair value of the significant assets (such as land and buildings) is carried out by external valuators. The need of external valuators is assessed each year by the Management. The external valuators are selected based on their professional experience, reputation and independence. After discussions with the specialist valuators, the Management decides what evaluation methods and input data are most appropriate for each separate case.

At each reporting date, the Management carries out an analysis of the changes in the values of the assets and liabilities, which are subject to revaluation, according to Group's accounting policies. This includes a review of the key input data, used in the latest measurement and their comparison to appropriate historical information, such as contracts signed and other relevant documents. Together with the evaluation specialists, the Management compares the changes in the fair value of each asset or liability, to appropriate external sources, in order to decide whether the changes are reasonable. For the purposes of disclosing the fair value, the Group assigns the assets and liabilities to various classes, depending on their nature, characteristics and risk and the respective level in the fair value hierarchy, as detailed above.

Interest income and expense

Interest income and expense are recognized in the profit or loss for the period for all interest bearing assets and liabilities using the effective interest method and in compliance with principle of accrual accounting. Interest income or expense on securities or other debt instruments is based on contractual interest rate and includes unwinding of the discount or the premium on the instrument aswell.

When loans are identified as impaired, their interest income is recognized using the effective interest method on the net carrying amount of the instrument, i.e. after deduction of the loss allowance. Actual interest income on impaired loans is recognized in profit or loss for the current period when it is received by the Group.

3 Summary of Significant Accounting Policies (continued)

Fees and commission income

Loan commitment fees and loan management fees are deferred and recognized in the profit or loss for the respective period, as part of the effective interest rate.

The Groupe has identified the following 3 performance obligations according to IFRS 15:

- Sevices related to transactions – revenue is recognised over time as the customer simultaneously receives and consumes the benefits due to the short term of providing the services. The fees for these sevices are based on the Terms and conditions of the Bank and represent fixed amount per transaction corresponding to the customers' benefit. The Groups applies the practical expedient in IFRS 15.B16 and recognizes the determined fee income from the transaction when completed.
- Fees for issuing guarantees and letter of credits - revenue is recognised over time as the customer simultaneously receives and consumes the benefits. The transfer of the benefits to the customer is consistent over time thus the Groupe uses a straight-line method for amortization of fees over the contracted term. The fees for these sevices are fixed, calculated on the nominal amount of the guarantee or the letter of credit.
- Deposit accounts - revenue is recognised over time as the customer simultaneously receives and consumes the benefits. The fees for these sevices are based on the Terms and conditions of the Bank and represent fixed amount on a monthly base corresponding to the customers' benefit transferred. The Groups applies the practical expedient in IFRS 15.B16 and recognizes the determined fee income from the transaction when completed.

Fiduciary assets in safekeeping arrangements

The Group keeps assets on behalf of its clients, as an investment agent. Such assets are not disclosed in the statement of financial position, because these are not assets of the Group.

Operating segments

The Group falls within the scope of IFRS 8 - Operating Segments - because it issues debt instruments, which are traded on a public market and consequently submit their financial reports to the Financial Supervision Commission (FSC), as the regulatory authority. Nevertheless, the Group does not provide additional disclosures relating to operating segments due to the nature of the regulatory environment in which it operates, the inability to determine the segments in operational activity, as well as lack of requirement to report them separately for the purposes of accountability to the Management.

Comparatives

The financial statements provide comparative information in respect of the previous reporting period. The presentation of the data for previous years is adjusted, where necessary, with the aim of comparability with the current year presentation.

An exception to this rule is the presentation of the effects from the first-time application of IFRS16 *Lease.* The Group has applied the relief allowed by the standard and has selected the approach of first-time modified application of IFRS 16 Lease, according to which all adjustments arising from the initial application of the standard should be accounted for in equity (to "retained earnings" and "reserve from financial assets at fair value through other comprehensive income") as of 1 January 2019. The Group has not determined any amounts to be accounted for in equity as a result of the initial application of IFRS 16. The comparative information for 2018 is not restated.

3 Summary of Significant Accounting Policies (continued)

Judgments, estimations and assumptions

The preparation of the consolidated financial statements of the Group requires from the Management to make judgments, estimations and assumptions, which concern the reporting periods, costs, assets, liabilities and concurrent disclosures, as well as the disclosure of contingent liabilities.

The uncertainty, regarding these assumptions and estimations may result in significant adjustments to the balance value of the assets or liabilities in subsequent reporting periods.

Judgments

In the process of implementation of the accounting policy of the Group, the Management has made the following judgments in addition to those, including estimations and assumptions, which have the most significant effect on the amounts, recognized in the financial statement.

Going concern

When preparing the financial statement the Group's management has made an assessment of its ability to continue as a going concern for the foreseeable future. The management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue in business and therefore the financial statement is prepared on the going concern basis.

Leases – Classification of leased property (the Group as a lessor)

The Group has leased some of its investment properties. As a lessor, based on the terms and conditions of the lease contracts, it has determined that it preserves all the significant risks and benefits, resulting from the ownership of such properties and that the lease term does not cover much of the economic life of the property and therefore accounts for these contracts as operating lease.

Determining the lease term for contracts with renewal and termination options (the Group as lessee)

The Group determines the lease term as the irrevocable term of the contract, together with any periods covered by the option to extend it, if it is reasonably certain that the option will be exercised, or any periods covered by the option for termination of the lease, if it is reasonably certain that the option will not be exercised. Some of the leases include extension and termination options. The Group considers all material factors that create an economic incentive to exercise either the renewal option or the termination option to determine the lease term for which it calculates lease liabilities as reliably as possible. In the event of significant events or changes in circumstances affecting the Group's ability to exercise or not the relevant option, the lease term is adjusted according to the changed circumstances.

Leases - Estimated incremental borrowing rate (the Group as lessee)

The Group cannot reliably determine the interest rate implicit in the lease, therefore, an incremental borrowing rate is used to measure the lease liabilities. The incremental borrowing rate is the interest rate that the Group would pay to borrow the funds necessary to acquire an asset of similar value to the right-of-use-asset for a similar period and with similar security in a similar economic environment. Therefore, setting the incremental borrowing rate requires an estimate when observable interest rates are not available or when they need to be adjusted to reflect the terms of the lease. As most of the lease contracts for office rentals have an original term between 5 and 10 years, the Group determines its incremental borrowing rate based on the cost of its long-term financing at the date of the lease.

3 Summary of Significant Accounting Policies (continued)

Judgments, estimations and assumptions (continued)

Judgments (continued)

Classification of assets as held for sale or investment property

For the initial classification of assets acquired as collaterals on loans, the Group makes judgments related to the classification of these assets either as assets held for sale, investment properties or other assets. The Group form their judgment for the initial recognition of assets based on the objectives for the future utilization and disposal of the acquired assets. In addition to the date of the statement of financial position, the Management reviews its intentions regarding the use and/or realization of these assets and, as a result, reclassification is made between assets for sale and investment properties.

Estimations and assumptions

The main assumptions regarding the future and other key sources of uncertainty at the reporting date, which result in a significant risk for a major adjustment of the carrying amounts of the assets and liabilities within the following financial year, are detailed below.

The Group bases its assumptions and estimates of the existing parameters at the moment of preparation of the consolidated financial statements. The existing circumstances and assumptions for future development may change due to market changes or circumstances beyond the control of the Group. All such changes are recorded in the assumptions, when they occur.

Determination of ECLs for financial assets with low credit risk

Low credit risk instruments are those for which there is a low non-performance risk, the counterparty's ability to perform its contractual obligations in the short run is stable, negative long-term economic conditions are unlikely to change the ability to repay the liabilities due. For its short-term receivables from banks and debt instruments measured at amortized cost or at fair value in OCI, the Group assumes as at the reporting date that the likelihood of default is unlikely and therefore determines 12-month credit losses for them. If the low credit risk criteria are no longer met in the subsequent reporting periods, the Group performs an analysis of the change in credit risk relative to the initial recognition in order to assess the need for a loss allowance over the full period of the instrument. Determining instruments as instruments with low credit risk requires judgment. In making this judgment, the Group uses all reasonable and substantiated information that is available without incurring unnecessary expenses or efforts.

Determination of ECLs from loans and receivables

As disclosed in Note 31.2 *Credit risk*, the Group has developed a policy to assess changes in credit quality and determine the expected credit losses on financial instruments. The Group classifies its risk assets into three risk stages depending on the changes in credit risk after the initial recognition of the asset and accordingly estimates the expected credit losses based on the 12-month probability of default if there is no change in credit quality (Stage 1) and based on the probability of default over the entire duration of the instrument (Stage 2 and Stage 3), if there is a significant increase in credit risk. In determining the extent to which credit risk is significantly increased in relation to the initial recognition of an asset, the Group uses all reasonable and substantiated information that is available without incurring unnecessary expenses or efforts.

Loss at default is an estimate of the damage that the Group would suffer upon a default event and is based on the difference between the contractual cash flows and the cash flows that the Group expects to receive, including from collateral and other credit facilities. Significant judgment is required to determine the timing and amount of the expected cash flows, including when determining the value of the respective collateral. The Management uses judgments, based on the historical experience, related to losses, with respect to assets, with inherent credit risk and objective circumstances for impairment, similar to those in the portfolio, when calculating the future cash flows.

3 Summary of Significant Accounting Policies (continued)

Judgments, estimations and assumptions (continued)

Estimations and assumptions (continued)

In determining the amount of expected credit losses, the Group uses estimated information about expected future changes in certain economic conditions and indicators and assumptions how changes in these indicators would affect the probability of default.

The 'Likelihood of default' parameter is a key factor to calculating the amount of expected credit losses and reflects the likelihood that the counterparty will not implement its contractual obligations over a given time horizon. The Bank has developed internal models for determining the probability of default on loans based primarily on historical information for a period for which it is available. The assessment of the correlation between the historical default rates and the estimated economic indicators is a significant estimate. The Group's historical experience with credit losses and economic forecasts may also not be considered representative of the actual losses in the future.

Fair value of financial instruments

When the fair values of the financial assets and liabilities in the statement of financial position cannot be received from the asset markets, these are determined with the help of various evaluation techniques, which include the use of mathematical models. The input data for these models, result from indicators, which are observed on the financial markets, where possible, and otherwise assumptions shall be used to determine the fair value. The assumptions take into consideration factors, related to liquidity, volatility for longer-term derivatives and discount rates, early payments and non-performance provisions, related to securities, secured by assets.

Deferred tax assets

The Group recognizes the deferred tax assets, with respect to the carried over tax losses, if it is likely that there will be a future taxable profit, from which the temporary differences could be set off. Judgment is required in order to determine the amount of the deferred tax assets, which may be recognized, based on the probable moment and amount of the future taxable profits, together with the future tax planning strategy.

Measurement of the acquired assets from collaterals

The properties, which prior to their acquisition have served as collaterals to loans granted, are classified by the Group as assets held for sale or investment property. According to the accounting policies adopted by the Bank, the assets that are classified as held for sale are subsequently measured at the lower of their carrying amount and their fair value. To determine the fair value of assets for sale, the Group uses estimates by independent external valuators.

Acquired assets that are classified as investment property are subsequently measured at fair value at the reporting date. To determine the fair value of investment properties, the Group uses valuations prepared by independent external valuators with appropriate professional qualifications and necessary experience to evaluate similar real estate.

The appraisers are members of the Chamber of Independent Appraisers in Bulgaria and they have appropriate qualifications and recent experience in the valuation of properties. The valuations, which conform to International Valuation Standards, were arrived at by using the specified in the standard valuation methods and reference to market evidence of transactions or offer prices for similar properties (see also Note 30).

Assets in process of development

Initially these assets are stated at cost. After initial recognition the assets are measured at the lower of cost and net realizable value. The net realizable value is the estimated salling prise in the ordinary course of business less cost to sell. The assessment of the net realizable value is based on the best evidence available at the date of the valuation. The net realizable value is evaluated at each reporting date. Where the circumstances that led to a decrease in the value of the asset below the acquisition value no longer exist or where there is clear evidence of an increase in the net realizable value due to a change in the economic situation, the amount of the decrease should be reversed.

All amounts are in thousands of EUR unless otherwise stated

4 Net interest income

	2019	2018
Interest income		
Loans and advances to banks	514	513
Loans and advances to customers	23,207	20,894
Debt instruments at FVOCI	432	457
Debt instruments at amortized cost	149	151
Liabilities*	2	16
Total interest income	**24,304**	**22,031**

**Interest received on deposits attracted from banks*

	2019	2018
Interest expense		
Deposits	(2,736)	(3 136)
Other borrowed funds	(295)	(245)
Debt securities in issue	(33)	(88)
Lease agreements	(56)	-
Other liabilities	(137)	(145)
Assets*	(541)	(331)
Total interest expense	**(3,798)**	**(3,945)**
Interest income, net	**20,506**	**18,086**

**The amount represents interest paid on placements with BNB and other banks.*

As part of interest income on loans and advances to customers, the Group has realized interest income on impaired loans in 2019 in the amount of EUR 3,315 thousand (2018: EUR 2,860 thousand).

5 Fees and Commissions Income, Net

	2019	2018
Fees and commissions income		
Fees and commissions from transactions	3,646	2,539
Deposit accounts	765	358
Guarantees and letters of credit	453	466
Total fees and commissions income from contract with customers	**4,864**	**3,363**
Loans and advances to customers	483	522
Other services	61	38
Total fees and commissions income	**5,408**	**3,923**
Fees and commissions expense		
Bank cards	(257)	(181)
Payment and other services	(41)	(122)
Guarantees and letters of credit	-	(89)
Total fees and commissions expense	**(298)**	**(392)**
Fees and commissions income, net	**5,110**	**3,531**

As part of Payment and other services, the Group has realized income from fees on fiduciary activity in 2019 in the amount of EUR 3 thousand (2018: EUR 1 thousand).

All amounts are in thousands of EUR unless otherwise stated

6 Net exchange rate differences

Gains and losses, resulting from the revaluation of monetary assets and liabilities denominated in foreign currency are presented net in the comprehensive income statement. In 2019, a realized gain on revaluation of assets and liabilities denominated in foreign currency is EUR 35 thousand. (2018 loss of EUR 38 thousand).

7 Gains on debt instruments at FVOCI

The reported gain on debt securities at FVOCI in 2019 in the amount of EUR 2 thousand (2018: gain of EUR 82 thousand) relates to closed investments in debt bonds. According to the requirements of the applicable accounting standards the accumulated revaluation reserve is transferred to the result for the period of their derecognition.

8 Other operating income and expense

Other operating income	2019	2018
Rental income from investment properties	206	223
Net gain on fair value changes of investment properties	150	
Gains on disposal of assets held for sale	51	120
Rental income from assets held for sale	38	40
Gains on disposal of tangible assets	-	3
Gains from sale of goods and non-financial services	255	350
Miscellaneous other	59	53
Other operating income	**759**	**789**

Other operating expenses	2019	2018
Direct administrative expenses arising from investment properties	(509)	(477)
Direct administrative expenses arising from assets held for sale	(189)	(221)
Loss on disposal of other assets	(37)	-
Loss on disposal of investment properties	(23)	(162)
Net loss on fair value changes of investment properties	-	(11)
Other operating expenses	**(758)**	**(871)**

All amounts are in thousands of EUR unless otherwise stated

9 Administrative expenses

	2019	2018
Professional services	2,688	2,232
Equipment maintenance	1,316	1,118
Marketing	493	508
Overhead costs	272	260
Rent	215	1,157
Audit costs*	123	125
Deposit insurance Fund and Banks Restructuring Fund contributions	2,342	1,908
Miscellaneous other**	747	836
Administrative expenses	**8,196**	**8,144**

** For 2019 the amount includes EUR 119 thousand expenses for independent financial audit (2018:121 thousand) and EUR 4 thousand (2018:4 thousand) other fees, not related to the financial audit.*
*** Miscellaneous expenses include membership fees, office supplies, travel and related expense, local taxes and similar other.*

10 Impairment on Financial Assets

The following tables provide information on the ECL charges on financial asset for 2019 and 2018 respectively:

2019	Stage 1		Stage 2		Stage 3	
	Individual	Collective	Individual	Collective		TOTAL
Loans and advances to banks	16	-	-	-	-	16
Loans and advances to customers	280	292	781	132	923	2,408
Debt instruments at FVOCI	20	-	-	-	-	20
Debt instruments at amortised cost	5	-	-	-	-	5
Other financial assets	0	0	53	-	-	53
Financial guaranties	(4)	-	-	-	-	(4)
Total	**317**	**292**	**834**	**132**	**923**	**2,498**

2018	Stage 1		Stage 2		Stage 3	
	Individual	Collective	Individual	Collective		TOTAL
Loans and advances to banks	11	-	-	-	-	11
Loans and advances to customers	276	138	(16)	107	1,322	1,827
Debt instruments at FVOCI	(1)	-	-	-	-	(1)
Debt instruments at amortised cost	(1)	-	-	-	-	(1)
Other financial assets	0	70	-	-	-	70
Financial guaranties	(2)	-	-	-	-	(2)
Total	**283**	**208**	**(16)**	**107**	**1,322**	**1,904**

In 2019, the ‘Impairment of financial assets’ item in the statement of comprehensive income includes the recognized effect on modification of loans and advances of EUR 685 thousand (2018: EUR 47 thousand) as well as the net amount of direct write-offs: loss of EUR 21 thousand (2018: gain of EUR 17 thousand).

All amounts are in thousands of EUR unless otherwise stated

11 Taxes

	2019	2018
Current tax expense	(268)	(40)
Deferred tax expense	(35)	(19)
Tax expense	**(303)**	**(59)**

Corporate tax

The Bank and its consolidated subsidiaries are subject to income tax pursuant to the Corporate Income Tax Act. Tax rate applicable to the taxable profit of the Bank is 10%.

Tax returns are subject to audit by the tax authorities and the limitation period for verification is five years after submission of the tax return. The tax assessment notice, which finalizes an appointed tax audit for a certain period, under certain circumstances, could be reviewed within another 5 years after the year of issue.

Effective tax rate

The following table presents a calculation of the expected tax compared to the real one:

	2019	2018
Profit before tax	7,974	6,463
Tax rate	10.00%	10.00%
Tax according to tax rate	**(797)**	**(646)**
Tax unrecognized (expense)/income	22	(27)
Unrecognized deferred tax asset on losses	528	626
Other tax differences	(56)	(12)
Tax (expense)	**(303)**	**(59)**
Effective tax rate	-3.8%	-0.91%

Deferred taxes

Deferred taxes are calculated using the balance sheet method on all temporary differences at the effective tax rate of 10% (2018: 10%). As of 31 December 2019 the Group does not recognize a deferred tax asset relating to tax loss subject to deduction in future periods. Tax losses available for carrying forward as of 31 December 2019, which are not recognized as deferred tax assets, amounted to EUR 8 thousand and occurred as follows

Tax loss arising in	Amount	Tax effect (tax rate 10%)	Expire date
Tax loss for 2015	4	0.5	2020
Tax loss for 2016	4	0.5	2021
Total	**8**	**1**	

All amounts are in thousands of EUR unless otherwise stated

11 Taxes (continued)

Deferred taxes (continued)

The movement on the deferred tax assets and liabilities is as follows:

	2019	2018
Deferred tax assets / (liabilities) net at the beginning of the year	(50)	(31)
Deferred tax (expense)	(35)	(19)
Deferred tax recognised in other comprehensive income	(5)	-
Deferred tax assets / (liabilities) net at the end of the year	**(90)**	**(50)**

Deferred tax assets and liabilities are attributable to the following items in the statement of financial position:

	2019	2018
Deferred tax assets		
Investment properties	146	160
Assets held for sale	24	20
Other temporary differences	24	42
Total deferred tax assets	194	222
Deferred tax liabilities		
Fixed tangible and intangible assets	(23)	(16)
Property revaluation	(261)	(256)
Total deferred tax liabilities	(284)	(272)
Deferred tax assets / (liabilities), net	**(90)**	**(50)**

The change in deferred tax for the year is related to the following items:

	2019	2018
Revaluation of investment properties to fair value	(14)	(11)
Impairment of assets held for sale	4	(1)
Accelerated tax depreciation	(7)	(1)
Other temporary differences	(18)	(8)
Deferred tax expense	**(35)**	**(19)**

12 Earnings per share

Basic earnings per share / diluted earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the Group's shareholders by the weighted average number of ordinary shares in issue during the period. In calculating diluted earnings per share, the effect of all potential ordinary shares dilutive should be taken into account. For BACB, the income per diluted share is equal to basic earnings per share due to the fact that there are no potential ordinary shares dilutive. The Bank has decided to disclose earning per share in the Separate Financial Statements prepared by the Management Board and approved by the Supervisory Board on 04 March 2020.

All amounts are in thousands of EUR unless otherwise stated

13 Cash on hand and balances with the Central Bank

13.1. Cash and balances with the Central Bank

	2019	2018
Cash on hand	5,179	5,241
Balances with the Central Bank	129,676	113,232
Cash and balances with the Central Bank	**134,855**	**118,473**

The balances with the Central Bank include the minimum required reserve (MRR), amounting to EUR 62,912 thousand and EUR 50,680 thousand as of 31 December 2019 and 31 December 2018, respectively. The minimum required reserve is calculated as a percentage of borrowed funds, with the exception of those borrowed from local banks, and no interest is charged thereon. MRR is measured on a monthly basis and daily fluctuations are allowed. The funds in accounts with BNB ensuring compliance with the MRR requirements are available for use by the Bank in its daily operations and therefore are not reported as encumbered assets. As of 31 December 2019 the amount of the minimum reserve was 5% on borrowed funds from foreign customers and counterparties and 10% on all other borrowed funds.

As of 31 December 2019 the balances with the Central Bank include the amount of EUR 2,256 thousand (2018: EUR 2,026 thousand) representing BACB's participation in a new Guarantee Mechanism of a system processing card-based payment transactions – BORICA.

13.2. Cash and cash equivalents reported in the consolidated statement of cash flows

For consolidated statement of cash flows purposes, cash and cash equivalents include cash on hand and balances with the Central Bank and loans and advances to banks with maturity up to 3 months, as follows:

	2019	2018
Cash and balances with the Central Bank	134,855	118,473
Loans and advances to banks with maturity up to 3 months	76,899	34,341
Funds restricted as collateral	(1,558)	(1,555)
Cash and cash equivalents	**210,196**	**151,259**

The funds restricted in accounts with other banks, secure the financial commitments made by the Group for guarantees and letters of credit, as well as payments to card operators. The amounts, securing payments to card operators, are determined based on the volume of transactions in a certain period of time and these have the nature of guarantees, which can be used to cover payments made, in case of non-performance by the Group.

14 Loans and advances to banks

Loans and advances to banks represent current accounts and short-term deposits with original maturity up to three months with local banks and foreign correspondent banks. For the purposes of consolidated statement of cash flows, the balances on these accounts are included as cash equivalents, excluding amounts in accounts restricted as guarantee.

	2019	2018
Current accounts with other banks	16,031	5,009
Deposits with other banks	59,310	27,777
Restricted funds on the accounts	1,558	1,555
Loans and advances to banks	**76,899**	**34,341**
Less: ECL allowance	(40)	**(23)**
Loans and advances to banks, net	**76,859**	**34,318**

All amounts are in thousands of EUR unless otherwise stated

15 Loans and advances to customers

	2019	2018
Loans and advances to customers	568,143	516,069
Less: ECL allowance	(45,589)	(52,253)
Loans and advances to customers, net	**522,554**	**463,816**

Loan segmentation by customer

Type of Customer	2019	2018
Individuals	69,801	40,759
Businesses	498,342	475,310
Loans and advances to customers	**568,143**	**516,069**
Less: ECL collective	(643)	(509)
Less: ECL individual	(44,946)	(51,744)
Loans and advances to customers, net	**522,554**	**463,816**

Industry Sector	2019		2018	
	Loan portfolio, Gross, before ECL allowance	Loan portfolio, Net	Loan portfolio, Gross, before ECL allowance	Loan portfolio, Net
Real estate construction	72,230	53,616	70,375	51,630
Hotels	66,775	63,942	60,392	57,657
Wholesale distribution	63,231	61,387	53,597	51,831
Primary agriculture and farming	41,143	39,781	43,915	41,968
Transportation	40,349	39,852	45,466	45,286
Mortgage loans - residential	38,349	37,869	21,139	20,418
Consumer loans to induvidials	27,158	25,568	15,877	14,734
Electricity production	25,948	25,937	23,191	23,150
Furniture and wood products	23,833	20,867	21,161	18,750
Chemical industry	20,242	20,236	1,682	1,682
Real estate investment&Land development	16,248	9,556	18,832	12,185
Waste collection and recicling	15,097	15,074	19,856	19,811
Professional and other services	14,191	13,498	12,949	12,268
IT services	12,458	12,455	-	-
Mortgage loans - commercial	10,430	7,214	12,362	8,619
Entertainment and Recreation	9,141	8,593	14,659	9,479
Food processing	8,812	8,785	12,922	12,911
Retail	7,956	7,534	12,434	11,904
Warehousing and storage	7,837	7,835	5,023	5,020
Financial services	7,663	7,598	7,049	6,991
Light industry	7,512	4,745	10,361	5,654
Other	31,540	30,612	32,827	31,868
Loans and advances to customers	**568,143**	**522,554**	**516,069**	**463,816**

All amounts are in thousands of EUR unless otherwise stated

15 Loans and advances to customers (continued)

Loan segmentation by customer (continued)

The reporting period shows an improved portfolio diversification as a result of the successive actions in the last years for effective sector risk management by expanding the products offered and increasing the share of loans in sustainable economic sectors. As at 31 December 2019, the most cyclical sectors (construction, hotels, real estate transactions) account for 27% of the gross loan portfolio, compared to 28% for the preceding year. In line with the outlined policy, retail segment expansion has also been achieved. At the end of 2019 the volume of consumer and housing loans to individuals increased by EUR 29 million or 77%.

Loans and advances to customers include finance lease receivable in the total carrying amount of EUR 12,853 thousand as of 31 December 2019 (2018: EUR 15,986 thousand). As at 31 December 2019, there are no expected credit losses recognized on lease receivables (2018: 0).

The tables below contain information, regarding the lease receivables, as of 31 December 2019 and 2018.

2019	Up to 1 year	1 to 5 years	Over 5 years	Total
Gross investment in finance leases	2,484	7,939	4,827	15,250
Unearned future income on finance lease	(581)	(1,540)	(276)	(2,397)
Net minimum lease payments	**1,903**	**6,399**	**4,551**	**12,853**

2018	Up to 1 year	1 to 5 years	Over 5 years	Total
Gross investment in finance leases	2,561	9,182	7,771	19,514
Unearned future income on finance lease	(751)	(2,161)	(616)	(3,528)
Net minimum lease payments	**1,810**	**7,021**	**7,155**	**15,986**

Information, regarding the effective interest rate on financial instruments as of 31 December 2019 and 31 December 2018 may be found in note 32.3.2 Interest rate risk.

All amounts are in thousands of EUR unless otherwise stated

16 Financial instruments at FVOCI

During the reporting period, the Group managed investments in Bulgarian debt bonds, as a part of the management of its liquid assets. As of 31 December 2019 and 31 December 2018, the carrying amount of the investments measured at fair value in OCI is as follows:

	2019	2018
Debt instruments at FVOCI		
BGN Bulgarian Government Bonds	11,339	11,439
EUR Bulgarian Government Bonds	11,987	9,859
BGN Corporate Bonds	2,509	-
EUR Corporate Bonds	8,775	4,137
Debt instruments at FVOCI	**34,610**	**25,435**

collateral for attracted funds from the state budget	**2019**	**2018**
BGN Bulgarian Government Bonds	*5,782*	*1,480*
EUR Bulgarian Government Bonds	*1,914*	*1,010*
Total pledged as collateral	***7,696***	***2,490***

Equity instruments at FVOCI		
BGN investments	375	419
USD investments	656	445
Equity instruments at FVOCI	**1,031**	**864**

As stated in the table above, as at 31 December 2019, debt instruments with a carrying amount of EUR 7,696 thousand, measured at fair value in OCI (2018: EUR 2,490 thousand) are pledged in connection with the statutory requirement for banks to secure government bonds with the funds attracted on budget accounts.

The fair value of both Bulgarian government bonds and corporate bonds is determined on the basis of quoted market prices at the reporting date.

As at 31 December 2019, BACB also reports equity investments at fair value in OCI of EUR 1,031 thousand (2018: EUR 864 thousand), as follows:

	2019	2018
Visa Inc convertible preferred stocks class C	656	445
Shares of a special purpose vehicle	326	364
BSE Shares	49	55
Total	**1,031**	**864**

All amounts are in thousands of EUR unless otherwise stated

16 Financial instruments at FVOCI (continued)

Determination of the fair value of investments in equity securities is based on valuation models using direct and indirect market information.

For the valuation of the investment in shares on the BSE, quotations from active market are used at the reporting date.

A valuation model has been used to assess the investment in equity securities of a special investment company, as there are no active market data for the securities. The model is based on an estimate of the entity's assets and the expected cash flows from their realization. As at 31 December 2019, the carrying value of the investment amounts to EUR 326 thousand (2018: EUR 364 thousand).

As a bank offering card services to its customers, BACB was a member and thus a shareholder of VISA Europe. At the end of 2015 VISA Europe announced that it was in a process of selling 100% of its equity to VISA Inc. On 21 June 2016 it was officially announced that the transaction for the sale of Visa Europe to Visa Inc was closed. According to the final transaction agreement the members of Visa Europe will receive a sale consideration comprising three components – closing cash consideration, deferred cash consideration to be paid after the third year following the closing date and a pre-defined number of Visa Inc convertible preferred stocks class C. In 2016 BACB received the first portion of the agreed sale consideration in the form of cash, and in 2019 the deferred cash consideration. The investment in Visa Inc convertible preferred stocks class C is recognized in the statement of financial position at fair value through other comprehensive income. The fair value of this investment as at 31 December 2019 is estimated at EUR 656 thousand (2018: EUR 445 thousand).

The model for determination of the fair value of Visa Inc convertible preferred stocks class C is based on the information for the potential conversion ratio to Visa Inc class A common stocks, information for the market value of Visa Inc class A common stocks and takes into account the lack of liquidity due to the restrictions of transfer within 12 years period after closing.

The levels of the inputs into the valuation techniques applied with respect to financial assets at FVOCI as per the Fair value hierarchy defined by IFRS 13 are disclosed in Note 30.

17 Debt instruments at amortized cost

As of 31 December 2019 the Group reports a portfolio of debt instruments at amortized cost in the amount of EUR 11,316 thousand (2018: EUR 10,337 thousand), as follows:

	2019	2018
Debt instruments at amortised cost		
EUR Bulgarian Government Bonds	10,231	10,363
EUR Foreign Government Bonds	1,116	-
Less: ECL allowens	(31)	(26)
Debt instruments at amortised cost, net	**11,316**	**10,337**

As at 31 December 2019 the Bulgarian Government bonds of EUR 10,231 thousand (2018: EUR 10,363 thousand) are fully pledged as collateral for attracted funds from the state budget counterparties.

All amounts are in thousands of EUR unless otherwise stated

18 Investment properties

Fair Value	Buildings	Buildings under construction	Land	Total
1 January 2018	**16,645**	**5,565**	**14,925**	**37,135**
Additions in 2018	49	109	-	158
Properties compleated and ready for use	715	(715)	-	-
Transferred from assets held for sale	2,976	6,170	5,780	14,926
Classified as assets under development	-	-	(5,995)	(5,995)
Disposals 2018	(1,219)	-	(430)	(1,649)
Change in fair value	(80)	(12)	81	(11)
31 December 2018	**19,086**	**11,117**	**14,361**	**44,564**
Additions in 2019	23	-	-	23
Transferred from assets held for sale	6,359	-	2,810	9,169
Classified as assets under development	-	-	(807)	(807)
Disposals 2019	(1,287)	-	(119)	(1,406)
Change in fair value	295	(29)	(116)	150
31 December 2019	**24,476**	**11,088**	**16,129**	**51,693**

Investment properties are presented in the statement of financial position at fair value. As of 31 December 2019, the fair value of the investment properties has been obtained on the basis of valuations, carried out by independent external appraisers. The appraisers are members of the Chamber of Independent Appraisers in Bulgaria and they have appropriate qualifications and recent experience in the valuation of properties. The valuations, which conform to International Valuation Standards, were arrived at by using the specified in the standard valuation methods and reference to market evidence of transactions or offer prices for similar properties (see also Note 30).

All amounts are in thousands of EUR unless otherwise stated

19 Tangible and intangible fixed assets

	Land and buildings at fair value	Right-of-use assets	Other Tangibles	Assets under development	Intangibles	Total
Cost or valuation						
1 January 2018	**3,602**	**-**	**3,528**	**-**	**1,887**	**9,017**
Additions in 2018	-	-	392	647	218	1,257
Disposals in 2018	-	-	(477)	-	(87)	(564)
31 December 2018	3,602	-	3,443	647	2,018	9,710
IFRS 16 effect	-	3,969	-	-	-	3,969
1 January 2019	**3,602**	**3,969**	**3,443**	**647**	**2,018**	**13,679**
Additions in 2019	57	80	833	302	248	1,520
Assets compleated and ready for use	647	-	-	(647)	-	-
Disposals in 2019	-	(15)	(48)	-	(468)	(531)
Revaluation to FV	59	-	-	-	-	59
Amount written off on revaluation	(248)	-	-	-	-	(248)
31 December 2019	**4,117**	**4,034**	**4,228**	**302**	**1,798**	**14,479**
Accumulated Depreciation and impairment						
1 January 2018	**113**	**-**	**2,590**	**-**	**1,475**	**4,178**
Depreciation for 2018	105	-	330	-	176	611
Disposals 2018	-	-	(465)	-	(87)	(552)
31 December 2018	**218**	**-**	**2,455**	**-**	**1,564**	**4,237**
Charge for 2019	120	1,025	379	-	177	1,701
Depreciation written off on revaluation	(248)	-	-	-	-	(248)
Disposals 2019	-	(3)	(46)	-	(425)	(474)
31 December 2019	**90**	**1,022**	**2,788**	**-**	**1,316**	**5,216**
Net book value						
31 December 2018	**3,383**	**-**	**989**	**647**	**454**	**5,473**
31 December 2019	**4,027**	**3,012**	**1,441**	**302**	**482**	**9,263**

The office buildings and their adjacent areas are presented in the statement of financial position at revalued amount, and all other assets – at cost less the accumulated depreciation and impairment.

As of 31 December 2019, the Group has fully depreciated assets, which are still used in its operations, amounting to EUR 2,848 thousand (2018: EUR 2,823 thousand).

All amounts are in thousands of EUR unless otherwise stated

20 Assets held for sale

Balance as at 1 January 2018	**28,069**
Transferred to investment property	(14,926)
Additions in 2018	3,977
Disposals 2018	(4,257)
Impairment in 2018	(47)
Balance as at 31 December 2018	**12,816**
Transferred to investment properties	(9,169)
Additions in 2019	2,922
Disposals in 2019	(2,848)
Impairment in 2019	(14)
Balance at 31 December 2019	**3,707**

The fair value of properties classified as assets held for sale at 31 December 2019 is valued at EUR 3,793 thousand (2018: EUR 12,920 thousand). The fair value has been arrived on the basis of valuations, carried out by external independent appraisers. The appraisers are members of the Chamber of Independent Appraisers in Bulgaria and they have appropriate qualifications and recent experience in the valuation of properties. The valuations are obtained using the methods and references specified in the International Valuation Standards for market certificates from transactions or bid prices of similar properties. (Note 30)

During the year the Group acquired new assets classified as held for sale, amounting to a total of EUR 2,922 thousand, of which assets in the amount of EUR 2,824 thousand (2018: EUR 3,774 thousand) were settled against direct reduction of loan portfolio.

21 Investments in subsidiaries and joint ventures

Subsidiaries

As of 31 December 2019, the Bank has three subsidiaries - BACB Finance EAD, BACB Trade EAD and Paytech EOOD, which it fully owns.

BACB Finance EAD is a subsidiary providing financial services and has supporting functions for the Bank. Through this subsidiary BACB carries out leasing transactions, as well as commercial and consumer lending transactions, using the company's own funds for this purpose and, if necessary, funding from the Bank.

BACB Trade EAD is 100% owned by BACB. The company was incorporated in 2013 with subject of activity financial-consulting and trade-consulting activity.

In 2019 BACB and BTC AD (Bulgarian Telecomminication Company) established a joint arrangement – a limited liability company with the trade name Paytech OOD. Each of the parties held 50% shareholding of the initial registered capital of the company in the amount of BGN 1 million divided into one million shares with a nominal value of BGN 1 each. The Company was incorporated on 17 April 2019 as a joint investment of BACB AD and BTC EAD, with subject of activity development, maintenance and management of software, purchase and sale of software products and provision of technical services supporting payment services, as well as various other consultancy and business activities. As of the date of incorporation, the registered capital of the company in the amount of BGN 1 million was fully paid up.

All amounts are in thousands of EUR unless otherwise stated

21 Investments in subsidiaries and joint ventures (continued)

Subsidiaries (continued)

Under the terms of the constituent agreement, the members are liable for the obligations of the company up to the amount of their equity contribution and are entitled to the corresponding portion of the net assets of the company. Pursuant to IFRS 11, the investment was initially determined as a joint venture and was presented using the equity method. The equity method requires the investment to be measured initially at cost and subsequently adjusted to reflect changes in the share of the net assets of the company after initial recognition. In October 2019 BACB signed an agreement with BTC for the acquisition of the rest 50% of the company's capital thus becoming the sole shareholder. The transaction is in line with the BACB's strategy for entering the instant payments market known as "portfolio services". The acquisition of 100% of the capital of Paytech OOD was registered with the Commercial Register on 14 October 2019, and thereafter BACB individually controls the company. Paytech became a subsidiary of BACB since BACB obtained control and therefore the accounting under the equity method was discontinued. The assets and liabilities of the company are fully consolidated in the Group's financial statements from that moment. As the acquisition was achieved in stages, the interest held in the investment immediately before acquisition, was remeasured to its fair value at acquisition date and the result - loss of EUR 90 thousand, was recognised in profit or loss for the year. No goodwill was recognised as a result of the acquisition of control of Paytech OOD.

Revaluation of the existing share of BACB AD in Paytech OOD as of 7 Oct 2019

Installment in the share capital of Paytech OOD on 20 Mar 2019	500
Share owned by BACB before the acquisition of additional share	50%
Fair value of BACB share	325
Carrying amount of BACB share	500
Recorded loss to fair value	(175)

Acquisition of subsidiary Paytech EOOD as of 7 Oct 2019:

Fair value of the assets of Paytech as of 7 Oct 2019:

Value of assets of Paytech OOD	651
Incl. cash and cash equivalents	*648*
Value of liabilities of Paytech	(1)
Fair value of net assets	650
Acquired share	100%
Fair value of the net assets	650
Contribution on acquisition	650
(fair value of the first 50% plus cash for the second 50%)	
Goodwill	-

Joint ventures

In April 2019, the Group set up a new investment fund – "IDS Fund" AD, with main purpose to support companies with good business ideas that strive to realize their full potential on the market. The Fund will provide support in the form of debt financing instruments, guarantees, standard financing, share acquisition with buyback options, etc. IDS

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Fund is a joint stock company registered in Bulgaria on 10 April 2019. The shareholders - founders of the Fund are the BACB's subsidiary BACB Finance EAD and CSIF AD - the largest shareholder in BACB, holding 50% of the registered capita each. As of 31 December 2019 the registered capital of IDS Fund is BGN 1 million, divided in one million registered and indivisible voting shares at a nominal value of BGN 1 each, and the paid-in capital amounts to BGN 450 thousand. After analysis, the Group has designated the investment as a joint venture and presents it in its consolidated financial statements using the equity method. The investment was initially measured at cost subsequently adjusted to reflect the changes in the investor's share of the net assets of the company after the acquisition. In August IDS Fund made its first financial investment by acquiring 75% of the capital of ORK Consult LTD with core activity being trading in foodstuffs. As of 31 December 2019, IDS Fund prepared consolidated financial statements for the purpose of the consolidated statements of the Group. Summarized financial information of IDS

Fund AD as at 31 December 2019 is presented in the following tables:

Summarised statement of financial position

	2019
Current assets including cash and cash equivalents EUR'000 134	*141*
Non-current assets	*18*
Goodwill	*87*
Current liabilities	*(20)*
Equity attributable to controlling interest	*196*
Equity attributable to non-controlling interest	*30*
Group's carrying amount of the investment in joined venture - 50%	98

All amounts are in thousands of EUR unless otherwise stated

21 Investments in subsidiaries and joint ventures (continued)

Joint ventures(continued)

Summarised statement of comprehensive income

	2019
Revenue from contracts with customers	42
Cost of sales	(38)
Administrative expenses including depreciation of EUR'000 2	(44)
Financial costs	(1)
Loss for the year	(41)
Attributable to:	
Equity holders of the parent	(34)
Non-controlling interest	(7)
Group's share of loss for the year	(17)

22 Other assets

	2019	2018
Assets for sale under development*	6,385	5,689
Inventory	4,205	5,000
Deferred expenses	702	729
Advance payments	295	541
VAT receivable	-	2,325
Accounts on bank transfers	136	358
Receivables under rental agreements	195	235
Other accounts and receivables	300	254
Receivables on sale of properties	116	-
Total other assets	12,334	**15,131**
Expected credit losses on receivables	(108)	(55)
Other assets, net	**12,226**	**15,076**

** The Group concluded contracts for granting the right to build on plots owned by it in Sofia for consideration consisting of construction of residential and commercial premises by the contractor, which BACB intends to realize through a subsequent sale. In this regard the real estate with established right of construction have been reclassified from investment properties as assets under development.*

All amounts are in thousands of EUR unless otherwise stated

23 Deposits from customers

The tables below represent deposits from customers as of 31 December 2019 and 2018 by type of currency and type of customer:

	2019		2018	
Type of currency	Demand deposits	Term deposits	Demand deposits	Term deposits
BGN	189,750	143,567	82,216	184,088
EUR	128,516	200,213	41,765	234,507
USD	13,084	44,515	11,596	48,817
GBP	918	575	802	342
Total	**332,268**	**388,870**	**136,379**	**467,754**

	2019		2018	
Type of customer	Demand deposits	Term deposits	Demand deposits	Term deposits
Non-banking financial institutions	26,934	7,326	10,598	7,309
Corporate	269,345	55,969	98,673	114,560
Individuals	35,989	325,575	27,108	345,885
Total	**332,268**	**388,870**	**136,379**	**467,754**

At 31 December 2019 Deposits from customers include EUR 20,814 thousand (2018: EUR 20,044 thousand) deposits from related parties (Note 31).

Information on the effective interest rate applicable to monetary financial instruments as at 31 December 2019 and 31 December 2018 can be found in Note 32.3.2 Interest rate risk.

All amounts are in thousands of EUR unless otherwise stated

24 Debt securities in issue

In September 2014, a mortgage bond of EUR 5 million was issued for a five-year term with an amortizing principal and a floating interest rate. In 2019 the Bank has repaid the rest of the principal in the amount of EUR 1,600 thousand and the relevent interest due.

As at 31 December 2019 the liabilities under the mortgage bond are fully repaid and the bond was deregistered from trading on the Bulgarian Stock Exchange - Sofia.

25 Other borrowings

The amounts payable under agreements for short-term or long-term financing that are not deposits from customers are presented in the statement of financial position as Other borrowed funds.

In July 2015 the Group signed an agreement with the Bulgarian Development Bank (BDB) for participation in its partnership program for indirect financing of micro, small and medium-sized companies. The program is developed to provide low-interest rate financing to Bulgarian companies and support the business in creating new jobs and investing in regions with high unemployment. According to the agreement BACB will provide to the Group up to EUR 17.9 million credit line for financing of eligible projects under the program. In November 2018, BACB signed a new agreement with BDB, which is the first agreement of the BDB under the COSME+ program to support small and medium-sized businesses in the country. The COSME+ program is supported by the European Fund for Strategic Investments for indirect financing of SMEs with guarantee facility and counter-guarantee. The objective of the program is to provide easy access to finance for SMEs across the different stages of their life cycle: establishment, expansion or transfer of business. With the COSME+ guaranteed resource provided by BDB, BACB will provide investment and working capital loans and bank guarantees. Under the agreement, BACB will receive funding of up to EUR 10 million over a 10-year period.

As of 31 December 2019 the long-term borrowed funds amount to EUR 21,606 thousand (2018: EUR 18,708 thousand) including interest and represent amounts due to BDB under the loan agreement as described.

The following table summarizes the reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities:

2019

	1 January 2019	**Cash inflows**	**Interests paid**	**Cash outflows**	**Effective interest rate accruals**	**31 December 2019**
Other borrowings	18,708	5,000	(295)	(2,102)	295	**21,606**
Debt securities in issue	**1,616**	-	(33)	(1,616)	33	**0**
Total liabilities from financing activity	**20,324**	**5,000**	**(328)**	**(3,718)**	**328**	**21,606**

2018

	1 January 2018	**Cash inflows**	**Interests paid**	**Cash outflows**	**Effective interest rate accruals**	**31 December 2018**
Borrowed funds	15,812	5,000	(245)	(2,104)	245	**18,708**
Debt securities in issue	**2,775**	-	(88)	(1,159)	88	**1,616**
Total liabilities from financing activity	**18,587**	**5,000**	**(333)**	**(3,263)**	**333**	**20,324**

All amounts are in thousands of EUR unless otherwise stated

26 Other liabilities

As of 31 December 2019 and 31 December 2018 the other liabilities include:

	2019	2018
Payables to suppliers	4,080	4,904
Payables under lease agreements	3,045	-
Amounts due to suppliers and advances received	1,536	998
Accounts on bank transfers	1,393	1,973
Payables to staff	211	167
VAT payables	132	34
Taxes payable, excluding income tax	77	71
ECL for guarantees	4	8
Other accounts and payables	2,213	560
Total other liabilities	**12,691**	**8,715**

**Other accounts and payables as at 31 December 2019 include EUR 480 thousands received from National Guarantee Fund under specific guarantee schemes and EUR 1,680 thousands in escrow accouts.*

The change in lease obligations over the period ending 31 December 2019 is presented in the following table:

	2019
As at 1 January 2019	3,969
New recognised	80
Interest accrued	56
Payments	(1,048)
Terminated agreements	(12)
As at 31 December 2019	**3,045**

The total cash outflows in 2019 for leases is in the amount of EUR 1,048 thousands. The initial application of IFRS16 resulted in non-cash additions to right-of-use assets and lease liabilities of EUR 3,969 thousands at 1 January 2019 (Note 19). The maturity analysis of lease liabilities are disclosed in Note 32.4.

27 Share capital and reserves

As at 31 December 2019 and 31 December 2018 the BACB's share capital amounts to BGN 24,691 (EUR 12,624) thousand, comprising respectively of 24,691,313 ordinary dematerialized voting shares, with a face value of BGN 1 each. Since 2006 BACB is a public company and its shares are listed on the Bulgarian Stock Exchange – Sofia. Shareholding in the Bank is divided between a varying number of local and foreign investors.

The Bank's shareholding structure as at 31 December 2019 and 31 December 2018 is as follows:

Shareholder	2019	%	2018	%
CSIF	15,199,133	61.56%	15,167,642	61.43%
LTBI HOLDINGS LLC	8,814,402	35.70%	8,762,793	35.49%
Other	677,778	2.74%	760,878	3.08%
Total	**24,691,313**	**100.00%**	**24,691,313**	**100.00%**

Premium reserve

As of 31 December 2019 and 31 December 2018, there are no movements in the premium reserve, representing the difference between the nominal value of the shares issued and their price.

All amounts are in thousands of EUR unless otherwise stated

27 Share capital and reserves (continued)

Reserves

According to the legislation in force in Bulgaria companies should allocate at least 10% of the net profit in the "Reserve Fund", until this reserve represents 10% of the company's registered capital. The law does not allow the entities to pay dividends before making contributions to the Reserve Fund. In case of decrease under the statutory minimum levels, the Group is required to restore the reserves within two years. As a result of significant profits in previous years and conservative dividends policy the Group has historically maintained a Reserve Fund in excess of the minimum levels required by law.

As of 31 December 2019 and 31 December 2018, the reserves of the Group include:

	2019	2018
Reserve Fund	116,013	109,609
Accumulated loss from previous years	(53,399)	(53,399)
Impact of adopting IFRS 9	(2,645)	(2,645)
Other reserves	59,969	53,565
Current year profit	7,671	6,404
Retained earnings and other reserves	**67,640**	**59,969**

As of 31 December 2019 and 31 December 2018, the revaluation reserve of the Group consists of:

Revaluation reserve	2019	2018
Reserve on real estate	2,614	2,555
Tax effect	*(261)*	(255)
Reserve on equity instruments at FVOCI	391	233
Tax effect	*(39)*	(23)
Reserve on debt instruments at FVOCI	734	715
Tax effect	(74)	(72)
ECL on debt instruments at FVOCI	80	60
Total	**3,445**	**3,213**

28 Contingent liabilities and commitments

The Group is counterparty to bank guarantees and letters of credit and other off-balance sheet commitments, as part of its customer service. Those instruments involve, to various degrees, elements of credit and interest-rate risk.

At 31 December 2019 and 31 December 2018 the commitments of the Group are as follows:

	2019	2018
Unutilized commitments on loans	45,289	23,185
Bank guarantees	17,619	19,325
L/C issued	303	-
Total	**63,211**	**42,510**

All amounts are in thousands of EUR unless otherwise stated

29 Litigations

As of 31 December 2019 and 2018 there were no material claims against BACB or its subsidiaries, which may have a significant effect on the Group and/or its financial position. Therefore, no litigation provisions have been recognized for any claims in the accompanying consolidated financial statements.

30 Fair value information

IFRS 7 "Financial Instruments: Disclosures" provides for the disclosure in the notes to the financial statements of information about the fair value estimated in accordance with IFRS 13 *"Fair value measurement"* of the financial assets and liabilities. The Group determines the fair value of its financial instruments based on available market information or using appropriate valuation techniques if such information is not available.

The following table summarizes information about the carrying amount and fair value of financial assets and liabilities.

	Carrying Amount		Fair Value	
Financial assets	**2019**	**2018**	**2019**	**2018**
Loans and advances to customers	522,554	463,816	521,256	463,805
Financial assets at FVOCI	35,641	26,299	35,641	26,299
Debt instruments at amortised cost	11,316	10,337	12,014	10,864
Other financial assets	639	792	639	792
Financial liabilities				
Demand deposits from customers	332,268	136,379	332,268	136,379
Term deposits from customers	388,870	467,754	389,634	468,729
Other borrowed funds	21,606	18,708	21,606	18,708
Debt securities in issue	-	1,616	-	1,616
Other financial liabilities	7,897	7,604	7,897	7,604
Off balance sheet positions				
Bank guarantees and L/C issued	17,922	19,325	12	8
Unutilized commitments on loans	45,289	23,185	45,289	23,185

Management has estimated that the fair value of cash and balances with BNB and deposits from banks, is not materially different from their carrying amount. The fair value of floating rate loans approximate their carrying amount. The expected cash flows on fixed rate loans that are not impaired, are discounted at current market rates to determine their fair value.

The fair value of loans and advances to banks is also considered to be equal to their carrying amount, as these assets are short-term (with maturity of less than one month). Other borrowed funds are funds received under the programs of BDB which are deemed to be specific. The interest rate on the funding is a floating one, where the terms are equal for all market participants who have access to the program, therefore the interest rate on this funding is considered to be market-based, i.e. based on that the fair value and the carrying amount are not materially different.

The Group does not expect payments to be made under guarantees and letters of credit. Unutilized commitments on loans relate mainly to loans with floating interest rates and hence their fair value does not differ materially from their contractual amount.

All amounts are in thousands of EUR unless otherwise stated

30 Fair value information (continued)

The following table shows the fair value hierarchy, applicable to the assets and liabilities:

31 December 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Loans and advances to customers	-	521,256	-	521,256
Debt instruments at FVOCI	34,610	-	-	34,610
Equity instruments at FVOCI		705	326	1,031
Debt instruments at amortised cost	12,014	-	-	12,014
Land and building for own needs at fair value	-	-	4,026	4,026
Investment properties	-	-	51,693	51,693
Other financial assets	-	639	-	639
Total assets	**46,624**	**522,600**	**56,045**	**625,269**
Demand deposits from customers	-	332,268	-	332,268
Term deposits from customers	-	389,634	-	389,634
Other borrowed funds	-	21,606	-	21,606
Other financial liabilities	-	7,897	-	7,897
Total liabilities	**0**	**751,405**	**0**	**751,405**

As at 31 December 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Loans and advances to customers	-	463,805	-	463,805
Debt instruments at FVOCI	25,435	-	-	25,435
Equity instruments at FVOCI		500	364	864
Debt instruments at amortised cost	10,864	-	-	10,864
Land and buildings used for operations	-	-	3,383	3,383
Investment properties	-	-	44,564	44,564
Other financial assets	-	792	-	792
Total assets	**36,299**	**465,097**	**48,311**	**549,707**
Demand deposits from customers	-	136,379	-	136,379
Term deposits from customers	-	468,729	-	468,729
Other borrowed funds	-	18,708	-	18,708
Debt securities in issue	1,616	0	-	1,616
Other financial liabilities	-	7,604	-	7,604
Total liabilities	**1,616**	**631,420**	**-**	**633,036**

At 31 December 2019 and 31 December 2018 there were no movements between the levels, representing the fair values hierarchy of the assets and liabilities.

All amounts are in thousands of EUR unless otherwise stated

30 Fair value information (continued)

Further information on the assets with fair values classified as level 3

Equity securities at fair value in OCI

At 31 December 2019, the Group holds equity securities as part of the financial assets at fair value in OCI, amounting to EUR 1,031 thousand (2018: EUR 864 thousand). The securities include an investment in shares of BSE at the amount of EUR 49 thousand (2018: EUR 55 thousand), Visa Inc convertible preferred stocks class C (see Note 16) amounting to EUR 565 thousand (2018: EUR 445 thousand) and an investment in a special investment company with a carrying amount of EUR 326 thousand (2018: EUR 364 thousand).

The fair value measurement of the class C preferred shares in the capital of VISA Inc falls within Level 2 of the fair value hierarchy because it is based on adjusted observable market data.

The valuation of the investments company falls within Level 3 of the fair value hierarchy because it is derived from the valuation models using unobservable market data. The model is based on an estimate of the entity's assets and the expected cash flows from their realization.

Unobserved input data associated with the model of estimating the fair value of the company is as follows:

1. Percentage commission for sale - between 1 – 3%

2. Valuations of properties - the prices of evaluated properties are derived from valuation reports of external assessors, calculated in accordance with the methods and assumptions described above. Property prices used by the assessors are in the range between EUR 40 and 90 per sq.m.

The Group's management believes that in the model there is no sensitivity in indirectly observed input data which would result in a significant change in the fair value of the assets.

Investment properties

The table below provides information on the fair value depending on the intended use of the property:

Investment property type	**2019**	**2018**
Plot (land)	16,128	14,360
Residential	4,276	3,852
Commercial	13,734	9,767
Vacation	14,669	13,891
Industrial	2,886	2,694
Total fair value	**51,693**	**44,564**

Assets held for sale

Assets held for sale type	**2019**	**2018**
Land	467	3,286
Residetial	1,874	3,894
Commercial	1,052	4,378
Vacation	369	868
Industrial	31	495
Total fair value of assets held for sale	**3,793**	**12,921**

All amounts are in thousands of EUR unless otherwise stated

30 Fair value information (continued)

Description of the valuation methods and key input data in determining the fair value of of investment propertis and assets held for sale:

Key:
Method of real value (MRV)
Method of the market approach (MMA)
Method of capitalization of future cash income (MCFCI)

Investment property type	Valuation method	Significant unobserved input data	Range of fair values 2019	2018
Parcels (land)	MMA - ZLP	Offer (transaction) price sq.m.	€120 - €500	€150 - €500
	MMA - LP	Offer (transaction) price sq.m.	€7 - €10	€7 - €10
		Annual growth of market analogues	0%	0%
Residential properties	MRV	Reference construction prices sq.m.	€150 - €480	€150 - €480
		Annual growth of reference and construction prices	0%	0%
	MMA	Offer (transaction) price sq.m.	€240 - €780	€240 - €840
		Annual growth of market analogues	-	5-7%
	MCFCI	Estimated monthly rent per sq.m.	-	-
		Annual growth of rent	-	-
Commercial properties	MMA	Offer (transaction) price sq.m.	€700 - €1,700	€650 - €1,800
		Annual growth of market analogues	0%	0%
	MCFCI	Estimated monthly rent per sq.m.	€3 - €7	€2 - €7
		Annual growth of rent	0%	0%
Vacation properties	MMA-buildings	Offer (transaction) price sq.m.	€130 - €400	€130 - €550
	MMA - ZLP	Offer (transaction) price sq.m.	€5 - €17	€5 - €17
		Annual growth of market analogues	0%	0%
	MCFCI	Estimated daily rent per sq.m.	€20 - €100	€20 - €100
		Annual growth of rent	0%	0%
			2019	**2018**
Industrial properties	MRV	Reference construction prices sq.m.	€60 - €300	€25 - €300
		Annual growth of reference and construction prices	0%	0%
	MMA	Offer (transaction) price sq.m.	€40 - €260	€20 - €260
		Annual growth of market analogues	0%	0%

All amounts are in thousands of EUR unless otherwise stated

30 Fair value information (continued)

Land and buildings for own use at fair value

As at 31 December 2019, the Group owns land and buildings used as offices for its operations, amounting to EUR 4,027 thousand (2018: EUR 3,383 thousand).

Description of the evaluation methods and key input data, for determining the fair value of land and buildings for own use:

Property type	Valuation method	Significant unobserved input data	Range of fair values	
			2019	2018
Properties for own use	MMA - ZLP	Offer (transaction) price sq.m.	€500 - €550	€450 - €550
		Annual growth of market analogues	0%	0%
	MMA-building	Offer (transaction) price sq.m.	€1,500 - €1,600	€1,400 - €1,600
		Annual growth of market analogues	0%	0%
	MCFCI-building	Estimated monthly rent per sq.m.	€10 - €12	€5 - €10
		Annual growth of rent	0%	0%

Short description of each of the above methods for valuation of land and property:

Method of the market approach (MMA)

According to the market analysis method, the fair value is determined by comparing the evaluated property (land and buildings) to the market price of comparable or similar properties – analogues, taking into consideration the specificities of the evaluated property. The following characteristics of the property are taken into consideration, when selecting market comparables: location, technical characteristics (structure, condition, age, area), function, purpose, infrastructure and transport accessibility of the area etc. The differences of the compared benchmarks and the evaluated properties are adjusted respectively ("plus" or „minus") according to their better or worse characteristics, applying expert factors (percentages) reflecting the extend of the quantitative and qualitative deviations of the evaluated benchmarks.

Method of real value (MRV)

The method of real value or the method of estimated costs is of major significance for determining the fair value of industrial, warehouse, logistic buildings and houses in suburban or rural areas. When valuation apartments, shops, retail facilities, hotels, offices etc., this method is mainly used for reference. The real value method is based on the calculation of the recoverable value of the building at the moment of the evaluation. This is accomplished, using the unit price per square method of total floor area of newly constructed facilities and buildings with similar function, structure, specificities of performance of the additional, finishing, installation and other works. The unit price includes the costs and expenses for the design and construction of the respective project. The cost of any additional improvements in the evaluated separate facility/site in the building is added to the specified value of the facility/site.

All amounts are in thousands of EUR unless otherwise stated

30 Fair value information (continued)

Method of capitalization of future cash income (MCFCI)

The result of the evaluation of the respective property, based on the future cash flows capitalization, is the market value, which is obtained based on the valuation of the expected future yield of the property (net cash flows). The information from advertisements and notices, published in specialized printed media, on the internet or other media, reflect the investment intentions of the investors-sellers (landlords) of properties and is not the most reliable source of market information (market evidences) –that is why, if we rely on bid values, these are adjusted 5-10% below.

31 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

The Group considers as related parties the members of its key management personnel and entities owned, controlled or significantly influenced by such persons. Furthermore, related parties of the Bank are holders of a substantial proportion of its capital.

The ultimate parent company of the Bank at 31 December 2019 is “CSIF“ AD, entity registered in Bulgaria, possessing 61.56% of Bank’s capital (2018: 61.43%). Mrs. Tzvetelina Borislavova Karagyozova is a person exercising direct control over the direct shareholder “CSIF“ AD as: 1) she holds more than 50% of the shares in the General Meeting of Shareholders and 2) she may determine more than half of the members of its Board of Directors.

LTBI HOLDINGS LLC, registered in USA, holds 35.70% (2018: 35.49%) of the BACB’s share capital and has significat influence over BACB, consequently is a related party to the Bank.

The Group enters into transactions with related parties in the normal course of business. These transactions are carried out at market rates and include loans, deposits and other banking services. Transactions with the following related parties took place in 2019 in the course of operations:

Related party	**Relationship**
CSIF AD	shareholder controlling BACB, ultimate parent company
IDS Fund	Joint venture between BACB Finance and CSIF AD
Other related entities	entities that are controlled or significantly influenced by the main shareholder CSIF AD or a member of the BACB key management personnel
Management	Members of the Supervisory Board and the Management Board of BACB, incl.:
Mrs. Tzvetelina Borislavova Karagyozova	*Chairperson of BACB’s Supervisory Board*
Mr. Martin Boychev Ganev	*Member of BACB’s Supervisory Board*
Mr. Serge Lioutyi	*Member of BACB’s Supervisory Board*
Mr. Vassil Simov	*Chairman of BACB’s Management Board and Executive Director*
Mr. Ilian Georgiev	*Member of BACB’s Management Board and CEO*
Mrs. Loreta Grigorova	*Member of BACB’s Management Board and Executive Director*
Mr. Alexander Dimitrov	*Member of BACB’s Management Board and Executive Director*
Mrs. Silvia Kirilova	*Member of BACB’s Management Board*

All amounts are in thousands of EUR unless otherwise stated

31 Related party transactions (continued)

The information on related parties' transactions and the related income and expense as of 31 December 2019 and 2018 is summarized in the following tables:

Balance as at 31 December 2019	CSIF	Key managemen t personnel	Other related parties	Total
Assets				
Loans and advances to customers	-	25	2,659	2,684
Total	-	25	2,659	2,684
Liabilities				
Deposits from customers	1,617	13,260	5,937	20,814
Total	1,617	13,260	5,937	20,814
Off-balance sheet commitments				
Guarantees and letters of credit	-	-	10	10
Unutilized commitments on loans	-	24	-	24

Expenses and income generated by transactions with related parties in 2019	CSIF	Key management personnel	Other related parties	Total
Expenses				
Interest expense	-	55	9	64
Administrative expenses	490	-	189	679
Total expenses	490	55	198	743
Income				
Interest income	-	1	95	96
Fees and commission income	3	1	68	72
Other operating income	-	-	29	29
Total income	3	2	192	197

Balance as at 31 December 2018	CSIF	Key managemen t personnel	Other related parties	Total
Assets				
Loans and advances to customers	-	31	3,047	3,078
Total	-	31	3,047	3,078
Liabilities				
Deposits from customers	4,958	11,719	3,367	20,044
Total	4,958	11,719	3,367	20,044
Off-balance sheet commitments				
Guarantees and letters of credit	-	-	473	473
Unutilized commitments on loans	-	31	-	31

All amounts are in thousands of EUR unless otherwise stated

31 Related party transactions (continued)

Expenses and income generated by transactions with related parties in 2018	CSIF	Key management personnel	Other related parties	Total
Expenses				
Interest expense	-	59	3	62
Administrative expenses	483	-	146	629
Other operating expenses	-	-	162	162
Total expenses	483	59	311	853
Income				
Interest income	-	1	139	140
Fees and commission income	1	1	45	47
Other operating income	-	-	22	22
Total income	1	2	206	209

Key management remuneration

In the financial years 2019 and 2018, the Bank has accrued remuneration to the management personnel as follows:

Key management personnel	**2019**	**2018**
Supervisory Board	40	40
Management Board	296	272
Total	336	312

32 Financial risk management

32.1. Going concern

The Group financial statements have been prepared under the going concern assumption. However, as disclosed below, the Group's activities are subject to various risk factors, conditions and uncertainties that could impact its future performance or its ability to continue as a going concern. The management considers that the Group will continue as a going concern through proper risk management, increase in operating efficiency and securing of sufficient funds through self-financing ability improvement, optimization of the shareholders structure and diversifying the sources of financing.

32.1.1. Main risk factors

The risks to which the Group is exposed can be mitigated by applying preventive measures and appropriate control systems. Some risks are outside the Bank's control and cannot be mitigated. The principal factors described below should not be regarded as complete and comprehensive statements of all potential risks and uncertainties because there may be risks or uncertainties of which the Group is not aware or which the Group does not consider significant but in the future may become such.

The Group's continued growth and success depend substantially on the health of the Bulgarian and the global economy. The economic environment continues to be challenging. Any further negative changes in macroeconomic factors could have adverse effect on the Bank's business, results from operations and financial condition.

Like all other banks, BACB is subject to various risks. The Bank has established risk management policies and procedures to identify, monitor and manage the levels of risk to which it is exposed. The risk management policy is adopted by the Management Board and approved by the Supervisory Board. The document governs the organization of the activities for the fulfillment of the strategic objectives, the risk management framework and the risk tolerance, adopted by the Supervisory and Management Boards of the Bank. The risk management and control policy and rules set evaluation methods for various types of risks to which the Bank is exposed (including, but not limited to: credit risk, liquidity risk, interest rate risk, foreign currency risk and contractor credit risk, define the connections between the individual structural units in the management of the risks and establish an early warning system of limits and indicators, reflecting the risk tolerance, adopted by the Group.

The main objective of the risk policy is to impose clearly defined parameters on the Group's operations in order to minimize potential adverse effects on its financial performance. Compliance with the various requirements of the risk policy is reviewed on a regular basis, depending on the level of risk and potential impact on the operations. Any variances from the Group's standards are reported to the Bank's management for remedial action as provided for in the internal rules. The risk management policy is reviewed on an annual basis in order to apply adequate and efficiently functioning risk management and control systems. In addition, internal audit is responsible for the independent review of risk management systems and the compliance with the adopted policies.

32 Financial risk management (continued)

32.1.1. Main risk factors (continued)

Recovery plan / Directive 59/15.05.2014

In accordance with the requirements of Directive 2014/59 of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions, art. 6 of the Recovery and Resolution of Credit Institutions and Investment Firms Act, art. 73g of the Credit Institutions Act and art. 25 of Ordinance No. 7 of the Central Bank (BNB) on the risk organization and management in banks, all banks prepare a recovery plan, consisting of actions and measures, which are to be taken in order to recover their financial position, in case of financial difficulties.

The recovery plan, adopted by BACB consists of four main parts, which detail the plan development process, the rules for its activation, the recovery options in various scenarios and the rules for internal and external communication in case of plan activation. The recovery plan contains an analysis of the effect of adverse events, which may affect strongly the Group's financial position, including crises, having effect on the entire financial market and on the Group in particular. Also included is a description of the plan development and activation processes, as well as the applied limits and indicators, related to the preventive evaluation of the vulnerability of the liquidity and equity positions, the yield, risk profile and any necessary actions. The plan also details and analyses the structure and key activities of the Group, as well as the main moments in its strategy. A main part of the plan is dedicated to the recovery options –the selected recovery measures, assessment of the quantitative/qualitative effect, implementation period and fulfillment likeliness, as well as an evaluation of the results of the stress scenarios applied. Also developed is a communication plan with the internal structures of the Group and external organizations, as well as stages, order and scope of the actions, related to the recovery plan activation.

32.2. Credit risk

Credit risks the current or potential risk for the income and equity, occurring due to the incapability of the debtor to fulfill the requirements of a signed contract or his incapability to act in accordance with the contractual terms and conditions. A credit risk occurs with respect to the operations, related to the granting of loans, deposits in other banks, as well as any investments in securities. Credit risk is the most important risk for the Group's business and the management therefore carefully manages the exposure of the Bank and the subsidiaries to credit risk.

The Group's lending policy and lending manual are developed by the organizational units responsible for lending and risk management as well as the Legal department, and are approved by the Management Board and applied to the operations of all Group's companies. The system of internal rules, procedures and standardized loan products reflects the organizational structure and the strategy of the Group, regulates the credit analysis and approval process, defines the loan approval authorities, sets rules on the loan documentation required by the Bank and outlines processes for loan disbursement and ongoing monitoring, type and value of accepted collateral, required insurance and other risk reduction techniques. As further disclosed below, there is loan portfolio concentration of risk in both a limited number of customers and in a limited number of industry sectors, which may be adversely affected in case of worsening economic environment.

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.2. Credit risk (continued)

The Bank's internal lending rules set out detailed procedures for controlling the spending of credit funds, for regular monitoring of the borrower's financial condition, as well as checks on the current state of the collateral on the loan and the implementation of the agreed contractual terms and conditions. For all exposures to one client or group of related parties amounting to over 1% of the Bank's capital, the management monitors the compliance with the terms of the contract, the financial condition of the debtor, the collateral status and other financial indicators. For the needs of risk management, periodic analyses are made on these loans at least twice a year. Pursuant to the EBA Guidelines (2018/06) on management of non-performing and forborne exposures, in 2019 a Strategy for the management of non-performing exposures and acquired collateral for non-performing exposures was developed in 2019, which was adopted by the Management Board and approved by the Supervisory Board. The Strategy aims to improve the risk profile and introduce additional measures related to the process of monitoring and control of non-performing assets by defining the main parameters of the program of reducing the non-performing exposures in the medium term and specific options for individual exposures or portfolios. The unsatisfactory management and maintenance of asset quality or insufficient asset growth could have a negative impact on the Bank's business, performance and financial condition.

Maximum exposure to credit risk

The maximum exposure to credit risk is shown below by financial asset classes. The deposits with BNB are not included in the table below, because these have the minimum possible inherent credit risk and the Bank's Management considers that risk insignificant.

	2019		2018	
	Maximum exposure	Net exposure	Maximum exposure	Net exposure
Loans and advances to banks	76,859	76,859	34,318	34,318
Loans and advances to customers	522,554	61,703	463,816	37,076
Financial asset at FVOCI	35,641	35,641	26,299	26,299
Debt instruments at amortised cost	11,316	11,316	10,337	10,337
Other financial assets	639	639	792	792
Total	647,009	186,158	535,562	108,822
Maximum credit exposure related to off-balance sheet exposures				
Bank guarantees and L/C issued	17,922	4,829	19,325	2,317
Unutilized commitments on loans	45,289	24,582	23,185	13,549

The amount of net exposure of loans and advances to customers and bank guarantees, represents the reduced carrying amount with the amount of highly liquid collaterals, calculated on a loan by loan or guarantee by guarantee basis. The Group calculates the net exposure of unutilized commitments on loans by deducting all other loan securities.

32 Financial risk management (continued)

32.2. Credit risk (continued)

Control on credit limits and acceptance of collateral

The lending process at the Bank is based on the principle of distribution of the functions and competences for the analyzing, decision-making and approval of the loans, the management and control of the loan transactions. Credit risk is managed through the use of limits that set a threshold (the level of risk to be accepted) for a specific borrower or group of counterparties (including related parties).

The management of credit risk and concentration risk is based on:

1. Application of a complex system for timely identification of risk, including:

- regular internal reviews of sub-portfolios and significant individual exposures – assessments and trends in their development;
- analysis of external operational environment conditions and periodic review of risks in certain sectors;
- review of risk reduction techniques used;
- review of the economic performance of significant debtors;
- review of sources of funding;
- periodic review and evaluation of the security levels;

2. Application of a set of limits by type of risk category and business line/unit, as well as regularly reviewed key risk indicators system. The levels of the limits, including pre-threshold values, reflect the risk tolerance that the Bank is prepared to accept in its usual course of business;

The Group limits credit risk and concentration risk by setting limits on credit exposures in relation to a single borrower or a group of related borrowers and to industry sectors. The Bank also monitors the concentration by geographical location. The observance of the limits is monitored on an ongoing basis and the adequacy of the limits set is subject to a periodic review. The Group carries out regular stress-tests for the evaluation of credit risk exposures, evaluation of the effect on the equity position of the Bank, identification of critical exposures and determining measures for credit risk mitigation and preservation of the capital position.

Concentration by countries and counterparties
The Group does not have significant investments outside Bulgaria. The exposures to non-residential parties represent up to 10% of total assets and off-balance sheet commitments of the Bank and basically result from the current management of liquid funds, namely: amounts placed on the interbank money market and current accounts with foreign banks with a high credit rating. The securities portfolio mainly includes Bulgarian bonds, 73.0% of which are government bonds. The majority of the Group's loan portfolio includes loans to customers operating in Bulgaria.

As part of the operations of the Markets and Liquidity Department, BACB places deposits and enters into currency transactions with local and foreign banks within certain limits by counterparties. The limits are approved by the Asset and Liability Management Committee of BACB (ALCO), following a proposal by the Markets and Liquidity Department. The exposures are monitored on a daily basis by the Back Office and reviewed periodically at ALCO meetings. Exposure limits for the bank's interbank lines are approved based on a review of the capital strength, liquidity position and shareholding structure of the counterparty bank. The list of the approved counterparties and limits is reviewed and updated at least once a year.

32 Financial risk management (continued)

32.2. Credit risk (continued)

Concentration by industry sectors

The loan portfolio of Group is spread across various economic sectors. The decision to increase the weight in a particular sector depends on the Group's assessment of the growth potential of this sector. Proper diversification of the portfolio (as a whole and within each sector) is one of the main goals of the credit risk management of the Group. The annual review process of the risk management policy includes the expansion of the system of internal limits and early warning indicator with the goal of ensuring adequate control and management of risks. For achieving better diversification, the risk management policy sets a limit for exposure to a single economic sector up to 15% of the total portfolio.

The Risk Management Department monitors on an ongoing basis the industry concentration ratios and informs Management quarterly and in case the concentration in a particular sector is close to the limit. Although the Group has internal limits on its exposure to particular industry sectors, it does not aim to predetermine a minimum amount for lending to particular sectors. Each potential loan is considered and approved according to the internal lending rules and procedures taking into account its impact on the concentration limits.

As at 31 December 2019 a certain concentration continues to be present in some industry sectors. During the reporting period the share of the real estate management and construction business projects financed, as well as the commercial and mortgage lending is retained at the level of 2018 - approximately 20% of the net loan portfolio as at 31 December 2019.

The Group continues to diversify its loan portfolio, offering new loan products and new options for financing small and medium-sized companies, and in the last years successfully expanded its activities in the agricultural sector and projects funded under the EU Operational Programmes.

Concentration by customers

The Group limits credit risk and concentration risk by setting limits on credit exposures in relation to a single borrower or a group of related borrowers. The observance of the limits is monitored on an ongoing basis and the adequacy of the limits set is subject to a periodic review. Based on evaluation of the market environment, demand and development perspectives for the different economic sectors and in order to achieve better diversification and risk control, the credit policy of the Bank focuses on:

- Providing appropriate working capital loans for well performing manufacturing and commercial businesses;
- Providing investment loans for green economy, energy efficiency, and renewable energy projects;
- Supporting projects utilizing EU funding;

The Group is offering actively consumer and mortgage loans to individuals and permanently is expanding and adapting its product catalogue aiming to meet the customer's needs and to reflect the changing market conditions. The Group aims to expand the retail business by actively offering a wide range of consumer and mortgage loans with attractive terms and conditions. All loans are analyzed extensively and evaluated on a case-by-case basis. The analysis is aimed at evaluating the credit risk of the borrower and includes review of the solvency and legal status of the borrower, background / reference checks, related parties checks, company analysis (i.e. products, markets, suppliers, management, finances, etc.), collateral analysis (i.e. clean title, market value, etc.).

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.2. Credit risk (continued)

At 31 December 2019 and 31 December 2018 the twenty largest credit exposures prior to impairment (including exposures within loans, guarantees and other loan instruments) form 37.9% and 40.5% respectively, of the total loan portfolio before impairment.

All loans in amount equal to or exceeding 10% of Bank's capital base are approved by the Management Board and the Supervisory Board. All loans in amount equal to or exceeding 15% of Bank's capital base require an unanimous approval. The large exposures to an individual customer or group of related parties are controlled in accordance with regulatory requirements and reported on a regular basis. Exposure to credit risk is minimized by obtaining collateral as well as corporate and personal guarantees.

At the end of 2019 a part of the loan portfolio is concentrated in a limited number of debtors. There is a possibility that the Group's operations, its financial position and the results of its operations are adversely affected in case of slowed down economic growth and worsened business climate, which may result in non-performance on the part of some of the major debtors. Information on the major exposures* by balance-sheet value, as of 31 December 2019 and 31 December 2018 is shown in the table below:

	2019		2018	
	(€ 000)	*% of capital base*	*(€ 000)*	*% of capital base*
Largest exposure to a single client group	20,917	22.4	23,188	26.5**
Aggregate of five largest exposures	93,069	99.5	98,429	112.5
Aggregate of all exposures-over 10% of capital base	174,563	186.6	144,282	164.8

**Large exposure is an exposure representing 10 or more per-cent of the capital base of the Bank as defined in Regulation 575/2013.*
***The exposure amount is presented prior to the use of credit protection techniques*

Loan commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, which represent irrevocable commitment that the Group will make the payment in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. The contingent commitments represent unused portions of authorizations on concluded contracts that are expected to be extended in the form of loans and guarantees. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total commitments since commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because long-term commitments generally have a greater degree of credit risk than short-term commitments.

32 Financial risk management (continued)

32.2. Credit risk (continued)

Collaterals

Loans advanced by the Group are normally secured by all or part of the borrower's assets and, in some cases security is taken over assets of third parties such as the directors or shareholders of a corporate borrower. For some specific standardized loan products the Management Board of the Bank could approve providing of unsecured financing, and as at 31 December 2019 such products are some retail loans and credit cards issued to individuals or legal entities.

The credit operations policy sets out the applied principles and guidelines on the acceptability of specific assets, accepted as collaterals. The principal collateral types are:

- Mortgage on real estate
- Cash collateral
- Pledge on movable assets and on current/future receivables
- Pledge on securities, stocks or company shares
- Pledge on commercial enterprises
- Various guarantees

Prior to advancing a loan, the Group values the real estate accepted as collateral at market value, and for its determination is used mainly the method of comparable market analogues.

In a more limited scope are used also the real value method and/or the Future cash income capitalization method. For other types of collateral, the Group uses a reduced value (which represents the current carrying amount reduced by a certain percentage depending on the type of collateral) according to criteria approved by the Management Board. According to the internal rules and policies, the Group considers a loan to be sufficiently collateralized in case the discounted value of the proposed collateral covers the loan amount at 100%. The discount rates by type of collaterals are an integral part of the lending policy and are approved by the Supervisory and Management Boards. The Management Board could decide for exceptions subject to approval by the Supervisory Board in case the internal rules provide for such exceptions. All real estates are valued by licensed external and/or internal evaluators. At the time of realization the liquidation values may materially change from the ones at inception of a loan.

As a part of the risk management policy, the Group carries out annual real estate market analyses, covering the overall changes in the prices by types of collaterals: residential properties (review by regions), land, industrial, shops, retail facilities, hotels, offices, and provides information on the changes by regions and – if possible – on the concentration by regional centres and resorts. Based on the expert analysis and the observed changes on the real estate market, the Bank carries out regular stress tests of the accepted collaterals in order to assess the vulnerability to a potential drop in the prices of assets, used as collaterals for granted loans, as far as a part of the loans are collateralized by real estate.

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.2. Credit risk (continued)

Collaterals (continued)

The table below contains a breakdown of Loan Portfolio by type of collateral at 31 December 2019 and 31 December 2018:

	2019		2018	
	EUR' 000	*%*	*EUR' 000*	*%*
Real estate	332,935	58.60	283,684	54.97
Cash	5,600	0.99	5,824	1.13
Financial guaranties or insurances	16,427	2.89	18,996	3.68
Pledge on receivables from EU funds	14,613	2.57	16,105	3.12
Equipment	56,658	9.97	63,609	12.33
Inventory	20,953	3.69	25,844	5.01
Other receivables and other assets	77,883	13.71	65,648	12.72
Promissory notes	32,192	5.67	30,242	5.86
Unsecured	10,882	1.92	6,117	1.19
Loans to customers	**568,143**	100	**516,069**	100

* *The receivables under financial lease of buildings are presented as collateralized with real estate, as far as the transfer of the lease properties depends on the performance of the contractual terms and conditions by the lessee*

The value of loans is distributed based on the value of the constituted valid collaterals at the balance sheet date, according to their type. If there is more than one type of collateral on the exposure the distribution is made by order of liquidity.

Impairment on financial assets

The Group has established an internal policy and procedures for monitoring and classification of its risk exposures and determining the impairment loss. These documents are used to determine the terms and conditions and the rules for identification of increased credit risk and the formation of impairment losses. The specialized internal body for monitoring, assessment and classification of the risk exposures assesses the available information and determines the amount of the expected credit losses on a monthly basis.

The Group applies a single impairment model to all financial assets that are not measured at fair value through profit or loss, including undrawn loan commitments and issued financial guarantees. The impairment model developed in compliance with the requirements of IFRS 9 is a pattern of the expected credit losses which provides for an earlier recognition of credit losses and allocating of impairment allowances prior to incurring losses.

The Group reports an impairment allowance for its financial assets carried at amortized cost - loans and debt instruments, for debt instruments measured at fair value through OCI, trade receivables, and financial guarantee contracts and other credit commitments. No impairment of equity instruments is reported.

For the purpose of applying the requirements for impairment under IFRS 9, a Policy was developed for assessment of changes in credit quality and determination of expected credit losses. The Policy serves as a framework for defining:

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.2. Credit risk (continued)

Impairment of financial assets (continued)

a. Expected credit losses for 12 months or for the entire duration of the instrument

Expected credit losses (ECLs) are recognized on a basis of the probability of default over the entire life of the instrument unless the credit risk after the initial recognition has changed significantly, whereby the expected credit losses for 12 months are taken into account. The expected credit losses for 12 months represent the portion of credit losses over the instrument's life due to a default that may occur within 12 months after the reporting date.

The Group considers its short-term receivables from banks and debt instruments measured at amortized cost or at fair value in the OCI for low credit risk instruments. Under these, the Group always reports 12 monthly credit losses as it considers that the likelihood of default is unlikely. If there are indications that the low credit risk criteria may no longer be met in the subsequent reporting periods, the Group performs an analysis of the change in credit risk relative to the initial recognition in order to assess the need for a loss allowance over the full period of the instrument.

For its trade receivables, which are mainly lease receivables, the Group applies a simplified approach and always defines the ECLs over the life of the asset without tracking changes in credit quality. The Group uses a provisioning matrix for the calculation of ECLs on trade receivables based on past due days and historical loss data. The historical information is refined in order to correct historical experience by including prospective economic information.

b. Approach and models for impairment of financial assets – on a collective and individual basis

The parameters affecting the amount of expected credit losses are determined collectively or individually, depending on the type and nature of the financial instruments under consideration. The Group determines the ECLs individually for all instruments with Stage 3 risk classification, as well as credit exposures to corporate clients, loans to small and medium-sized enterprises in Stage 1 and 2 exceeding a certain amount, investment in debt securities, exposures to banks as short-term bank receivables, funds blocked as collateral on repurchase transactions, etc. The collective approach applies to exposures with a Stage 1 or Stage 2 risk classification. On a collective basis, the risk parameters are estimated for loans grouped into portfolios based on common product characteristics.

As at 31 December 2019 and 31 December 2018, the Group has formed the following portfolios for the purposes of determining collectively expected credit losses:

2019	Amortized cost	ECL	Net carrying amount
Loans under EU programs for legal entities	23,802	(371)	23,431
Loans to micro-enterprises	9,953	(508)	9,445
Mortgage loans to individuals	45,559	(283)	45,276
Consumer loans to individuals	24,242	(1,603)	22,639
Financial guarantees for micro-enterprises - nominal size	4,858	-	4,858
Total	**108,414**	**(2,765)**	**105,649**

2018	Amortized cost	ECL	Net carrying amount
Loans under EU programs for legal entities	25,001	(434)	24,567
Loans to micro-enterprises	8,191	(501)	7,690
Mortgage loans to individuals	27,368	(762)	26,606
Consumer loans to individuals	13,390	(1,153)	12,237
Financial guarantees for micro-enterprises - nominal size	6,676	(8)	6,668
Total	**80,626**	**(2,858)**	**77,768**

32 Financial risk management (continued)

32.2. Credit risk (continued)

Impairment of financial assets (continued)

c. Criteria for assessing increased credit risk

On each reporting date, for the purpose of determining the loss allowance, the Group compares the credit risk levels, i.e. the probability of default occurring at the reporting date and at the date of the initial recognition of the asset. The analysis of the changes is made on the basis of available relevant information, which is accessible to the Group and which can be justified without the use of unnecessary resources. This information includes:

- historical data on the performance of certain financial instruments or other financial instruments with similar risk characteristics,
- data on the current performance of the instruments under consideration – number of days past due, default on contractual conditions, etc.
- reasoned assumptions and expectations that are expected in the future to affect the credit risk of the assets under consideration

Exposures with restructuring measures applied

Pre-agreed loans include exposures renegotiated at the client's request due to changes in market conditions and restructured loans. Upon change in the contractual terms, the Group continues to report interest income on the exposure based on the initially calculated effective interest rate, and the difference between the old amortized cost and the present value of the newly contracted cash flows is recognized in profit or loss as a result of a modification. Exposures in respect of which the Group has applied discounts due to deterioration in financial condition and inability to service liabilities are considered loans with restructuring measures applied. This may include extending the period and changing credit terms and conditions. Once the terms are renegotiated, any impairment is calculated using the original effective interest rate as calculated before the change in the terms and conditions and the credit is no longer considered overdue.

The performance of the renegotiated terms is subject to periodic review. The loans continue to be measured for a change in credit quality at each reporting date.

d. Risk classification according to the credit quality of the financial assets

The analysis of the changes in the credit quality of the financial assets compared to their initial recording determines their risk classification in three main stages as well as the subsequent recognition of impairment allowance:

- Stage 1 (regular exposures) – classifies financial assets without indication of an increase in credit risk compared to the initial measurement. The Group recognizes 12-month ECLs for Stage 1 classified financial assets. The interest income is recognized using the effective interest method on the gross carrying amount of the instrument.
- Stage 2 (exposures with impaired performance) – classifies financial assets with a significant increase in credit risk but without objective evidence of impairment or basis for incurring losses. The Group recognizes ECLs for the entire life of the instrument classified under Stage 2. The interest income is recognized using the effective interest method on the gross carrying amount of the instrument.

32 Financial risk management (continued)

32.2. Credit risk (continued)

Impairment of financial assets (continued)

- Stage 3 (exposures with credit impairment) – classifies financial assets with a significant increase in credit risk and objective evidence of impairment (defaulted exposures). The Group recognizes expected credit losses for the full term of the instrument, assuming for the classification in Stage 3 that the Probability of Default (PD) risk parameter is 100%. Interest income is recognized using the effective interest method on the net carrying amount of the instrument, i.e. after deduction of the loss allowance.

Definition of credit impaired exposures: A financial asset is considered credit impaired when one or more events have occurred that have a material adverse effect on the future expected cash flows from the asset. Evidence of the occurrence of adverse events may be some of the following circumstances:

1) Allowed overdue payments of principal and/or interest exceeding 90 days;
2) Significant financial difficulties leading to counterparty cash flow disruptions;
3) Renegotiating the terms of the contract with substantial discounts for the debtor caused by financial difficulties;
4) Significant probability of commencing insolvency or liquidation of the debtor;
5) Material deterioration of the counterparty's market positions or suspension of trading in the financial asset due to financial difficulties;

The Group considers exposures classified in Stage 3 as credit impaired exposures.

"Cured exposures": Financial assets classified in Stage 3 are considered as "cured" and reclassified to Stage 2 or Stage 1, when none of the default criteria are present for a minimum cure period and after an expert opinion about the indicators for upgraded credit quality of the exposure.

e. Determination and modelling of risk parameters

The main risk parameters affecting the size of the ECLs are:

- Probability of Default (PD) – The probability of a counterparty not complying with contract clauses related to debt repayment. For each individual portfolio of collectively assessed exposures, the Group maintains historical information on the migration of exposures from Stage 1 or respectively Stage 2 to Stage 3 ("default") for a 12-month period. The Group analyses the proportion between loans that were regular at the beginning of the period and are defaulted at the end of the period, compared to the total loan portfolio at the beginning of the period.

The value of 12M PD is determined on the basis of observed deterioration rates and is calculated as a moving average over a period of at least 2 years. For the retail consumer and mortgage loan portfolios formed, the Group applies a rescue-rate model that adjusts the value of 12m PD and reflects the long-term probability of defaulted exposures to restore their performing status.

For exposures that are individually measured, the value of the 12m PD is determined depending on the assigned credit rating according to an internal model. Data on the changes in the borrowers' rating over a one-year horizon is aggregated into transaction matrices, and a 12-m PD is calculated for each rating scale depending on the number of default cases found. The Group adjusts the estimated historical values of 12m PD to reflect the current or expected economic conditions that may differ from those during the historical periods analyzed. The chosen model for reflecting the macroeconomic context is essentially macroeconomic forecasting (result of 3 macroeconomic scenarios - conservative / baseline / optimistic) and linking macroeconomic forecasts to the Group's key parameters / estimated probability of default with a 12-month horizon, estimated probability of default over the lifetime of the instrument). It reflects the impact of two macroeconomic parameters GDP (for business exposures) and Unemployment Rate (for retail segment).

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.2. Credit risk (continued)

Impairment of financial assets (continued)

Scenario information for selected macroeconomic parameters:

Parameter	Scenario	Weight	2020	2021	2022	Following years
	Optimistic	25%	3.70%	3.60%	3.40%	3.40%
GDP growth in %	Baseline	50%	3.57%	3.30%	3.20%	3.20%
	Conservative	25%	3.50%	2.70%	2.40%	2.40%
	Optimistic	25%	4.40%	4.10%	4.00%	4.00%
Unemployment rate in %	Baseline	50%	4.57%	4.30%	4.23%	4.23%
	Conservative	25%	4.90%	4.80%	4.80%	4.80%

Determination of default: The Group considers that a default occurs when the debtor is past due for more than 90 days and/or there are other material breaches of the terms of the contract and the debtor is unlikely to repay his obligations without action by the Group (e.g. restructuring measures, sale of collateral, etc.)

- Exposure at Default (EAD) – potential exposure at the time of default. The level of exposure at default is determined individually for each loan depending the type of loan, taking into account both the amount of debt and the agreed undrawn amounts according to the expectation of future drawdown
- Loss Given Default LGD – ratio of the exposure loss due to default of the counterparty to the amount of exposure at default. To determine the LGD on unsecured loans, the Group calculates the potential loss that would arise if an exposure goes into default and the only source for collecting the receivable is the realization of the collateral. The loss is measured as the difference between the exposure at default (EAD) and the realizable value of the collateral and is presented as a percentage of the EAD. LGD is determined individually for each exposure in the loan portfolio, depending on its collateral and regardless of whether the probability of default is assessed on an individual or collective basis. Untill 31 December 2018 the LGD for unsecured loans was considered to be 100%, as no sufficient historical information was available. In 2019 the models for calculating the ECL were further developed and extended. As a result at 31 December 2019, to determine the LGD parameter for unsecured loans (consumer loans and credit cards) the Group applies a statistical model for the determination of the recovery rate in case of loss (1-LGL), which calculates the portion that can be collected after the loan cannot be rescued. The recovery rate is that part of EAD for loans considered loss, that could be collected after the exposure is classified as loss. The exposure is classified as loss after passage of defined cure period with no positive development or when written off. The LGL parameter is calculated based on the observed recoveries depending on the product type (e.g. credit card, standard loan, overdraft), and the measured ratio is assumed as the expected LGL value in a given portfolio at a given time in the business cycle by the formula

$$LGL = 1 - \frac{\sum_{\alpha \in A} \frac{R_{\alpha,t(\alpha)}}{(1 + r_{\alpha})^{t(\alpha)-T}}}{\sum_{\alpha \in A} \frac{L_{\alpha,t(\alpha)}}{(1 + r_{\alpha})^{t(\alpha)-T}}},$$

Where: A is the range of loss exposures in a particular segment
$\alpha \in A$ the number of the exposures in A
T – days in arrear of the exposure in the month of default
$R_{\alpha,i(\alpha)}$ is the refunded amount for the exposure for the last 12 months,
$L_{\alpha,t(\alpha)}$ is the amount due on the loan at the beginning of the period,
$t(\alpha)$ is the overdue of the exposure at the beginning of the period

The recovery rates thus obtained are applied on a collective basis, depending on the type of product in the retail segment.

32 Financial risk management (continued)

32.2. Credit risk (continued)

Impairment of financial assets (continued)

Acquired collateral

The Group's policy is to determine whether the acquired asset is best to be realized by the Group or sold. Assets designated to be realized by the Group are transferred to investment property category at acquisition cost, including transaction costs. Assets that are deemed to be better immediately sold are reported in a category held for sale at their fair value at the acquisition date in accordance with the Group's policy.

Assessment of collateral

The Group seeks to use collateral, wherever possible, to reduce the risks of financial assets. Collateral may take the form of cash, securities, financial guarantees, real estate, receivables, inventories, other non-financial assets. The fair value of the collateral is measured at least initially and revalued on a revolving basis. As far as possible, the Group uses market data to measure financial assets held as collateral. Other financial assets whose market value cannot be estimated are measured using models. Non-financial collateral, such as real estate, is recognized on the basis of estimates made by independent appraisers.

f. Methods for calculation and presentation of expected credit losses by types of financial assets

The credit loss estimate is averaged, weighted for the probability of default over the life of the instrument by estimating the range of possible outcomes. Credit losses are the present value of the difference between the cash flows due under the contract and the cash flows that the Bank expects to receive in practice, taking into account the amounts and when they are expected to be received over time. When measuring the expected cash flows, account shall also be taken of the flow of collateral realization and other credit facilities that are an integral part of the contract. For the purpose of determining the expected credit losses, the difference between contractual and expected cash flows is discounted using the initial effective interest rate on the transaction or the credit risk-adjusted effective interest rate for purchased or initially created financial assets with credit impairment. The change in the loss adjustment is recognized as a result of impairment in profit or loss for the period.

For financial instruments measured at amortized cost such as loans and debt securities, the cumulative allowance reduces the carrying amount of the instrument in the statement of financial position. For debt instruments measured at fair value in other comprehensive income, the expected credit loss is part of the negative change in the fair value due to increased credit risk. These assets continue to be reported at fair value in the statement of financial position and the accumulated loss adjustment is reported in the statement of comprehensive income. Upon subsequent deregistration of the instrument, the cumulative adjustment is recognized in the profit or loss for the period.

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.2. Credit risk (continued)

Quality of loans and receivables to banks

The following tables provide information on the credit quality and the maximum exposure to credit risk for exposures with banks as at 31 December 2019 and 31 December 2018, according to the Group's internal risk classification. The amounts presented reflect the change in the gross carrying amounts and the impairment allowance during the reporting period.

Changes in gross carrying amount	Stage1	Stage2	Stage3	TOTAL
Amount as at 1 January 2019	34,341	-	-	34,341
New assets	51,074	-	-	51,074
Amounts paid	(8,516)	-	-	(8,516)
Transfer between stages	-	-	-	0
Amount as at 31 December 2019	**76,899**	**-**	**-**	**76,899**

Changes in gross carrying amount	Stage1	Stage2	Stage3	TOTAL
Amount as at 1 January 2018	35,147	-	-	35,147
New assets	15,797	-	-	15,797
Paid assets	(16,603)	-	-	(16,603)
Transfer between stages	-	-	-	-
Amount as at 31 December 2018	**34,341**	**-**	**-**	**34,341**

Changes in the impairment allowance	Stage1	Stage2	Stage3	TOTAL
Amount as at 1 January 2019	23	-	-	23
New assets	21	-	-	21
Paid assets	(4)	-	-	(4)
Transfer between stages	-	-	-	0
Amount as at 31 December 2019	**40**	**-**	**-**	**40**

Changes in the impairment allowance	Stage1	Stage2	Stage3	TOTAL
Amount as at 1 January 2018	12	-	-	12
New assets	14	-	-	14
Paid assets	(3)	-	-	(3)
Transfer between stages	-	-	-	0
Amount as at 31 December 2018	**23**	**-**	**-**	**23**

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.2. Credit risk (continued)

Quality of loans and receivables to customers

The following tables provide information on the credit quality and the maximum exposure to credit risk for exposures to legal entities and individuals as at 31 December 2019 and 31 December 2018, according to the Group's internal risk classification. The amounts presented reflect the amortised cost of the exposures before impairment allowance and the change in the amortised cost and the impairment allowance during the reporting period.

The credit quality of the portfolio of loans that are neither overdue, nor impaired is assessed on the basis of the Group's internal risk rating classification methodology. A brief explanation of the allocation classes of loans that are neither overdue, nor impaired:

High class	Performing exposures with PD from 0.04% to 0.50%
Medium class	Performing exposures with PD from 0.50% to 12.00%
Low class	Performing exposures with PD from 12.00% to 29.50%

The Groups reports as impaired the exposures that are classified in Stage 3. Loans overdue up to 90 days are not considered impaired unless there is other objective evidence of impairment as at the reporting date. Such loans are reported in the statement as overdue but not impaired.

Business Exposures

Gross carrying amount as of 31.12.2019	Stage 1	Stage 2	Stage 3	TOTAL
1. Neither past due nor impaired				
1.1. Individually assessed	303,163	24,830	-	327,993
High class	*69,465*	*0*	-	*69,465*
Medium class	*231,929*	*22,911*	-	*254,840*
Low class	*1,769*	*1,919*	-	*3,688*
1.2. Collectively assessed	23,945	614		24,559
2. Past due not impaired				
2.1. Individually assessed	24,823	6,526	-	31,349
2.2. Collectively assessed	3,980	1,263	-	5,243
3. Impaired - individually assessed	-	-	109,198	109,198
TOTAL	**355,911**	**33,233**	**109,198**	**498,342**

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)
32.2. Credit risk (continued)

Quality of loans and receivables (continued)

Gross carrying amount as of 31.12.2018	Stage 1	Stage 2	Stage 3	TOTAL
1. Neither past due nor impaired				
1.1. Individually assessed	276,463	9,781	-	286,244
High class	*101,224*	*129*	-	*101,353*
Medium class	*160,825*	*7,679*	-	*168,504*
Low class	*14,414*	*1,973*	-	*16,387*
1.2. Collectively assessed	26,880	737		27,617
2. Past due not impaired				
2.1. Individually assessed	39,212	2,632	-	41,844
2.2. Collectively assessed	1,361	951	-	2,312
3. Impaired - individually assessed	-	-	117,292	117,292
TOTAL	**343,916**	**14,101**	**117,292**	**475,309**

Changes in the gross carrying amount in 2019	Stage1	Stage2	Stage3	TOTAL
Amounts at 1 January 2019	343,916	14,101	117,292	475,309
New assets originated	149,306	5,818	702	155,826
Paid exposures	(110,998)	(5,527)	(8,434)	(124,959)
Transfers to Stage 1	448	(448)	0	0
Transfers to Stage 2	(25,458)	28,795	(3,337)	0
Transfers to Stage 3	(1,303)	(9,506)	10,809	0
Amounts written off	-	-	(7,834)	(7,834)
Amounts at 31 December 2019	**355,911**	**33,233**	**109,198**	**498,342**

Changes in the gross carrying amount in 2018	Stage 1	Stage 2	Stage 3	TOTAL
Amount as at 1 January 2018	289,253	6,176	124,531	419,960
New exposures	129,514	1,202	3,713	134,429
Paid exposures	(58,426)	(1,332)	(8,484)	(68,242)
Transfer to Stage 1	1,414	(1,179)	(235)	-
Transfer to Stage 2	(12,487)	12,522	(35)	-
Transfer to Stage 3	(5,280)	(3,288)	8,568	-
Amounts written off	(72)	-	(10,766)	(10,838)
Amount as at 31 December 2018	**343,916**	**14,101**	**117,292**	**475,309**

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)
32.2. Credit risk (continued)

Quality of loans and receivables (continued)

Changes in the impairment allowance in 2019	Stage1	Stage2	Stage3	TOTAL
Amounts at 1 January 2019	779	42	49,517	50,338
New assets originated	484	665	2,084	3,233
Paid exposures	(447)	(33)	(1,554)	(2,034)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(68)	68	-	-
Transfers to Stage 3	(7)	(25)	32	-
Amounts written off	-	-	(7,835)	(7,835)
Amounts at 31 December 2019	**741**	**717**	**42,244**	**43,702**

Changes in the impairment allowance in 2018	Stage 1	Stage 2	Stage 3	TOTAL
Amount as at 1 January 2018	604	363	59,008	59,975
New exposures	606	30	1,748	2,384
Paid exposures	(340)	(16)	(828)	(1,184)
Transfer to Stage 1	9	(2)	(7)	-
Transfer to Stage 2	(29)	29	-	-
Transfer to Stage 3	-	(362)	361	-
Amounts written off	(71)	-	(10,766)	(10,837)
Amount as at 31 December 2018	**779**	**42**	**49,516**	**50,337**

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.2. Credit risk (continued)

Quality of loans and receivables (continued)

Mortgage loans to individuals

Gross carrying amount as of 31.12.2019	Stage1	Stage2	Stage3	TOTAL
Neither past due nor impaired-Collectively assessed	41,795	264	-	42,059
Past due not impaired-collectively assessed	1,341	802	-	2,143
Impaired - individually assessed	-	-	1,358	1,358
TOTAL	**43,136**	**1,066**	**1,358**	**45,560**

Gross carrying amount as of 31.12.2018	Stage 1	Stage 2	Stage 3	TOTAL
Neither past due nor impaired-Collectively assessed	23,311	307	-	23,618
Past due not impaired-Collectively assessed	1,840	96	-	1,936
Impaired - individually assessed	-	-	1,815	1,815
TOTAL	**25,151**	**403**	**1,815**	**27,369**

Changes in the gross carrying amount in 2019	Stage1	Stage2	Stage3	TOTAL
Amounts at 1 January 2019	25,151	403	1,815	27,369
New assets originated	23,178	35	168	23,381
Paid exposures	(4,439)	(79)	(145)	(4,663)
Transfers to Stage 1	122	(102)	(20)	-
Transfers to Stage 2	(810)	841	(31)	-
Transfers to Stage 3	(66)	(32)	98	-
Amounts written off	-	-	(527)	(527)
Amounts at 31 December 2019	**43,136**	**1,066**	**1,358**	**45,560**

Changes in the gross carrying amount in 2018	Stage 1	Stage 2	Stage 3	TOTAL
Amount as at 1 January 2018	18,731	1,149	2,283	22,163
New exposures	9,514	101	34	9,649
Paid exposures	(3,666)	(47)	(732)	(4,445)
Transfer to Stage 1	669	(610)	(57)	2
Transfer to Stage 2	(77)	77	-	-
Transfer to Stage 3	(20)	(267)	287	-
Amounts written off	-	-	-	-
Amount as at 31 December 2018	**25,151**	**403**	**1,815**	**27,369**

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.2. Credit risk (continued)

Quality of loans and receivables (continued)

Changes in the impairment allowance in 2019	Stage1	Stage2	Stage3	TOTAL
Amounts at 1 January 2019	5	-	758	763
New assets originated	46	-	10	56
Paid exposures	(4)	-	(4)	(8)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	(527)	(527)
Amounts at 31 December 2019	**47**	**-**	**237**	**284**

Changes in the impairment allowance in 2018	Stage 1	Stage 2	Stage 3	TOTAL
Amount as at 1 January 2018	1	4	752	757
New exposures	4	-	13	17
Paid exposures	-	(4)	(7)	(11)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Amounts written off	-	-	-	-
Amount as at 31 December 2018	**5**	**-**	**758**	**763**

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.2. Credit risk (continued)

Quality of loans and receivables (continued)

Consumer loans to individuals

Gross carrying amount as of 31.12.2019	Stage1	Stage2	Stage3	TOTAL
Neither past due nor impaired-Collectively assessed	21,114	15	-	21,129
Past due not impaired-collectively assessed	1,398	384	-	1,782
Impaired-individually assessed	-	-	1,330	1,330
TOTAL	**22,512**	**399**	**1,330**	**24,241**

Gross carrying amount as of 31.12.2018	Stage 1	Stage 2	Stage 3	TOTAL
Neither past due nor impaired-Collectively assessed	11,667	26	-	11,693
Past due not impaired-Collectively assessed	739	188	-	927
Impaired - individually assessed	-	-	771	771
TOTAL	**12,406**	**214**	**771**	**13,391**

Changes in the gross carrying amount in 2019	Stage1	Stage2	Stage3	TOTAL
Amounts at 1 January 2019	12,406	214	771	13,391
New assets originated	16,861	266	326	17,453
Paid exposures	(6,413)	(76)	(110)	(6,599)
Transfers to Stage 1	114	(92)	(22)	-
Transfers to Stage 2	(189)	206	(17)	-
Transfers to Stage 3	(267)	(119)	386	-
Amounts written off	-	-	(4)	(4)
Amounts at 31 December 2019	**22,512**	**399**	**1,330**	**24,241**

Changes in the gross carrying amount in 2018	Stage 1	Stage 2	Stage 3	TOTAL
Amount as at 1 January 2018	7,688	166	363	8,217
New exposures	8,192	152	261	8,605
Paid exposures	(3,333)	(32)	(66)	(3,431)
Transfer to Stage 1	74	(64)	(9)	1
Transfer to Stage 2	(67)	84	(17)	-
Transfer to Stage 3	(148)	(92)	239	(1)
Amounts written off	-	-	-	-
Amount as at 31 December 2018	**12,406**	**214**	**771**	**13,391**

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.2. Credit risk (continued)

Quality of loans and receivables (continued)

Changes in the impairment allowance in 2019	Stage1	Stage2	Stage3	TOTAL
Amounts at 1 January 2019	279	104	771	1,154
New assets originated	252	164	443	859
Paid exposures	(223)	(18)	(165)	(406)
Transfers to Stage 1	70	(48)	(22)	-
Transfers to Stage 2	(10)	26	(16)	-
Transfers to Stage 3	(22)	(54)	76	-
Amounts written off	-	-	(4)	(4)
Amounts at 31 December 2019	**346**	**174**	**1,083**	**1,603**

Changes in the impairment allowance in 2018	Stage 1	Stage 2	Stage 3	TOTAL
Amount as at 1 January 2018	178	20	362	560
New exposures	214	95	444	753
Paid exposures	(113)	(13)	(35)	(161)
Transfer to Stage 1	15	(6)	(8)	1
Transfer to Stage 2	(3)	20	(16)	1
Transfer to Stage 3	(12)	(12)	24	-
Amounts written off	-	-	-	-
Amount as at 31 December 2018	**279**	**104**	**771**	**1,154**

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.2. Credit risk (continued)

Quality of loans and receivables (continued)

Loan exposures with restructuring (forbearance) measures

The contractual terms and conditions by separate credit exposures in Group's portfolio may undergo certain changes, due to factors, such as changes in the market environment or the specific market conditions or the specific strategic objectives for attracting and retaining customers, without such factors being related to any impairment of the financial position of the debtor or his capability to repay his liabilities. Such changes are considered by the Group as "renegotiation "of the contractual terms and conditions.

In cases, when the debtor has difficulties performing its financial commitments or displays any signs of impaired financial condition, the Group may initiate a change in the original terms and conditions of the initial agreement, by providing the debtor with discounts in order to enable him to repay his debt and to reduce the risk of non-performance.

Such changes, which the Group would not implement, should the debtor is in good financial position, are considered "restructuring", i.e. these are considered "restructuring measures" and may include:

- Extension of the contractual period by more than 2 years after the original period (more favorable terms, compared to those, that may be offered to other debtors with a similar risk profile)
- Debt reduction (complete or partial derecognition)
- Replacement of a part of the debt by property;
- Refinancing

The Group considers that the restructuring of an exposure might be an objective indicator, which requires assessing whether credit risk is significantly increased after the initial recognition. Any change in the terms of the contract for an exposure is considered by the Lending Committee, which decides whether it represents implementation of restructuring measures. In the process of monitoring the quality of the loan portfolio, the specialized body for monitoring, assessment, classification and provisioning of risk exposures should review and analyze received information for modification of the contractual conditions on specific exposures and shall decide on the respective risk classification.

The following tables provide information on credit exposures restructured on 31 December 2019 and 2018 respectively:

	31 December 2019			
	Corporate		Individuals	
	EUR' 000	*Number*		*Number*
Neither past due nor impaired	23,845	12	174	2
Past due but not impaired	2,447	5	44	5
Impaired loans	71,964	85	196	15
Total before impairment	98,256	102	414	22
Less: ECL allowance	(20,835)		(26)	
Restructures loans, net	**77,421**		**388**	

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.2. Credit risk (continued)

Quality of loans and receivables (continued)

	31 December 2018			
	Corporate		Individuals	
	EUR' 000	*Number*		*Number*
Neither past due nor impaired	10,221	8	173	2
Past due but not impaired	844	2	31	2
Impaired loans	69,889	82	208	10
Total before impairment	80,954	92	412	14
Less: impairment allowance	(19,786)		(25)	
Restructures loans, net	**61,168**		**387**	

Financial guarantees issued

As at 31 December 2019 the Group issued financial guarantees with a total nominal value of EUR 17,922 thousand (2018: EUR 19,325 thousand). All exposures under issued guarantees are to legal entities.

Maximum credit exposure on issued guarantees at 31.12.2019	Stage1	Stage2	Stage3	TOTAL
1. Neither past due nor impaired				
1.1. Individually assessed	12,947	116	-	13,063
High class	*1,634*	-	-	*1,634*
Medium class	*9,772*	*116*	-	*9,888*
Low class	*1,541*	-	-	*1,541*
1.2.Collectively assessed	4,518	341		4,859
2. Past due not impaired	-	-	-	-
3.Impaired	-	-	-	-
TOTAL	**17,465**	**457**	**0**	**17,922**

Maximum credit exposure on issued guarantees at 31.12.2018	Stage 1	Stage 2	Stage 3	TOTAL
1. Neither past due nor impaired exposures				
1.1. Individually assessed	12,649	-	-	12,649
High class	*1,793*	-	-	*1,793*
Medium class	*10,856*	-	-	*10,856*
1.2. Collectively assessed	6,676	-		6,676
2. Past due not impaired exposures	-	-	-	-
3. Impaired exposures	-	-	-	-
TOTAL	**19,325**	**-**	**-**	**19,325**

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.2. Credit risk (continued)
Quality of loans and receivables (continued)

Change in maximum credit exposure on issued guarantees in 2019	Stage1	Stage2	Stage3	TOTAL
Amount as at 1 January 2019	19,325	-	-	19,325
New guarantees issued	8,021	116	-	8,137
Matured guarantees	(9,540)	-	-	(9,540)
Transfers between stages	(341)	341	-	-
Amounts written off	-	-	-	-
Amounts as at 31 December 2019	**17,465**	**457**	**-**	**17,922**

Change in maximum credit exposure on issued guarantees in 2018	Stage 1	Stage 2	Stage 3	TOTAL
Amount as at 1 January 2018	16,356	-	-	16,356
New guarantees issued	9,423	-	-	9,423
Matured guarantees	(6,454)	-	-	(6,454)
Transfer between stages	-	-	-	-
Amounts written off	-	-	-	-
Amount as at 31 December 2018	**19,325**	**-**	**-**	**19,325**

Change in the impairment allowance on issued guarantees in 2019	Stage1	Stage2	Stage3	TOTAL
Amount as at 1 January 2019	8	-	-	8
New guarantees issued	2	-	-	2
Matured guarantees	(6)	-	-	(6)
Transfers between stages	-	-	-	-
Amounts written off	-	-	-	-
Amounts as at 31 December 2019	**4**	**-**	**-**	**4**

Change in the impairment allowance on issued guarantees in 2018	Stage1	Stage2	Stage3	TOTAL
Amount as at 1 January 2018	10	-	-	10
New guarantees issued	6	-	-	6
Matured guarantees	(8)	-	-	(8)
Transfers between stages	-	-	-	-
Amounts written off	-	-	-	-
Amounts as at 31 December 2018	**8**	**-**	**-**	**8**

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.2. Credit risk (continued)

Analysis, based on the credit rating of the financial assets

The rating category of the debtor is one of the main aspects of the “price“, which is to be paid in order to overcome a credit risk. The Group has specified in the table below the agencies and the respective ratings of its financial assets at net carrying value:

			2019		
Credit rating	Agency	Balances with Central Bank	Loans and advances to banks	Financial assets at FVOCI	Debt instruments at amortised cost
A3	Moody`s	-	9,997	-	-
A2	Moody`s	-	278	-	-
AA-	S&P	-	-	656	-
BBB+	S&P	-	3,819	-	-
BBB-	S&P	-	-	-	1,113
BBB-	Fitch	-	61,476	-	-
BBB	Fitch	129,676	1,286	23,344	10,203
BB	Fitch	-	-	1,778	-
B-	Fitch	-	-	7,980	-
B	S&P	-	3	-	-
Unclassified		-	-	1,883	-
Total		**129,676**	**76,859**	**35,641**	**11,316**

			2018		
Credit rating	Agency	Balances with Central Bank	Loans and advances to banks	Financial asset at FVOCI	Financial assets accounted for at amortized cost
A+	S&P	-	121	-	-
A2	Moody`s	-	277	-	-
AA-	S&P	-	-	445	-
A-	Fitch	-	7,858	-	-
BBB+	S&P	-	2,277	-	-
BBB-	S&P	113,232	-	21,298	10,337
BBB-	Fitch	-	23,783	-	-
BB	Fitch	-	-	1,611	-
B	Fitch	-	-	1,004	-
Unclassified		-	2	1,941	-
Total		**113,232**	**34,318**	**26,299**	**10,337**

Geographical concentrations of assets, liabilities and off-balance sheet items

The Group’s operations are concentrated primarily in Bulgaria. As of 31 December 2019, there are limited exposures to other countries as placements with foreign banks in the amount of EUR 14,095 thousands (2018: 2,554 thousands) and investments in Croatia government bonds amounting to EUR 1,113 thousands (2018: 0).

32 Financial risk management (continued)

32.3. Market risk

The Group is exposed to different market risks. The market risks are associated with the risk of adverse effects of the changes in the prevailing market conditions on the financial position of the Group. Market risks arise in relation to the Group's positions in interest rate, foreign exchange, equity and other financial instruments that are, to some extent, dependent on the changes in the general or specific market conditions such as changes in interest rates, credit margins, foreign exchange rates, equity instruments prices and the like. The Group has developed and established policies and procedures to identify, manage and control the levels of risk to which it is exposed during operations.

The policies and procedures for managing market risk are approved by the Management Board. The main objective of the risk policy is to impose clearly defined parameters on the Group's operations to adequately limit the exposure to different risks. The Group estimates the market risk of its open exposures and the maximum losses expected based upon a number of assumptions for various changes in market conditions. The internal risk management systems of the Group evolve with the growth of the Group's operations to ensure maximum control on each risk category.

32.3.1. Exchange rate risk

The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group operates in Euro, US dollars, Leva and occasionally in GBP and Swiss Francs. It has relatively limited foreign exchange exposure because since 1997, the Lev has been pegged to the Deutsche mark and, subsequently to the Euro through a currency-board system. Compliance with foreign exchange limits is monitored on an on-going basis by the Markets and Liquidity Department and is reported to the ALCO on a monthly basis.

The exchange rate risk management policy aims to maintain an open US dollar position that is as close as practicable to neutral by attempting to match the amounts and time limits of its liabilities denominated in USD with its receivables denominated in that currency. The limit for overnight maximum open foreign exchange positions in customer transactions is EUR 100,000. Due to the currency board arrangement, there is no limit for the position in EUR. In special circumstances, the above limits for open positions may be exceeded with the approval of the Executive Directors. In the course of its operations, the Group may conclude short-term foreign exchange swaps to manage its currency flows and as an instrument to reduce the cost of borrowed funds in some of the currencies concerned, taking advantage of their existing differences in interest rates. As at 31 December 2019 and 31 December 2018 there are no open foreign currency swaps.

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.3.1. Exchange rate risk (continued)

The information about the Group's exposure in the different currencies at 31 December 2019 and 2018 is presented in the tables below:

31 December 2019	USD	EUR	BGN	Other	Total
Cash and balances with the Central Bank	823	93,048	40,673	311	134,855
Loans and advances to banks	24,068	50,311	1,289	1,191	76,859
Loans and advances to customers	33,075	254,223	235,256	-	522,554
Debt instruments at FVOCI	-	20,762	13,848	-	34,610
Equity instruments at FVOCI	656	-	375	-	1,031
Investment properties	-	-	51,693	-	51,693
Debt instruments at amortised cost	-	11,316	-	-	11,316
Tangible and intangible assets	-	-	9,264	-	9,264
Investments in joint ventures	-	-	98	-	98
Other financial assets	-	33	606	-	639
Other non-financial assets	-	-	15,294	-	15,294
Total assets	**58,622**	**429,693**	**368,396**	**1,502**	**858,213**
Deposits from customers	57,598	328,730	333,317	1,493	721,138
Other borrowed funds	-	10,011	11,595	-	21,606
Other financial liabilities	848	1,118	8,976	-	10,942
Other non-financial liabilities	1	934	939	-	1,874
Total liabilities	**58,447**	**340,793**	**354,827**	**1,493**	**755,560**
Net foreign currency gap	**175**	**88,900**	**13,569**	**9**	**102,653**
Foreign currency spot contracts	**263**	**(264)**	**-**	**-**	**-**
Net foreign currency gap	**438**	**88,636**	**13,569**	**9**	

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.3.1. Exchange rate risk (continued)

31 December 2018	USD	EUR	BGN	Other	Total
Cash and balances with the Central Bank	660	95,865	21,716	232	118,473
Loans and advances to banks	28,764	3,367	1,277	910	34,318
Loans and advances to customers	31,386	250,415	182,015	-	463,816
Debt instruments at FVOCI	-	13,997	11,438	-	25,435
Equity instruments at FVOCI	445	-	419	-	864
Investment properties	-	-	44,564	-	44,564
Debt instruments at amortized cost	-	10,337	-	-	10,337
Tangible and intangible assets	-	-	5,473	-	5,473
Other financial assets	-	174	618	-	792
Other non-financial assets	-	-	27,100	-	27,100
Total assets	**61,255**	**374,155**	**294,620**	**1,142**	**731,172**
Deposits from banks	-	3,200	-	-	3,200
Deposits from customers	60,413	276,272	266,304	1,144	604,133
Other borrowed funds	-	5,004	13,704	-	18,708
Debt securities in issue	-	1,616	-	-	1,616
Other financial liabilities	248	510	6,846	-	7,604
Other non-financial liabilities	4	312	845	-	1,161
Total liabilities	**60,665**	**286,914**	**287,699**	**1,144**	**636,422**
Foreign currency position	**590**	**87,241**	**6,921**	**(2)**	**94,750**
Foreign currency spot contracts	**(349)**	**349**	**-**	**-**	**-**
Foreign currency position, net	**241**	**87,590**	**6,921**	**(2)**	

The potential negative effect of unfavorable exchange rate changes is immaterial given that the open position in USD is about 0.20% (2018: 0.65%) of the capital base as at 31 December 2019. According to the definition of the currency board, effective in Bulgaria since 1997, the exchange rate BGN/EUR is fixed and the positions in BGN and EUR are not considered sensitive to exchange rate fluctuations.

32 Financial risk management (continued)

32.3.2. Interest rate risk

The interest rate risk relates to the potentially adverse impact of interest rate fluctuations on Group's net income and equity. The applied policy is to reduce the interest rate risk by extending floating rate loans combined with fixed interest rate floor in order to limit the potentially negative impact as a result of non-parallel movements in interest rates for the assets or liabilities. Additionally, the Group charges pre-payment penalties as a percentage of the principal balance outstanding, in order to limit the interest rate risk, reducing the possible early repayment of business loans (granted to small and medium-sized enterprises, corporate clients and municipalities). This, however, does not apply to the granted consumer and mortgage loans to individuals, where the provisions of the Consumer Loans Act and the Consumer Loans Related to Immovable Property Act apply and pre-payment penalties are charged, as required by law.

The Group does not trade in derivatives on interest rate. This policy means that the risk that the Group may suffer significant losses in case of major fluctuations of the market interest levels is relatively mitigated.

The Group's interest rate position is monitored and managed by the Markets and Liquidity Department and Risk Management Directorate and is reported to the ALCO on a monthly basis. The ALCO takes an integrated view of the interest rate risk across all of the Group's banking operations and activities. The Risk Management Directorate carries out independent monitoring of the reports on the open interest rate position prepared by the Markets and Liquidity Department, monitors the risk indicators for interest rate mismatch and prepares quarterly reports to the management.

To refine measurement and apply advanced approaches, the Group applies the methodology defined in the Guidelines on interest rate risk management arising from non-trading portfolio activities issued by EBA and the Principles on interest rate risk management and supervision published by the Basel Committee on Banking Supervision, which calculates open interest positions at time intervals and measures the effect of changes in interest rates as a percentage of the Bank's capital. According to this model, the Bank calculates a total weighted position for the entire bank portfolio and measures the effect of a change in interest rates as a percentage of the capital. BACB has set a 10% internal limit for the effect on capital from a change of 200 basis points in the interest rates.

As of 31 December 2019, the effect of such a change in the interest rates would amount to 0.9% of the capital base (2018: 0.24%).

Sensitivity of the assets and liabilities

The Group has performed an analysis of its sensitivity to a possible change in the interest rates as of 31 December 2019 and 31 December 2018. The Group has estimated the effect on profit or loss, taking into account changes in interest rates of all interest-bearing assets and liabilities within 6 months and 1 year of the reporting date. The results of the analysis are shown in the table below:

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.3.2. Interest rate risk (continued)

Sensitivity of the assets and liabilities (continued)

2019	Sensitivity in profit or loss	
Interest rates	12 months interest rate gap	6 months interest rate gap
+ 100 basis points parallel shift in BGN	(946)	(577)
+ 100 basis points parallel shift in EUR	(137)	636
+ 100 basis points parallel shift in USD	48	202
Total	**(1,035)**	**261**
- 100 basis points parallel shift in BGN	946	577
- 100 basis points parallel shift in EUR	137	(636)
- 100 basis points parallel shift in USD	(48)	(202)
Total	**1,035**	**(261)**

2018	Sensitivity in profit or loss	
Interest rates	12 month interest rate gap	6 month interest rate gap
+ 100 basis points parallel shift in BGN	(925)	(429)
+ 100 basis points parallel shift in EUR	(159)	773
+ 100 basis points parallel shift in USD	37	167
Total	**(1,047)**	**511**
- 100 basis points parallel shift in BGN	925	429
- 100 basis points parallel shift in EUR	159	(773)
- 100 basis points parallel shift in USD	(37)	(167)
Total	**1,047**	**(511)**

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.3.2. Interest rate risk (continued)

Sensitivity of the assets and liabilities (continued)

Information on interest rate change sensitivity by periods is set out in the tables below. It includes Group's assets and liabilities at their balance-sheet value, categorized either by maturity date or by date of the agreed change in the interest rates (whichever is earlier).

31 December 2019	On demand up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	No interest bearing	Total
Cash and balances with the Central Bank	-	-	-	-	-	134,855	134,855
Loans and advances to banks	75,417	-	-	-	-	1,442	76,859
Loans and advances to customers	359,692	144,319	13,127	4,358	1,058	-	522,554
Debt instruments at FVOCI	6,890	55	1,739	18,186	7,740	1,031	35,641
Debt instruments at amortised cost	-	5	180	11,131	-	-	11,316
Investment properties	-	-	-	-	-	51,693	51,693
Tangible and intangible assets	-	-	-	-	-	9,264	9,264
Investments in joint ventures						98	98
Other financial assets	-	-	-	-	-	639	639
Other non-financial assets	-	-	-	-	-	15,294	15,294
Total assets	**441,999**	**144,379**	**15,046**	**33,675**	**8,798**	**214,316**	**858,213**
Deposits from customers	443,839	94,635	144,643	29,270	50	8,701	721,138
Other borrowed funds	21,606	-	-	-	-	-	21,606
Other financial liabilities	268	4,324	537	1,755	217	3,841	10,942
Other non-financial liabilities	-	-	-	-	-	1,874	1,874
Total liabilities	**465,713**	**98,959**	**145,180**	**31,025**	**267**	**14,416**	**755,560**
Interest Sensitivity Gap	**(23,714)**	**45,420**	**(130,134)**	**2,650**	**8,531**	**199,900**	**102,653**

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.3.2. Interest rate risk (continued)

Sensitivity of the assets and liabilities (continued)

31 December 2018	On demand / up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	No interest bearing	Total
Cash and balances with the Central Bank	-	-	-	-	-	118,473	118,473
Loans and advances to banks	31,242	-	-	-	-	3,076	34,318
Loans and advances to customers	332,404	114,943	6,301	7,895	2,273	-	463,816
Financial asset at FVOCI	3,548	29	4	20,272	1,582	864	26,299
Debt instruments at amortised cost	-	-	179	542	9,616	-	10,337
Investment properties	-	-	-	-	-	44,564	44,564
Tangible and intangible assets	-	-	-	-	-	5,473	5,473
Other financial assets	-	-	-	131	-	661,	792
Other non-financial assets	-	-	-	-	-	27,100	27,100
Total assets	**367,194**	**114,972**	**6,484**	**28,840**	**13,471**	**200,211**	**731,172**
Deposits from banks	3,200	-	-	-	-	-	3,200
Deposits from customers	303,985	103,697	162,260	29,765	11	4,415	604,133
Other borrowed funds	18,708	-	-	-	-	-	18,708
Debt securities in issue	1,616	-	-	-	-	-	1,616
Other financial liabilities	-	4,904	-	-	-	2,700	7,604
Other non-financial liabilities	-	-	-	-	-	1,161	1,161
Total liabilities	**327,509**	**108,601**	**162,260**	**29,765**	**11**	**8,276**	**636,422**
Interest Sensitivity Gap	**39,685**	**6,371**	**(155,776)**	**(925)**	**13,460**	**191,935**	**94,750**

Loans and advances to banks represented in column "No interest bearing" in the table above include current accounts with zero interest rate.

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.3.2. Interest rate risk (continued)

The following table summarizes the information on the effective interest rate by financial instruments as of 31 December 2019 and 2018. The interest rates are calculated based on information on the average daily balances by items of assets and liabilities for the respective period and the recognized interest income by these financial instruments.

Assets	**2019**	**2018**
Loans and advances to banks	0.62%	1.03%
Loans and advances to customers	4.79%	4.94%
Debt instruments at FVOCI	1.72%	1.78%
Financial assets at amortised cost	1.37%	1.45%
Liabilities		
Deposits from banks	0.0%	0.0%
Deposits from customers	0.43%	0.57%
Other borrowed funds	1.58%	1.60%
Debt securities in issue	4.09%	4.06%

32.4. Liquidity risk

The liquidity risk refers to the risk that the Group might not have sufficient cash to meet deposit withdrawals or other financial obligations that arises from mismatches in cash flows. The Group follows a conservative liquidity management policy.

The main objectives, when managing the liquidity is to ensure the ongoing capability of the Group to meet its financial liabilities, ensure resources, corresponding to the demand of loans and achieve positive financial results from the management of its own funds and the respective borrowings. The Group's strategy and objectives in this respect are closely related to the establishment of a stable funding structure and adequate fulfillment of the liquidity standards. The liquidity management principles are, as follows:

- Centralized control of the liquidity, exercised by the liquidity management body;
- Ongoing monitoring and evaluation of the necessary finds by time periods in the future,
- Evaluation of the liquid asset adequacy of the Group;
- Diversification of the sources of financing;
- Adequate planning of the emergency actions;

The Group has adopted internal rules for determining and monitoring the liquidity buffers in order to maintain additional liquidity, immediately accessible in case of a liquidity shock for a certain brief period of time. The rules determine the composition of the liquidity buffer, the characteristics and regularity of the applied stress scenarios and sources of financing in the going concern scenario and the liquidity crisis scenarios.

32 Financial risk management (continued)

32.4. Liquidity risk (continued)

The liquidity position management framework is supplemented by internal limits for ensuring adequate coverage of the borrowings by liquidity assets, regular performance of stress tests for the evaluation of the quality and the stability of the liquidity buffer as well as indicators corresponding to the changes in the regulatory framework - leverage, stable financing ratio, liquidity coverage ratio.

Markets and Liquidity Department prepares weekly reports for the liquidity position of the Group and the state of the deposit base. The reports are submitted to ALCO and are discussed monthly. Risk Management Directorate provides independent review on the liquidity position, controls the internal and statutory liquidity limits and performs periodically stress tests in order to ensure optimal level of liquidity buffers. The results from performed analysis are presented to the Management Board.

When managing its liquid position, the Group uses interbank deposits only to bridge temporary funding mismatches, rather than to fund loans. Targeting optimization of its liquidity sources and higher yield earned, the Group invests in Bulgarian government securities. Investments in Bulgarian corporate bonds and shares are approved by ALCO on a case-by-case basis. The securities acquired for liquidity purposes are currently classified as “debt instruments at FVOCI".

As part of the liquidity risk management, additional internal limits were introduced by the Group in order to mitigate the concentration risk and reinforce the liquidity buffers. When needed the Group extends its financing sources and further stabilizes its liquidity position, by placing mortgage bonds. The applied methodology for the assessment of the retention rate/stability of the resources shows a rate of deposits renegotiation of approximately 82 % on an annual basis (2018: 84%) and the results are comparable with the previous year. Greater dynamics were observed in the last quarter in the company segment.

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.4. Liquidity risk (continued)

The table below summarizes the expected use or settlement of the assets and liabilities by time periods, on a discounted basis:

31 December 2019	On demand up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
Cash and balances with the Central Bank	134,855	-	-	-	-	134,855
Loans and advances to banks	75,301	0	0	1,558	-	76,859
Loans and advances to customers	76,848	47,379	66,831	229,627	101,869	522,554
Debt instruments at FVOCI	5,401	55	1,739	18,186	10,260	35,641
Debt instruments at amortised cost	0	5	180	11,131	-	11,316
Investment properties	1,665	1,268	4,008	29,380	15,372	51,693
Tangible and intangible assets	-	-	-	-	9,264	9,264
Investments in joint ventures	-	-	-	-	98	98
Other financial assets	227	47	245	120	-	639
Other non-financial assets	953	4,274	3,721	6,329	17	15,294
Total assets	**295,250**	**53,028**	**76,724**	**296,331**	**136,880**	**858,213**
Deposits from customers	444,560	94,442	144,548	35,103	2,485	721,138
Other borrowed funds	27	1,053	1,053	8,421	11,052	21,606
Lease liabilities	268	268	537	1,755	217	3,045
Other financial liabilities	2,798	4,412	491	196	0	7,897
Other non-financial liabilities	259	557	813	155	90	1,874
Total liabilities	**447,912**	**100,732**	**147,442**	**45,630**	**13,844**	**755,560**
Maturity Gap	**(152,662)**	**(47,704)**	**(70,718)**	**250,701**	**123,036**	**102,653**
Cumulative maturity gap	**(152,662)**	**(200,366)**	**(271,084)**	**(20,383)**	**102,653**	
Off-balance sheet liabilities and commitments						
Bank guarantees	5,200	2,848	4,854	4,609	108	17,619
L/C issued	303	-	-	-	-	303
Unutilized Commitments on loans	5,222	15,477	14,387	10,183	20	45,289
Total	**10,725**	**18,325**	**19,241**	**14,792**	**128**	**63,211**

The increased maturity gap between short-term assets and liabilities up to 3 months is a result of the lower interest rates on the deposit market. The Group observes and analyses on an ongoing base the trends in deposits roll on / withdrawal and measures the short-term liquidity risk, including on a daily basis. The analysis show that historicaly the retention of the resources significantly exeeds the contractual terms, thus providing in 2019 more liquid funds then real needed for gross payments.

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.4. Liquidity risk (continued)

31 December 2018	On demand / up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
Cash and balances with the Central Bank	118,473	-	-	-	-	118,473
Loans and advances to banks	32,763	-	-	1,555	-	34,318
Loans and advances to customers	82,276	50,580	57,788	179,144	94,028	463,816
Financial asset at FVOCI	2,047	29	4	20,271	3,948	26,299
Financial assets accounted for at amortized cost	-	-	179	542	9,616	10,337
Investment properties	1,254	2,044	12,214	23,101	5,951	44,564
Tangible and intangible assets	-	-	-	-	5,473	5,473
Other financial assets	562	131	22	77	-	792
Other non-financial assets	5,495	6,644	6,241	8,720	-	27,100
Total assets	**242,870**	**59,428**	**76,448**	**233,410**	**119,016**	**731,172**
Deposits from banks	3,200	-	-	-	-	3,200
Deposits from customers	303,237	102,402	161,041	35,871	1,582	604,133
Other financial liabilities	2,053	4,904	481	166	-	7,604
Other non-financial liabilities	125	840	50	97	49	1,161
Other borrowed funds	23	1,053	1,053	8,421	8,159	18,708
Debt securities in issue	716	-	900	-	-	1,616
Total liabilities	**309,354**	**109,199**	**163,525**	**44,555**	**9,789**	**636,422**
Maturity gap	**(66,484)**	**(49,771)**	**(87,077)**	**188,855**	**109,227**	**94,750**
Cumulative maturity gap	**(66,484)**	**(116,255)**	**(203,332)**	**(14,477)**	**94,750**	
Contingent liabilities and commitments						
Bank guarantees	1,828	4,629	5,298	7,479	91	19,325
Unutilized commitments on loans	1,735	5,271	6,722	9,457	-	23,185
Total	3,563	9,900	12,020	16,936	91	42,510

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.4. Liquidity risk (continued)

Agreed maturities of the non-discounted cash flows of the financial liabilities

The table below shows the maturity structure of the non-discounted cash flows of the Bank's financial liabilities at 31 December 2019 and 31 December 2018:

31 December 2019	On demand up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
Deposits from customers	444,647	94,642	145,311	35,519	2,490	722,609
Other borrowed funds	112	1,110	1,216	9,280	11,262	22,980
Lease liabilities	268	268	537	1,755	315	3,143
Other financial liabilities	2,798	4,541	491	196	0	8,026
Other non-financial liabilities	259	557	813	155	90	1,874
Total (at the maturity date as per the contract)	**448,084**	**101,118**	**148,368**	**46,905**	**14,157**	**758,632**
Off-balance sheet liabilities and commitments						
Bank guarantees	5,200	2,848	4,854	4,609	108	17,619
L/C issued	303	-	-	-	-	303
Unutilized Commitments on loans	5,222	15,477	14,387	10,183	20	45,289
Total	**10,725**	**18,325**	**19,241**	**14,792**	**128**	**63,211**

31 December 2018	On demand / up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
Deposits from banks	3,200	-	-	-	-	3,200
Deposits from customers	303,341	102,657	162,014	36,298	1,582	605,892
Other financial liabilities	2,053	4,904	481	166	-	7,604
Other non-financial liabilities	125	840	50	97	49	1,161
Other borrowed funds	96	1,102	1,193	9,201	8,344	19,936
Debt securities in issue	731	-	917	-	-	1,648
Total (at the maturity date as per the contract)	309,546	109,503	164,655	45,762	9,975	639,441
Contingent liabilities and commitments						
Bank guarantees	1,828	4,629	5,298	7,479	91	19,325
Unutilized commitments on loans	1,735	5,271	6,722	9,457	-	23,185
Total	3,563	9,900	12,020	16,936	91	42,510

In the column "Over 5 years" for deposits from customers in the table above are indicated deposits with agreed maturity up to one year, which serve as collateral on loans with maturity over 5 years and will therefore be renewed.

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.4. Liquidity risk (continued)

Encumbered assets policy

In accordance with the Recommendation of the European Systemic Risk Board (ESRB/2012/2) regarding the financing of credit institutions, the Group has developed a policy for the management of the encumbrance of assets, defining the basic principles, regarding the sources of financing, the general approach of the Group regarding the encumbrance of assets and the monitoring framework, the control mechanisms and procedures, which may ensure the timely identification of the risks, related to the encumbrance of assets and their adequate management. The policy has been approved by the Management Board of the Group. According to that policy, an encumbered asset is asset, which has been openly or indirectly pledged or is the subject of a guarantee, collateralization or credit quality improvement agreement, with respect to a transaction. The encumbrance of the assets by types is, as follows:

- Cash blocked in bank accounts as collateral
- Governmental securities, used as collaterals for borrowings of budget spending entities;
- Liquidity swaps;
- Repurchase transactions;
- Loan receivables;
- Other;

The tables below present information on encumbered assets and related liabilities rising encumbrance at 31 December 2019 and 2018:

2019

Encumbered assets		Matching liabilities rising encumbrance	
Cash and balances with the Central Bank	2,256	Other liabilities	2,256
Loans and advances to banks	279	Other liabilities	279
Loans and advances to banks	1,278	Nominal value of financial guarantees	1,278
Loans and advances to customers	18,068	Other borrowed funds	21,606
Financial assets at FVOCI	7,696	Deposits from customers	7,633
Financial assets held to maturity	10,231	Deposits from customers	10,147
Total	**39,808**		**43,198**
Ratio of encumbered assets to total assets	**4.64%**		

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.4. Liquidity risk (continued)

Encumbered assets policy (continued)

2018

Encumbered assets		Matching liabilities rising encumbrance	
Cash and balances with the Central Bank	2,026	Other liabilities	2,026
Loans and advances to banks	276	Other liabilities	276
Loans and advances to banks	1,278	Nominal value of financial guarantees	1,278
Loans and advances to customers	2,499	Debt securities in issue	1,616
Loans and advances to customers	13,315	Other borrowed funds	18,708
Financial asset at FVOCI	2,489	Deposits from customers	2,485
Financial assets accounted for at amortized cost	10,337	Deposits from customers	10,319
Total	**32,220**		**36,707**

Ratio of encumbered assets to total assets	**4.41%**

32.5. Trusted assets in custody

The Group is registered as investment intermediary and performs operations for customers in accordance with the requirements of Regulation 38 of the FSC. The Group has approved a policy with respect to fiduciary operations for customers which is elaborated on the basis of the requirements of Art.28-31 of Regulation 38 of the FSC.

32.6. Capital management

The Group is particularly focused on maintaining a capital adequacy, corresponding to its risk profile, as a bank focused on the granting of loans to small- and medium-sized businesses and retail customers in a dynamic environment. The capital management policy seeks to ensure adequate coverage of risks arising in the normal course of banking business as well as risks of unforeseen circumstances.

The Group monitors and analyses on a monthly basis its capital position and prepares quarterly reports for supervisory purposes, which are then submitted to the BNB in accordance with the regulatory requirements. Stress tests are carried out on a regular basis, reviewing the effect of the deterioration of the quality of the portfolio and/or impairment of the existing collaterals, both on the result and the equity position of the Group. The capital buffers are evaluated on a regular basis, specifying measures for their preservation and increase.

32 Financial risk management (continued)

32.6. Capital management (continued)

The minimum levels of capital adequacy for the banks in Bulgaria are set by *Regulation No. 575/2013*, according to which the credit institutions at any moment must meet the following capital requirements:

- a Common Equity Tier 1 capital ratio of 4,5 %;
- a Tier 1 capital ratio of 6 %;
- a total capital ratio of 8 %;

In addition, Ordinance No. 8 of the BNB on the capital buffers of banks, sets further capital buffers, which the banks must keep above the minimum capital requirements, which, as of 31 December 2019 amount to:

- protective capital buffer of 2,5% of the amount of the total risk exposure of the Bank;
- a buffer for a global systemically important institution
- a buffer for another systemically important institution
- anti-cyclical capital buffer – 0.5% of the amount of the total risk exposure of the Bank;
- systematic risk buffer – 3% of the amount of the total risk exposure of the Bank

The capital position of the Group depends on numerous factors, including the growth of its credit portfolio and earnings, regulatory capital requirements. Any change that limits the Group's ability to manage the balance sheet and capital resources effectively, including for example deterioration of the credit quality of the loan portfolio, reduction in profits as a result of additional impairment provisions, increase in risk weighted assets, delays in the disposal of certain assets may result in a decrease of the capital buffers and need of additional capital.

Historically the Group has been maintaining a capital adequacy significantly exceeding the regulatory requirements, due to the pursued policy of reinvestment of the profit and timely increase of the capital. Despite the high level of credit risk provisions in recent years, the capital position of the Bank remains strong, with an overall capital adequacy ratio of 15.4% at 31 December 2019 (2018: 16.5%).

Based on the terms and conditions, set out in art. 19 of *Regulation (EC) No. 575/2013* of the European Parliament and the Council, as of 31 December 2019, the Group is not subject to prudential consolidation.

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.6. Capital management (continued)

The table below contains information on the capital adequacy as of 31 December 2019 and 2018.

Capital base	**2019**	**2018**
Paid in share capital	12,624	12,624
Premium reserve	18,944	18,944
Total reserves	59,969	53,566
Unrealized gains /(losses) on financial assets available for sale	1,092	913
Less: Intangible assets	(784)	(455)
Less: CET1 capital elements or deductions – other	(313)	(307)
Other transitional tier one core capital adjustments	2,027	2,239
Total capital base	**93,559**	**87,524**
Total amount of risk assets	**607,788**	**531,509**

Capital requirements	**2019**	**2018**
Capital requirements for credit risk	46,151	40,519
Capital requirements for position risk	-	-
Capital requirements for currency and commodity risk	-	-
Capital requirements for operating risk	2,472	2,001
Total Capital requirements - Standardized approach	**48,623**	**42,520**
Ratios		
Total capital adequacy (%)	**15.4%**	**16.5%**
Capital adequacy of Tier 1 Capital (%)	15.4%	16.5%

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.7. Operating risk

Operating risk is the risk of loss, resulting from a systematic issue, human error, fraud or external events. When the controls fail to operate efficiently, the operating risks may result in harm to the goodwill, have legal and regulatory consequences or even result in a financial loss. The Group cannot expect all the operating risks to be eliminated, but it tries to manage such risks, by means of an internal control and monitoring system, corresponding to the potential risks. The controls include efficient separation of the liabilities, obligations, accesses, permits and procedures for benchmarking, training of the personnel and evaluation processes, such as the use of internal audit.

The Group has adopted internal rules for the management of the operating risk, which regulate the process of management and control of that risk. The organizational operating risk management model is based on the principle of separation of the responsibilities between the management and risk control and includes three main pillars:

- identification and management of the risks by the individual business lines;
- independent review, evaluation and reporting the risk by the operating risk management function;
- independent verification of the controls, processes and systems, utilized for the management of the operating risk by internal and/or external auditors.

33 Supplementary information

Information to be disclosed according to the regulations of Art.70 (6) of Credit Institutions Act.

The information for the Bank and its subsidiaries is presented as of 31 December 2019 and does not include consolidation eliminations:

Company	Bulgarian-American Credit Bank	BACB Finance subsidiary	BACB Trade subsidiary	PAYTECH subsidiary
Activity description	The Bank operates a full banking license for offering and performing the full scope of banking operations permitted by CIA	The company provides financial services like finance lease, trade and consumer finance using its own funds or BACB financing if needed	Financial and business consulting, trading activity and all range of business activities permitted by the law	Development, maintenance and software management; purchase and sale of software products; technical support for payment services, other consultant services
Registered office	Sofia	Sofia	Sofia	Sofia
Annual turnover	30,732	481	5,706	0
Number of employees	168	1	1	1
Profit before taxation	7,594	415	94	-195
Income tax accrued	274	22	6	-
Return on assets	0.9%	10.6%	1.9%	-
Government grants	none	none	none	none

* *For financial institutions the turnover includes gross interest income, gross lease income, gross fees and commissions income and other operating income gross.*

33 Events after the reporting period

No material events have occurred subsequent to the preparation of the consolidated financial statements for 2019 that may have significant impact on the future development of the Group.

The Coronavirus disease (COVID-19) was confirmed by the World Health Organization in the beginning of 2020 and has been spread from China all over the world disrupting the usual business activity. On 08.03.2020 were declared the first positive samples of COVID-19 in Bulgaria. On 13.03.2020 the National Assembly of the Republic of Bulgaria declared state of emergency in the country due to the coronavirus disease and intensified anti-epidemic measures and restrictions were enforced.

The COVID-19 spreading is considered to be an event with significant impact on the global demand and supply of economic and financial resources, with considerable uncertainty in economic activity of large portion of businesses and economic subjects. As of the date of the preparation of the consolidated financial statements of the Group, Management assesses the outbreak of the coronavirus disease for non-adjusting event that has emerged after the end of the reporting period. At this stage of the spreading of the Coronavirus disease and the dynamic of its development it is practically impossible to make reliable assessment and measurement of the potential impact of the pandemic on the business activity, assets and the economic development of the bank and its subsidiaries.

In accordance with the measures undertaken by the Government of the country and by the Governing Council of the Bulgarian National Bank, Management of the Group has undertaken measures for the limitation of the potential future negative impact (the Group activated the scheme for working in extraordinary circumstances, has defined the critical functions and the needed employees for ensuring the continuity of the critical functions, has ensured a safe environment and working remotely where possible, there is an active monitoring of the incoming and outgoing cash flows and a remote communication with borrowers with significant credit exposures. The Group is performing extraordinary monitoring and assessment of the possible difficulties in a 3-6 months horizon of those borrowers.

Bulgarian-American Credit Bank AD