D Commerce Bank AD

Consolidated management report and corporate governance statement

Independent Auditor's Report

Annual Consolidated Financial Statements

as at 31 December 2019
in accordance with IFRS

Group:	**D COMMERCE BANK AD**
Supervisory Board:	**Fuat Guven** **Bahattin Gurbuz** **Valeri Borisov Borisov**
Management Board:	**Anna Ivanova Asparuhova** **Martin Emilov Ganchev** **Plamen Ivanov Dermendzhiev** **Valentina Dimitrova Borisova** **Zahari Dimitrov Alipiev**
Executive Directors:	**Anna Ivanova Asparuhova** **Martin Emilov Ganchev**
Director of Planning, Control and Financial Reporting and Central Accounting Directorate:	**Elitsa Kostova**
Director of Legal Directorate and Chief Legal Advisor:	**Teodora Mateeva**
Address of Management:	**Sofia** **8, Gen. Totleben Blvd.**
Auditors:	**AFA OOD** **BAKER TILLY KLITOU AND PARTNERS OOD**

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CONSOLIDATED MANAGEMENT REPORT

AND

CORPORATE GOVERNANCE STATEMENT

OF

D COMMERCE BANK GROUP

for 2019

March 2020

I. Group profile

D Commerce Bank Group (the Group) comprises the parent (D Commerce Bank AD) and its subsidiaries. Information regarding the Group companies is presented below:

The parent

D Commerce Bank AD is a joint-stock company, holding a general banking license to perform banking operations in the country and transactions abroad.

The Bank's main activities in 2019 were related to attracting deposits from customers, granting loans to business customers and individuals, servicing payments of customers in the country and abroad, trading securities, performing repurchase agreements on the interbank market, dealing in foreign currencies, issuing letters of credit and bank guarantees and providing other financial services in Bulgaria.

Subsidiaries

D Insurance Broker EOOD

In 2013 D Commerce Bank AD acquired 100% of the shares of Viza Consult EOOD, a sole owner limited liability company. The name of the company was changed to D Insurance Broker EOOD and its seat – to Sofia, Krasno Selo Region, 8, Gen. Totleben Blvd. The company's principal activities include: insurance brokerage, intermediation by assignment for the conclusion and performance of insurance and/or reinsurance contracts and the related consultancy services. As at 31 December 2019 the company's share capital amounts to BGN 5 thousand.

D Imoti EOOD

The company was established by D Commerce Bank AD in October 2013. Its seat and address of management is in Sofia, Krasno Selo Region, 8, Gen. Totleben Blvd. The company's principal activities include purchase-and-sale of real estate, design, furnishing, construction of real estate for sale, rental. As at 31 December 2019 the share capital of the company amounts to BGN 11.4 million.

D Leasing EAD

D Leasing EAD was established in 2014 and was registered as a financial institution with a full license from BNB. D Leasing EAD was incorporated as a joint-stock company and the sole owner of its capital is D Commerce Bank AD. As at 31 December 2019 the share capital of the company amounts to BGN 1.2 million.

1. Group ownership and management

As at 31 December 2019, the capital of the Bank is held by Mr. Fuat Guven, who holds directly 55,52% of the capital and through Fortera AD, UIC 175194303 – 44,48%.

D Commerce Bank AD has a two-tier management system which implies a Management Board and a Supervisory Board. The Supervisory Board (SB) appoints the members of the Management Board (MB), approves the empowerment of the executive members – Executive Directors and determines the remuneration of the MB members.

As at 31 December 2019 the persons charged with the overall management of the Bank as members of the Supervisory Board include:

- Fuat Guven – Chairperson of the SB;
- Bahattin Gurbuz – Member of the SB;
- Valeri Borisov Borisov – Member of the SB.

As at 31 December 2019 the Management Board of the Bank comprises the following members:

- Anna Ivanova Asparuhova - Chairperson of the MB and Chief Executive Director;
- Martin Emilov Ganchev - Member of the MB and Executive Director;
- Plamen Ivanov Dermendzhiev - Member of the MB;
- Valentina Dimitrova Borisova – Member of the MB;
- Zahari Dimitrov Alipiev – Member of the MB;
- Ivan Borisov Kutlov – Member of the MB.

2. Changes in the management and the registration of the parent in 2019

During the period 1 January 2019 – 31 December 2019 the following changes in the management and the registration of the Bank were made:

No changes occurred in the Bank's management over the above stated period.

Regarding changes in the commercial registration:

On 31 January 2019, at an extraordinary general meeting of shareholders of D Commerce Bank AD, a decision was made to increase the capital of D Commerce Bank AD from BGN 75,000,000.00 to BGN90,064,000.00 by issuing 15,064 registered dematerialized shares with nominal and issue value of BGN 1,000 each, and approved their registration by the owner, FORTERA AD, against a non-cash contribution to the Bank's capital.

The decision was made under the condition that the Bulgarian National Banks issues a permission to D Commerce Bank AD to increase its capital by means of a non-cash contribution.

By means of Decision No 131/ 04.04.2019 of the Management Board of BNB, the Bulgarian National Bank permitted the capital increase of D Commerce Bank AD by means of a non-cash contribution, and there were no objections against the amendments to the Statute, respectively – against the increase in the interest of FORTERA AD in the Bank's capital, as far as this interest does not exceed the 50% threshold and is in accordance with BNB Order No БНБ-45033/03.04.2014.

The amendments to the Bank's commercial registration were filed with the Commercial Registry and Registry of Non-Profit Legal Entities on 16 May 2019.

3. Information regarding the individuals managing and representing the parent company

As at 31 December 2019 the Bank has two Executive Directors and six members of the Management Board:

- Ms. Anna Ivanova Asparuhova – Chairperson of the Management Board and Chief Executive Director;
- Mr. Martin Emilov Ganchev – Member of the Management Board and Executive Director;
- Mr. Plamen Ivanov Dermendzhiev – Member of the Management Board;
- Ms. Valentina Dimitrova Borisova – Member of the Management Board;
- Mr. Zahari Dimitrov Alipiev – Member of the Management Board;
- Mr. Ivan Borisov Kutlov – Member of the Management Board.

In accordance with the Credit Institutions Act, the provisions of the Articles of Association of D Commerce Bank AD and its court registration, the Bank is represented jointly by all members of the MB, or jointly by two Executive Directors.

The Executive Directors and Members of the MB hold no interest in the Bank's share capital.

4. Changes in the management and the registration of the subsidiaries in 2019

The information about changes in the management and the registration of the subsidiaries in the period from 1 January 2019 to 31 December 2019 is presented below:

4.1. D Insurance Broker EOOD

No changes occurred in the company's management and commercial registration.

Within the statutory term, on 6 August 2019, the company's file was supplemented with the data required pursuant to Art. 63, Para 1 and 4 of the Measures Against Money Laundering Act.

4.2. D Imoti EOOD

No changes occurred in the company's management.

Within the statutory term, on 6 August 2019, the company's file was supplemented with the data required pursuant to Art. 63, Para 1 and 4 of the Measures Against Money Laundering Act.
The following changes occurred in the company's commercial registration:

By means of a decision of the sole owner of the capital dated 10 September 2019, registered in the Commercial Registry and Registry of Non-Profit Legal Entities on 16 September 2019, of the contribution outstanding for deposit /according to a prior decision of the sole owner of the capital for a capital increase registered in the Commercial Registry and Registry of Non-Profit Legal Entities on 13 November 2018 / at the amount of BGN 2,700,000.00 /two million and seven hundred thousand leva), the actual amount deposited was BGN 2,100,000.00 (two million and one hundred thousand leva), as a result of which the paid-in capital amounts to BGN 11,400,000.00 (eleven million and four hundred thousand leva).

By means of a decision of the sole owner of the capital dated 25 September 2019, registered in the Commercial Registry and Registry of Non-Profit Legal Entities on 1 October 2019, the company's share capital was decreased from BGN 12,000,000.00 (twelve million leva) to 11,400,000.00

(eleven million and four hundred thousand leva). Pursuant to the same decision, the sole owner of the capital relieved D Commerce Bank AD of the obligation to deposit the amount of BGN 600,000.00 (six hundred thousand leva). The value of shares was preserved, and the number thereof was decreased from 2,400 (two thousand and four hundred) to 2,280 (two thousand two hundred and eighty), each with a value of BGN 5,000 (five thousand leva).

The purpose of the capital decrease was to free cash which the company does not need, pursuant to Minutes of a Meeting of the sole owner of the capital of D Imoti EOOD dated 27 September 2019, registered in the Commercial Registry and Registry of Non-Profit Legal Entities on 1 October 2019.

In relation to the above decisions, the sole owner of the capital made amendments to the Articles of Associations of D Imoti EOOD.

4.3. D Leasing EAD

No changes occurred in the company's management and commercial registration.

Within the statutory term, on 6 August 2019, the company's file was supplemented with the data required pursuant to Art. 63, Para 1 and 4 of the Measures Against Money Laundering Act.

5. Information regarding the individuals managing and representing the subsidiaries

As at 31 December 2019, the persons managing and representing the subsidiaries are as follows:

5.1. D Insurance Broker EOOD – Zornitsa Rosenova Blagoeva – Manager;

5.2. D Imoti EOOD – Yavor Nikolov Terziev and Ivaylo Georgiev Ivanov – General Managers, always representing the company jointly;

5.3. D Leasing EAD – Ivaylo Georgiev Ivanov, Zorka Yordanova Samokovliyska, Petya Radeva Valeva – Members of the Board of Directors; the company is always represented by each two of the three Board Members.

6. Information in compliance with Art. 39, item 5 and item 6 of the Accountancy Act and Art. 187, e) and Art. 247 of the Commercial Act

6.1 Under Art. 39, item 5 - not applicable;

6.2 Under Art. 187, e) - not applicable;

6.3. Under Art. 247, Para 2;

- item 1 - The total remunerations received in 2019 by the Members of the MB and the SB of the Bank and the persons charged with the management and representation of its subsidiaries amounted to BGN 2,025 thousand.
- item 2 - No deals of this nature were performed in 2019;
- item 3 - There are no restrictions on the rights of the Boards' members to hold shares and bonds of the company (the Bank);
- item 4 - To the best of our knowledge the participation of the Members of the SB and the MB of the Bank as unlimited partners, holding more than 25% of the capital of other entities, and their participation in the management of other companies or cooperatives as procurators, general managers or board members is as follows:

Valeri Borisov Borisov - Member of the SB (in the period 1 January 2019 - 31 December 2019):

1. Elkabel AD, UIC 102008573 - Member of the Supervisory Board;
2. Borisov & Borisov Law Firm, BULSTAT 175640079 - Manager;
3. Interus OOD, UIC 831644428 - partner with a share exceeding 25%.

Fuat Guven - Member of the Supervisory Board, elected Chairperson of the Supervisory Board (in the period 1 January 2019 - 31 December 2019):

1. Fortera AD, UIC 175194303, Sofia, 12, Cherni Vrah Boulevard – ultimate owner of the capital, Chairperson of the Board of Directors and Executive Director;
2. Gama Invest AD, UIC 831283821, Sofia, 12, Cherni Vrah Boulevard – ultimate owner of the capital, Chairperson of the Board of Directors and Executive Director;
3. Elkabel AD, UIC 102008573, Burgas, 15, Odrin Street – shareholder with about 98% interest and Chairperson of the Supervisory Board;
4. Aidatour AD, UIC 836143710, Haskovo, 1, Atlanticheski Square – Member of the Board of Directors and Executive Director, ultimate owner of the capital;
5. Varna Moda AD, UIC 121063663, Sofia, 12, Cherni Vrah Boulevard – Chairperson of the Board of Directors and Executive Director until 23 April 2019, ultimate owner of the capital;
6. ET Shop Shipka Fuat Guven, Turkey, Reg. No in the Istanbul Commercial Register 192291, Istanbul, Semilie Iskele Dzad 37, Üsküdar;
7. Emelda Deri Konfeksiyon Turizm Insaat Sanayi Ve Dis Ticaret Anonim Sirketi, Republic of Turkey, Reg. No in the Istanbul Commercial Register 281 558, Istanbul,

Zeytinburnu, Kazlicesme, Demirhane Caddesi, Beskardesler Sok 8-10 – majority shareholder and representative;

8. Shop Shipka Fuat Given OOD, UIC 175205415, Sofia, 12, Cherni Vrah Boulevard – ultimate owner of the capital and General Manager;
9. Emelda EOOD, UIC 175205365, Sofia, 12, Cherni Vrah Boulevard – ultimate owner of the capital and General Manager;
10. Trakia 97 EOOD, UIC 126073031, Svilengrad, Garata Quarter, Duty Free Zone – ultimate owner of the capital and General Manager;
11. Stil 93 OOD, UIC 831303003, Sofia, 12, Cherni Vrah Boulevard – ultimate owner of the capital and General Manager;
12. Eleforce OOD, UIC 131237742, Sofia, 12, Cherni Vrah Boulevard – ultimate owner of the capital and General Manager;
13. Kardzhali Tabak AD, UIC 108024351, Kardzhali, 1, Republikanska Street – ultimate owner of the capital, Member of the Board of Directors and Executive Director;
14. Shipka-Fuat-Guven-Varna OOD, UIC 000100591, Varna, St. St. Constantine and Helena resort complex, Commercial Centre constituting part of St Constantine And Helena – ultimate owner of the capital and General Manager;
15. Svilengrad-Gas AD, UIC 200462966, Svilengrad, Svilena Hotel, floor 1, apartment 2 – majority shareholder;
16. SHIPKA OIL EOOD /Prior name Svilengrad Gas Service EOOD/, UIC 201025058, Svilengrad, Svilena Hotel, floor 1, apartment 2 – sole owner of the capital and General Manager;
17. Vassilevi Bros OOD, UIC 010752510, Sofia, Izgrev Region, 5, Shteryu Atanasov Street – owner of the capital – personally and through Le Roi Enterprises Limited, London, United Kingdom of Great Britain and Northern Ireland, and General Manager;
18. Alfa Deri Konfeksiyon Tourism, Turkey, registered in the Commercial Register, Turkey, Istanbul, Zeytinburnu, 8-10 Kazlicesme – majority shareholder;
19. Inter Kim Petrol Ve Petrokimiya EOOD, Turkey, Istanbul, majority shareholder;
20. Plas Kim Petrol Ve Petrokimiya Urulenti Dis Tic OOD, Turkey, Istanbul, majority shareholder;
21. Beta Turistik Tesis Isletmeciligi Ltd Sti, Turkey, Istanbul, majority shareholder;
22. Delta Balonchuluk Havandzaluk Turism ve Energy Tidzaret, Turkey, Istanbul – General Manager;
23. Gama Turistrik Tesis Ishl. AS, Turkey, Istanbul – General Manager;

24. AO Fregat, Moscow, Izlaylovo Quarter, 1, Uralska Boulevard, sole owner of the capital;
25. Le Roi Enterprises Limited, London, United Kingdom of Great Britain and Northern Ireland – sole owner of the capital and General Manager;
26. Elmateriali EOOD, UIC 205149060, Burgas, 15, Odrin St. – ultimate owner of the capital.

Plamen Ivanov Dermendzhiev - Member of the Management Board (in the period 1 January 2019 - 31 December 2019):

1. Fund for Sustainable Urban Development EAD, UIC 202033232 - Member of the Supervisory Board.

- Item 5 - To the best of our knowledge no contracts were concluded in 2019 under Art. 240, b) of the Commercial Act.

II. Seat and headquarters of the Group

The seat and headquarters of D Commerce Bank Group is: Sofia, Sofia Municipality, Krasno Selo Region, Totleben Blvd.

III. Group management responsibilities

The management of D Commerce Bank Group is required by the Bulgarian legislation to prepare annual financial statements for each financial year that give a true and fair view of the property and financial position of the Group as at the end of the respective reporting period and of its financial performance for that period.

The management confirms that in the preparation of these reports:

- appropriate accounting policies have been used and applied consistently;
- that reasonable and prudent judgements and estimates have been used;
- the statutory applicable accounting standards have been followed consistently;
- the annual consolidated financial statements have been prepared on a going concern basis.

The management hereby states that:

- it has made the best estimates and decisions, as necessary;
- has complied with the requirements of all International Financial Reporting Standards applicable in accordance with the national banking accounting legislation in Bulgaria;
- the annual consolidated financial statements present the Group's performance with a reasonable extent of accuracy;
- it has undertaken all possible measures to safeguard the assets of the Bank and its subsidiaries and to prevent fraud.

Membership and associations

- Association of Banks in Bulgaria;
- Bulgarian Stock Exchange - Sofia AD;
- BORICA- Bank service AD;
- National Card Scheme Bcard;
- Central Depository AD;
- MasterCard International;
- S.W.I.F.T.;
- European Payments Council - SEPA Credit Transfer Scheme;
- Association of Bank Payments Safety (ABPS);
- Bulgarian - Turkish Business Association;
- Association of Bulgarian and Turkish Businessmen (ABTBM);
- Turkish-Bulgarian Business Association;
- Bulgarian Industrial Association;
- Confederation of Employers and Industrialists in Bulgaria (CEIB).

D Commerce Bank Group participates or is an agent in the following payment systems and payment service providers:

- Bank Organisation for Payments Initiated by Cards (BORICA);
- Bank Integrated System for Electronic Payments (BISERA and BISERA7-EUR);
- Real-Time Interbank Gross Settlement System (RINGS);
- Trans-European Automated Real-time Gross Settlement Express Transfer System (TARGET2);
- WESTERN UNION agent;

- EasyPay agent.

IV. Branch network

In accordance with Art. 39, item 7 of the Accountancy Act the Group presents its structural units and the changes made in 2019.

In 2019, no structural changes were made in the branch network. In November 2019, two offices were closed – IRM Billa and FC Varna and Sarafovo FC at FC Burgas. As at 31 December 2019, the Bank operates through 52 structural units, including: Headquarters, regional financial centres (FRC), 32 financial centres (FC), 8 offices and 11 remote workplaces (IRM) in various cities in Bulgaria. The regional financial centres operate as regional centres (RC) focusing on servicing medium-sized and large corporate customers - RC Sofia, RC Plovdiv, RC Burgas, RC Varna and RC Pleven.

V. Financial performance of the Group

In accordance with Art. 39, item 1 and 2 of the Accountancy Act the Group presents its financial and non-financial performance indicators representing its development.

In 2019 D Commerce Bank Group continued to overcome successfully the challenges related to the intense competition at the Bulgarian banking market. During the year D Commerce Bank Group focused its business strategy primarily on:

- Continuing work on the optimisation of the bank's assets and liabilities management;
- Increase of the number of corporate and individual customers and the volume of transactions;
- Further enhancement of the quality and effectiveness of the bank services and products offered, related to the primary banking operations - attraction of deposits and granting of financing to various customer projects;
- Loan portfolio optimisation and improvement of its quality;
- Increased efficiency of risk management;
- Provision of competitive services through development of information technologies.

MAIN FINANCIAL INDICATORS - CONSOLIDATED DATA

Financial results (BGN'000)	2018	2019
Net interest income	21,756	24,309
Net fees and commissions income	7,960	7,888
Net trading income	3,502	1,951
Net gain/(loss) on impairment of financial assets	1,653	(297)
Operating income	**34,871**	**33,851**
Administrative operating expenses	(25,860)	(27,205)
Other operating income, net	1,997	2,164
Profit before income tax	**11,008**	**8,810**
Income tax expense	(1,112)	(893)
Net profit for the year	**9,896**	**7,917**

Balance sheet (BGN'000)	2018	2019
Total assets	825,194	1,013,762
Loans and advances to customers	468,431	629,389
Due from banks	87,824	116,986
Securities	117,433	104,732
Due to customers	701,003	855,169
Due to banks	8,290	14,286
Equity	111,790	136,234

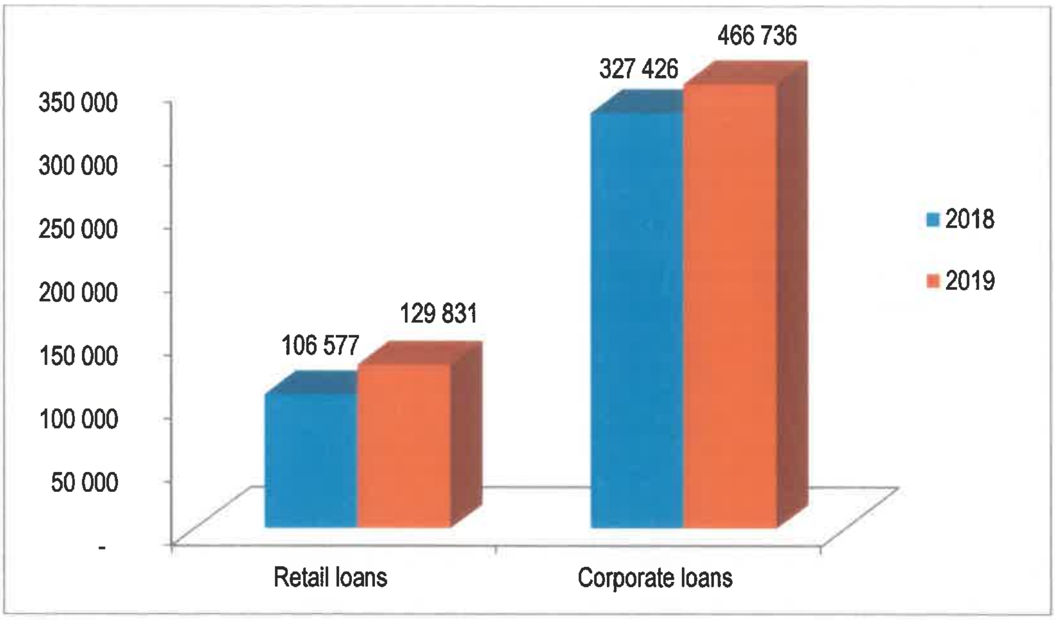
Ket ratios (%)	2018	2019
Loans to deposits ratio	66.8	73.6
Balance sheet provisions to loans	8.4	5.9
Net interest margin	2.6	2.6
Impairment to loans ratio	0.4	- 0.0
Return on assets	1.2	0.9
Return on equity	8.9	6.4
Total capital adequacy	18.74	17.33

In 2019, the Group reported profit before tax at the amount of BGN 8.8 million, and return on equity reached 6.4%, and return on assets – 0.9%.

The total amount of D Commerce Bank assets as at the end of 2019 reached BGN 1,014 million, which is an increase by 23% as compared to 2018.

Gross loans and advances to customers are up by 34% or BGN 161 million year-on-year. The amount of customer borrowings as at 31 December 2019 is BGN 855 million, increasing by 22% on annual basis.

Loans granted



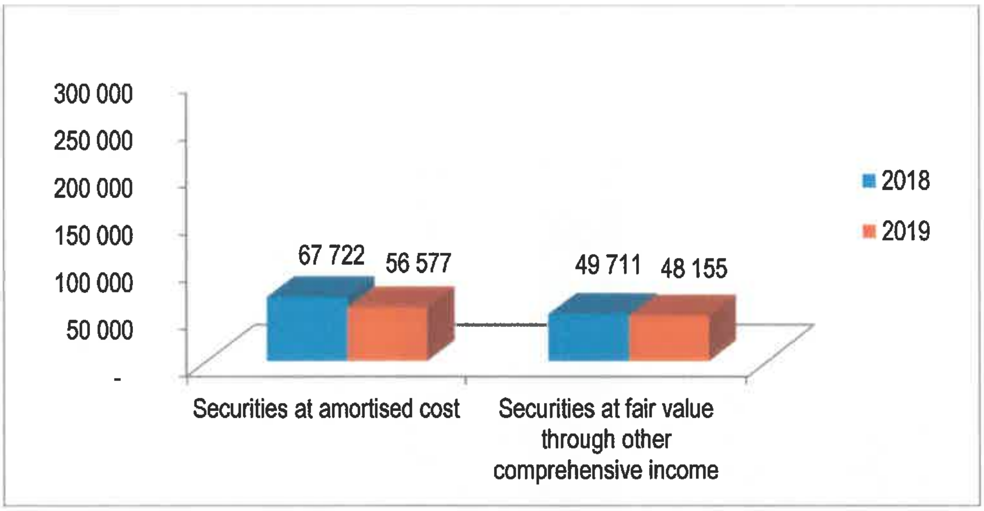
* Corporate banking includes budget and public companies (court and awarded loans are excluded)

* Retail banking includes individuals and small businesses (court and awarded loans are excluded)

In 2019 the Group's corporate loans share of the gross portfolio is 74%. Corporate portfolio increased by 43% on annual basis or by BGN 139 million.

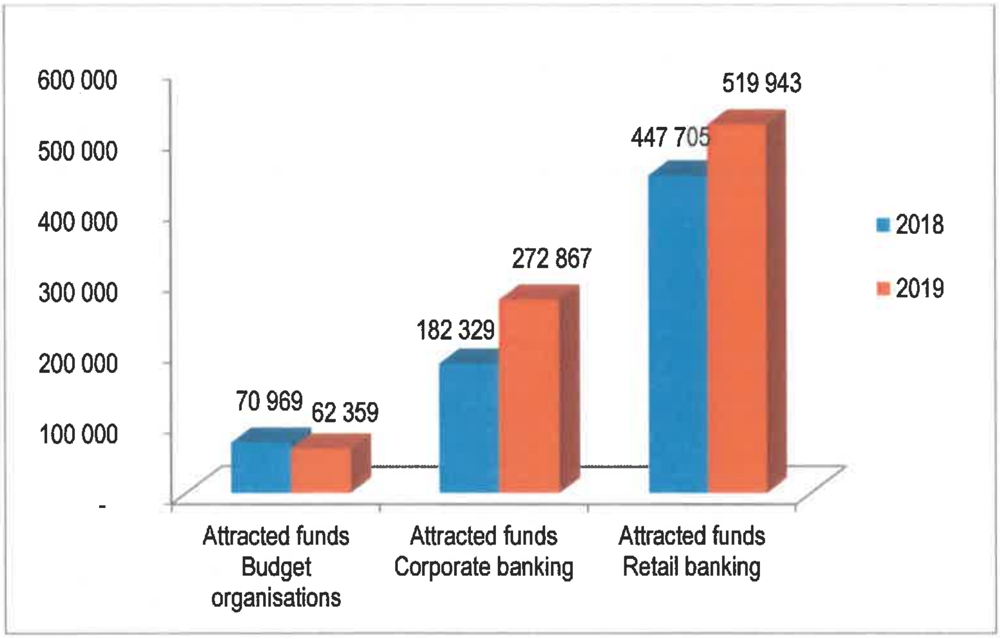
Retail loans increase by 22% year-on-year. Consumer and housing loans are up by BGN 8 million and BGN 11.7 million, respectively.

Securities portfolio



In 2019 the Bank reduced its securities portfolio by BGN 13 million, with a decrease in securities measured at amortised cost of BGN 11 million and decrease in securities at fair value through other comprehensive income of BGN 2 million.

Attracted funds



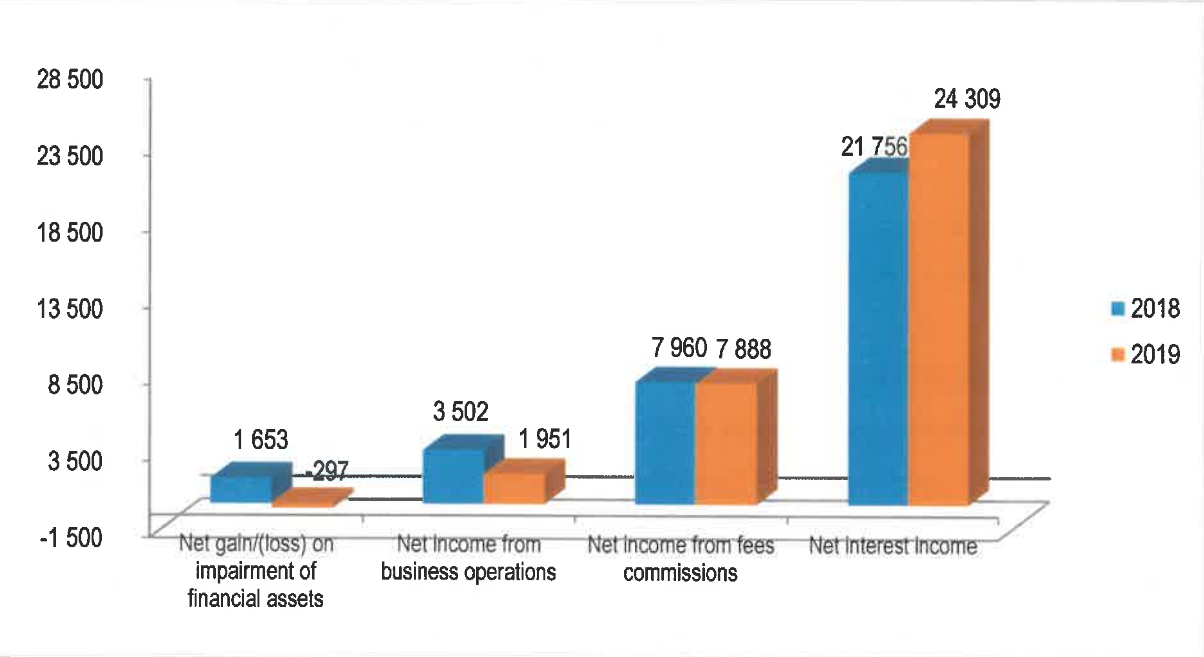
This is a translation from Bulgarian of the Consolidated Management Report and Corporate Governance Report of D Commerce Bank Group for the year ended 31 December 2019. In case of divergence the Bulgarian original shall prevail.

The Group follows a balanced asset and liability management policy aimed at optimising the results attained.

Attracted funds in corporate banking have increased on an annual basis by 50% or BGN 91 million. Funds attracted from budget organisations are down by BGN 8.6 million on annual basis.

The increase in funds attracted from retail banking amounts to BGN 72 million or 16% on annual basis.

Operating income

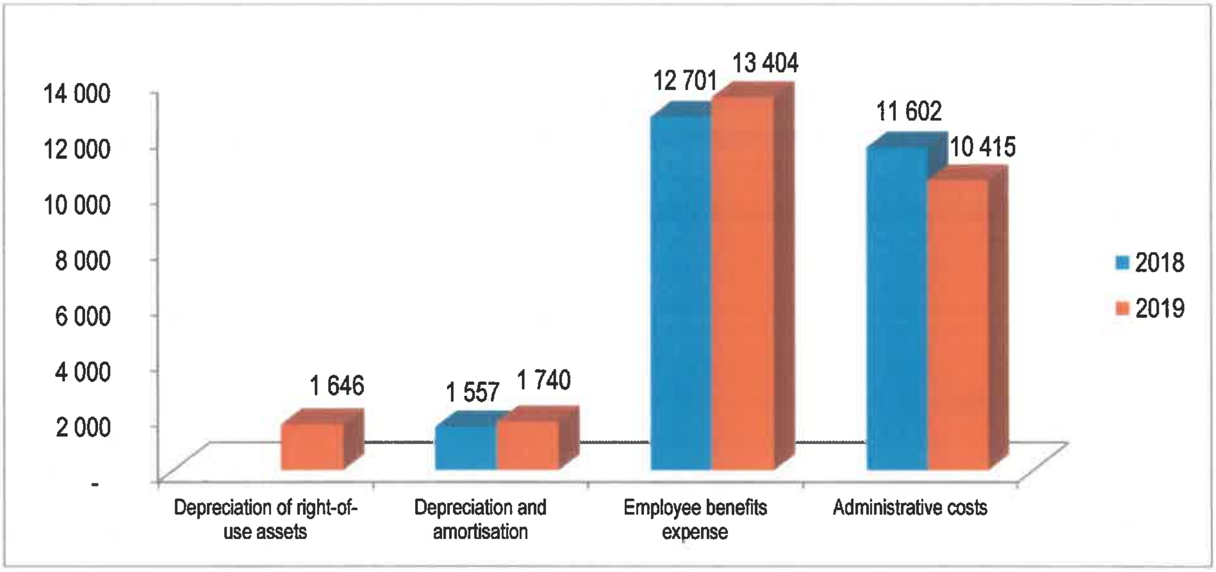


In 2019 the net operating income of the Group reached BGN 33.8 million.

Over the period, interest income increased to BGN 24.3 million, or 12% on an annual basis.

Net fee and commission income reached BGN 8 million, maintaining its prior-year level.

Operating expenses

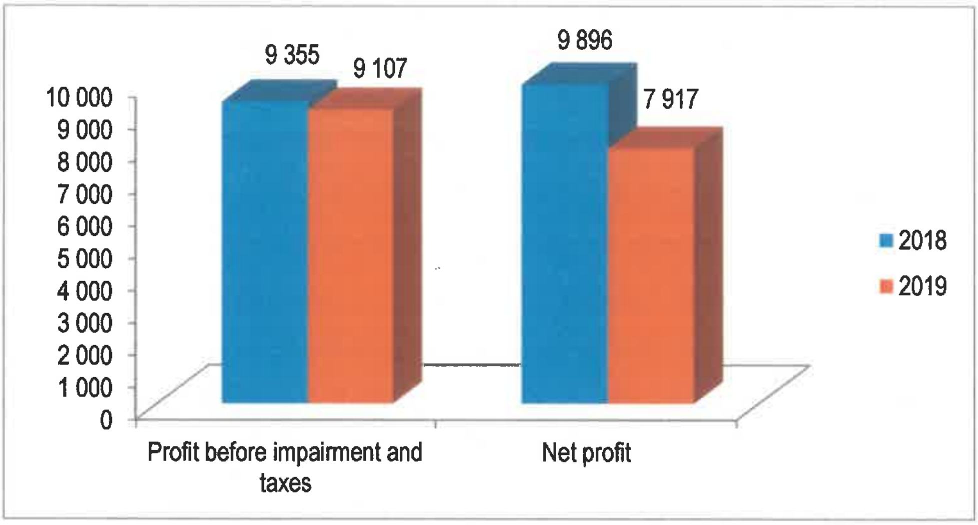


The operating expenses increase by 5% on an annual basis, influenced by growth in employee benefit expenses and IT expenses.

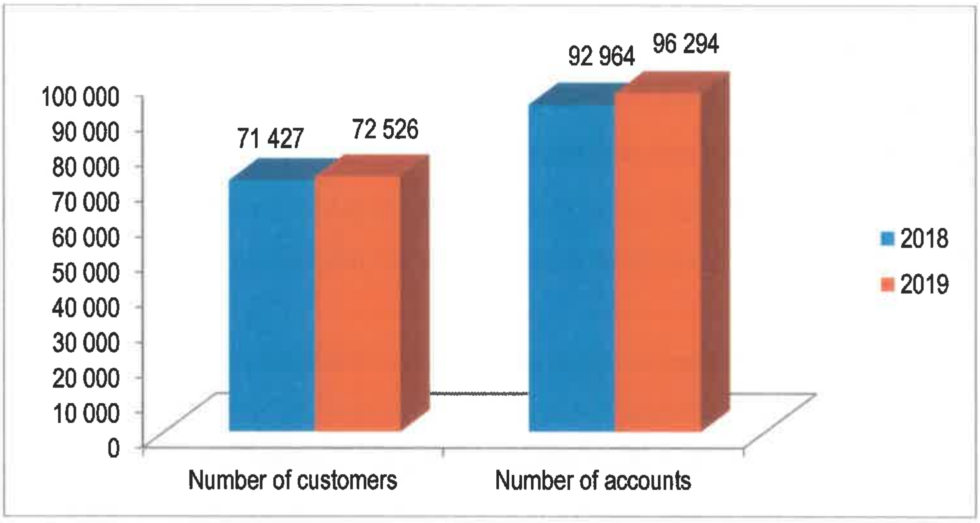
Additional audit services

The audit firms which perform audit of the Bank's annual financial statements (separate and consolidated) will carry out an engagement for agreed-upon procedures under International Standard on Related Services 4400 Engagements to perform agreed-upon procedures, and will issue a Report of factual findings in relation to the reliability of internal control systems in accordance with Art. 76, Para 7, item 1 of the Credit Institutions Act and Ordinance 14, Art. 5 on the contents of the auditor's report for supervisory purposes as at 31 December 2019 (AFA OOD and Baker Tilly Klitou and Partners OOD also issued such reports to the Bank as at 31 December 2018, in April 2019). In addition, AFA OOD performs services related to compliance review of Bank's transfers for both 2018 (in 2019) and 2019 (in 2020).

Net result



Number of customers and accounts



VI. Risk management

In accordance with Art. 39, item 8 of the Accountancy Act the Group presents its risk management policies and its exposure to the respective type of risk.

1. Credit risk

Credit risk and counterparty risk is the present or potential risk to the income and capital of the Group arising due to the failure of the debtor to discharge the requirements of any agreement signed with the Group and / or failure to act in accordance with the contractual terms and conditions. Credit risk includes transaction risk, collateral risk (residual risk), sovereign risk and concentration risk. Credit risk arises mainly in relation to the lending activities of the Group companies, including corporate and retail banking. The Group is exposed to credit risk arising from other activities, such as investment in debt securities, trading activities, capital markets and other arrangements. Credit risk is the biggest risk the Group is facing. It is managed and controlled through centralised special risk units within the Group.

Transaction risk is associated with the specific loans and the probability of the borrower's ability to repay the liability, as well as the ultimate loss in case of insolvency of the borrower, following realisation of the collateral on the loan and the implementation of other mitigation factors, is assessed.

Collateral risk involves mainly:

- Risk of sudden decline in the value of the collaterals;
- Collaterals becoming illiquid and non-marketable;
- Insufficient procedures or non-performance of the appropriate steps to verify the applicability of the collateral agreements in all relevant jurisdictions.

The risk of deterioration of the credit rating or financial position of the borrower is the current or potential risk to the Group's income and the capital arising as a result of the deteriorated financial position of the borrower and / or downgrading of the internal or external credit rating of the borrower.

Concentration risk refers to exposures (direct or indirect) which may arise within a certain risk category or between different risk categories within the Group and which may lead to: losses significant enough to jeopardise the financial position and / or the Group's ability to continue its principal activities or may cause significant change in the Group's risk profile.

The Group identifies concentration risk as one of the important potential sources of material loss which may have significant impact on its financial result and capital.

Concentration risk is considered both in view of the Group's balance sheet exposures, and in view of its off-balance sheet exposures and exposures resulting from the different financial instruments. Asset concentration risk is closely related to credit risk, analysed and measured as part of the overall credit risk management process, but it can be manifested in any other type of risk.

The Group structures the level of credit risk undertaken by setting tolerable risk limits to a single borrower, or a group of borrowers, and by sector. Exposures to banks and financial institutions are limited further by sub-limits covering balance and off-balance sheet exposures. The efficient diversification of the Group's loan portfolio is a major priority.

Specific credit risk management is performed by the Committee on Expected Credit Losses at the Bank and is monitored by the Management Board. The credit risk management function ensures the implementation of appropriate policies and the compliance of these policies with the related procedures and controls for current monitoring of each type of credit exposure.

The parent company management currently monitors the credit risk resulting from the concentration of financial assets by economic sectors, as well as by counterparty on the basis of approved limits. The regulatory limits and intra-bank limits for maximum exposures to a single person and economically related persons, including counterparty banks are assessed and analysed periodically. The overall credit exposure to a single sector as a percentage of the total loan portfolio is monitored periodically and is reviewed by the Management Board of the Bank.

The Group's maximum exposure to credit risk, including financial assets recognised in the consolidated statement of financial position and contingent liabilities carried off-balance sheet is disclosed in *Note 3.1. Credit risk* to the consolidated annual financial statements of the Group for 2019.

2. Market risk

Market risk is the risk that the value of an instrument may fluctuate due to changes in the market prices, whether due to instrument- or issuer- (counterparty)-specific factors, or factors relevant to all instruments traded at the market and the probability of such changes having an adverse effect on the Group's financial position. The most frequent market risk factors include interest rates, foreign exchange rates, commodity prices, equity instrument prices and other market variables. Market risk may be the function of one, several or all factors and in many cases in may be extremely complex.

One of the objectives of the Group is to set the market risk level it is ready to undertake. Market risk appetite should be assessed in view of safeguarding the capital of the Group companies and the possibility for exposure to other risks. The main objective is to increase the return, while at the same time keeping exposures susceptible to market risk within or below a level that is set in advance.

The Group has defined the risk framework concerning transactions and investments in financial instruments by implementing limits by type of financial instrument, by counterparty, by country, securities portfolio VaR limits, modified duration limit, individual limits. The benchmark reflects the long-term strategy concerning the combination of market and credit risk that the Group companies managements are ready to undertake in order to attain the investment targets set for the Group. Market risk management is aimed at:

- protecting the Group against unforeseen market losses and contributes to stable profits through independent identification, assessment and understanding of the market risks underlying the business;
- development of transparent, objective and consistent information regarding market risk as basis for the decision making process;
- setting the framework and minimum market risk management and control standards within the Group;
- ensuring compliance with the regulatory requirements of the local and foreign regulators;
- development of a framework which will allow the Group to gain competitive advantage through risk-based decision making.

2.1. Interest rate risk

Interest rate risk is the current or potential risk of changes in the income and capital of the Group due to adverse movements in the interest rates. It is manifested in the possible decrease in the Group's income or increase in the Group's expenses as a result of changes in the basic interest rates.

The Group is exposed to interest rate risk, when the interest rate sensitivity of its assets and liabilities is mismatched. Through interest rate risk management the Group strives to smooth out the interest income and interest expense gap, in order to ensure adequate profitability and high value at tolerable risk level. Considering interest rate risk both from the point of view of income and from the point of view of economic value is extremely important. The volatility of income is the starting point for interest rate analysis, since significant decrease in the income may jeopardise the capital adequacy level. However, measurement of the effect on the economic value (the present value of the expected net inflows to be received by the Group) provides more comprehensive view of the potential long-term effects on the Group's overall exposure. The difference between interest-sensitive assets and interest-sensitive liabilities in the separate maturity ranges is the so-called imbalance or GAP method.

The following approaches to interest rate risk management are used through the application of the imbalance method, depending on the specific conditions:

- Balance - ensuring parity between the Group's interest-sensitive assets and liabilities;
- Restructuring of the asset and liability portfolios in case of occurrence of cyclic movements in interest rates;
- Setting of the interest rates, and their type (fixed or floating), on the Group's assets and liabilities depending on the development trends at the domestic and international financial markets.

The Group's exposure to interest rate risk as at 31 December 2019 is disclosed in *Note 3.2.1. Interest rate risk* in the notes to the consolidated annual financial statements of the Group as at 31 December 2019.

2.2. Currency risk

Currency risk is the risk of losses related to the Group's positions in foreign currency. These positions give rise to specific risk resulting from the movements of the exchange rates of the different foreign currencies to the national currency. This is predetermined by the fact that when the Group has an open position in foreign currency (the assets in foreign currency are not equal to the liabilities in the same currency), the translation of the latter generates foreign exchange gains or losses for the Group. The Group controls currency risk through strict daily monitoring scrutiny and an implemented system of limits.

The Group's exposure to currency risk as at 31 December 2019 is disclosed in *Note 3.2.2. Currency and price risk* in the notes to the consolidated annual financial statements of the Group as at 31 December 2019.

2.3. Liquidity risk

Liquidity risk is the risk of the Group's failure to meet its current and potential payment liabilities as they fall due without incurring unacceptable losses.

To manage this risk the Group maintains highly liquid assets in different currencies at any time. The control and monitoring of the overall liquidity are performed currently by the Asset and Liabilities Management Committee of the Bank (ALMC).

The Group's exposure to liquidity risk as at 31 December 2019 is disclosed *in Note 3.3. Liquidity risk* in the notes to the consolidated annual financial statements of the Group as at 31 December 2019.

3. Transaction risk

Transaction risk is the risk of loss resulting from inadequate or non-functional internal processes, individuals and systems or external events as a result of internal fraud, external fraud, inappropriate employment or safety at work practices or recruitment of employees, through customer, product or business practices, break-downs or destruction of assets or functional sites, breakdowns of the IT system, telecommunications or other technologies, or failures or errors in the execution of the transactions, entry, processing or delivery. This risk includes IT risk, legal risk and non-compliance risk.

IT risk is the current or potential risk to the income and capital arising from inadequate information technologies and processes, related to the integrity and consistency of the information flows, and the ability to manage and control the latter, or resulting from inadequate IT strategy and policy or the improper use of these technologies in the Group.

Legal risk and non-compliance risk are the current or potential risks to the income and capital arising as a result of breach or non-compliance with laws, rules, guidance, arrangements, recommended practices and standards of ethics.

The parent maintains and upgrades an internal operational risk analysis and assessment system, which was updated in 2019 and which includes the internal regulations and a specialised internal body – the Risk Events Assessment Committee, responsible for coordination of operational risk management activities and supporting the process of achieving effectiveness and efficiency of the control environment at the parent. The main objective in the management of transactional risks is to safeguard (keep) the Group's assets and its reputation and to ensure organisational and financial optimisation (efficiency). Risk management should ensure the effective implementation of the risk framework and that well-defined steps are in place. The objective is to facilitate the decision making process through good understanding of the risks and their potential impact. The Group is striving to establish and maintain systematic and consistent approach to identify and manage risk; to update and duly implement the risk framework in accordance with the best practices and the legal requirements; to foresee and prevent the risks and minimise them; to create the conditions for health and safety at work and equal treatment of the employees; to ensure sufficient insurance coverage and compliance with the requirements of the effective regulatory framework; to undertake measures to prevent any damage, loss, injury, death, as well as reduction of the cost of risk; to ensure ways and opportunities for sharing, better awareness and training to all employees of the Group for the detection of risks and their impact.

The Group's exposure to transaction risk as at 31 December 2019 is disclosed in *Note 3.4. Capital management* in the notes to the consolidated annual financial statements of the Group as at 31 December 2019.

Custodial services

The Bank performs safekeeping of assets on clients' behalf in its capacity as investment intermediary. As disclosed in Note 2.25.5 (Significant Accounting Policies) to the Group's consolidated financial statements, such assets are not presented in the consolidated statement of financial position, because they do not constitute Group's assets. It is disclosed in Note 3.4. *Custody of assets* to the consolidated financial statements that the parent carries out its trust business in accordance with the requirements of Ordinance 38 of the FSC.

VII. Operating activities of the Group

1. Corporate banking

Over 2019, as a result of the flexibility and team approach already established over previous years, the Corporate Banking Directorate continued the best practices adopted by the Bank, it preserved its effectiveness and the high quality and speed of work, aimed at the continued development of the Bank's corporate portfolio, while maintaining acceptable risk levels.

As a result of the credit process, the Bank's medium-sized and big corporate segment at the end of 2019 marked a serious growth of 44% and reached a total amount of BGN 411.5 million (compared to BGN 285.8 million at the end of 2018).

The portfolio distribution between the big and medium-sized segment is 45%/55%. The numeric representation of this ratio is as follows:

- Big corporate clients – BGN 185 million;
- Medium-sized corporate clients – BGN 226.5 million.

There has been a change in the ratio between the two segments as compared to the previous period, but the priority position of the medium-sized segment has been preserved, which is in line with the policy for risk diversification and non-permission of big concentrations. Along with achieving satisfactory growth, the Group continues to maintain a moderate risk appetite level, without there being unusual or unmanageable deteriorations in the portfolio quality.

The corporate portfolio of D Commerce Bank AD is mostly concentrated in the commerce sector, constituting 22% of the loan portfolio, followed by agriculture (18%), construction (12%), finance and insurance (14%) and production (6%). The good diversification protects the Bank from adverse changes in the condition of the respective industries that might threaten the quality of the entire portfolio. Moreover, the varied customer portfolio allows the monitoring of the economic performance of multiple economic sectors by gathering data from the main participants, receiving reports on new prospective customers, fast checking of market potential, etc.

In order to retain and increase loans to agricultural producers against expected subsidies for the subsequent agriculture campaign, there is ongoing update of the product "agricultural loan for subsidies", in accordance with the new possibilities, rules and legislative amendments, in order to optimize decision making processes and rights. With the creation of the sales tool – calculator, sales are maximally facilitated, and so is the calculation of the amount of permissible funding. Over 2019, in accordance with market pressure and EU regulation, we continued to analyse the Bank's charges and commissions income, suggesting changes to achieve higher profitability, while maintaining good market positioning.

Throughout the year, the trend of reduction and maintaining low interest rates on deposit and savings products for all participants in the country's business processes – including corporate business, was retained.

In order to shorten the time needed for decision making and absorption of approved loan proposals, the Corporate Banking Directorate regularly carries out a detailed analysis of proposals' timeframe – from initial talks and receiving the client's request until the final signing of loan agreements and absorption. Organisation is in place for daily monitoring of the loan process.

For 2020, the Corporate Banking Directorate has set even more ambitious objectives. Along with growth in volumes, next year we will also be working on overall implementation of the plans for net interest profitability, as well as cross-sales to Group's existing and new potential customers.

In order to achieve the above objectives, the team of the Corporate Banking Directorate will count on both the provision of high-quality and flexible services to existing clients, who are expected in 2020 to further develop their business endeavours, and attracting new clients using various banking products, with a potential for transaction business. We will focus on increasing the number of products used per client, and on enhancing clients' banking intensity. New products are planned to be developed – corporate client packages, as well as a new standardised product for financing secured by agricultural equipment. The sectors with good perspectives and growth opportunities in 2020, which the Corporate Banking Directorate will target, are subsidized programmes related to agriculture, the food industry, infrastructural programmes, projects servicing the chemical and pharmaceutical industry, energy, as well as agricultural producers who have been the Bank's clients. Traditionally, the Corporate Banking Directorate will develop its positive experience and best practices in the construction and tourist sector, where it has proven achievements.

2. Retail banking

In 2019 the Bank continued the successful development of the retail banking segment, also approving and improving the sales-focused model of the branch network by creating Service Standards for customers of D Commerce Bank AD. By introducing and applying a uniform model for customer service, we focused on the quality of service and increasing the level of satisfaction. The Bank's main objectives during the year were related to attracting new and retaining existing customers. The model allowed employees to better combine the servicing of existing customers and proactive sales of new products and services and creates conditions for attracting new customers by means of various sales campaigns and marketing initiatives. Over the last year, the number of newly disbursed loans increased, with a high quality of the loan portfolio. We achieved an annual growth in the Bank's retail loan portfolio by 22%, and of attracted funds – by 16%.

The market of loan products to natural persons was characterized by moderate and balanced growth in the main product lines – house and customer loans, and increased competition on the part of banking and financial institutions. In order to preserve the good pace of sales and increase the loan portfolio, we applied measures and campaigns related to decreasing interest rates on the major types of loans and providing special offers to groups of clients, thus also aiming to increase cross sales.

In order to support sales to various group of natural persons over the year, a total of six campaigns were carried out: attracted funds campaign, campaign for package programmes, as well as four commercial initiatives for the loan products – two campaigns for home loans and two campaigns for consumer loans. All these sales initiatives were supported by advertising campaigns. In home loans there was an increase by BGN 11,43 million or 29%, in consumer loans – by BGN 8 million or 24%, in attracted funds – BGN 58,9 million or 16%, in package programmes – growth by 2,628 nos. or 386% compared to 2018.

Over the year, we continued to actively endorse the Bank's brand and position it in the field of home and mortgage loans. We held meetings-presentations, with the support of the National Association of Real Estate and Investor BG. There was also great focus on work with loan intermediaries and associations widely represented among the business in various areas. These meetings were organized in order to present home loan conditions to current and potential partners/intermediaries in cities with increased interest in the field of home loans. Thanks to the partnership with NARE and Investor BG, we carried out meetings – presentations in Stara Zagora, Blagoevgrad, Veliko Tarnovo, Varna, Burgas, Pleven and Russe.

Over the year, we continued our efforts to improve processes and products.

In 2019, the changes in interests on attracted funds were not dynamic, but the downward trend continued.

In order to provide the attracted resources necessary to the Bank in 2019, a new deposit product was launched, Benefit for natural persons, which we offered at a promotional interest rate for attracted new clients and "new money" for the Bank.
In 2019, the Bank worked actively to introduce a new service for remote attraction and identification of new Bank clients. We worked on introducing a new deposit product, Online Deposit, for sale through the Bank's corporate website, which will provide the possibility for remote identification of new clients, signing documents by means of electronic signature, and subsequent full access to active online banking. The product was very well received by the clients.

The Bank achieved an additional reduction in the price of deposit funds by 0.1% compared to December 2018 by means of effective deposit management at product level.

In the last quarter of 2019, we worked on introducing and implementation of Regulation (EU) 2019/518 of the European Parliament with regard to unification of charges on cross-border EUR-denominated transfers in the EEA with the amount of charges on BGN-denominated transfers.

In 2019, in the Small Business sector, we marked a growth of 12% in the loan portfolio.

The sales focus over the year was on attracting new business clients with good financial profiles by means of lower interest, charges, and commissions.

The focus in lending was on developing the loan portfolio related to small businesses with a high potential and agricultural clients. Parallel to funding this client profile, we also extended the scope of products and services used thereby.

In 2019 we continued to reinforce the Bank's position and develop partnerships with farmers, by creating overall solutions for bank servicing of such clients and holding meetings – presentations for them.

The attracted funds in current accounts and deposits of small business clients increased by 21% on an annual basis.

In the second quarter, we launched a sales initiative for package programmes to small business clients in order to support transaction business, placing a focus on online banking transactions. The increase in sales of package programmes was 403% compared to 2018.

In 2019 there was a stable growth in clients using the D Bank Online remote banking service. Over a year, users of the online banking platform increased by over 12%, the prevailing portion continuing to be that of natural persons. In order to meet customer demands, the service is constantly developing and improving, and a number of add-ons were planned and successfully implemented over the year concerning various functionalities. The processes of registration of new users and management of existing ones were optimized, thus enhancing the speed of service. As part of strategic digitalization projects, the Bank finalized its work on a project for online sales of deposits by means of remote identification as a possibility to attract new clients. In addition, the process also provides access to the D Bank Online remote banking service, through which new clients may have complete-functionality remote banking, using a wide range of remote products and services.

Another step aimed at upgrading the functionality and security of the D Bank Online platform while also meeting statutory requirements for in-depth certification of user identification, the D-Token electronic identification method was implemented. The application will be offered for the most popular platforms, Android and iOS, and will be available for installation in the first quarter of 2020. Implementing a software token in the mobile app is a first step towards developing applications for smart devices; the Bank is also actively working on D Mobile – a sophisticated personalized mobile banking platform offering a wide range of functionalities, intuitive design and uncompromised security to provide the best consumer experience.

In 2019, the Bank successfully followed the approved strategy for card business development, in order to meet customer needs and optimise processes.

3. Public customers

As part of the structure of D Commerce Bank AD, the Public Customers Department is responsible for the relations of the Bank with budget customers and business entities with prevailing state and/or municipal interest which are contracting authorities under the Public Procurement Act, the Regulation on exercising the state's rights in business entities with state holding, and other applicable regulations related to the implementation of the public procurement procedures. The 2019 objectives of the Department were achieving growth in this sector with respect to the loan portfolio and attracted funds, and an increase in the customer base – in terms of number and volume.

In view of the legislative amendments pursuant to which credit transactions remained outside the scope of the Public Procurement Act, our efforts were focused on developing new approaches to fulfil the objectives set. As a separate development aspect, special effort was made to expand business potential through purchase of receivables (cessions) and other credit instruments.

The increase in the customer base of public and budget customers, apart from volumes of the business specific to the department, provides a possibility to increase the growth in products to both natural persons (the staff of all our clients) and legal entities (suppliers and counterparts thereof). Through active participation in the procedures for selection of banking institutions for complex banking service to public and budget contracting authorities, conditions are created for increasing volumes in other banking segments, such as servicing employees thereof through the complete range of retail products – accounts, card products, deposits, loans, investment services, etc.

In 2019 the department exceeded the target volumes also with respect to loans and attracted funds, in the conditions of a dynamically changing price market.

In 2019 the department managed to organize and carry out the bank's participation in all procedures in which it was an eligible tenderer, and won more than half of them.

4. Financial markets and investments

Over 2019 the Directorate continued work on ongoing tasks in its capacity as Bank treasury to ensure liquidity and investment of available funds.

The Directorate provides the operating liquidity needed for current payments through money market transactions.

In 2019, the Directorate continued to maintain a relatively high securities portfolio, and as at the end of the reporting period, the total volume of securities held by the Group was about BGN 105 million. The matured securities issues were replaced by new purchases, and the Bank maintained an investments volume BGN 20 million higher than the BGN 85 million planned. The duration, and respectively, total risk exposure of the portfolio, were reduced.

Due to the high liquidity, the Bank also maintained a higher number of deposits on the monetary market than planned in the budget.

In the field of currency trading, 2019 was also very successful, and the net result in this activity amounts to BGN 2 million.

Over the past year, the Directorate continued its work on servicing clients in its capacity as investment intermediary.

In 2019, one of the directorate's main priorities was completion of automation under the projects MIFID II and MIFIR II.

Over the last year, the FPI Directorate achieved the growth planned and managed to fulfil the expected results, mostly exceeding the budget indicators.

5. D Insurance Broker EOOD

In 2019 the subsidiary has underwritten 2,251 non-life insurance contracts and life insurance contracts.

The total premium income underwritten in 2019 amounted to BGN 1,211 thousand.

Commissions realised on the insurance contracts amounted to BGN 239 thousand.

D Insurance Broker has contracts with the following insurance companies:

- Allianz Bulgaria IJSC
- Armeets IJSC
- Bulstrad VIG IJSC
- IJSC Bulgaria AD
- DZI General Insurance AD
- Generali Insurance AD
- Euroins AD
- IC Lev Ins AD
- OZK AD
- IC Unica AD
- IC Bul Ins AD
- IC Unica Life AD
- IAD Bulstrad Life
- DZI Life AD

Net accounting profit amounting to BGN 109 thousand was reported in 2019 (2018: BGN 62 thousand).

6. D Leasing EAD

The subsidiary D Leasing EAD provides leasing services both to customers of the D Commerce Bank Group and to external customers.

As a commercial entity one of the objectives of D Leasing EAD is to provide financing at the most market relevant and efficient terms, so as to maximise the profits for its shareholder, while at the same time addressing the ever changing expectations of its customers. The aim is to develop and update the products and services offered all the time and thus become a recognised financial institution at the leasing market in Bulgaria and expand the product range offered by D Commerce Bank Group.

As at 31 December 2019 the subsidiary's assets amount to BGN 10,823 thousand. The company has provided financing to its target groups in the form of finance leases at the amount of BGN 10,469 thousand.

The liabilities of the subsidiary represent mainly liabilities under loan agreements signed with D Commerce Bank AD amounting to BGN 6,637 thousand, as well as with the Bulgarian Development Bank AD amounting to BGN 2,936 thousand, under the Leasing Line Programme, supported by the European Investment Fund and the Microfinance Mechanism of the European Union.

7. D Imoti EOOD

The primary business of D Imoti EOOD involves the acquisition and sale of real estate, design, furnishing, and construction of real estate for sale, leasing.

As at 31 December 2019, the Company's assets amount to BGN 11,344 thousand. Liabilities constitute trade payables at the amount of BGN 26 thousand.

VIII. Development plans

In accordance with Art. 39, item 4 of the Accountancy Act the Group presents its expected strategic development plans for 2020.

In 2020, the Group plans to focus its efforts on:

- Sustainable growth and development of the parent and its subsidiaries;
- Maintaining a strong image as a serious player in the banking market;
- Intensive application of a sales-oriented business model in the branch network with a focus on good knowledge of customers and their needs;
- Establishment of full synergy between corporate and retail banking, activation of cross-selling;
- Updating and completing the product range in accordance with market trends;
- Building and maintaining sustainable customer relationships, based on loyalty and added value;
- Simplification and digitalization of the main front office and back office processes;
- Investments in technical and application infrastructure;
- Investments in implementing sophisticated screening and rating models for assessing loan applicants' creditworthiness.

IX. Events after the date of the financial statements in accordance with Art. 45 in relation to Art. 39, item 3 of the Accountancy Act

The global spread of the COVID-19 pandemic has influenced a number of economic sectors, as far as entire industrial areas and whole countries are placed under quarantine. On 13 March 2020, a state of emergency was declared in Bulgaria. Strict anti-epidemic measures were imposed in the country, as well as restrictions aimed to limit the virus spread. This has resulted in disruption of the normal business activities of almost all economic subjects in Bulgaria.

Due to the unpredictable dynamic of COVID-19, the scope and impact on the Group's business, incl. on its future operations, assets and liabilities, are difficult and practically impossible to be accurately estimated at this stage, but the expectation is that the pandemic might have a direct adverse impact on the credit activity and the quality of already granted loans and on the valuation of certain securities and properties. The initial assessment of the management is that no facts and factors have been identified questioning the validity of the going concern principle for the Group.

In accordance with the measures taken by the state government and the Management Board of the Bulgarian National Bank, the Group's management has taken quick measures to respond to the critical situation, aimed at preserving the health and life of its employees and clients, as well as measures to support its clients' business positions related to preserving the loan portfolio quality. An operational crisis group has been set up. The measures taken so far to limit the adverse effects on the Group's operations are as follows:

- Carrying out a number of information and awareness campaigns about possible COVID-19 contamination prevention;
- Provision of personal protective equipment to both employees and clients visiting the bank's offices;
- Organising work schedules for the Bank offices and work from home;
- Simplification of the process of loan renegotiation;
- Daily monitoring of the loan portfolio with the aim of express identification of debtor issues and urgent development of measures for risk reaction and management;
- Possibility for extending the term of revolving loans;
- Daily monitoring of securities markets and forecasts thereon in order to take specific measures, if needed;
- Ongoing monitoring of properties ' market and forecasts thereon.

No other events have occurred after the date of the consolidated annual financial statements that may have impact on the Group's consolidated financial statements as at 31 December 2019.

Date: 30 March 2020

Anna Asparuhova
Chief Executive Director
D COMMERCE BANK AD

ТЪРГОВСКА БАНКА Д АД
София

Martin Ganchev
Executive Director
D COMMERCE BANK AD

CORPORATE GOVERNANCE STATEMENT

D Commerce Bank Group (the Group) comprises D Commerce Bank AD (the parent, the Bank) and its three subsidiaries - D Leasing EAD, D Insurance Broker EOOD and D Imoti EOOD.

Composition and operation of the administrative, management and supervisory bodies and their committees

The parent

D-Commerce Bank has a two-tier management system. The General Assembly of the shareholders elects the Supervisory Board, which in turn elects the members of the Management Board, the Chief Executive Director, the Executive Directors.

Role and responsibilities of the **Management Body** represented by the **Supervisory Board** and the **Management Board**.

The management body bears the full and ultimate responsibility for the Bank and determines, exercises control over and is responsible for the application of organizational rules and regulations on the Bank's internal management, which ensures its effective and reasonable operation.

The obligations of the management body are clearly set, and a distinction is made between the obligations of the Management Board – management (executive) function, and of the Supervisory Board – supervisory (non-executive) function.

The responsibilities and obligations of the Supervisory Board and Management Board are described in detail in the following documents:

- The Statute of D Commerce Bank AD;
- Rules on the scope of rights and responsibilities of administrators and persons holding key positions at the Bank;
- Rules regulating the terms and conditions for decision making at D Commerce Bank AD;
- Rules on the work of the Management Board of D Commerce Bank AD, approved by the Supervisory Board of D Commerce Bank AD;
- Statute of D Leasing EAD;

- Statute of D Insurance Broker EOOD;
- Statute of D Imoti EOOD.

All members of the management body are fully acquainted with the structures and responsibilities thereof, as well as with the allocation of tasks between the different units of the management body and its committees. In order to have appropriate mechanisms for control and counteraction in place, decision making should not be dominated by one member or a small group of members. The supervisory and management functions shall effectively interact. The two functions should provide each other sufficient information to allow them to perform their respective roles.

The management body is responsible for determining, approval and control of the application of:

- The overall business strategy and key policies of the institution in the applicable legal and regulatory framework, taking into consideration the Bank's long-term financial interests and solvency;
- The overall risk strategy, including the institution's risk appetite and its framework and measures for risk management so as to ensure that the management body devotes sufficient time to risk-related matters;
- Adequate and effective internal management and internal control framework including a clear organizational structure and well-functioning independent units for internal risk management, legal compliance and audit, which possess the necessary rights, status and resources to perform their functions;
- The amount, type and allocation of internal and regulatory capital so as to adequately address the Bank's risks;
- Bank's liquidity management objectives;
- Remuneration policy compliant with the effective legislation;
- Rules aiming to ensure that individual and collective assessments of the management body's fitness are performed effectively, that the composition and continuity planning of the management body are appropriate and that the management body performs its functions in an effective manner;
- Selection and a procedure for assessing the fitness of persons holding key positions;
- Rules aiming to ensure the internal functioning of each Committee of the management body, when created, providing detailed information about:
    - the role, composition and tasks of each of them;

- appropriate information flow, including documentation about the recommendations and conclusions, and the reporting levels between each committee and the management body, the competent bodies and other parties;

- Risk taking culture referring to risk awareness and behaviour regarding the institution's risk taking;
- Corporate culture and values which encourage responsible and ethical behaviour, including a code of conduct or a similar tool;
- Policy regarding conflict of interests on an institutional level and for staff;
- Rules aiming to ensure the reliability of accounting and financial reporting, including ensuring financial and operational control and compliance with the legal requirements and respective standards.

The management body exercises control over the process of disclosure and communication with external stakeholders and competent bodies;

All members of the management body are informed about the overall activity, financial position and the institution's conditions regarding risk, in view of the economic environment, as well as about the decisions made that have a significant impact on the institution's operations.

Chief Executive Director – performs control over the overall operations of the Bank and the activities of the other Executive Directors and members of the Management Board. Bears responsibility for implementation of the decisions made by the MB and SB.

Executive Directors and Board Members - they organise the work related to the proper implementation of the risk management policies adopted and the compliance with the approved limits over the activities, which they are directly in charge of, they control the work of the individual structural levels with respect to risk analysis and assessment.

Committees to the Bank's management body

There are committees at the Bank which support the work of the Bank's management body.

Each Committee performs its work based on Rules for activity, adopted by the Management Board and approved by the Supervisory Board.

Committees to the Supervisory Board

Risk Committee - the Supervisory Board of the Bank performs the Risk Committee functions by advising and providing guidance to the Bank's Management Board in relation to the overall current and future risk strategy and the Bank's risk appetite and supports control over its implementation by the top management team. The Supervisory Board, it its capacity as Risk Committee, may also use human and other resources as considered necessary and appropriate to perform its activities, including external experts to obtain consultations. The Supervisory Board performs the functions of a Risk Committee pursuant to the requirements of the Credit Institutions Act and Ordinance 7 of the Bulgarian National Bank on the organization and management of risks at banks. Upon performing its functions as Risk Committee, the Supervisory Board complies with the preliminarily approved rules for work of the Supervisory Board as Risk Committee.

The Bank's Supervisory Board performs the functions of a **Selection Committee** and organises and carries out its activities in accordance with the provisions of the Credit Institutions Act, Regulation (EU) 575/2013 and Ordinance 20 of the Bulgarian National Bank on issuing approval of the members of the Management Board (Board of Directors) and Supervisory Board of a credit institution in relation to performance of their functions.

The Bank's Supervisory Board performs the functions of a **Remunerations Committee** pursuant to the provisions of the Credit Institutions Act and Ordinance 4 of the Bulgarian National Bank regarding requirements for remuneration at banks.

Audit Committee – it functions in accordance with the provisions of the Independent Financial Audit Act. The Audit Committee monitors the financial reporting process thereby ensuring transparency, truthful and fair presentation of the Bank's financial statements. It monitors the effectiveness of the Bank's internal control, the internal control system and risk management system.

Standing committees to the Management Board

Asset and Liability Management Committee - it is a liquidity management body authorised to draw up action plans in case of unforeseen outflows due to unexpected or adverse circumstances, taking into account the possible impact of the alternative scenarios on the Bank or on the market as a whole, as well as combinations thereof; it exercises current control and analyses the Bank's capital adequacy and proposes to the MB draft resolution for changes in the asset and liability structure and the possibilities for their diversification, if necessary; it reviews all policies, rules, procedures and limits concerning the management of all types of risks and submits them for approval by the Management Board; analyses the current condition of the Bank's assets and liabilities, monitors the risks related to the management of its liquidity and the financial instruments market and proposes specific measures in case of deviation from the approved limits or in case of extraordinary situations.

Credit Committee - a standing collective body the main activity of which is aimed at assessment of credit risk arising in relation to specific loan transactions or the total loan exposure of a party or a group of related parties and approval of the parameters thereon within its powers, and with its proposals and resolutions facilitates the increase of the loan portfolio through efficient choice of loan transactions. It analyses the quality of the loan portfolio and the trends for its development.

Committee on determining expected credit losses - it is a specialised advisory and control body of the Bank's MB the primary activity of which is aimed at minimising the risk of losses to the Bank through a system for monitoring, assessment, classification and provisioning of the risk exposures; determining expected credit losses pursuant to IFRS 9 and categorisation of risk exposures pursuant to Regulation (EU) 575/2013, general aims and tasks of the Bank, and by means of its proposals and decisions it supports the Management Board in effective credit risk management.

Risk Events Assessment Committee - it is a specialised internal body of the D Commerce Bank AD management in the area of transaction risk management and control; it makes decisions as to the final recording of operational events occurred, assesses the potential losses, analyses the data recorded in the accounting ledgers.

Complaints, Signals, and Objections Review Committee - it is a standing internal banking body responsible for the review of complaints, signals and objections filed with D Commerce Bank AD, discussing, analysing and making decisions on the cases brought before it.

Personal Data Protection Officer, pursuant to General Regulation 679/2016 – he/she monitors compliance with the organizational measures to ensure data security.

Coordination Group on the Implementation of the Measures Against Money Laundering, Financing of Terrorism and Specialised Regulatory Control, Working Conditions Committee.

Subsidiaries

D Leasing EAD

D Commerce Bank AD is sole owner of the capital of the company. The Management Board of D Commerce Bank AD is representative of the sole owner of the capital.

The company is represented jointly by each two of the three members of the Board of Directors.

Board of Directors - it manages the company in accordance with the requirements of the effective legislation and the Articles of Association of the company, as well as the resolutions of the sole owner of the capital and is responsible for its operational management.

Impairment Committee - it makes decision as to the classification and definition of the impairment loss on risk exposures.

D Insurance Broker EOOD is managed and represented by its General Manager.

D Imoti EOOD is managed and represented by its General Manager.

Diversity policy applied to the administrative, management and supervisory bodies

The policy ensuring the diversity in the selection of the members of the Management Board of the parent sets out the legal requirements to the Management Board members, including the executive members of the Bank's MB members, the requirements aimed at ensuring diversity in the selection of the Bank's Management Board members are set out, there are underlying detailed criteria the members of the Bank's management body need to meet and the qualities they have to possess.

Main features of the internal control and risk management systems of the Group companies related to the financial reporting process

The internal financial reporting and control system of D Commerce Bank Group is developed based on analysis of the good reporting and control practices in Bulgaria and big multinational groups, and in compliance with the national legislative requirements, including those concerning companies and groups listed at regulated markets. It is subject to continuous monitoring, further development and enhancement by the management.

The internal financial reporting and control system of the parent is a set of behavioural and technical principles, rules, tools, procedures and controls, which are customised and adapted to the Bank's specifics, its operations and reporting system. It is aimed at:

- Ensuring current monitoring and direction of the reporting activities towards their objectives and the expectations of the various users and towards achieving the required effectiveness and efficiency, including with respect to the utilisation of the resources; and
- Ensuring adequate and timely addressing of detected business risks, which influence the financial, management and operational reporting.

It is specifically developed to give the management satisfaction that:

- The Bank is in compliance with the applicable legislative requirements in the area of accounting, reporting and the other areas directly related thereto, and particularly the requirements of the Accountancy Act and the International Financial Reporting Standards;
- The directions and guidelines of the top management with respect to reporting and documentation are complied with in the Bank;
- The required efficiency and effectiveness of the financial - accounting process, including consolidation and documentary support are in place;
- There is high level of certainty with respect to the safeguarding and maintenance of the Bank's assets, including prevention of fraud and errors; and
- There is trustworthy, quality and timely financial and operational information available to internal and external users.

The main components of the internal control system with respect to financial reporting include:

- Adoption and compliance with the ethical principles and rules of conduct that have been introduced with the Code of Ethics of D Commerce Bank AD also with respect to financial reporting and all processes, procedures and actions of each staff member of the Bank related thereto;
- Development and definition of an optimum structure of units engaged in financial reporting-related processes, with clearly defined responsibilities and delegated powers and duties, including through written internal documents;
- Development of recruitment, training and development policies concerning the personnel engaged in the accounting and financial reporting processes;
- Development, implementation and maintenance of control procedures and rules at each stage of the processes related to the accounting and financial reporting, with a priority on the gradual introduction of the formal written procedures; and

- Development of procedures for risk identification, monitoring and management in relation to the accounting and financial reporting, including development of adequate measures and steps to minimise them;
- Development and maintenance of adequate organisation of the information system, including access control, entry, processing and retrieval of data, changes in the system, allocation of the duties between the people engaged therewith, as well as storage and protection of the integrity and authenticity of the data in the system.

Control environment

Ethic principles and rules related to the accounting and financial reporting processes

The management at the various levels within D Commerce Bank Group has introduced and monitors continuously the compliance with the ethical values such as integrity, independence and impartiality as the foundations of the professional conduct of all individuals involved in the Bank's accounting and financial reporting related processes. They represent the framework underlying the control environment and that have had impact on the efficiency of the model design, the administration and current monitoring of the remaining internal control elements in the accounting and financial reporting area. A conduct with integrity and ethics is the result of the established general ethics and conduct standards of the Bank. They are clearly communicated with the entire financial - accounting and control personnel, and are constantly reaffirmed in the practice.

The ethical principles governing the professional conduct, which all individuals engaged directly or indirectly in the accounting and financial reporting processes should comply with include: objectivity; impartiality; independence; prudence; transparency; methodological justification; consistency and use of independent experts. The principles are applied at all stages of the financial reporting process in: the selection of accounting policies; the closing of the accounts for accounting purposes; the preparation and application of accounting estimates and the preparation of statutory and management financial statements, other statutory reports and documents, containing financial information.

The Code of Ethics regulates and relates to the professional conduct of the employees, the relations between the Bank's customers and its employees, the relations between the employees, protection of the Bank's interests, prevention of conflicts of interests, as well as the ways to address such, if they occur. The Code of Ethics is aimed at:

- setting the ethical standards for the professional conduct of the employees;
- offering norms of conduct to facilitate the employees in making a decision/taking appropriate action in areas where conflicts may arise between the ethical principles, the tasks assigned and the personal culture of the employee;
- creating unity through overcoming conflicts and disagreements;
- creating amicable atmosphere between the employees, facilitating sharing of experience and building and development of professionalism.

The creation and assertion of the Bank's positive image is aimed through the compliance with the rules of conduct underlying the Code and accepted by all employees. The rules of conduct set out in the Code form an unfaltering part of the daily work of the Bank's employees, whereby the compliance with the ethical rules of conduct ensures the lawfulness of their actions and protection against ungrounded accusations by the Bank's customers. The work of the employees is carried out in compliance with the principles of lawfulness, loyalty, integrity, impartiality, responsibility and accountability. The recruitment process to employ individuals to work at the Bank takes into account the personal qualities meeting the professional ethics requirements. Each individual appointed to work for the Bank is obliged to perform the tasks assigned to the best of their abilities.

The subsidiaries follow the approved rules, policies and procedures of the parent taking into account their own specifics.

Bodies in charge of the individual components of the overall accounting and financial reporting process in the Group

The parent (the Bank)

The bodies responsible and authorised with respect to the financial reporting process and other related processes include: the management body of the Bank, represented by the Supervisory Board and the Management Board, the Director of the Planning, Financial Reporting Control and Central Accounting Directorate, the Head of the Internal Audit Unit. Their functions and responsibilities may be summarised as follows:

- The management body of the Bank, represented by the Supervisory Board and the Management Board adopts and approves: the accounting policies and changes therein in each reporting period, the accounting estimates made as at the date of each reporting period, including the methodology applied; the financial statements and reports and other publicly available documents, containing financial information; the functions, organisation and responsibilities of all structural units and their managers, engaged in and related to financial reporting; the development, implementation and current monitoring of the functioning of the individual components of the internal control system, obtains timely information on the activity from the Internal Audit Department;

- Chief Economist, the Director of the Planning, Control, Financial Reporting and Central Accounting Directorate organises and manages the accounting reporting of the Bank - controls and provides methodological guidance of the bookkeeping, is responsible for the development and implementation of the accounting reporting methods and techniques; is responsible for the process of closing of the accounts and all accounting estimates, proposes and develops accounting policies and changes therein, follows up on any current amendments in IFRS. Performs the overall organisation, methodological support and implementation of the process for preparation of the separate and consolidated financial statements of the Bank, including the ongoing control, guidance, monitoring and analyses of the financial statements for consolidation purposes of the D Commerce Bank Group companies, communicates with the regulators, draws up analyses, projections and management reporting information, is in contact with internal and external expert bodies, consultancy and audit firms;
- The Internal Audit Unit performs independent assessment of activities related to the preparation of the Bank's financial statements and the effectiveness and compliance with the internal controls introduced in relation to the individual recurring and non-recurring processes. It monitors and provides assistance for the attainment of the Bank's objectives and tasks. It facilitates the efficient, effective and economic utilisation of the resources, as well as the introduction of adequate control mechanisms for the various risks. It provides support for the protection of the value of the Bank's assets. The Unit monitors the lawfulness of the operations, the proper implementation of the policies, plans, internal rules and procedures. Expresses opinions on the adequacy of the internal control systems and the risk management of the process arrangement, as well as the monitoring and reporting systems and their adequacy and efficiency.

Subsidiaries

D Leasing EAD - the bodies responsible and authorised with respect to the financial reporting process and other related processes include the Board of Directors and the Chief Accountant.

D Insurance Broker EOOD - the bodies responsible and authorised with respect to the financial reporting process and other related processes include the General Manager and the Chief Accountant.

D Imoti EOOD is managed and represented by its General Manager - the bodies responsible and authorised with respect to the financial reporting process and other related processes include the General Manager and the Chief Accountant.

Human resource policies and practice in the finance and accounting departments

At the Group companies there are policies, rules and established practices related to the management of human resources involved in the process of financial reporting and the other processes related thereto. During selection, the focus is on both the need of specialized education in the field of finance and accounting, and on relevant professional experience, in addition to very good computer literacy and personal characteristics necessary to ensure accuracy, time management and integrityin carrying out the activity. Upon the selection of applicants for each position in the Bank's finance and accounting units, the leading professional requirements are those envisaged in the job descriptions of the respective positions, as well as the personal qualities corresponding to the Bank's Code of Ethics.

The staff management policies include policies related to continuous additional professional training, updating and expanding the knowledge and skills of the specialists hired, increasing their expertise and long-term retention. On an annual basis, the Bank updates and approves an annual plan for forthcoming trainings, structured based on topics and area of work of employees. Mandatory trainings are carried out in case of amendments to statutory acts, IFRS, taxation laws and other that are directly related to the work. The aim of this policy is to update and increase the expertise of employees and improve their skills in order to ensure accuracy and enhance effectiveness in the performance of their work duties.

Risk assessment process related to the financial reporting of the Group

The Management Board and Chief Economist of the parent play a key role in the process of continuous identification, monitoring and control over the business risks, including the identification and control of the effects thereof, which also influence directly certain accounting processes and items, as well as the financial reporting of D Commerce Bank Group. They perform joint overall monitoring on the risk management process.

The risk factors concerning the reliable financial reporting include external and internal events, transactions and circumstances that may occur and may have adverse impact on the Group companies' ability to create, maintain and process accounting and operating data in a way ensuring trustworthy financial reporting, statements and reports. The key factors identified by the Group include the following:

- The following are identified as external risks: changes in the business and market environment of the parent (the Bank) and its subsidiaries, as well as in the products and services offered by the Group; the activities of the competitors; changes in the legislation and the regulatory framework; changes in key suppliers or customers / groups of customers; unscrupulous or ill-natured acts of external parties; fast corporate growth and growth of the Group; development of the entities in which the Bank holds significant investments in the form of interests and / or loans granted.
- The following are identified as part of the internal risks: changes in the technical infrastructure of the Group, in the way and intensity of use of the available assets and resources; launching of new products and services; new accounting policies and IFRS; changes in the staff of the directorates responsible for the financial reporting; changes in the information systems; errors in the work and / or insufficient knowledge or skills of the personnel; fast expansion of the operations; use of many estimates - in particular use of fair values and calculation of recoverable amounts of certain non-current assets involving external experts.

The risk factors of recurring nature and / or related to the application of the accounting policies and estimates are monitored currently by the Planning, Control and Financial Reporting Directorate and Central Accounting, which propose solutions concerning the management and appropriate recording of their effects in the financial statements. The newly emerging risk factors are identified, assessed and developed by the Director of the Planning, Control and Financial Reporting Directorate and Central Accounting. Assistance provided by independent consultants is used as necessary, including with respect to the application of new IFRSs. The Management Board of the parent (the Bank) is responsible for the overall monitoring of the risk management process in relation to financial reporting.

Bodies responsible for the control functions over the financial reporting process

The Supervisory Board reviews the annual financial statements - separate and consolidated and the profit distribution proposals and presents to the shareholders the annual management report of the parent, including the consolidated management report.

The Audit Committee monitors independently the implementation of the financial reporting processes, the accounting policies applied and the effectiveness of the internal control system of the Bank, including risk management, as well as the performance and results from the internal and external audit.

Information system

Parent

The information system of D Commerce Bank AD includes infrastructure (physical and hardware components), software, people, procedures and data.

The information system relevant to the financial reporting objectives and process encompasses methods and documentation which:

- identify and record all valid transactions;
- describe the transactions in a timely fashion and with sufficient detail allowing their proper classification for financial reporting purposes;
- measure the transactions in a way allowing the recording of their appropriate monetary amounts in the financial statements;
- cut-off the period during which the transactions have originated in order to allow their recognition in the respective accounting period;
- present the transactions and the related financial statement disclosures appropriately in accordance with the requirements of the reporting framework;
- maintain detailed information about journal entries by users with the aim of exercising control.

Different departments within the structure of the Information Technologies Directorate are responsible for the smooth and risk-free operation of the Bank's information systems. Their functions are allocated in accordance with their functional characteristics as follows:

IT Operations - a structure directly responsible for the current support of the applications used in the Bank and the interfaces between them. Testing of development products. Implementation of releases;

IT Development - a structure directly responsible for the change management process through which changes in the Bank's applied systems are made. Testing of development products;

IT Infrastructure - a structure maintaining the hardware, communications and server infrastructure of the Bank;

IT Help Desk - a structure assigned with the first line of support to the internal IT service users.

Chief Economist, Director of Planning, Control and Financial Reporting and Central Accounting Directorate

Chief Accountant, directly subordinated to the Chief Economist, and functions related to direct accounting reporting

Directly subordinated to the Chief Accountant are a deputy chief accountant, department managers, and experts. Structurally subordinated to the Chief Accountant are the Accounting Methodology and Taxes Department, Accounting Reporting Department, Budgetary Orders, Nostro Accounts and Balances Department and Account Bans Department. According to its functional description the Directorate aggregates and carries out fully the Bank's accounting - reporting functions, the internal accounting control. The Chief Accountant's responsibilities include the appropriate and consistent application of the developed accounting policies, the development and implementation of internal chart of accounts; reporting methodologies, current bookkeeping, the preparation and / or processing of the inputs to the accounting estimates jointly with the involved experts, as well as the reporting of deviations and mismatches to the Management Board and the compliance with the regulatory requirements in the area of accounting, taxation and other related fields that form part of the responsibilities of the Directorate.

The accounting policies of the Bank are reviewed as necessary and are subject to approval by the Management and Supervisory Boards. The revised accounting policies are published through the internal system for disclosure of updated and new policies.

The choice of the reporting framework is based on the requirements of the Accountancy Act. D Commerce Bank AD applies International Financial Reporting Standards (IFRS), endorsed by the European Union. Ongoing control for the appropriate application of IFRSs is exercised by the Chief

Economist. Further confirmation of the appropriateness of the application is obtained by the external auditors.

Functions related to planning, control and financial reporting, directly subordinated to the Chief Economist at the parent company

The functions related to planning, control and financial reporting are allocated to the following departments in the PCFRCA Directorate:

The Budgeting and Planning Department develops annual and mid-term business development plans and the budget of the Bank, as well as controls the attainment of the business targets set and the execution of the annual budget. It develops an annual budget system by profit centre, product and segment. It prepares analyses and reports of the bank system and benchmarks the Bank's key indicators against the market (market share, interest rates, etc.).

The Management Information and Income and Expenses Control Department organises and manages the control over the reported income, volumes and execution of the annual budget targets. It participates in the development of the methodology rules and procedures for the setting of business objectives, income, expenses and investments. The Directorate prepares daily schedules concerning the financial position of the Bank against certain indicators for management purposes, as well as monthly reports on the Bank's financial position. It is in charge of the control over the Bank's expenditures and the budgetary spending during the year. The Planning, Control and Financial Reporting Directorate exercises control over the spending of the investment funds allocated in the Bank's budget during the year.

The Strategic Development Department prepares information and analytical reviews, reports on macroeconomic development, political and other events and the impact thereon on the Bank's business and plans.

The Financial Reporting Department prepares annual financial statements in accordance with IFRS, annual financial statements for local needs, for the Deposit Insurance Fund, the Financial Supervision Commission, the Bulgarian Stock Exchange, international financial institutions providing external financing. It participates in the preparation of different reports for supervision purposes, in relation to BNB regulation, bank statistics, payments balance. The Directorate is involved in the development of the internal regulations framework of the Bank, as well as in the enhancement of the planning methodology. Makes proposals for optimisation of the Bank's asset structure. It organises, coordinates, manages and controls the overall activities related to the collection, summary, analysis and dissemination of the statutory statistics and financial information about the Bank.

The preparation of the Group's financial statements for public use is the result of a comprehensive closing of the accounts process in each reporting period. This process is made formal as a result of the rules and guidelines documents approved by the management. They are related to certain actions and procedures, and respectively the drawing up of documents by officers from the Planning, Control and Financial Reporting and Central Accounting Directorate or other responsible officers and such actions and procedures are dealing with: stocktaking; account analyses; mailing of confirmation letters; best estimates such as depreciation and amortisation, revaluation, impairment and accruals, which have to be based on reasonably justified assumptions; study and analysis of various legal documents (agreements, lawsuits, legal adviser opinions); study and assessment of expert reports (valuators, actuaries, internal auditors, other external experts and officers); preparation of schedules and consolidation packages; preparation, analyses and discussion of draft financial statements.

With respect to the subsidiaries the functions related to the consistent application of the adopted accounting policies, the development and implementation of the internal charts of accounts; reporting methodologies, current bookkeeping; ongoing accounting analysis and control of the reporting data and documentation, the development of annual and mid-term business development plans and the Bank's budget, as well as the preparation of annual financial statements in accordance with IFRS, annual financial statements for local needs are performed by the Chief Accountant of the respective company and the Department he or she is heading.

Control activities

The control activities envisaged in the developed and implemented internal controls by process include: reviews of the execution and performance results; processing of the information; physical controls and allocation of duties and responsibilities.

The general controls related to the financial reporting may be categorised as procedures related to ongoing and periodic reviews and analysis of the financial indicators and the inputs thereto. They include reviews and analysis of the actual reported results against the budgeted, projected, prior period results, against the system as a whole and against the target group. They may usually contain proposals for optimisation or revision of certain budgets.

The controls underlying the information systems of the Group cover both applied programme controls and the overall IT controls, which represent policy and procedures facilitating the ensuring of the continuous proper functioning of the information systems. The typical controls underlying the applied programmes include: checks of the mathematical accuracy of the records, maintenance and review of accounts and trial balances, automated controls, such as input checks and numbering sequence checks, and non-automated follow up of the exception reports. The overall IT controls include: programme change controls, controls restricting the access to programmes or data, controls over the implementation of new releases of software applications and system software controls restricting the access or the ongoing monitoring of the use of system auxiliary functions which may change financial data or records without leaving a trail for subsequent tracking.

Physical controls applied include:

- measures ensuring the physical safeguarding of the assets - secure facilities and premises, and special access terms to assets and documents;
- special approval procedure for access to computer programmes and data files;
- periodic stock-taking - procedures for the organisation and conducting of stock-taking by means of counting / weighing the stocks / sending suitable confirmation letters and comparison of the amounts in the checklists and in the accounting documents / ledgers.

Internal controls are also envisaged in the developed and implemented procedures for the management, organisation and implementation of the main routine processes (delivery and sales), as well as the processes for the preparation and approval of the complex estimates (depreciation and amortisation, impairment, revaluation, actuarial calculations and long-term provisions). These are focused on: authorisation of individual transactions and the primary documents issued; reviews and checks of the documents issued and the assets involved in the transaction; subsequent re-calculation and comparison with other documents (agreements, orders, confirmations, price lists, etc.) and individuals, as well as separation of the duties and responsibilities of the officers involved in each step of the respective process in order to ensure mutual control, and to reduce the possibilities to put an individual in a position to both execute and conceal error or fraud in the ordinary course of performance of his / her duties.

The Group is in process of continuous expansion of the formal control procedures and activities.

Ongoing monitoring of the controls

An important high-priority objective for management, represented by the Chief Economist, is to establish and maintain ongoing and efficient internal control. The current monitoring of the controls by the management includes judgement as to whether they function as envisaged and whether they are appropriately modified in order to reflect the changing conditions.

The ongoing monitoring of the controls may involve activities such as management review as to whether internal management reports are prepared in a timely manner, and whether key data therein are reconciled by means of confirmation from third parties and its expectations, assessment by the internal auditors as to the compliance with the policies and procedures related to the implementation of the routine processes by the personnel involved, supervision over the observance of the ethical norms or the generally accepted business practices. The ongoing monitoring is carried out in order to ensure that controls continue to function effectively over time.

The internal auditors as well as the officers charged with supervision, monitoring or control functions also contribute to the ongoing monitoring of the internal controls over the entities' processes through their assessment of individual controls or groups of controls. They usually provide such information periodically in the course of performance of their duties and functions, as well as their assessments regarding the functioning of specific internal controls, with a specific focus on the assessment of their effectiveness, they communicate information regarding the strengths and weaknesses in the internal controls with the respective individuals and make recommendations as to their improvement.

The Supervisory Board may check any action related to the Group's operations, may check the accounting documentation and ledgers at any time and make conclusions as to the Group's position.

The Audit Committee monitors the effectiveness of the internal controls of the parent (the Bank) and the risk management system, recommends the appointment of the registered auditor (external auditor) of the Bank and assesses the external auditor's independence, the Bank's policy concerning the compliance with the requirements of the regulations significant for the true and fair presentation of the financial statements.

The ongoing monitoring activities include the use of information from outside sources which depicts issues or outlines areas that need improvement. Such sources are the customers, suppliers, the supervision authority, namely the BNB, the regulator, namely the FSC. Furthermore, in implementing the ongoing monitoring activities the management always takes into account the communications with the external auditors related to the internal controls and any weaknesses and recommendations made by them.

The companies within the Group are not issuers of securities and have no plans of becoming public entities. The Corporate Governance Code in relation to the requirements of Art. 100 (n), Para 8, items 1 and 2 of the Public Offering of Securities Act (POSA) is not applicable to D Commerce Bank Group.

Anna Asparuhova
Chief Executive Director
D COMMERCE BANK AD

Date: 30 March 2020

Martin Ganchev
Executive Director
D COMMERCE BANK AD

This is a translation from Bulgarian of the Consolidated Management Report and Corporate Governance Report of D Commerce Bank Group for the year ended 31 December 2019. In case of divergence the Bulgarian original shall prevail.

D Commerce Bank AD

Independent Auditor's Report

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INDEPENDENT AUDITORS' REPORT

To the shareholders of D Commerce Bank AD

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of D Commerce Bank AD ("the Bank") and its subsidiaries (jointly "D Commerce Bank Group" or "the Group"), which comprise the consolidated statement of financial position as at 31 December 2019 and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the 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 present fairly, in all material respects, the financial position of the Group as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) 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 *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the *International Code of Ethics for Professional Accountants* (including the International Independence Standards) of the International Ethics Standards Board for Accountants *(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.

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 included in the table below, the description of how this matter was addressed in our audit was made in this context.

<table>
<tr><th>Key Audit matter</th><th>How this key audit matter was addressed in our audit</th></tr>
<tr><td colspan="2">Impairment of credit losses on loans and advances to customers according to the requirements of IFRS 9 Financial Instruments (IFRS 9)
The Group's disclosures regarding the impairment for credit losses on loans and advances to customers are provided in Note 2.12.1.7 Impairment of financial assets, Note 2.25.1.2. Determining expected credit losses by types of financial assets, Note 3.1. Credit Risk and Note 14 Loans and advances to customers to the consolidated financial statements.</td></tr>
<tr><td>Loans and advances to customers represent a substantial proportion (58%) of the Group's total assets as at 31 December 2019. The gross carrying amount of these loans and advances to customers as at 31 December 2019 is BGN 629,389 thousand, and the respective allowance for accumulated credit losses therefrom is BGN 37,086 thousand.

The Group applies a model for impairment of credit losses on loans and advances to customers on an individual and portfolio basis, in accordance with IFRS 9.

The application of such a model to determine the impairment of credit losses on loans and advances to customers results in an increased</td><td>In this area, our audit procedures included, among others:
Inquiries, walk-through and obtaining an updated understanding of the Group's process of monitoring and impairment of credit losses on loans and advances to customers in the Group. We focused on the methodology applied by the Group, the internal policy, and the impairment model used, as well as on changes related thereto made in the current year. Inquiries to Group experts responsible for the modeling and management of credit risk.
Assessing the internal procedures and key controls at organisation level regarding the impairment policy and model, including model documentation, as well as monitoring and</td></tr>
</table>

level of complexity in the calculations and assumptions, as well as more significant judgement on the part of the Group's management in determining the amount of credit losses. In order to determine the amount of impairment for expected credit losses, the Group applies a model based on key inputs, originating from internal and external sources and parameters which suggest significant judgements and assumptions in: • Interpretation of the requirements to determine impairment pursuant to IFRS 9, on which the Group's model to determine and calculate expected credit losses is based; • The assumptions inherent in the model of expected credit losses aimed to identify a significant deterioration of the credit quality of exposures, the presence of low and/or significantly increased credit risk, respectively exposures with objective evidence of impairment; • Calculations and interpretations of the key indicators "probability of default" (PD), "loss given default" (LGD) and "exposure at default" (EAD). There is also a higher degree of approximation and judgements by management in the calculations of expected credit losses of the portfolio basis in Stages 1 and 2; • Judgements related to the scope and completion of the inputs and calculation logic;	frequency of update and soundness of the parameters applied. • Obtaining an updated understanding, assessment of the design and application, and testing the operating effectiveness of certain key controls appropriate for audit, in the process of monitoring, and staging and determining the amount of impairment for credit losses on the portfolios of loans and advances to customers. We involved our IT experts in the performance, testing and evaluation of general IT controls of the Group's internal information system used in the process of monitoring of loans and advances to customers and determining expected credit losses. • Assessing the consistency of application and continuing appropriateness of the methodology, the specific models for identification of credit losses and impairment calculation, as well as key assumptions and judgements used therein, in accordance with the requirements of IFRS 9 and in the context of the specifics of the Group's loan portfolios and the availability of internal historical information, and data about the future development of parameters. Additionally, reasonability analysis and assessment were carried out of: - relevance of the criteria to identify a significant increase in credit risk; - appropriateness of the allocation made of exposures into stages according to the classification criteria determined by the Group; - the calculations of the indicators "probability of default" (PD) and "loss

• Assumptions and estimates in a number of scenarios for expected future cash flows, based on past events, current conditions and future economic forecasts; • Assumptions applied by management in the review of significant credit-impaired exposures in Stage 3, related to recent losses, set of probability scenarios for future cash flows and results therefrom, and for future collection. Due to the significance of the above described circumstances that: a/ the materiality of loans and advances to customers as a reporting item for the Group's consolidated financial statements, and b/ the complexity, considerable multiple judgements and assumptions, the high inherent uncertainty in the estimate of expected credit losses set in the model for impairment of loans and advances to customers on an individual and portfolio basis, according to the requirements of IFRS 9, we have considered this matter as a key audit matter.	given default" (LGD) by checking the assumptions and outputs used; - the approach of including forecast information in the models. • Analysis of the relevance of the calibration methods used and the reasonableness of the resultant changes and effects in the context of our understanding for the development of the Group's loan portfolios and the quality of the available data. We tested the mathematical accuracy of the formulas used in the specific impairment models. • Analysis of the Group's credit portfolio and other analytical procedures as to its structure, composition and development trends, including of the interrelations of trends in the expenses on impairment losses and trends in the loan portfolio development. • Performing detailed tests, based on a sample of loans at all stages, for the purpose of assessing the relevance of the impairment charged of credit losses. The following audit procedures are performed for the items in the sample: - analysis of the financial position and results of borrowers, and inspection of information and documents related to loan servicing; - review of collateral valuation reports of the respective exposures; for some collaterals, we used our expert appraisers regarding the assumptions and methods applied in the valuations of collateral realisable value; - analysis and assessment of the key assumptions and judgments of the

	Group's management in the calculation of specific allowances for credit losses for individual exposures at Stage 3; - test recalculations of specific parameters in the model and the total amount of the expected credit losses at a collective level for Stage 1 and Stage 2 loans in the sample. • Assessment of the relevance, completeness and adequacy of the Group's disclosures in relation to the impairment for credit losses on loans and advances to customers.

Emphasis of Matter

We draw attention to Note 32 to the consolidated annual financial statements, which discloses a material non-adjusting event after the reporting date, related to the spread of the coronavirus (COVID-19) pandemic, as well as the Group's management's position on the potential effects thereof on the Company's operations, financial position and results. Our opinion is not qualified with respect to this matter.

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

Management is responsible for the other information. The other information comprises the management report, including information about the Bank's activity in its capacity as investment intermediary, and 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 the 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 fair presentation of the consolidated financial statements in accordance with IFRSs as applicable in the EU and for such internal control as management determines is necessary to enable the preparation of 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 its operations, or has no realistic alternative but to do so.

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

Auditors' 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 International Standards on Auditing (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 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 auditors' report unless law or regulation precludes public disclosure of information 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 responsible for the performance of our audit and the audit opinion expressed by us, in accordance with the requirements of the IFAA applicable in Bulgaria. In accepting and performing the joint audit engagement, in respect to which we are reporting, we have considered the Guidelines for Performing Joint Audits, issued on 13 June 2017 by the Institute of Certified Public Accountants in Bulgaria and the Commission for Public Oversight of the Registered Auditors in Bulgaria.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Additional Matters to be Reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, described above in the *Information Other than the Consolidated Financial Statements and Auditors' Report Thereon* section, in relation to the management report and the corporate governance statement, we have also performed the procedures added to those required under ISAs in accordance with the *"Guidelines Regarding New Extended Reports and Communication by the Auditor"* of the professional organisation of Registered Auditors in Bulgaria – 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 an opinion about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act applicable in Bulgaria and Art. 100(m), paragraph 8, where applicable, of the Public Offering of Securities Act.

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

Based on the procedures performed, our opinion is that:

- The information included in the management report referring to the financial year for which the consolidated financial statements have been prepared is consistent with those consolidated financial statements.
- The management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.
- The corporate governance statement 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.

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.

- AFA OOD and Baker Tilly Klitou and Partners OOD were appointed as statutory auditors of the consolidated financial statements of the Group for the year ended 31 December 2019 by the General Meeting of Shareholders held on 27 September 2019, for a period of one year.

- The audit of the consolidated financial statements of the Bank for the year ended 31 December 2019 represents a fifth total consecutive statutory audit engagement carried out by AFA OOD and a third total statutory audit engagement carried out by Baker Tilly Klitou and Partners OOD.

- We hereby confirm that the audit opinion expressed by us is consistent with the additional report dated 30 April 2020, provided to the Group's Audit Committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.

- We hereby confirm that no prohibited non-audit services, referred to in Art. 64 of the Independent Financial Audit Act, were provided.

- We hereby confirm that in conducting the audit we have remained independent of the Group.

Audit firm
AFA OOD:

Valia Iordanova
General Manager
Registered Auditor in Charge of the Audit

38, Oborishte Street
1504-Sofia, Bulgaria

Audit firm
Baker Tilly Klitou and Partners OOD:

Krassimira Radeva
General Manager
Registered Auditor in Charge of the Audit

5, Stara Planina Street, floor 5
1000-Sofia, Bulgaria

30 April 2020

This is a translation from Bulgarian of the Independent Auditors' Report on the Consolidated Financial Statements of D Commerce Bank Group for the year ended 31 December 2019.

D Commerce Bank AD

Annual Consolidated Financial Statements

as at 31 December 2019
in accordance with IFRS

CONTENTS

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

D COMMERCE BANK GROUP

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2019

	Notes	2019 BGN'000	2018 BGN'000
Interest income		27 195	24 764
Interest expense		(2 886)	(3 008)
Net interest income	4	**24 309**	**21 756**
Fee and commission income		9 058	9 118
Fee and commission expense		(1 170)	(1 158)
Net fee and commission income	5	**7 888**	**7 960**
Net trading income	6	1 951	3 502
Net (loss)/gains on impairment of financial assets	7	(297)	1 653
Operating income		**33 851**	**34 871**
Other operating income, net	8	2 164	1 997
Administrative operating expenses			
Personnel expenses	9	(13 404)	(12 701)
Depreciation and amortisation	9, 17, 18, 19	(3 386)	(1 557)
Other administrative operating expenses	9	(10 415)	(11 602)
		(27 205)	**(25 860)**
Profit before income tax		**8 810**	**11 008**
Income tax expense	10	(893)	(1 112)
Net profit for the year		**7 917**	**9 896**
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension plans	27	(1)	(1)
		(1)	**(1)**
Items that may be reclassified to profit or loss:			
Net gain/(loss) on debt securities at fair value through other comprehensive income		1 464	(623)
		1 464	**(623)**
Other comprehensive income for the year, net of tax	11	**1 463**	**(624)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**9 380**	**9 272**
Net profit for the year attributable to:			
Equity holders of the parent		7 917	9 896
Total comprehensive income attributable to:			
Equity holders of the parent		9 380	9 272

The accompanying notes on pages 5 to 116 form an integral part of these consolidated financial statements.

Anna Asparuhova
Chief Executive Director

Martin Gandhev
Executive Director

Elitsa Kostova
Preparer

Financial statements on which an auditors' report is issued dated: 30 April 2020	
Audit Firm "AFA" OOD:	Audit Firm "Baker Tilly Klitou and Partners" OOD:

This is a translation from Bulgarian of the consolidated financial statements of D Commerce Bank Group for year 2019. In case of divergence the Bulgarian original shall prevail.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2019

	Notes	31 December 2019 BGN'000	31 December 2018 BGN'000
ASSETS			
Cash and balances with the Central Bank	12	119 586	131 875
Due from banks	13	116 986	87 824
Loans and advances to customers	14	592 303	428 879
Securities at fair value through other comprehensive income	15	48 155	49 711
Securities at amortised cost	16	56 577	67 722
Investment property	17	18 631	17 589
Property, equipment and right-of-use assets	18	47 407	27 878
Intangible assets	19	1 229	1 025
Assets held for sale	20	146	387
Current tax receivables	21	458	159
Other assets	22	12 284	12 145
TOTAL ASSETS		**1 013 762**	**825 194**
LIABILITIES			
Due to banks	23	14 286	8 290
Due to customers	24	855 169	701 003
Current tax liabilities	25	113	106
Deferred tax liabilities	26	192	188
Other liabilities	27	7 768	3 817
TOTAL LIABILITIES		**877 528**	**713 404**
EQUITY			
Equity attributable to equity holders of the parent			
Share capital		90 064	75 000
Reserves		38 093	26 669
Retained earnings		8 077	10 121
TOTAL EQUITY	28	**136 234**	**111 790**
TOTAL EQUITY AND LIABILITIES		**1 013 762**	**825 194**

The accompanying notes on pages 5 to 116 form an integral part of these consolidated financial statements.

The consolidated financial statements on pages 1 to 116 were approved for issue by the Management Board of the Bank and signed on 30 March 2020 by:

Anna Asparuhova
Chief Executive Director

Martin Ganchev
Executive Director

Elitsa Kostova
Preparer

ТЪРГОВСКА БАНКА
Commerce Bank
София

Financial statements on which an auditors' report is issued dated: 30 April 2020	
Audit Firm "AFA" OOD:	Audit Firm "Baker Tilly Klitou and Partners" OOD:

This is a translation from Bulgarian of the consolidated financial statements of D Commerce Bank Group for year 2019. In case of divergence the Bulgarian original shall prevail.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2019

	Notes	2019 BGN'000	2018 BGN'000
Cash flows from operating activities			
Profit before tax		8 810	11 008
Adjustments for non-cash items			
Net loss/(gain) on impairment of financial assets	7	297	(1 653)
Net (gain)/loss on impairment of non-financial assets	9	-	(36)
Depreciation and amortisation	9,17,18,19	3 386	1 557
Net interest income	4	(24 309)	(21 756)
Cash flows used in operating activities before changes in operating assets and liabilities		**(11 816)**	**(10 880)**
Changes in operating assets			
Decrease in due from banks		-	4
Decrease /(Increase) in securities at fair value through other comprehensive income		2 814	(12 575)
Increase in loans and advances to customers		(159 866)	(36 653)
Increase in assets held for sale		(51)	(387)
(Increase)/decrease in other assets		(975)	1 933
Changes in operating liabilities			
Increase in due to customers		155 695	64 619
Decrease in other liabilities		(2 872)	(4 058)
Interest received		23 795	21 997
Interest paid		(2 258)	(2 528)
Net cash flows used in operating activities before income tax		*4 466*	*21 472*
Income tax paid		(886)	(1 224)
Net cash flows from operating activities		**3 580**	**20 248**
Cash flows from investing activities			
Purchases of property and equipment		(994)	(1 555)
Proceeds from sale of property and equipment		539	952
Purchases of investment property		(579)	(5 665)
Proceeds from sale of investment property		167	747
Purchases of intangible assets		(511)	(613)
Purchases of securities at amortised cost		(10 327)	-
Proceeds from securities at amortised cost upon maturity		20 696	12 234
Net cash flows from investing activities		**8 991**	**6 100**
Cash flows from financing activities			
Proceeds from bank loans		6 369	477
Payments under bank loans		(382)	(1 233)
Lease payments		(1 685)	-
Net cash flows from/(used in) financing activities		**4 302**	**(756)**
Net increase in cash and cash equivalents		**16 873**	**25 592**
Cash and cash equivalents at the beginning of the year	29	219 699	194 107
Cash and cash equivalents at the end of the year	29	**236 572**	**219 699**

The accompanying notes on pages 5 to 116 form an integral part of these consolidated financial statements.

Anna Asparuhova
Chief Executive Director

Martin Ganchev
Executive Director

Elitsa Kostova
Preparer

Financial statements on which an auditors' report is issued dated: 30 April 2020	
Audit Firm "AFA" OOD:	Audit Firm "Baker Tilly Klitou and Partners" OOD:

This is a translation from Bulgarian of the consolidated financial statements of D Commerce Bank Group for year 2019. In case of divergence the Bulgarian original shall prevail.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2019

	Notes	Attributable to equity holders of the parent				
		Share capital	Statutory reserves	Reserve for financial assets at fair value through other comprehensive income	Retained earnings	Total
		BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Balance at 1 January 2018		**75 000**	**16 871**	**825**	**9 822**	**102 518**
Changes in equity for 2018						
Distribution of profit for:		-	9 596	-	(9 596)	-
** reserves*		-	*9 596*	-	*(9 596)*	-
Total comprehensive income for the year, including:		-	-	(623)	9 895	9 272
** net profit for the year*		-	-	-	*9 896*	*9 896*
** other comprehensive income, net of taxes*		-	-	*(623)*	*(1)*	*(624)*
Balance at 31 December 2018	*28*	**75 000**	**26 467**	**202**	**10 121**	**111 790**
Changes in equity for 2019						
Increase of share capital through contribution in kind	*28*	15 064	-	-	-	**15 064**
Distribution of profit for:		-	9 960	-	(9 960)	-
** reserves*		-	9 960	-	(9 960)	-
Total comprehensive income for the year, including:		-	-	1 464	7 916	9 380
** net profit for the year*		-	-	-	*7 917*	7 917
** other comprehensive income, net of taxes*		-	-	*1 464*	*(1)*	1 463
Balance at 31 December 2019	*28*	**90 064**	**36 427**	**1 666**	**8 077**	**136 234**

The accompanying notes on pages 5 to 116 form an integral part of these consolidated financial statements.

Anna Asparuhova
Chief Executive Director

Martin Ganchev
Executive Director

Elitsa Kostova
Preparer

ТЪРГОВСКА БАНКА Д АД
Commerce Bank
София

Financial statements on which an auditors' report is issued dated: 30 April 2020	
Audit Firm "AFA" OOD:	Audit Firm "Baker Tilly Klitou and Partners" OOD:

This is a translation from Bulgarian of the consolidated financial statements of D Commerce Bank Group for year 2019. In case of divergence the Bulgarian original shall prevail.

1. CORPORATE INFORMATION ON THE GROUP

D Commerce Bank Group (the Group) comprises D Commerce Bank AD (the Bank, the parent) and its three subsidiaries – D Leasing EAD, D Insurance Broker EOOD and D Imoti EOOD.

1.1. General information

Parent company

D Commerce Bank AD (formerly Demirbank (Bulgaria) AD) was established on 15 April 1999 as a joint-stock company. The registered address of the Bank is: 8, Gen. E. I. Totleben Blvd., Sofia. D Commerce Bank AD is a universal bank with a full license to provide banking services in the country and abroad, in domestic and foreign currency, and to perform all other transactions under art. 2, Para 1 and 2 of the Credit Institutions Act.

Subsidiaries

D Leasing EAD

D Leasing was entered in the Commercial Register kept at the Registry Agency on 29 July 2014 as a sole owner joint-stock company. 100% of the share capital is held by D Commerce Bank AD. Company's seat and registered address is: 8, Gen. Totleben Blvd., Sofia.

D Insurance Broker EOOD

D Insurance Broker EOOD is a sole owner limited liability company. Sole owner of the capital is D Commerce Bank AD. The circumstances related to the acquisition of 100% of Company's capital by the Bank were entered in the Commercial Register kept at the Registry Agency on 31 July 2013.

Company's seat and registered office is: 8, Gen. Totleben Blvd., Krasno Selo Region, Sofia.

D Imoti EOOD

D Imoti EOOD is a sole owner limited liability company, entered in the Commercial Register kept at the Registry Agency on 14 October 2013. Sole owner of Company's capital is D Commerce Bank AD. Company's seat and registered office is: 8, Gen. Totleben Blvd., Krasno Selo Region, Sofia.

1.2. Ownership and management

Parent company

As at 31 December 2019, the capital of the Bank (parent company) is held by Mr. Fuat Guven, who holds directly 55.52% of the capital, and the remaining 44.48% through FORTERA AD, UIC 175194303. The Bank has a two-tier management system which implies a Management Board and a Supervisory Board.

As at 31 December 2019, the management of the parent company, being the Management Board (MB), is composed of 6 (six) members, namely: Anna Ivanova Asparuhova – Chairperson of the MB and

Chief Executive Director; Martin Emilov Ganchev – Member of the MB and Executive Director; Plamen Ivanov Dermendzhiev – Member of the MB; Valentina Dimitrova Borisova – Member of the MB; Zahari Dimitrov Alipiev – Member of the MB, Ivan Borisov Kutlov – Member of the MB.

As at 31 December 2019, those charged with the governance of the parent company represent the Supervisory Board (SB), which is composed of 3 (three) members, namely: Fuat Guven – Chairman of the SB, Valeri Borisov – Member of the SB, Bahattin Gurbuz – Member of the SB.

In accordance with the Credit Institutions Act the provisions of the Articles of Association of D Commerce Bank AD and its court registration, the Bank is represented jointly by all members of the MB, or jointly by two Executive Directors. The Executive Directors of the Bank as at 31 December 2019 are: Anna Ivanova Asparuhova – Chairperson of the MB and Chief Executive Director and Martin Emilov Ganchev – Member of the MB and Executive Director.

The parent company (the Bank) has an Audit Committee, which monitors the work of its external auditors, the operation of the internal audit, the management of risk and the accounting activities as well as the financial reporting process.

The composition of the Audit Committee is as follows: Toma Stoilov – Chairman, Vasilka Ivanova – Member, Ekaterina Mangafova – Kapincheva – member.

Subsidiaries

The Bank is sole owner of the three subsidiaries – D Leasing EAD, D Insurance Broker EOOD and D Imoti EOOD.

D Leasing EAD

The management of D Leasing EAD, i.e. the Board of Directors, as at 31 December 2019 is as follows: Ivaylo Georgiev Ivanov, Petya Radeva Valeva and Zorka Iordanova Samokovliyska. The company is represented jointly by any two of the three members of the Board of Directors.

D Insurance Broker EOOD

The company is managed and represented by Zornitsa Rosenova Blagoeva – General Manager.

D Imoti EOOD

The company is managed and represented by the General Managers Yavor Nikolov Terziev and Ivaylo Georgiev Nikolov.

As at 31 December 2019, the total staff number of the Group is 427 employees (31 December 2018: 452 employees).

1.3. Structure and principal activities of the Group

1.3.1. The *structure* of the Group comprises D Commerce Bank AD as a parent company and the subsidiaries listed below:

	Country	Interest as of 31.12.2019 %	Interest as of 31.12.2018 %
D Imoti EOOD	Bulgaria	100%	100%
D Leasing EAD	Bulgaria	100%	100%
D Insurance Broker EOOD	Bulgaria	100%	100%

The table below presents information about the date when the parent has obtained control over the respective subsidiary:

	Date of obtaining control
D Leasing EAD	29 July 2014
D Insurance Broker EOOD	9 July2013
D Imoti EOOD	14 October 2013

1.3.2. Principal activities

Parent company

The parent company (the Bank) holds a general banking license issued by the Central Bank of Bulgaria, the Bulgarian National Bank (BNB), and is allowed to perform all banking operations permitted by the Bulgarian law.

The Bank's main activities in 2019 were related to attracting deposits from customers, granting loans to business customers and individuals, servicing payments of customers in the country and abroad, trading securities, performing repurchase agreements on the interbank market, dealing in foreign currencies, issuing letters of credit and bank guarantees and providing other financial services in Bulgaria.

As at 31 December 2019 the Bank has established 52 structural units, including Headquarters, 32 Financial Centres, 8 Offices and 11 remote workplaces (IRM) in various cities in Bulgaria.

Subsidiaries

D Leasing EAD is a financial institution in the meaning of Art. 3a of the Credit Institutions Act and by virtue of Order No BNB-135013 of 1 December 2014 it is entered in the Financial Institutions Register kept by the BNB.

The main activity of the company includes the following types of transactions: finance leases, guarantee transactions, money brokerage, acquisition of receivables on loans and other forms of financing (factoring, forfeiting, etc.), acquisition of interests in credit institutions or other financial institutions, granting of loans with funds not raised through public attraction of deposits or other recoverable funds.

The principal activities of *D Insurance Broker EOOD* include insurance brokerage or intermediation by assignment for the conclusion and performance of insurance and / or reinsurance contracts and the related consultancy services (following the receipt of a license), as well as other activities and transactions not forbidden by law, excluding security guards and similar activities.

The principal activities of *D Imoti EOOD* include the purchase-and-sale of real estate, design, furnishing, construction of real estate for sale, rental.

The Bank and its subsidiaries carry out their activities entirely on the territory of the Republic of Bulgaria.

1.4. Main indicators of the economic environment

The main economic indicators of the business environment that have affected the Group's activities throughout the period 2016 – 2019 are presented in the table below:

Indicator	**2016**	**2017**	**2018**	**2019**
Nominal GDP in million levs *	95,092	102,308	109,695	119,485
Actual growth of GDP *	3.8%	3.5%	3.1%	3.8%
Year-end inflation (HICP)	-0.5%	1.8%	2.3%	3.1%
Average exchange rate of USD for the year	1.77	1.73	1.66	1.75
Exchange rate of the USD at year-end	1.86	1.65	1.72	1.76
Basic interest rate at year-end	0.00	0.00	0.00	0.00
Unemployment rate at year-end **	8.0%	7.1%	6.1%	5.9%
Credit rating of Republic of Bulgaria according to Standard&Poors (long-term)	BB+	BB+	BBB-	BBB
Credit rating of Republic of Bulgaria according to Moody's (long-term)	Baa2	Baa2	Baa2	Baa2
Credit rating of Republic of Bulgaria according to Fitch (long-term)	BBB	BBB-	BBB	BBB

** BNB forecast for 2019, prepared as at 20 December 2019; ** According to data of the Employment Agency*

Source: BNB

1.5. Legal environment

The Bank's activity is regulated by the Credit Institutions Act and its bylaws, and BNB performs surveillance and controls compliance with banking legislation.

2. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES OF THE GROUP

2.1. Basis for the preparation of the consolidated financial statements

The consolidated financial statements of D Commerce Bank AD have been prepared in accordance with all International Financial Reporting Standards (IFRS), which comprise Financial Reporting Standards and the International Financial Reporting Interpretations Committee (IFRIC) interpretations, approved by the International Accounting Standards Board (IASB), as well as the International Accounting Standards (IAS) and the Standing Interpretations Committee (SIC) interpretations, approved by the International Accounting Standards Committee (IASC), which are effectively in force on 1 January 2019 and have been accepted by the Commission of the European Union. IFRSs as adopted by the EU is the commonly accepted name of the general purpose framework – the basis of accounting equivalent to the framework definition introduced by § 1, p. 8 of the Additional Provisions of the Accountancy Act "International Accounting Standards" (IASs).

For the current financial year the Group has adopted all new and/or revised standards and interpretations, issued by the International Accounting Standards Board (IASB) and respectively, by the International Financial Reporting Interpretations Committee (IFRIC), which have been relevant to its activities.

The adoption of these standards and/or interpretations, applicable to entities in Bulgaria for annual reporting periods beginning on 1 January 2019 at the earliest, has caused changes in Group's accounting policies with regard to the principles, rules and criteria on the accounting for the following reporting items as well as the presentation and disclosure of financial information thereon: property, equipment and right-of-use assets (*Note 18)* and other liabilities (*Note 27)*. The impact of initial application of the standard is presented in *Note 2.3*.

The changes are resultant from the application of the following standards and interpretations:

- *IFRS 16 "Leases" (in force for annual periods beginning on or after 1 January 2019 – endorsed by EC)*. This standard has an entirely new concept. It establishes new principles for the recognition, measurement, presentation and disclosure of a lease by introducing a new model with the objective to ensure a more faithful and adequate representation of such transactions primarily for the lessee. The standard supersedes the effective so far standard related to leases – IAS 17, and the interpretations thereto. (a) The main principle of the new standard for lessees is the introduction of a single lessee accounting model in the statement of financial position – an asset will be recognised for all contracts with duration of more than 12 months in the form of a 'right-of-use', which will be subsequently depreciated over the duration of the contract, and respectively, a financial liability will be stated for the lease liability under these contracts. This is the significant change to the accounting practice applied until 2018. The standard allows an exception and retaining the current practice for leases of low-value assets and short-term leases. The standard will impact the financial result for the period, since during the first years expenses related to leases are higher; moreover, operating costs will be replaced by depreciation and interest costs, which will result in a certain change in key metrics such as EBITDA; operating cash flows will increase, since principals and interest will be classified as cash from financing activities; (b) There would not be any significant changes for lessors and they will continue to account for leases as per the old standard IAS 17 – as operating and finance lease. As far as the new standard introduces a more comprehensive concept, a more detailed analysis of contractual terms should be carried out on their part as well and it is possible that grounds for reclassification of particular lease transactions may occur for them (lessors), too. The new standard requires more extensive disclosures.

Regarding the other standards and interpretations stated herein below, the management has analysed their possible impact and has determined they would not impact the Group's accounting policy, respectively its assets, liabilities, transactions and results, in as far as it does not possess/operate such items and/or does not perform such deals and transactions.

- *IFRIC 23 (amended) "Uncertainty over Income Tax Treatments" (in force for annual periods beginning on or after 1 January 2019 – endorsed by EC).* This Interpretation provides guidance on the accounting treatment and accounting for income tax in the scope of IAS 12 when tax treatments involve uncertainty. It does not apply to taxes or other state levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation addresses the following matters: (a) the entity's approach whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments depending on which approach better resolves the respective uncertainty; (b) the assumptions an entity makes to determine how the taxation authorities would examine and check a given uncertainty of tax treatment assuming that tax authorities have all available information; (c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates when there are given uncertainties; (d) the requirement to assess the impact of uncertainties on the income tax stated, given that the tax authorities are unlikely to accept the Group's tax treatment; (e) measuring the impact may be done in the more appropriate of the two methods – "most likely amount" and "expected value"; and (f) how an entity considers and treats changes in facts and circumstance.
- *IFRS 9 (amended) "Financial Instruments" – regarding prepayment features with negative compensation in case of early repayment and modifications of financial liabilities (in force for annual periods beginning on or after 1 January 2019 – endorsed by EC).* This amendment covers two aspects: (a) it amends the existing requirements in IFRS 9 by enabling entities to measure at amortised cost some financial assets (loans and other debt instruments) and their passing of the SPPI "solely payments of principal and interest" test, despite the availability of "prepayment features with negative compensation". Negative compensation exists when the terms of the contract allow the debtor to make an early repayment of the instrument prior to its maturity, and the amount repaid may differ from the outstanding principal and interest. An important condition is that this negative compensation should be reasonable and relevant to the early termination of the contract. Prepayment itself is not a sufficient assessment indicator, i.e. it needs to be determined based on the interest rate prevailing at the time of termination and other market conditions and circumstances, and depending on these – the amount of payment in favour of the contracting party initiating the early repayment. The calculation approach of

this compensation payment must be the same for both type of payments - the case of an early repayment penalty and the case of an early repayment gain. Moreover, the respective asset should belong to the category of assets "held to collect contractual cash flows" in the structure of the entity's business model; (b) it confirms (by means of an amendment to the Basis of Conclusion) that when a financial liability measured at amortised cost is modified but not derecognised, the effect of the modification should be recognised in the profit or loss. The effect is measured as the difference between the original negotiated cash flows and the ones, following the modification, discounted at the original effective interest rate.

- *IAS 28 (amended) "Investments in Associates and Joint Ventures" – regarding long term interests in associates and joint ventures (in force for annual periods beginning on or after 1 January 2019 – endorsed by EC).* The amendment clarifies that an entity should apply IFRS 9 including its impairment requirements regarding forms of long term interests in associate or joint venture that are part of the net investment in the associate or joint venture but to which the equity method is not applied. The accounting for the impact under IFRS 9 for these forms of interests shall be done before accounting for the distribution of losses and impairment under IAS 28. A change in the intents and plans of the management are not regarded as evidence for a change in use.

- *Annual Improvements to IFRS Standards 2015-2017 Cycle (December 2017) – improvements to IAS 23, IAS 12 and IFRS 3 in relation to IFRS 11 (in force for annual periods beginning on or after 1 January 2019 – endorsed by EC).* These improvements introduce partial amendments to and editions of the respective standards primarily with a view to remove the existing inconsistency or ambiguities in the application of the rules and requirements of individual standards as well as to set out more precise terminology. These amendments are basically focused on the following items and transactions: (a) they clarify that when an entity acquires control over a business which constitutes a joint operation, it should remeasure its previous held interest in the business under IFRS 3 as a business combination achieved in stages; (b) when an entity acquires a joint control over a business which constitutes a joint operation, it should not remeasure its previous held interest in the joint operation under IFRS 11; (c) they clarify that all tax consequences on dividend income should be stated within profit or loss or other comprehensive income or directly within equity – depending on where the respective transactions and/events generating the respective distributable profits have been stated, as far as these consequences are related thereto; and (d) they clarify if under special-purpose loans concluded to finance a qualifying asset remain outstanding after the asset is ready for its intended use or disposal, these loans shall be treated as part of general-purpose financing for the purpose of calculating the capitalisation rate and amounts under IAS 23.

- *IAS 19 (amended) "Employee Benefits" (in force for annual periods beginning on or after 1 January 2019 – endorsed by EC).* This amendment clarifies that in case of changes to defined benefit plan amendments, curtailments or settlements, upon determining the current service cost and net interest for the period following the change, the entity is obliged to use the assumptions made therein. Additionally, changes are envisaged to the presentation and disclosure of impact for changes to defined benefit plan amendments, calculation of past service, effects of changes in plans, curtailments or settlements in relation to the plan asset ceiling.

At the date when these financial statements have been approved for issue, there are several new standards and interpretations as well as amended standards and interpretations, issued but not yet in force for annual periods beginning on or after 1 January 2019, which have not been adopted by the Group for early application. The management has decided that out of them the following are likely to have a potential impact in the future for changes in the accounting policies, and in the classification and value of reporting items in Group's financial statements for subsequent periods, namely:

• *Amendments to the Conceptual Framework for Financial Reporting and the respective references thereto in various IFRS (in force for annual periods beginning on or after 1 January 2020, endorsed by EC).* These amendments to the Framework include revised definitions of "asset" and "liability", as well as new guidance and concepts for their measurement, derecognition, presentation, and disclosure. The amendments to the Conceptual Framework are accompanied by amendments to some references thereto in the International Financial Reporting Standards, including IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC 32. Some of the references state which version of the Conceptual Framework statements in the respective standards should refer to (the IASC framework adopted by IASB in 2001, the IASB framework of 2010, or the new revised framework dated 2018), while others specifically state that the standard's definitions have not been updated in accordance with the framework's latest amendments.

• *Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" (in force for annual periods beginning on or after 1 January 2020 – not endorsed by EC).* These changes relate to providing a more precise definition of 'material' as stated in the two standards. According to them, the new definition of 'material' is: "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". There are three new aspects of the definition which should be noted: (a) "Obscuring". The existing definition only focused on omitting or misstating information, however, the Board concluded that obscuring material information with information that can be omitted can have a similar effect. (b) "Could reasonably be expected to influence". The existing definition referred to 'could influence' which the Board felt might be understood as requiring too much information as almost anything 'could' influence the decisions of some users even if the possibility is remote; and (c) Primary users (existing or potential investors, lenders and other creditors) -the existing definition referred to 'users' which again the Board feared might be understood too broadly as requiring to consider all possible users of financial statements when deciding what information to disclose. Moreover, the amendments stress especially five ways material information can be obscured: (a) if the language regarding a material item, transaction or other event is vague or unclear; (b) if information regarding a material item, transaction or other event is scattered in different places in the financial statements; (c) if dissimilar items, transactions or other events are inappropriately aggregated; (d) if similar items, transactions or other events are inappropriately disaggregated; and (e) if material information is hidden by immaterial information to the extent that it becomes unclear what information is material. Moreover, the amendments clarify that referring to unclear information shall have the same effect as to omitted or missing information, and that materiality shall be assessed by the entity in the context of the financial statements taken as a whole.

- *Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" (in force for annual periods beginning on or after 1 January 2020 – endorsed by EC).* These amendments are related to the uncertainty ensuing from the interest rates benchmark reform undertaken by the Financial Stability Board of G20. This reform is aimed at replacing the existing interbank interest rates used as benchmarks in transactions with financial instruments (for instance: Libor, Euribor, Tibor) with alternative benchmarks based on interbank offered rates, and at developing alternative interest rates benchmark that are almost risk-free. The aims is to overcome consequences on the financial reporting resulting from the reform in interest rates benchmark in the period before the replacement of an existing interest rate benchmark with an alternative interest rate benchmark. The amendments envisage temporary and limited relief to the hedge accounting requirements in IFRS 9 and IAS 39 allowing entities to continue observing the two standards while ignoring the reform's effect.

The management is in the process of survey, analysis and assessment of the impact of the changes that might impact the accounting policies and the classification and presentation of Group's assets and liabilities as a result of the above standards.

Additionally, with regard to the stated below new standards, amended/revised standards and new interpretations that have been issued but not yet in force for annual periods beginning on 1 January 2019, the management has judged that they are unlikely to have a potential impact resulting in changes in the accounting policies and the financial statements of the Group, namely:

- *IFRS 17 "Insurance Contracts" (in force for annual periods beginning on or after 1 January 2021 (with an option for deferral to 2022), not endorsed by EC).* This is an entirely new accounting standard on all types of insurance contracts, including some guarantees and financial instruments, and includes rules on recognition and measurement, presentation and disclosure. The standard will supersede the effective so far standard related to insurance contracts – IFRS 4. It establishes an entirely new overall model for insurance contracts' accounting, covering all relevant accounting aspects. It is not applicable to the Group's operations.

- *IFRS 10 (amended) "Consolidated Financial Statements" and IAS 28 (amended) "Investments in Associates and Joint Ventures" – regarding the sale or contribution of assets between an investor and its associates or joint ventures (postponed effective date, to be determined by the IASB).* These amendments address the accounting treatment of the sale or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the assets sold or contributed constitute in substance a business as defined in IFRS 3. If these assets as an aggregate do not meet the definition of a business, then the investor shall recognise gain or loss only to the extent of other unrelated investor's interests in the associate or joint venture. In cases of sale or contribution of assets, which as an aggregate constitute a business, the investor shall recognise the full gain or loss on the transaction. The amendments will be applied on a prospective basis. IABS postponed the initial date of application of these amendments for an indefinite period.

• *IFRS 3 (amended) "Business Combinations" (in force for annual periods beginning on or after 1 January 2020, not endorsed by EC).* This change concerns the definition of "business" provided in the appendices to the standard and is related to the difficulties that acquiring entities experience when determining whether they have acquired a business or a group of assets. The amendment aims: (a) to clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; (b) to narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs; (c) to add guidance and illustrative examples to help entities assess whether a substantive process has been acquired; (d) to remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and (e) to add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

• *IAS 1 (amended) "Presentation of Financial Statements" " (in force for annual periods beginning on or after 1 January 2022)* – regarding the classification of liabilities as current and non-current.

2.2. Comparatives

In these consolidated financial statements, the Group presents comparative information for one prior year. Where necessary, comparative data is reclassified (and restated) in order to achieve comparability in view of the current year presentation changes.

An exception to this rule is the presentation of the impact of the first-time adoption of IFRS 16 *Leases;* the Group has elected modified retrospective first-time adoption of the standard and has not restated the comparatives.

2.3. Impact of the initial application of IFRS 16 Leases

This Note presents the impact on the Bank's consolidated financial statements for year 2019 of the initial adoption of IFRS 16 Leases. The Group has applied the modified retrospective approach in which comparatives for 2018 remain unchanged.

The Group has made use of the practical expedient not to reassess if a contract is or contains a lease as at 1 January 2019, and has elected to apply IFRS 16 only to those contracts which were identified as leases under IAS 17 and IFRIC 4 at date of initial application.

Upon adoption IFRS 16, the Group has recognized lease liabilities which were previously classified as operating leases under IAS 17 *Leases*. These liabilities have been measured at the present value of outstanding lease payments discounted with the Group's incremental borrowing rate as at 1 January 2019. The Group's weighted-average incremental borrowing rate applied to lease liabilities as at 1 January 2019 is 1.1%.

The impact of the initial application of IFRS 16 on the respective items in the statement of financial position as at 1 January 2019 is presented below:

	Originally stated	**Effect of application of IFRS 16**	**Restated**
	31.12.2018	***01.01.2019***	***01.01.2019***
	BGN'000	***BGN'000***	***BGN'000***
Assets			
Right-of-use assets (Note 18) [1]	27,878	6,387	34,265
Total assets	**27,878**	**6,387**	**34,265**
Liabilities			
Other liabilities (Note 27) [2]	3,817	6,387	10,204
Total liabilities	**3,817**	**6,387**	**10,204**

Notes:

1. Right-of-use assets at 1 January 2019 are measured as equal to the present value of lease liabilities at the same date, at the amount of BGN 6,387 thousand and are presented in the consolidated statement of financial position within „Property, equipment and right-of-use assets";
2. Lease liabilities at 1 January 2019 at the amount of BGN 6,387 thousand include the sum of the present value of lease liabilities at 1 January 2019. Lease liabilities are presented in the consolidated statement of financial position within "Other liabilities".

Lease liabilities as at 1 January 2019 may be reconciled with operating lease commitments as at 31 December 2018, as follows:

	BGN'000
Operating lease commitments as at 31 December 2018	**4,523**
Weighted-average incremental interest rate as at 1 January 2019	1,1%
Discounted operating lease liabilities as at 1 January 2019	**4,407**
Increased with:	
Lease payments related to renewal periods not included in operating lease commitments as at 31 December 2018	1,980
Lease liabilities as at 1 January 2019	**6,387**

Upon the initial application of IFRS 16, the Group has made use of the following practical expedients permitted by the standard:

- Using a single discount rate to a portfolio of leases with similar characteristics;
- Excluding initial direct costs from the measurement of the right-of-use asset at the date of initial application – 1 January 2019;

- Using hindsight in determining the lease term if the contract contains options to extend or terminate the lease.

The Group has elected to not apply IFRS 16 to contracts which were previously not defined as containing a lease component under IFRS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement contains a Lease.*

2.4. Basis of measurement

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for financial instruments at fair value through other comprehensive income, which have been measured at fair value.

2.5. Functional and presentation currency

The functional and reporting presentation currency in the Group's consolidated financial statements is the Bulgarian Lev (BGN). As from 1 January 1999, when the Euro was introduced, the fixed ratio between the two currencies is BGN 1.95583:EUR 1.

The Group keeps its accounting books in Bulgarian Lev (BGN), which is accepted as being its functional and presentation currency.

The data in the consolidated financial statements and the notes thereto is presented in thousand Bulgarian Levs (BGN'000) except where it is explicitly stated otherwise.

2.6. Use of estimates

The presentation of the consolidated financial statements in accordance with International Financial Reporting Standards requires the Group's management to make best estimates, accruals and reasonable assumptions that affect the reported values of assets and liabilities, the amounts of income and expenses and the disclosure of contingent receivables and payables as at the date of the financial statements. These estimates, accruals and assumptions are based on the information, which is available at the date of the consolidated financial statements, and therefore, the future actual results of the Group might be different from them (whereas in a situation of financial crisis the uncertainties are much more significant). Items requiring more subjective judgement or having higher level of complexity, or where assumptions and estimates are material for the consolidated financial statements, are disclosed in *Note*

2.7. Definitions and consolidation principles

2.7.1. Definitions

Parent company

The parent is an investor that controls one or more companies (entities). Having control means that the investor is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to affect those returns through its power over the investee.

The parent company is D Commerce Bank AD *(Note 1).*

Subsidiary company

A subsidiary is a company, or another entity, that is controlled directly or indirectly by the parent.

The subsidiaries include: D Leasing EAD, D Insurance Broker EOOD and D Imoti EOOD *(Note 1).*

2.7.2. Consolidation principles

The consolidated financial statements include the financial statements of the parent – D Commerce Bank AD and the subsidiaries – D Leasing EAD, D Insurance Broker EOOD and D Imoti EOOD, prepared as at 31 December, which is the date when the financial year of the Group ends.

For the purposes of consolidation, the financial statements of the subsidiaries are prepared for the same reporting period as that of the parent using consistent accounting policies.

Consolidation of a subsidiary

Subsidiaries are consolidated as of the date when the Group (ultimately, the parent) obtains control and they are excluded from consolidation as of the date when it is deemed that control is transferred outside the Group (ultimately, the parent).

A subsidiary is consolidated applying the full consolidation method, on a line-by-line basis for the financial statements of the parent and the subsidiary, using the same accounting principles and uniform accounting policies. The investments of the parent are eliminated against its share in the equity of the subsidiary. All intra-group transactions and balances, including unrealised intra-group gains or losses, are eliminated.

Acquisition of a subsidiary

The acquisition (purchase-and-sale) method of accounting is used on the acquisition of a subsidiary by the Group. The acquisition cost (consideration paid) includes the fair value as at the exchange date of the assets given, the incurred or assumed liabilities and the equity instruments issued by the acquirer in exchange of the control over the acquiree. It includes also the fair value of any asset or liability resulting from a contingent consideration arrangement. The costs associated with the acquisition are recognised and are taken directly to the current expenses for the period in which they are incurred.

All identifiable assets acquired and liabilities and contingent (crystallised) liabilities assumed in the business combination are initially measured at their fair values at the date of exchange. Any excess of the acquisition cost of the subsidiary over the share of the acquirer in the fair value of the net identifiable assets, liabilities and contingent (crystallised) liabilities acquired is treated and recognised as goodwill. If the acquirer's share in the fair value of the net identifiable assets acquired exceeds the acquisition cost of the business combination, such excess is recognised immediately in the consolidated statement of profit or loss and other comprehensive income of the Group. Any non-controlling interest in a business combination is measured at the proportionate share of the acquiree's net assets.

When a business combination to acquire a subsidiary is achieved in stages, all investments previously held by the acquirer are measured at fair value on the acquisition date and the effects of such remeasurement are recognised in the current period profit or loss of the Group, including all effects previously reported in the other components of comprehensive income are recycled.

Disposal/(sale) of a subsidiary

On sale or other form of loss (transfer) of control over a subsidiary:

- The carrying amounts of the assets and liabilities (including any attributable goodwill) of the subsidiary are derecognised at the date when control is lost;
- The carrying amount of the non-controlling interest in the subsidiary is derecognised from the consolidated statement of financial position at the date when control is lost;
- The fair value of the consideration received from the transaction, event or operation that resulted in the loss of control is recognised;
- All components of equity representing unrealised gains or losses are reclassified in the profit or loss, or are taken directly to the accumulated profits - in accordance with the requirements of the respective IFRS these equity components are subject to;
- Any resulting difference is recognised as gain or loss on disposal (sale) of a subsidiary in the consolidated statement of comprehensive income (in the current period profit or loss) attributable to the parent.

Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity holders of the Group. The effects from sales of shares of the parent to holders of non-controlling interests that do not result in a loss of control are not treated as components of the Group's current period profit or loss, but rather as movements in the components of its equity. And vice versa, when the parent purchases additional shares from holders of non-controlling interest, without acquisition of control, the difference between the consideration paid and the respective share in the carrying amount of net assets acquired by the subsidiary is directly recognised in the consolidated statement of changes in equity, usually in the 'retained earnings' reserve.

When the Group ceases to have control and significant influence, any retained minority investment as interest in the capital of the respective entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. Respectively, any amounts previously recognised in other comprehensive income in respect of that entity are reported in the same way as in a direct disposal of all components related to the initial investment (in a subsidiary or associate).

2.8. Foreign currency transactions

Upon its initial recognition, a foreign currency transaction is recorded in the functional currency (Bulgarian Lev) whereas the exchange rate to BGN at the date of the transaction or operation is applied to the foreign currency amount. Cash and cash equivalents, loans and receivables, investments in securities, payables, deposits and other payables, such as monetary reporting items denominated in foreign currency, are recorded in the functional currency by applying the exchange rate as quoted by BNB every day. At 31 December, these amounts are presented in BGN at the closing exchange rate of BNB.

The non-monetary items in the consolidated statement of financial position, which are initially denominated in a foreign currency, are accounted for in the functional currency by applying the historical exchange rate at the date of the transaction and are not subsequently re-valued at the closing exchange rate.

Foreign exchange gains or losses arising on the settlement or recording of foreign currency transactions at rates different from those, at which they were converted on initial recognition, are recognised in the consolidated statement of profit or loss and other comprehensive income (within profit or loss for the year) in the period in which they arise and are presented on the *'net trading income'* line item.

2.9. Interest income and expense

Interest income and expense are recognised in the consolidated statement of profit or loss and other comprehensive income (within profit or loss for the year) on accrual basis for all interest-bearing financial instruments to the extent it is probable that the Group will receive economic benefits and the income can be measured reliably.

Interest income comprises: interest income from debt securities measured at fair value through other comprehensive income, interest income from debt securities measured at amortised cost, interest income from deposits with other banks, interest income from loans and advances to customers, including fees and charges on loans and advances to customers, which form an constituent part of the effective income of the financial instrument.

Interest costs comprise: interest on deposits from banks, interest on deposits from clients, interest on other long-term borrowings, as well as interest on lease liabilities.

2.9.1.Effective interest rate method

Pursuant to IFRS 9, upon recognition of interest income and costs, the effective interest method is applied for all financial instruments at amortised cost and at fair value through other comprehensive income.

The effective interest rate is the interest rate that discounts the future inflows and outflows that are expected to be generated during the life of a financial instrument or a shorter period of time, as appropriate, exactly to the instrument's net cost. The calculation of the effective interest rate takes into account all contractual terms and conditions of the financial instrument, including fees and other inherent costs directly attributable to the instrument that are part of the effective interest rate, but excluding future loan losses.

Interest income and expense include the amortisation of any discount or premium, or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity, calculated on effective interest rate basis.

2.9.2. Recognition of interest income

For financial assets classified in Stage 1 (classification risk group "regular exposures") and Stage 2 ("under-performing exposures"), interest income is recognised by applying the effective interest rate on the gross carrying amount of financial assets.

For financial assets classified in Stage 3 (classification risk group "credit-impaired exposures") interest income is calculated by applying the effective interest rate on their amortised cost. When the financial asset recovers (improvements take place) and it is no longer classified as credit-impaired and there is observable available cash flow, the recognition of interest income is again done on a gross basis.

The Group holds financial assets (current accounts with other banks) with negative profitability. The interest accrued on these assets is presented in the consolidated statement of other comprehensive income (within profit or loss for the year) as interest costs and are additionally disclosed in *Note 4*.

2.10. Fee and commission income and expense

Bank service fee and commission income and non-bank service is recognised in the period of or at the time the service is rendered, according to the conditions for transfer of control over the service.

Fees and commissions on bank guarantees are recognised on a systematic basis over the period of the exposure so as to match the cost of providing the service. Fees on loan commitments / facilities, which are likely to be transformed into a granted loan, are deferred and recognised upon the loan granting and are included in the calculation of the effective interest rate.

Fee and commission expenses, related to the servicing of nostro accounts and other bank accounts are usually recognised at the time of performing/consuming the service they refer to, unless they are consumed over a period of time – in this case, they are recognised on a systematic basis over the period.

2.11. Gains or losses on trading operations

The results from trading operations include: interest income on securities held for trading, including dividends thereon; gains or losses from operations with securities held for trading, gains or losses from operations in foreign currency, as well as net gain or loss from revaluation of foreign currency assets and liabilities.

2.12. Financial instruments

2.12.1. Financial assets

2.12.1.1. Recognition of financial assets

The Group usually recognises its financial assets in the consolidated statement of financial position on the "trade date", being the date on which it has committed to purchase the respective financial assets. This includes transactions performed under a regulated framework – purchases and sales of financial assets that presume a settlement and assets transfer to be performed in a generally accepted manner established by law or relevant market convention. Loans and advances to customers are recognised when the funds are transferred to customer's account. Respectively, the Group recognises amounts due to customers when funds are received by the Group.

2.12.1.2. Initial measurement of financial assets

All financial assets are initially measured at their fair value plus the directly attributable transaction costs, except for the financial assets at fair value through profit or loss. Trade and other receivables are measured at invoice amount (transaction price).

When the fair value of financial assets upon initial measurement deviates from the transaction price, the Group recognises within current profit or loss under the following conditions:

a) if the fair value has been determined by means of a valuation technique based on observable inputs about the market participants, the difference is recognised as early as the first date within current profit or loss; and

b) if the fair value has been determined by means of a valuation technique based on unobservable inputs, the difference is not recognised within current profit or loss until the data is observable and the financial instrument is written-off.

2.12.1.3. Classification and subsequent measurement of financial assets

The Group classifies and subsequently measures of all its financial assets in the following three categories: financial assets at amortised cost, financial assets at fair value through other comprehensive income, and financial assets at fair value through profit or loss. The classification of financial assets upon their initial recognition depends on the characteristics of the contractual cash flows.

Business model for the management of financial assets

The business models on which the management and classification of the Group's financial assets are based are directly related to and compliant with the determined strategy and development plans and the objectives of the primary banking operations, usual transaction and risk-profile transactions. They have been determined on the level of groups of financial assets managed in the same way towards achieving a particular business objective. When the scope of one type of financial instruments comprises separate financial assets for which the specific approach and management features may differ, and so may the strategy for acquisition and purpose for holding, the Group may designate more than one business model for this type of instruments, by forming sub-portfolios with different classification and measurement. Depending on the strategy and risk profile, the Group has established the following business models for management of its financial assets:

1/ Business model whose purpose is to hold assets in order to collect contractual cash flows. The main characteristics of this model include:

- financial assets which are managed to collect contractual payments throughout the instrument's life term;
- the focus of monitoring and reporting to the management and responsible persons is on the instrument's credit quality, the degree of credit risk and the contractual return of this group of assets. Additionally, in the context of this focus, the Group also monitors their fair value;

- the historical analysis or data do not identify (frequent and large) sales that contradict the business objectives;
- sales of financial assets related to limitation of credit risk, credit concentration, testing (demonstration) liquidity or extraordinary (including at a significant amount) resulting from stress liquidity situations, are excluded and it is assumed that they do not contradict the established business model.

2/ Business model whose purpose is both collecting contractual cash flows and sale of financial assets. The main characteristics of this model include:

- financial assets used to also manage current liquidity;
- their scope and type are in accordance with the objective of overall return management, maximising results in the process of ensuring liquidity, and maintaining the Group's necessary balance between cash inflows and outflows;
- historically monitored and more frequent and significant, in terms of volume, of assets in this group are permitted, in as far as they constitute a major factor to achieve the business model's objective.

3/ Business model whose purpose is to generate cash flows through asset sale. The main characteristics of this model include:

- financial assets regarding which the Group has intention and business rationale to currently monitor their fair value, which is the basis of the decision to carry our purchase and sale transactions;
- there is evidence of active purchase and sale activity;
- the asset's contractual cash flows do not constitute solely payments of principal and interest;
- the collection of contractual cash flows from such assets is only in addition to achieving the main objective – generating cash flows and good profitability levels from their disposal.

Characteristics and testing of contractual cash flows of financial assets

Establishing (testing) the characteristics and conditions of contractual cash flows (SPPI) is the second factor in determining the classification of each financial instrument. This process constitutes a check of a set of selected characteristics of expected contractual cash flows from the transactions which are of key importance for the financial instrument. The aim is to identify assets for which cash flows are solely payments of principal and interest (SPPI test).

For the purpose of this test, principal is defined as being the fair value of the financial asset at initial recognition, which may change over the instrument's life term. Moreover, the most significant element of the interest which is measured during the test is the compensation for the time value of money and credit risk. Upon assessing SPPI, the Group makes a number of assumptions and judgements and considers a number of factors, in particular the fluctuation of cash flows and risks inherent in the respective exposure.

The process of establishing characteristics of contractual cash flows includes:

- identification and grouping the financial assets applicable for the respective business model;
- identification of sub-portfolios of instruments covered by standardised products for which the available information and/or examination of product documentations (cards) equivocally demonstrate compliance with the SPPI test;
- regarding homogeneous portfolios, the SPPI test is based on review of the applicable conditions based on internal rules, general rules and contracts and/or expert examination;
- in the remaining cases, the SPPI test is performed by means of individual examination of characteristics at the level of individual contracts.

The Group has established the following frequency in identifying and testing the characteristics of contractual cash flows:

- one-off test, on 1 January 2018, upon enforcement of IFRS 9 – for financial assets existing at this date;
- upon introducing new standardised banking products at product documentation (card) level;
- upon occurrence of a new instrument and/or product in the case of specific rules or rules that deviate from the standard ones set in internal rules, price list, general terms and conditions and contracts.

2.12.1.3.1. Financial assets at amortised cost

The Group carries within this category: cash in current accounts and deposits with the Central Bank, due from banks, loans and advances to customers, the portfolio of debt securities held to maturity with priority, as well as other operating receivables.

The Group classifies and subsequently measures a financial assets within the category of *financial assets at amortised cost* if both of the following conditions are met: a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and b) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows which are solely payment of principal and interest on the principal outstanding.

These financial assets are measured in the consolidated statement of financial position at amortised cost using the effective interest method, less the recognised accumulated impairment of expected credit losses (allowance). The interest income therefrom is measured and recognised based on the effective interest method (*Note 2.9.1*). It is presented in the consolidated statement of comprehensive income (within profit or loss for the year) within the *interest income* item.

The loans and advances that initially originate in the Group are recognised upon the actual disbursement of cash or provision of other financial or non-financial asset to borrowers, and are initially measured at fair value, which is usually equal to the value of the cash and/or other assets provided.

The loans and advances received by the Group are recognised upon obtaining essentially all risks and rewards, and are initially measured at the amount of the consideration paid or the fair value of the transferred asset, if it differs therefrom.

2.12.1.3.2. Financial assets at fair value through other comprehensive income

The Group classifies in the category of *financial assets at fair value through other comprehensive income* debt and equity securities. Their fair value is determined by applying different valuation models permitted by IFRS 13: quoted market prices, adjusted market prices, or models based on discounted cash flows.

The Group measures and subsequently measures a debt financial asset within *financial assets at fair value through other comprehensive income*, when both of the following conditions have been satisfied: a) the financial asset is held and used within the business model, for the purpose of both collecting contractual cash flows and selling it; and b) the conditions of the financial asset contract give rise to cash flows on specific dates, which constitute solely payments of principal and interest (SPPI) on the principal amount outstanding.

The Group may make an irrevocable choice to classify certain equity instruments as *financial instruments at fair value through other comprehensive income* at initial recognition, only if they meet the equity definition under IAS 32 and are not held for trading. The classification is determined at the level of individual instruments.
Unrealised gains and losses from changes in the fair value of debt and equity securities classified within the group of financial assets at fair value through other comprehensive income are recognised directly within a separate component of equity in the consolidated statement of changes in equity (*reserve for financial assets at fair value through other comprehensive income*) until the financial asset is sold or impaired. Then, with respect to: a) debt securities – the gains and losses included in prior periods in equity are recognised in the consolidated statement of other comprehensive income for the reporting period (within profit or loss for the year) within the *net income from trade transactions* item, and b) equity securities – the accumulated gains and losses are not recycles through current profit or loss, but are directly transferred to retained earnings.

Debt securities at fair value through other comprehensive income are subject to impairment of credit losses on a monthly basis. The impairment provision (allowance) for expected credit losses is presented in the consolidated statement of other comprehensive income within the *impairment of financial assets* item and as allowance against the reserve for financial assets at fair value through other comprehensive income, in the consolidated statement of changes in equity. Equity instruments are not subject to impairment.

Over the period of holding debt securities measured at fair value through other comprehensive income, the Group recognises interest income based on the effective interest method (*Note 2.9.1*).

Dividends from equity securities classified as financial instruments at fair value through other comprehensive income are recognised and carried to the consolidated statement of comprehensive income (within profit or loss for the year) within "other operating income, net", at the point when it is determined that the Group obtained a right over these dividends.

2.12.1.3.3. Financial assets at fair value through profit or loss

The Group classifies in the category of *financial assets at fair value through profit or loss* instruments held for trading, as well as financial assets initially measured at fair value through profit or loss, or financial assets for which there is obligatory measurement at fair value pursuant to IFRS 9. Financial assets are classified as held for trading, if they have been acquired for the purpose of short-term sale or repeated acquisition. Derivatives, including individual embedded derivates, are also classified as held for trading, unless they have been designated as effective hedging instruments.

The management initially measures a financial instruments at fair value through profit or loss if and only if this would eliminate or significantly decrease the accounting discrepancy that would arise from recognition of gains and losses from a different measurement basis for certain assets and liabilities for which a correlation exists between measurements. The identification is done at the level of individual instruments.

The Group does not have a practice of investing in finance assets in order to generate profit from market fluctuations and margins.

2.12.1.4. Reclassification of financial assets

The Group does not reclassify its financial assets following their initial recognition, except in extraordinary circumstances related to a change in the business model for their management. The reclassification of financial assets is applied prospectively, as from the date of change which occurred, and:

a) upon reclassification of financial assets at amortised costs to financial assets at fair value through other comprehensive income, the fair value is determined at the reclassification date, and any gain or loss on the difference between the amortised cost and fair value is recognised within other comprehensive income. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of reclassification.

b) upon reclassification of financial assets at amortised costs to financial assets at fair value through profit or loss, the fair value is determined at the reclassification date, and any gain or loss on the difference between the amortised cost and fair value is recognised within profit or loss.

c) upon reclassification of financial assets at fair value through other comprehensive income to financial assets at amortised cost, the fair value of the respective asset at the reclassification data is assumed to be its "established" amortised cost. The cumulative gain or loss accumulated in other comprehensive income, is written-off from equity (reserve for financial assets at fair value through other comprehensive income) and is adjusted against the fair value of the financial asset at the reclassification date. The financial asset is measured at the reclassification data as if it has always been measured at amortised cost, and the adjustment is reflected in other comprehensive income, but not in profit or loss. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of reclassification.

d) upon reclassification of financial assets at fair value through other comprehensive income to financial assets at fair value through profit or loss, the respective assets continue to be measured at fair value. The gain or loss accumulated in other comprehensive income is recycled from equity (reserve for financial assets at fair value through other comprehensive income) into profit or loss.

2.12.1.5. Repurchase agreements

The Group enters into securities agreements to resell / repurchase similar securities on a predetermined future date at an agreed-upon fixed price (repo-agreements). Securities purchased under agreements to resell (reverse repo) at a specified future date are not recognised in the consolidated statement of financial position. The paid amounts are carried as receivables from repo-agreements with customers and / or banks, as collateralised by the underlying security. The difference between the purchase price and the resale price is treated as interest and accrued over the period of the life of the agreement, using the effective interest rate method.

Securities sold under repurchase agreements (repo) continue to be recognised in the consolidated statement of financial position as assets at fair value through profit or loss or as assets available-for-sale. The proceeds from the sale of the securities are reported as liabilities under repo-deals. The difference between the sales price and the repurchase price is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method.

2.12.1.6. Derecognition of financial assets

Financial assets are derecognised from the Group's consolidated statement of financial position when: (a) the contractual rights to cash flows from these assets have expired; or (b) the contractual rights have been transferred or the Group holds them but has assumed an obligation to pay in full the cash flows received, without undue delay (so-called "pass-through" agreement). A transfer results in derecognition when: a) the Group has transferred substantially all risks and rewards from ownership of the asset; or b) it has neither transferred nor retained substantially all risks and rewards from ownership of the asset, but has transferred control thereon. It is assumed that the Group has transferred control only if the recipient has the practical possibility to freely dispose of the asset and sell it to third unrelated parties.

If the Group continues to hold substantially all risks and rewards from ownership of a transferred financial asset, or has retained control thereon, it continues to recognise the asset transferred to the extent of its continuing interest therein, but also recognises the associated liability for the consideration received. Both the asset and liabilities are measured so as to most adequately assess the continuing rights and obligations of the Group. If the continuing involvement is in the form of a guarantee on the transferred asset, it is measured according to the policy on financial guarantees, and if it is in the form of put or call options – at the fair value.

2.12.1.6.1 Modification due to material change in terms and conditions

The Group modifies the financial asset when the terms and conditions are renegotiated to a degree that may be considered to constitute a new asset, and the difference is recognised as gain or loss on derecognition, in as far as the impairment loss has not yet been recognised. The newly created assets are classified in Stage 1 for the purpose of calculation of expected credit losses (ECL). When the modification of a financial asset results in derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered to be a new one.

Upon assessment whether an asset should be derecognised, the Group also considers the following additional factors: change in the loan's currency, change in counterpart, whether the change results in the instrument no longer meeting the SPPI test criterion (solely payment of principal and interest).

2.12.1.7. Impairment of financial assets

Expected credit losses approach

With the adoption of IFRS 9 as from 1 January 2018 the concept, principles and models to determine impairment of credit losses for all loans and financial assets which are not measured at fair value through profit and loss, together with those of credit commitments and financial guarantees, are significantly changed, and the incurred loss model is replaced by the expected credit losses model going forward. Equity instruments are not subject to impairment. This provides for much earlier recognition of expected credit losses in the Group's financial statements as compared to the prior accounting policies.

The expected credit losses approach is based on the concept of determining and recognising credit losses which are expected to occur over the instrument's lifetime (lifetime expected credit losses) unless there has been a significant increase in credit risk since initial recognition – in which cases 12-month expected credit losses are recognised. For this purpose, the Group has developed a set of criteria to identify increased credit risk. 12-month expected credit loss is the portion of the lifetime credit losses which would occur as a result of default related to the respective instrument, which may occur within 12 months from the date of the balance sheet. Both lifetime and 12-month expected credit losses are calculated on individual and collective basis, depending on the specifics of each portfolio of financial instruments.

For the purpose of applying the requirements for impairment of financial assets, the Group has adopted a *Policy for Assessment of Changes in Credit Quality and Determining Expected Credit Losses*, which is the framework of principles, criteria, rules and approaches to determine credit losses. The Group applies an individual and collective model to determine impairment, based on the characteristics of the respective type of financial instruments and its risk features, developed based on the *general approach* of IFRS 9. The analysis of changes in the credit quality of financial assets compared to initial recognition determines their risk qualification in three main stages, as well as subsequent impairment recognition:

➢ Stage 1 (performing/regular exposures) – financial instruments without indication for increase in credit risk compared to initial recognition. The Group recognises 12-month impairment of expected credit losses from financial assets classified in Stage 1. Interest income is recognised based on the effective interest method, on the gross carrying amount of the asset.

➢ Stage 2 (under-performing exposures) – financial instruments with a significant increase in credit risk, but without objective evidence of actual impairment/incurred losses (the exposure is not in default). The Group recognises lifetime impairment of expected credit losses from the instruments in Stage 2. Interest income is recognised based on the effective interest method, on the gross carrying amount of the asset.

➢ Stage 3 (credit-impaired exposures) – financial instruments which not only have a significant increase in credit risk, but also objective evidence of actual impairment ("default" exposures). The Group recognises lifetime impairment of credit losses from the instruments in Stage 3. Interest income is recognised based on the effective interest method, but on the net carrying amount of the instrument, i.e. less the allowance for impairment of credit losses.

➢ A purchased or created credit-impaired financial asset – it is measured at fair value at the date of initial recognition. The interest income is recognised on accordance with the credit loss-adjusted rate. The Group recognises additional impairment (reversal) of expected credit losses from these instruments, in as far as they originate due to subsequent change in judgement thereon.

Regarding financial assets for which the Group has no grounded expectations for full or partial recovery of the amount of outstanding balances, the gross carrying amount is reduced, and this is treated as partial asset derecognition.

The expected credit losses of a given financial asset is determined as the difference between contractual cash flows and all other cash flows the Group expects to receive, discounted by approximation to the initial interest rate. Expected cash flows also include cash flows from disposal of sovereign collateral or other credit enhancements, which constitute an integral part of the contractual conditions.

The recognition of the impairment for expected credit losses is done at two stages. When following the asset's initial recognition no significant increase in the credit risk has occurred, the allowance for impairment is based on the expected credit loss occurring as a result of default events probable over the next 12 months (12-month expected credit loss).

For exposures that have a significant increase in credit risk compared to initial recognition, the impairment provision is recognised for the credit loss expected over the remaining lifetime of the exposure, irrespective of the point of default (lifetime expected credit loss). Therefore, the assessment of credit risk and the identification of a significant change therein compared to initial recognition constitute a key point in determining and calculation impairment of credit losses. Thus, the change in the provision (allowance) for impairment of credit losses reflects not the overall level of credit loss, but the relative change as at the date of the financial statements, and the assessment is related with multiple assumptions and estimates.

When in subsequent periods the credit quality of the financial instrument improves do that there is no longer increased credit risk compared to initial recognition, the provision (allowance) for impairment is adjusted so that it again reflects 12-month expected credit losses.

The criteria of significant increase in credit risk and risk of default by types of financial assets adopted by the Group are disclosed in *Note 2.25.1.2.*

The main risk parameters in determining expected credit losses by type of financial instruments include:

➢Exposure at default (EAD) – estimate of the amount of exposure at the future point of default, by taking into consideration all future changes in the exposure after the balance sheet's date, payments of principal and interest, future drawdowns and interest accrued on payment default;

➢ Probability of default (PD) – estimate of the probability of a counterpart not meeting contractual clauses related to debt repayment over a certain time horizon;

➢Loss given default (LGD) – estimate of the loss from default at a certain point. It is measured as the difference between the contractual cash flows due and the cash flows the creditor would expect to receive, including through collateral disposal;

➢Liquidation value (LV) – the Group's best estimate of the recoverable amount of the collateral at the date of valuation, in view of the market conditions, in a scenario in which the Group immediately initiates a forced execution procedure (net cash flow from immediate sale at the date of valuation);

➢Discount factor – the factor applies to calculate the present value of expected cash flows from credit facilities. In determining the present value of expected cash flows, the Group uses the original effective interest rate. For exposures in its portfolio for which no information is available about the initial interest rate, the effective interest rate as at 31 December 2019 is applied.

➢In its models to calculate expected credit losses, the Group also considers certain macro indicators to reflect the impact of forecasts for the impact of expected changes in a number of macro conditions for which it has established a correlation to financial instruments whose credit losses it calculates (information going forward).

Such macroeconomic forecast indicators are: consumer price index, unemployment rate, gross domestic product, house price index, average income per capita, etc.

The elements used to determine expected credit losses from financial instruments are summarised as follows:

- ➢ The expected 12-month credit loss (ECL) for regular/performing exposures (Stage 1) is calculated based on the following formula:

- $ECL = EAD^* PD_{12m}{}^*LGD$
- The expected lifetime credit loss (ECL) for under-performing exposures (Stage 2) is calculated based on the following formula:
- $ECL = EAD^*PD_{Lifetime}{}^*LGD$
- The expected lifetime credit loss (ECL) for credit-impaired exposures (Stage 3) is calculated based on the following formula:
- $ECL = EAD^*PD_{Lifetime} - LV(Coll)$

The net effect of the change in the estimate of expected credit losses from financial instruments is presented in the consolidated statement of profit or loss and other comprehensive income (profit or loss for the year) within *net loss from impairment of financial assets*. Any reversal of impairment of credit losses is recognised against the allowance and the current profit or loss in the reversal period.

For financial assets at amortised cost, the accumulated allowance reduces the gross carrying amount of the instrument in the consolidated statement of financial position. For debt instruments at fair value through other comprehensive income, the expected credit loss is a portion of the negative change in the fair value resulting from increased credit risk. Since these assets are presented at fair value in the consolidated statement of financial position, the net change in fair value is presented within equity (reserve for financial assets at fair value through other comprehensive income) through other comprehensive income, including the impairment effect.

Upon subsequent derecognition of the instrument, the accumulated allowance is recognised within profit or loss for the period.

Valuation of collaterals

In order to significantly reduce its credit risk regarding financial assets, the Group requires from its clients collaterals. They are different forms – cash, real estate mortgage, and other collaterals.

In order to calculate expected credit losses, the fair value of collaterals on the respective financial instrument is determined upon initial measurement, and subsequently – on an annual basis. In the formula, fair value is additionally adjusted by means of a set of coefficients to reflect the risks of disposal and the time value of money. The methods and models to determine fair value are: the comparative approach, capitalisation of future cash flows approach and the updated production cost approach. In as far as possible, the Group uses market data to assess the financial assets held as collateral. Other financial assets whose market value cannot be determined, are measured with the help of models. Non-financial collaterals such as real estate are recognised based on the valuation provided by independent appraisers. In the cases of real estate properties for retail and small business customers, the Bank applies annual indexation based on public NSA statistical information regarding the change in prices by cities and regions. The indexation of residential properties is only applied when the change in prices does not indicate an annual decrease greater than 10%.

The Group has retained its prior-year policy on acquisition of collaterals against debt. At the acquisition date, it determines if the asset will be used in its operations or it will be held for sale. Depending on the specific intentions, it is either classified within its property and other non-fixed tangible assets, or within investment property, respectively within other assets acquired from collaterals.

The valuation of collaterals, incl. assets acquired against debt, is usually subject to annual review by independent appraisers, and in the period of two such valuations – to mandatory internal review by Group appraisers.

2.12.2. Financial liabilities and equity instruments

The Group's financial liabilities include: amounts due to banks and clients under deposits, borrowings under loan agreements and other contracts, lease liabilities and other current liabilities.

The Group classifies its liabilities, debt and equity instruments either as financial liabilities or as equity in accordance with the substance of the contractual arrangements with the respective counterparty regarding these instruments. The Group determines the classification of its financial liabilities at the time of their origination. All financial liabilities held by the Group are classified as financial liabilities and are subsequently measured at amortised cost.

The changes in own credit risk for financial instruments measured at fair value through profit or loss are carried to a reserve for financial assets at fair value through other comprehensive income, without subsequent reclassification in the consolidated statement of profit and loss and other comprehensive income.

They are initially recognised in the consolidated statement of financial position at fair value, net of the directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method.

Interest expense is carried currently to the consolidated statement of profit or loss and other comprehensive income (within profit or loss for the year) systematically over the life of the instrument.

Financial liabilities are derecognised when the obligation under the liability is discharged, or cancelled, or the counterparty loses its entitlement.

2.12.3. Netting of financial assets and financial liabilities

Financial assets and financial liabilities are netted, and the net amount is carried to the Group's consolidated statement of financial position only if a legally enforceable right exists to offset the recognised amounts and if there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.12.4.Financial guarantees and undrawn commitments

Contingencies are liabilities arising as a result of past events whose existence can only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which cannot be fully controlled by the Group or it is not probable that a resource outflow would arise to repay the liability. In its usual course of business, the Group grants bank guarantees having the nature of loan substitute, good performance guarantees, tender guarantees, customers guarantees and letters of credit to its clients. It treats these as conditional commitments until an event resulting in the occurrence of an actual obligation for it to make a payment to a client's counterpart in whose favour the respective guarantee has been issued. Such an event is a claim to the Group for payment of the respective commitment undertaken.

Financial guarantees are initially recognised (within *provisions*) at fair value, which is the amount of the fee (premium) received. The Group's liability under each financial guarantee is subsequently measured at the higher of the following: a) the amount initially recognised less the amortised portion thereof recognised in profit or loss, and b) the impairment of expected credit losses (under IFRS 9).

The net effect of the change in the estimate of expected credit losses from financial guarantees granted, letters of credit and undrawn commitments is presented in the consolidated statement of profit and loss and other comprehensive income (profit or loss for the year) within *net loss from impairment of financial assets*, and the allowance of expected credit losses is presented as a provision in the consolidated statement of financial position.

The fee collected for bank securities issued is amortised on a straight-line basis over the period of the guarantees and is presented in the consolidated statement of profit or loss and other comprehensive income within *revenue from fees and commissions*.

The undrawn loan facilities and letters of credit are commitments for which over a certain time period the Group commits to grant to its client a loan under conditions agreed in advance.

The nominal amount of financial guarantees, undrawn loan facilities (where the loan is agreed at market conditions) and letters of credit is not recognised and carried to the consolidated statement of financial position. This amount, together with the recognised losses, is disclosed in the notes to the consolidated financial statements (*Note 30*).

2.12.5. Derivative instruments

The Group has no derivative instruments at 31 December 2019 and as at 31 December 2018.

2.13. Leases

As disclosed in *Note 2.1*, the Group applies IFRS 16 *Leases*, as from 1 January 2019. The effects of transition to IFRS 16 Leases are described in *Note 2.4*.

2.13.1. Accounting policy applicable as from 1 January 2019

At the lease inception, which is the earlier of the date of a lease agreement and the date of commitment by the parties to the principal terms and conditions of the lease, the Group performs analysis and assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

There is transfer of control over the asset's use when the Group in its capacity as customer receives simultaneously:

- The right to direct the use of a certain asset – to determine how and for what purpose the asset should be used during the period of use;
- The right to obtain essentially directly and indirectly all economic benefits from use of the asset over its period of use – by using, holding or sub-leasing the asset.

2.13.1.1 The Group as lessee

The Group applies the requirements of IFRS 16 for all leases in its capacity as lessor and for all leases in its capacity as lessee, with the exception for contracts for software license for the purpose of operations, leases with a lease term of 12 months or less and leases of low value assets, which are recognised directly as current expenses in the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the lease term.

The Group has not elected to apply the practical expedient of IFRS 16, which allows a lessee, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component. For contracts that contain a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Initial recognition

The Group recognises right-of-use assets and lease liabilities in the statement of financial position at the date of inception of the lease (the date on which the underlying asset is available for use by the Group – lessee).

Right-of-use assets

Right-of-use assets are initially presented at acquisition cost, which includes the amount of the initial measurement of the lease liability, any initial direct costs, costs for dismantling and removing the underlying asset, restoring the site on which the asset is located or restoring the underlying asset, as well as any lease payments made at or before the commencement date, less any lease incentives received.

Upon subsequent measurement of right-of-use assets, the Group applies the requirements of IAS 16, by using the acquisition price model less depreciation and impairment accrued. The Group depreciates the right-of-use asset to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. If ownership of the asset is transferred under the lease by the end of the lease term, the Group shall depreciate it until the end of the useful life.

Any adjustments to the lease liability also adjust the right-of-use asset, and if it is fully depreciated, they are stated as current expenses within current profit or loss.

Right-of-use assets are tested for impairment in accordance with IAS 36 *Impairment of Assets*, by applying an impairment determination and reporting policy analogous to the one for property, plant, and equipment. The recoverable amount of right-of-use assets is the higher of the fair value less costs to sell, or value in use. To determine assets' value in use, future cash flows are discounted to their present amount, by applying a pre-tax discount rate reflecting the market conditions and time value of money and the risks inherent to the respective asset. Impairment losses are determined by the difference between the recoverable amount and the carrying amount (when the recoverable amount is lower than the carrying amount) and are presented in the consolidated statement of profit or loss and other comprehensive income as other administrative operating expenses.

Right-of-use assets are presented within "property, equipment and right-of-use assets" in the consolidated statement of financial position, and depreciation thereof – within depreciation and amortization expenses in the consolidated statement of profit or loss and other comprehensive income.

Lease liabilities

The Group recognises lease liabilities at the commencement date, measured at the present value of the lease payments that are outstanding at this date. They include:

- fixed lease payments (including in-substance fixed payments), less any lease inceptives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the exercise price of the purchase options, if the lessee is reasonably certain to exercise this option;
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease;
- the amount expected to be payable by the Group to lessor under residual value guarantees.

Variable lease payments that do not depend on an index or a rate, but are dependent on performance or use of the underlying asset, are not included in the measurement of the lease liability and the right-of-use asset. They are recognised as current expenses in the period when the event or circumstance resulting in these payments arises and are stated within other administrative operating expenses, within profit or loss for the year.

Lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, or the Group's incremental borrowing rate, which it would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The Group uses incremental borrowing rate that reflects the interest rates on term deposits per its interest rate leaflet, corresponding to the lease terms and types of counterparties to the lease agreements.

Lease payments (instalments) contain a certain ratio of the finance cost (interest) and the respective portion of the lease liability (principal). Interest costs for the lease are presented in the statement of comprehensive income (within profit or loss for the year) for the lease period on a periodic basis, so as to achieve constant periodic rate of interest on the remaining balance of the lease liability, and are presented as "interest costs".

Lease liabilities are stated within the consolidated statement of financial position within "other liabilities".

The Group subsequently measures the lease liability by:

- increasing the carrying amount to reflect the interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made;
- remeasuring the carrying amount to reflect any reassessment or lease modifications of the lease;
- residual value guarantees are reviewed and if necessary, adjusted, at the end of each reporting period.

The Group remeasures the lease liabilities (and makes corresponding adjustments to the related right-of-use assets) whenever:

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a residual value guarantee, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged (original) discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used);
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of modification.

Short-term leases and leases of low-value assets

The Group has elected the exemption from recognition of right-of-use assets and lease liabilities under IFRS 16 for low-value leases, constituting ATM rental, which the Group considers to be at a low value when new and are independently used at the Group without dependence or close relation to other assets.

Payments related to short-term leases and leases of low-value assets are recognised directly as current expenses in the statement of profit or loss and other comprehensive income (within profit or loss for the year) on a straight-line basis over the lease term.

2.13.1.2 The Group as lessor

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease; all other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Operating lease
Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The underlying asset which is subject to the lease shall remain and be stated within the Group's statement of financial position.

Finance lease
The Group recognises and presents the assets held under finance leases in its statement of financial position as lease receivables whose amount is equal to the net investment in the lease. Lease receivables are presented within 'Loans and advances to customers' in the consolidated statement of financial position.

The Group recognises finance income (lease interest) over the lease term based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease. Interest income is included in the statement of profit or loss and other comprehensive income (within profit and loss for the year) as finance income based on the effective interest rate method.

When the contract contains both lease and non-lease components, the Group applies IFRS 15 to allocate the total consideration between the separate components.

2.13.2. Accounting policy applicable until 31 December 2018

2.13.2.1. The Group as a lessee

Finance lease

Finance leases, which transfer to the Group a substantial part of all risks and rewards incidental to ownership of the leased asset, are capitalised in the statement of financial position of the lessee and are presented as property, plant and equipment leased at their immediate sale price or, if lower, at the present value of the minimum lease payments. The lease payments are apportioned between the finance interest and the attributable portion (reduction) of the lease liability (principal) so as to achieve a consistent interest rate on the remaining outstanding principal balance of the lease liability. The interest expenses are included in the statement of profit or loss and other comprehensive income (within profit or loss for the year) as "interest costs".
Assets acquired under finance lease are depreciated on the basis of their useful economic life and within the lease term.

Operating lease
Leases where the lessor keeps a substantial part of all risks and economic benefits incidental to the ownership of the specific asset are classified as operating leases. Therefore, the asset is not included in the statement of financial position of the lessee.

Operating lease payments are recognised as expenses in the statement of profit or loss and other comprehensive income (within profit or loss for the year) on a straight-line basis over the lease term and are presented within "other administrative operating expenses".

2.13.2.2. The Group as lessor

Based on the lease content and certain criteria, the Group as lessor classifies leases as operating and finance leases. The classification is done at the date of inception of the lease and is only reviewed upon lease modification.

Finance lease
Finance leases, which transfer substantially all the risks and rewards incidental to ownership of an asset outside the Group, are derecognised from the lessors' assets and are presented in the consolidated statement of financial position as a receivable at an amount equal to the net investment in the lease. The difference between the carrying amount of the leased asset and the immediate (fair selling) value is recognised in the consolidated statement of profit or loss and other comprehensive income (within profit or loss for the year) at the inception of the lease contract (upon the transfer of the asset). Finance lease income is allocated over the accounting periods so as to reflect the continuous periodic rate of return on the outstanding portion of the Group's net investment associated with the lease and are reported as interest in the consolidated statement of profit or loss and other comprehensive income (within profit or loss for the year) on the line item *'interest income'*.

Operating lease

In operating leases, the lessor continues to hold a substantial part of all the risks and rewards incidental to ownership of the particular asset. Therefore, the asset is still included in its tangible fixed assets while its depreciation for the period is included in the current expenses of the lessor.

The income of the Group as a lessor under operating leases is recognised on a straight-line basis over the lease term and is presented in the consolidated statement of profit or loss and other comprehensive income (within profit or loss for the year) on the line item *'other operating income, net'*.

2.14. Property, equipment and right-of-use assets

2.14.1. Property and equipment

Group's property and equipment (tangible fixed assets) are presented in the consolidated financial statements at acquisition cost (cost) less the accumulated depreciation and any impairment losses in value.

Initial measurement

Upon their initial acquisition, property and equipment are valued at acquisition cost (cost), which comprises the purchase price, including customs duties and any directly attributable costs of bringing the asset to working condition for its intended use. Directly attributable costs include the cost of site preparation, initial delivery and handling costs, installation costs, professional fees for people involved in the project, non-refundable taxes etc.

The Group has set a value threshold of BGN 150, below which the acquired assets, regardless of having the features of fixed assets, are treated as current expense at the time of their acquisition.

Subsequent measurement

The approach chosen by the Group for subsequent measurement of property and equipment, is the cost model under IAS 16, i.e. acquisition cost (cost) less any accumulated depreciation and any accumulated impairment losses in value.

Depreciation methods

The Group applies the straight-line depreciation method for property and equipment. The useful life per group of assets has been determined considering: the physical wear, the characteristic features of the equipment, the intentions for future use and the expected obsolescence, and is as follows:

	years	**%**
▪ Buildings	65	1,5
▪ Machinery, computer hardware and equipment	6.7-7	15-50
▪ Furniture and fixtures	6,7	15
▪ Motor vehicles	4	25
▪ Leasehold improvements – for the term of the rental agreement		

The useful life, set for equipment, is reviewed at the end of each year and in case of any material deviation from the future expectations on the period of use, the latter is adjusted prospectively.

Subsequent costs

Repair and maintenance costs are recognised as current expenses as incurred. Subsequent costs incurred in relation to property, plant and equipment having the nature of replacement of certain components and significant parts or improvements and restructuring, are capitalised in the amount of the respective asset whereas the residual useful life is reviewed at the capitalisation date. At the same time, the non-depreciated part of the replaced components is derecognised from the amount of the assets and is recognised in the current expenses for the period of restructure.

Impairment of assets

The carrying amounts of property and equipment in the consolidated statement of financial position are reviewed for impairment when events or changes in circumstances indicate that they might permanently differ from their recoverable amount. If any such indications exist that the estimated recoverable amount of an asset is lower than its carrying amount in the consolidated statement of financial position, the latter is adjusted to the recoverable amount of the asset. The recoverable amount of property and equipment is the higher of the fair value less costs to sell or the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market conditions and assessments of the time value of money and the risks, specific to the particular asset. Impairment losses are recognised in the consolidated statement of profit or loss and other comprehensive income (within profit or loss for the year) on the line item *"other administrative operating expenses"*.

Gains and losses on disposal (sale)

Property and equipment are derecognised from the consolidated statement of financial position when they are permanently withdrawn from use and no future economic benefits are expected therefrom or on disposal, upon transfer of control to the asset's recipient.

Gains and losses arising from the disposal of assets are determined as the difference between the disposal proceeds determined pursuant to IFRS 15, and the carrying amount of the asset in the consolidated statement of financial position at the disposal date. Gains and losses on disposal are recognised in the consolidated statement of profit or loss and other comprehensive income (within profit or loss for the year) on the line item *'other operating income, net'*.

2.14.2. Right-of-use assets

Right-of-use assets are presented together with property and equipment in the consolidated statement of financial position, and the policy applied is disclosed in *Note 2.13.1.1.* The Group uses straight-line depreciation of right-of-use assets over the lease term.

2.15. Investment property

The Group treats as investment property real estate owned thereby representing buildings and parts of buildings rented out, land adjacent to the rented buildings, and such acquired and held for permanent investment purposes.

The Group acquires properties which have served as collateral on non-performing loans by classifying them as investment property, when its intention is to rent them out on a long-term basis or because of expected future increases in the value of the property due to its particular qualities and advantages.

Initial measurement

Investment property is initially measured at cost. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure – professional fees, broker commissions, property transfer taxes, etc. The initial measurement includes all permanently attached tangible fixed assets and other assets without which the investment property would not be suitable for its designation. The acquisition cost of investment properties acquired as collateral on non-performing loans is usually the price determined at the public sale or the bilaterally agreed price.

Subsequent measurement

Investment properties are presented in the consolidated statement of financial position at acquisition cost (cost) less accumulated depreciation and any impairment losses.

Any *subsequent costs* related to an investment property are stated as an increase of its carrying amount when leading to an increase in the expected economic benefits compared to the initially determined ones. All other subsequent costs on property maintenance are recognised as current expenses when incurred.

Depreciation methods

The Group uses the *straight-line method for depreciation* of the buildings included in its group of investment property. The useful life of buildings, components of investment properties is assessed in the range of 25 to 65 years. Land is not depreciated.

Transfers to, or from, the group of 'investment property' is made only when there is a change in the pattern of use of the particular property.

Impairment of assets

The carrying amounts of property and equipment in the consolidated statement of financial position are reviewed for impairment when events or changes in circumstances indicate that they may differ permanently from their recoverable amounts. If any such indications exist that the estimated recoverable amount of an asset is lower than its carrying amount in the consolidated statement of financial position, this amount is adjusted to the recoverable amount of the asset. Impairment losses are recognised in the consolidated statement of profit or loss and other comprehensive income (within profit or loss for the year) on the line item *'other administrative operating expenses'*.

Gains and losses on disposal (sale)

Investment properties are derecognised from the consolidated statement of financial position when they are permanently withdrawn from use and no future economic benefits are expected therefrom or on disposal, upon transfer of control to the recipient.

Gains or losses arising from the disposal of investment property are determined as the difference between the net disposal proceeds, determined pursuant to IFRS 15, and the carrying amount of the asset at the disposal date. They are stated net on the line item *'other operating income, net'* in the consolidated statement of profit or loss and other comprehensive income (within profit or loss for the year).

2.16. Intangible assets

Intangible assets are stated in the consolidated financial statements at acquisition cost (cost) less accumulated amortisation and any impairment losses in value.

Amortisation methods

The Group applies the straight-line amortisation method for the intangible assets with determined useful life by group of assets as follows:

	Years	%
▪ Software	5	20
▪ Licences	6,7	15

Impairment of assets

The carrying amount of the intangible assets is subject to review for impairment when events or changes in the circumstances indicate that the carrying amount might exceed their recoverable amount. Then the impairment loss is included as an expense in the consolidated statement of profit or loss and other comprehensive income (within profit or loss for the year) on the line item *'other administrative operating expenses'*.

Gains and losses on disposal (sale)

Intangible assets are derecognised from the consolidated statement of financial position when they are permanently withdrawn from use and no future economic benefits are expected therefrom or on disposal, upon transfer of control to the recipient. The gains or losses arising from the disposal of an item of intangible assets are determined as the difference between the consideration received, determined pursuant to IFRS 15, and the carrying amount of the asset at the disposal date. They are recognised on a net basis in the consolidated statement of profit or loss and other comprehensive income (within profit or loss for the year) on the line item *'other operating income, net'*.

2.17. Non-current assets held for sale

Non-financial assets are classified as held for sale if their carrying amount is expected to be recovered through sale, rather than through continued use in the Group's operations. Usually these assets have been initially accepted by the Group as collaterals and are subsequently acquired by the Group as a result of 'debt for ownership' exchange from borrowers that are not repaying their liabilities in accordance with the contractual terms and conditions of the loan.

Non-current assets classified in this group are available for immediate sale in their present condition. They are classified in this category only when the Group's management has a clear intent and a priority to sell them in the foreseeable future (within 1 year) and has started procedures to actively seek buyers.

Assets classified as held-for-sale are presented in the consolidated statement of financial position separately and are measured at the lower of their carrying amount (initially, acquisition cost) and their fair value less the estimated direct costs to sell. Any impairment recognised is presented on the line item *'other administrative and operating expenses'* in the consolidated statement of profit or loss and other comprehensive income (within profit or loss for the year).

Assets in this classification group are not depreciated.

2.18. Assets acquired through collateral

Assets representing property and equipment, acquired against debt as full or partial repayment of a loan are initially measured at acquisition cost, including the attributable transaction costs.

Following initial recognition these assets are measured at the lower of their carrying amount and their net selling price.

Assets acquired through collateral are presented in the consolidated statement of financial position on the line item *'other assets' (Note 22).* Gains and losses related to the realisation of these assets are presented in the consolidated statement of profit or loss and other comprehensive income (within profit or loss for the year) on the line item *'other operating income, net'.*

2.19. Provisions

Provisions are recognised when the Group has a present obligation, constructive or legal, as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation. The measurement of provisions is based on the best estimate made by the management at the date of preparation of the consolidated statement of financial position concerning the expenses required for the settlement of the particular obligation. The estimate is discounted if the obligation is long-term.

2.20. Pensions and other payables to personnel under the social security and labour legislation

The employment and social security relations with the Group's personnel are based on the provisions of the Labour Code and the effective social security legislation in Bulgaria.

Short-term benefits

Short-term benefits in the form of remuneration, bonuses and social payments and benefits (due for payment within 12 months after the end of the period when the employees have rendered the service or have satisfied the required terms) are recognised as an expense in the consolidated statement of profit and loss and other comprehensive income (within profit or loss for the year), unless a particular IFRS requires capitalisation thereof to the cost of a particular asset during the period when the service has been rendered and/or the requirements for receipt of the benefits have been met, and as a current liability (less any amounts already paid and deductions due) at their undiscounted amount.

At each consolidated financial statements date, the Group assesses the expected accumulating compensated absences, which amount is expected to be paid as a result of the unused entitlement to accumulating leave. The measurement includes the estimated amounts of employee's remuneration and the statutory social security and health insurance contributions due by the employer thereon.

Long-term retirement benefits

Defined contribution plans

The major duty of the Group as an employer in Bulgaria is to make the mandatory social security contributions for the hired employees to the Pensions Fund, the Supplementary Mandatory Pension Security (SMPS) Fund, to the General Diseases and Maternity (GDM) Fund, the Unemployment Fund, the Labour Accident and Professional Diseases (LAPD) Fund, the Guaranteed Receivables of Workers and Employees (GRWE) Fund and for health insurance. The rates of the social security and health insurance contributions are defined annually in the Law on the Budget of State Social Security and the Law on the Budget of National Health Insurance Fund for the respective year. The contributions are split between the employer and employee in line with rules of the Social Security Code (SSC).

The pension plans, applied by the Group in its capacity as employers, are defined contribution plans. Under these plans, the employer pays defined monthly contributions to the government funds as follows: Pensions Fund, GDM Fund, Unemployment Fund, LAPD Fund as well as to universal and professional pension funds – on the basis of rates fixed by law, and has no legal or constructive obligation to pay further contributions if the funds do not hold sufficient means to pay the respective individuals the benefits they have worked-out over the period of their service. The obligations referring to health insurance are analogous.

There is no established and functioning private voluntary social security scheme at the Group companies. The contributions, payable by the Group companies under defined contribution plans for social security and health insurance, are recognised as a current expense in the statement of profit or loss and other comprehensive income (within profit or loss for the year) unless a particular IFRS requires this amount to be capitalised to the cost of an asset, and as a current liability at their undiscounted amount along with the accrual of the respective employee benefits to which the contributions refer and in the period of rendering the underlying service.

Defined benefit plans

In accordance with the Labour Code, each company of the Group in its capacity as an employer in Bulgaria is obliged to pay an indemnity to its personnel when coming of age for retirement, at an amount which, depending on the length of service with the entity, varies between two and six gross monthly salaries at the employment termination date. In their nature these are unfunded defined benefit schemes.

The calculation of the amount of these liabilities necessitates the participation of qualified actuaries in order to determine their present value at the date of the financial statements, at which they are presented in the consolidated statement of financial position, and respectively, the change in their value is presented in the consolidated statement of profit or loss and other comprehensive income whereby: (a) current and past service costs, interest costs and the effects of curtailment and settlements are recognised immediately when incurred and are presented in current profit or loss under 'personnel expenses'; and (b) effects from remeasurement of obligations that in substance represent actuarial gains and losses are recognised immediately when occurred and are presented to other comprehensive income on the line item *'remeasurement of defined benefit pension plans'*. Actuarial gains and losses arise from changes in the actuarial assumptions and experience adjustments.

At the end of each reporting period, the Group assigns certified actuaries who issue a report with their calculations about the long-term retirement benefit obligations to personnel. For this purpose, they apply the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows, which are expected to be paid within the maturity of this obligation, and using the interest rates of long-term government bonds of similar term, quoted in Bulgaria where the Group itself operates.

Termination benefits

In accordance with the local provisions of the employment and social security regulations in Bulgaria, the Group in its capacity as an employer is obliged to pay certain types of indemnities upon termination of the employment contracts prior to retirement.

The Group recognises employee benefit obligations on employment termination before the normal retirement date when it is demonstrably committed, based on a publicly announced plan, including for restructuring, to terminating the employment contract with the respective individuals without possibility of withdrawal or in case of formal issuance of documents for voluntary redundancy. Termination benefits due more than 12 months are discounted and presented in the consolidated statement of financial position at their present value.

2.21. Income taxes

The *current income taxes* of the Group are determined in accordance with the requirements of the Bulgarian tax legislation – the Corporate Income Taxation Act (CITA). The nominal income tax rate in Bulgaria for 2019 is 10% (2018: 10%).

Deferred income taxes are determined using the liability method for all temporary differences of the Group as at the date of preparation of the consolidated financial statements between the carrying amounts of the assets and liabilities and their tax bases.

Deferred tax liabilities are recognised for all taxable temporary differences, with the exception of those originating from recognition of an asset or liability, which has not affected the accounting and the taxable profit/(loss) at the transaction date.

Deferred tax assets are recognised for all deductible temporary differences and the carry-forward of unused tax losses, to the extent that it is probable they will reverse and a taxable profit will be available or taxable temporary differences might occur, against which these deductible temporary differences can be utilised, with the exception of the differences arising from the recognition of an asset or liability, which has affected neither the accounting nor taxable profit /(loss) at the transaction date.

The carrying amount of all deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that they will reverse and sufficient taxable profit will be available or taxable temporary differences will occur in the same period, to allow the deferred tax asset to be deducted or offset.

Deferred taxes, related to items directly credited or charged as other components of comprehensive income or as an equity item in the consolidated statement of financial position, are also reported directly in the respective component of the comprehensive income or the equity item in the statement of financial position.

Deferred tax assets and liabilities are measured at the tax rates and on the bases that are expected to apply to the period and type of operations when the asset is realised or the liability – settled (repaid) on the basis of the tax laws that have been enacted or substantively enacted, and at tax rates of the country (Bulgaria) under the jurisdiction of which the respective deferred asset or liability is expected to be recovered or settled.

As at 31 December 2019 the deferred income taxes of the Group are computed at a tax rate of 10%, which is also valid for 2020 (31 December 2018: 10%).

2.22. Cash and cash equivalents

For the purposes of the consolidated statement of cash flows cash and cash equivalents comprise cash on hand, cash at current accounts with other banks, placements with other banks – payable at sight and/ or with original maturity of up to 3 months, as well as unrestricted balances with the Central Bank.

2.23. Share capital and reserves

D Commerce Bank AD is a joint-stock company and it is obliged to register in the Commercial Register a certain amount of ***share capital***, which should serve as a security for the receivables of the Group's creditors. Shareholders are liable for the obligations of the Group up to the amount of the capital share held by each of them and may claim refunding of this interest only in liquidation or bankruptcy proceedings.

The share capital represents the non-distributable capital of the Group and is presented at the nominal value of the issued shares.

The Bank and the joint-stock companies from the Group are obliged to set aside a ***Reserve Fund (statutory reserve)*** in accordance with the requirements of the Commercial Act on distribution of the profit *(Note 28)*.

The financial assets at FVOCI reserve is being set aside from the difference between the carrying amount of financial assets at fair value through other comprehensive income and their fair values at the revaluation date.

The revaluation reserve is transferred to the current profit and loss in the consolidated statement of profit or loss and other comprehensive income, when the financial assets are sold or in case of lasting and prolonged impairment. As from 1 January 2018, the revaluation reserve of equity instruments upon their derecognition is not recycled in the consolidated statement of profit or loss and other comprehensive income within the current result for the period.

Dividends on ordinary shares are recognised as a liability and decrease of the retained earnings when there is a decision of the General Meeting of Shareholders.

2.24. Fair value measurement

Some of the Group's assets and liabilities are measured and presented at fair value on recurring basis and / or fair values are only disclosed for financial reporting purposes. These include:

(a) for the purpose of measurement and presentation at fair value in the consolidated financial statements:

✓ *financial assets* – securities at fair value through other comprehensive income, pursuant to IFRS 9.

(b) for the purpose of fair value disclosures in the consolidated financial statements:

✓ *financial assets and liabilities* – measured at amortised cost pursuant to IFRS 9; securities at amortised cost; due from banks, loans and advances to customers, due to banks and due to clients.

✓ *non-financial assets* – investment properties; assets held for sale.

Moreover, the Group companies also determine the fair value of the collaterals obtained thereby.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between independent market participants at the measurement date. Fair value is an exit price and is based on the assumption that the sale transaction will take place either in the principal market for this asset or liability or in the absence of a principal market – in the most advantageous market for the asset or liability. Both the designated as a principal market and the most advantageous market are markets to which the Group must have an access.

Fair value is measured from the perspective of using the assumptions and judgments that potential market participants would use when pricing the respective asset or liability assuming that market participants act in their economic best interest.

In measuring the fair value of non-financial assets the starting point is always the assumption what would be the highest and best use of the particular asset for the market participants.

The Group has developed internal rules and procedures for measuring the fair value of various types of assets and liabilities.

The Group applies various valuation techniques that would be relevant to the specific features of the respective conditions and for which it has sufficient available inputs while trying to use at a maximum the publicly observable information, and respectively, to minimize the use of unobservable information.

It uses the three acceptable approaches – *the market approach, the income approach and the cost approach* – whereas the most frequently applied valuation techniques include direct and/or adjusted quoted market prices, market comparables (analogues) and discounted cash flows.

If an active market exists the Group uses direct quoted (unadjusted) prices to determine the fair value of the respective financial instrument.

If the market for the respective financial instrument is not active the Group establishes its fair value using a particular valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flows analyses and option pricing models. The valuation technique chosen makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with the accepted economic methodologies for pricing of financial instruments. Inputs to the valuation techniques reasonably represent market expectations and measures for risk-return factors inherent in the financial instrument. The Group calibrates the valuation techniques and tests their validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

Fair values reflect the credit risk of the instrument and include adjustments to account for the credit risk of the Group and the counterparty, where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction.

The definition of the fair value of non-financial assets is carried out periodically (annually). The Group uses the expertise of external independent licensed valuators in determining the fair value of its investment properties for the purpose of disclosures in the consolidated financial statements. The selection of valuators is made on the basis of the following criteria: applied professional standards, professional experience and knowledge, reputation and market status. The need for rotation of the external valuators is assessed periodically. The application of the valuation approaches and techniques as well as the inputs used in all cases of fair value measurements are subject to mandatory discussion and agreement between the external expert valuators and the respective officers in charge within the Group. The final fair value measurements are subject to approval by the Group. The fair values of assets held for sale is their selling price agreed between the Group and the respective buyers.

All assets and liabilities that are measured and/or disclosed in the consolidated financial statements at fair value, are categorised within the following fair value hierarchy, namely:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques that use inputs other than directly quoted prices but are observable, either directly or indirectly, including where the quoted prices are subject to significant adjustments; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The Group applies fair values determined at all three levels of the fair value hierarchy.

For assets and liabilities that are recognised at fair value in the consolidated financial statements on a recurring basis, the Group assesses at the date of preparation of each set of financial statements whether transfers between the fair value hierarchy levels are required for an asset or liability depending on the inputs available and used as at that date.

For the purposes of fair value disclosures, the Group aggregates the respective assets and liabilities on the basis of their nature, basic characteristics and risks as well as of the fair value hierarchical level *(Note 2.25.2.1 and Note 2.25.2.2).*

2.25. Critical accounting judgments in applying the Group's accounting policies. Key estimates and assumptions of high uncertainty.

Upon preparation of the Group's financial statements, the management needs to make a number of judgements, estimates and assumptions that have a direct impact on the values of the reported revenue, expenses, assets and liabilities, respectively of indicators in the disclosures thereto, including of contingent liabilities. The uncertainties related to these assumptions and judgements may result in significant adjustments to the carrying amounts of the assets and liabilities concerned.

The items presuming a higher level of subjective assessment or complexity or where the assumptions and accounting estimates are material for the consolidated financial statements, are disclosed as follows:

2.25.1. Expected credit losses

2.25.1.1. Determining expected credit losses for financial assets with low credit risk

Instruments with low credit risk are considered to be the instruments for which the risk of default is low, the counterpart's ability to fulfil contractual conditions is stable, and long-term adverse changes in economic conditions are unlikely to change the ability to repay debts. For due from banks and debt instruments measured at amortised cost or at fair value through other comprehensive income, the Group companies assume at the reporting date that the probability of default is unlikely, and therefore determine 12-month credit losses for these instruments. If in subsequent reporting periods the criteria for low credit risk are no longer met, the Group companies analyse the change in the credit risk compared to initial recognition in order to determine the need of lifetime credit losses. Designating instruments as low credit risk ones requires judgement. Upon making this judgement, the Group companies use all the reasonable, grounded and relevant information accessible without making unnecessary costs or efforts.

2.25.1.2. Determining expected credit losses by types of financial assets

The Group has developed an overall Policy for assessment of changes in credit quality and determining expected credit losses from financial instruments, including models and specific techniques, assumptions and relations between the values used in the formulas, pursuant to IFRS 9. It classifies its risk assets in three risk stages depending on changes in the credit risk following the initial recognition of the asset, respectively determines 12-month credit losses if there is no change in the credit quality (Stage 1) and lifetime credit losses (Stages 2 and 3) if there is a significant increase in the credit risk. Upon determining how significantly the credit risk has increased compared to the initial recognition of the asset, the Group uses all the reasonable and grounded information accessible without making unnecessary costs or efforts. The specific observable indicators are disclosed in *Note № 2.25.1.2.1. to Note 2.25.1.2.6.*

The loss given default is an estimate of the damages the Group would suffer upon default and is based on the difference between the contractual cash flows and the cash flows it actually expects to receive, including from collaterals and other loan facilities. The significant judgement made is upon determining the time and amount of expected cash flows by periods, including upon determining the amount of collateral and the factors that impact the amount of cash flows. The management forms its judgements based on historical experience of losses from assets with inherent credit risk, and the types of circumstances resulting in impairment, similar to those in the current portfolio, in order to determine future cash flows. Additionally, upon determining the amount of expected credit losses, the Group also uses forecast information about expected future changes in certain macroeconomic conditions and indicators, and assumptions for correlations of how changes in these indicators would impact the probability of default.

The Group's calculations of expected credit losses are the result of complex models comprising a set of basic assumptions for the selection of the respective input variables and their interrelation. The elements of the models of expected credit losses which require significant assumptions and judgements are:

➢ Criteria to assess if there is a significant increase in credit risk, and their specific application, especially based on qualitative characteristics;

➢Segregation of separate financial instruments into separate portfolios for the purpose of collective impairment;

➢Developing the model of expected credit losses, including selection and application of specific formulas and data;

➢Establishing specific links and calculating average indicators for probability of default for the separate internal risk groups (portfolios) of exposures or individual exposures;

➢Determining the correlations between certain macroeconomic scenarios and the respective indicators, such as GDP, unemployment, Harmonised Index of Consumer Prices (HICP), House Price Index and income per capita and their impact on PD, LGD and EAD, as well as on changes in the amount of collaterals;

➢Selection of forecast macroeconomic indicators to be applied in the formulas to calculate expected credit losses;

2.25.1.2.1.Modelling and risk parameters upon determining expected credit losses related to amounts due from banks

The Group applies the general approach established by IFRS 9 for determining expected credit losses related to amounts due from banks. A rating model has been adopted. Expected credit losses are determined on an individual level (at the level of separate financial instrument-counterpart). The change in the credit risk assessment of the financial instrument is measured by means of a set of criteria.

The Group usually uses the publicly available information on the ratings of bank counterparts given by internationally recognised rating agencies such as Moody's, Standard & Poor's and Fitch. Financial instruments without such credit rating are allocated a risk weight depending on the credit quality of exposure compared to the respective central government of the jurisdiction where the institution is incorporated. The financial instruments with "investment-grade" external credit rating of the counterpart are assumed to have low credit risk, respectively, 12-month expected credit losses are calculated for them.

The criteria adopted by the Group for occurrence of significant increase in credit risk and risk of default compared to initial recognition of the financial instrument include: a) *automatic criteria*: days past due, difficult communication (exchange) resulting to probable default, insolvency of the counterpart; and b) *additional criteria* (only activated in combination with the automatic criteria): any decrease in the official external credit rating of the counterpart compared to the initial rating given by the respective international rating agencies.

The Group uses public information to determine the main risk parameters – probability of default (PD) and loss given default (LGD), based on the External Credit Rating Agency Moody's (Annual Default Study: Corporate Default and Recovery Rates и Sovereign Default and Recovery Rates). For financial instruments classified at Stage 3, LGD is determined depending on the presence of collateral and the expected cash flows agreed with the counterpart in an out-of-court settlement, by considering and weighing different scenarios.

The expected 12-month credit loss (ECL) for performing (regular) exposures under amounts due from banks (Stage 1) is calculated based on the following formula:

$$ECL = EAD*PD*LGD$$

The expected lifetime credit losses (ECL) for under-performing exposures (Stage 2) and credit-impaired exposures (Stage 3) is calculated based on the following formula:

$$ECL = EAD*PD_{Lifetime}*LGD$$

For 2019, the net loss stated from change in the estimate of expected credit losses from amounts due from banks is BGN 292 thousand (2018: BGN 18 thousand) (*Note 7*).

2.25.1.2.2. Modelling and risk parameters upon determining expected credit losses related to loans and advances to customers

The Group applies the general approach established by IFRS 9 for determining expected credit losses related to loans and advances to customers based on internal policies, rules, models and calculation techniques. A monthly review and analysis is performed of all loans to assess the risk exposures, by analysing any new events, circumstances and facts.

Expected credit losses are determined on an individual (exposure and/or connected group of exposures) and collective level (sub-portfolios). Upon performing the calculations and analysis, consideration is made of the presence or absence of objective indicators for significant increase (decrease) in credit risk and risk of default. Such indicators are those events which occur following the initial recognition of the exposure and which impact expected future cash flows from the exposure. The Group currently monitors mainly the following indicators to assess change in the credit risk, by using internal and external information, namely: days past due, restructuring measures, analysis of the borrower's financial indicators, relations with the Group, debts to other banks, presence of distraints, reputation risk, etc.

The criteria adopted by the Group to assess the occurrence of a significant increase in the credit risk and risk of default compared to the risk level upon initial recognition of the financial instrument are related to the product's specifics, respectively the characteristics of the portfolio, upon using accessible, grounded and reasonable information. The criteria adopted by the Group are divided into two groups: a) *automatic criteria*: days past due, restructuring measures and financial indicators (where applicable) and b) *additional criteria:* commenced forced execution by other counterparts of the borrower or by the state; insolvency or liquidation proceedings initiated; significant change in main indicators and coefficients for financial analysis; delay in the borrower's repayments to other institutions by over 90 days; default of obligations to meet certain financial indicators according to the initial approval of the disbursed loan.

Determining expected credit losses from risk exposures is done on a collective base (at sub-portfolio level sharing common risk characteristics) for loans classified in Stage 1 and Stage 2. The main criteria in the segmentation of sub-portfolios for the purpose of collective impairment include: comparability of product and/or risk parameters; internal client segmentation determined depending on the amount of the funding requested and the annual sales revenue generated; repayment method and type of security; total exposure amount by client.

The credit exposures classified in Stage 3 are assessed on an individual basis.

The main risk parameters in the application of the model to determine expected credit losses include:

➢ Exposure at default (EAD) – estimate of the amount of exposure at the future point of default, by taking into consideration and accounting for expected changes in the exposure after the balance sheet's date, payments of principal and interest, drawdowns and interest accrued on payment default;

➢ Discount factor – in determining the present value of expected cash flows, the Group uses the original effective interest rate. For exposures in its portfolio for which no information is available about the initial interest rate, the effective interest rate as at 31 December 2019 is applied.

➢ Probability of default (PD):

Determining 12-month PD

To determine 12-month PD for collectively assessed exposures in Stage 1 for each separate sub-portfolio, the Group maintains historic information about migration coefficients for credit exposures from Stage 1 and Stage 2 to Stage 3. The amount of 12-month PD is determined on a sub-portfolio basis according to the rate of aggravation and is calculated as a moving average for a period covering not less than 5 years.

Determining lifetime PD for a loan

To determine lifetime PD for collectively assessed exposures in Stage 2 for each separate loan sub-portfolio, the Group performs linear extrapolation of 12-month PD for the average remaining maturity of the respective sub-portfolio.

For overdrafts and credit cards, the Group determined lifetime PD based on analysis and previous experience of the average remaining lifetime of loans in these sub-portfolios. For overdrafts and credit cards, the Group has assumed that this lifetime is 1,080 days.

For exposures in Stage 3, the lifetime PD is assumed to be 100%.

➢ Loss given default (LGD)

In 2019, the indicators used in calculating LGD were made more precise. The LGD parameter for collectively impaired credit exposures in Stage 1 and Stage 2 is determined based on historical information covering a period of 5 years. The analysis surveys the collected and uncollected amounts over a period of 5 years, as from the first day of default of the loan transaction. The parameter is calculated as a ratio between the net present value of cash inflows on loans in default as from the date of initial default for 5 years and the exposure at default at the date of initial default. Cash inflows include repayment of principals, interest, charges, realisation of collaterals and execution costs. Cash inflows are discounted with the effective interest of each loan transaction as at the date of default. The LGD parameter is determined separately for each sub-portfolio.

In 2018, the LGD parameter for collectively impaired credit exposures in Stages 1 and 2 is set based on historical information comprising a period of not less than 3 years by means of an analysis of the impact on migration of exposures from Stage 1 and Stage 2 to Stage 3. It is calculated as the ratio between the impairment accrued and the gross carrying amount of the migrated exposures. The average loss percentage from Stage 3 credit exposures is added to the indicator and an average of the sum is used.

The LGD parameter for credit exposures at Stage 3 is determined on an individual level, by considering the effect of the collateral received and the expected cash flows agreed with the borrower in an out-of-court settlement, where applicable. To determine the LGD value, the Group determines the realisable amount of the collateral, assuming as such its liquidation value, by considering and weighing different scenarios.

➢Macroeconomic forecast indicators

To reflect the effect of current and forecast economic conditions upon determining expected credit losses, the Group performs additional adjustment of the historically calculated PD indicators (12-month PD and lifetime PD) for the effect and impact of certain macro indicators for a three-year period, for which a correlation has been established.

The main macroeconomic indicators included in the model for impairment of loans to clients are as follows:

- Harmonised Index of Consumer Prices – applicable for corporate loans;
- Unemployment rate – applicable for corporate loans;
- GDP – applicable for corporate loans;
- House price index – applicable for mortgage loans;
- Total average income per capita – applicable for retail loans;

The expected 12-month credit loss (ECL) for performing (regular) exposures under loans and advances to customers (Stage 1) is calculated based on the following formula:

$$ECL = EAD^{*} PD_{12m}{}^{*}LGD$$

The expected lifetime credit losses (ECL) for under-performing exposures under loans and advances to customers (Stage 2) is calculated based on the following formula:

$$ECL = EAD^{*}PD_{Lifetime}{}^{*}LGD$$

The expected lifetime credit losses (ECL) from loans and advances to customers – for credit-impaired exposures, is calculated based on the following formula:

$$ECL = EAD^{*}PD_{Lifetime} - LV(Coll)$$

As at 31 December 2019 and as at 31 December 2018 the Group has no purchased exposures which were purchased originally credit impaired (POCI) and are non-performing.

For 2019, the net gain stated from the change in the estimate of expected credit losses on loans and advances to customers is BGN 209 thousand (2018: BGN 1,724 thousand – net gain) *(Note 7).*

2.25.1.2.3. Modelling and risk parameters upon determining expected credit losses related to debt securities at amortised cost

The Group applies the general approach established by IFRS 9 for determining expected credit losses related to debt securities measured at amortised cost. A rating model has been adopted. Expected credit losses are determined on an individual level (at the level of separate financial instrument-counterpart). The change in the credit risk assessment of the financial instrument is measured by means of a set of criteria adopted by the Group.

The Group usually uses the publicly available information on the ratings of bank counterparts given by internationally recognised rating agencies such as Moody's, Standard & Poor's and Fitch. Financial instruments without such credit rating are allocated a risk weight depending on the credit quality of exposure compared to the respective central government of the jurisdiction where the institution is incorporated.

When financial instruments have an "investment-grade" external credit rating of the issuer, they are assumed to have low credit risk, respectively, 12-month expected credit losses are calculated for them. For those with lower credit rating, additional analyses are performed related to the issuer, the characteristics of the financial instrument, the process of trade in the financial instrument and other monitoring indicators.

The criteria adopted by the Group for occurrence of significant increase in credit risk and risk of default compared to the one initially assessed at the recognition of the financial instrument include: a) *automatic criteria*: days past due, difficult communication (exchange) resulting to probable default and/or proposal for new or restructured debt or new package of securities to reduce the initial liability; insolvency of the issuer; change in the payment terms imposed by the sovereign and resulting in a decrease in the financial liability; and b) *additional criteria* (only activated in combination with the automatic criteria): any decrease in the official external credit rating of the counterpart compared to the initial rating of the issuer given by the respective international rating agencies.

The Group uses public information to determine the main risk parameters – probability of default (PD) and loss given default (LGD), based on the External Credit Rating Agency Moody's (Annual Default Study: Corporate Default and Recovery Rates and Sovereign Default and Recovery Rates). The Recovery Rates for debt financial instruments reflect the degree to which the principal and interest of a debt instrument in default can be recovered. The recovery rates make it possible to forecast the loss given default, calculated as 1 minus recovery rate. For financial instruments classified at Stage 3, LGD is determined depending on the presence of collateral and the expected cash flows agreed with the counterpart in an out-of-court settlement, by considering and weighing different scenarios.

The expected 12-month credit loss (ECL) for performing (regular) exposures – debt securities (Stage 1) is calculated based on the following formula:

$$ECL = PD * LGD * EAD$$

The expected lifetime credit losses (ECL) for under-performing exposures debt securities (Stage 2) and credit-impaired exposures – debt securities (Stage 3) is calculated based on the following formula:

ECL = EAD*PD*Lifetime**LGD

The model is based on a transaction matrix of ratings and macroeconomic time series. The ratings are established based on a macroeconomic profile, financial profile and qualitative indicators. The macroeconomic time series include indicators such as unemployment rate and spread to risk free yield. The model has been validated by means of back testing to calculate the accuracy coefficient, model stability, etc.

In 2019, the net loss on change in the estimate of expected credit losses from debt securities at amortised cost is BGN 122 thousand (2018: none).

2.25.1.2.4. Modelling and risk parameters upon determining expected credit losses related to debt securities at fair value through other comprehensive income

The approach, modelling and risk parameters upon determining expected credit losses are analogous to those disclosed in *Note 2.25.1.2.3.*

For 2019, the net loss stated from the change in the estimate of expected credit losses from debt securities at fair value through other comprehensive income is BGN 28 thousand (2018: BGN 26 thousand). The total loss on impairment of debt securities recorded in equity amounts to BGN 150 thousand (2018: BGN 26 thousand) (*Note 7*).

2.25.1.2.5. Modelling and risk parameters upon determining expected credit losses related to other financial assets

The Group applies the general approach to determine expected credit losses from other financial assets.

For 2019, the net loss stated from the change in the estimate of expected credit losses from other financial assets is BGN 102 thousand (2018: BGN 27 thousand) (*Note 7*).

2.25.1.2.6. Modelling and risk parameters upon determining expected credit losses related to financial guarantees granted, letters of credit and undrawn commitments

The Group applies the general approach to determine expected credit losses from financial guarantees granted, letters of credit and undrawn commitments. Upon determining expected credit losses related to undrawn commitments, a credit conversion factor is used, calculated based on historical information covering a ten-year period.

The Group performs a monthly review of the guarantees and letters of credit issued, analysing any new events, circumstances and facts following their issue date.

The Group has adopted an LGD equal to zero, based on a historical five-year analysis to observe insignificance of the amounts of guarantees and letters of credit claimed and paid.

In 2019 and 2018, there is no effect from the change in the estimate of expected credit losses from financial guarantees to be recognized.

2.25.2. Fair value measurement

2.25.2.1. Measurement of the fair value of financial instruments

(a) Financial instruments measured at fair value in the consolidated financial statements

Securities held by the Group and measured at fair value through other comprehensive income representing: (a) debt securities is fixed or determinable payments and fixed maturity (corporate and government securities); (b) corporate shares or interests in the equity of other entities (minority interests) are measured and presented at fair value in the consolidated statement of financial position (Level 1). The measurement policy adopted by the Group estimates the average price based on the 'ask' and 'bid' quotes on the last working day of the reporting period (year), published in an international information system for financial instruments, eliminating the highest and the lowest quotes (extreme values).

(b) Financial instruments not measured at fair value in the consolidated financial statements

The Group classifies financial instruments measured at amortised cost in the consolidated financial statements, for which fair value disclosures are required, in the following categories: *cash and balances with the Central Bank; due from banks; loans and advances to customers; securities at amortised cost; other financial assets; due to banks and customers, and other financial liabilities.*

The Group determines the fair value of these groups of financial assets and liabilities using the following techniques and assumptions:

Cash and balances with the Central Bank

This item includes cash on hand and balances on current accounts with BNB, including the minimum statutory reserves.

The fair value of *cash on hand* coincides with their carrying and nominal amounts. The Group classifies this item's fair value as Level 1 in the fair value hierarchy.

The fair value of *balances on current accounts with BNB*, including the *minimum statutory reserves* is close or coincides with their carrying (amortised) amount. The Group classifies these items as Level 2 in the fair value hierarchy.

Due from banks

Amounts due from banks include interbanking deposits and nostro accounts.

The fair value of floating or fixed rate items with an original maturity *up to* 3 months, coincides or is close to their carrying (amortised) amount.

The fair value of floating or fixed rate items and original maturity *over* 3 months is determined using the discounted cash flows method applying average current interest rates quoted on the money market for instruments with similar risk and maturity.
The Group classifies amounts *due from banks* at Level 2 of the fair value hierarchy.

Loans and advances to customers

Loans and advances to customers are presented net, less the accumulated impairment. The definition of the fair value of *loans and advances to customers* is based on valuation models, such as discounted cash flows techniques and it is classified by the Group at Level 3 of the fair value hierarchy.

The inputs to the valuation techniques include the estimated cash flows over the life of the loan and average interest rates for the respective term and currency published by BNB. For loans classified as loss the Group recognises the discounted carrying amount of the loan as their fair value.

Securities measured at amortised cost

The fair value of *securities measured at amortised cost*, representing debt securities with fixed or determinable payments and fixed maturities (government securities – bonds) is based on average market quotes in an active market and it is classified at Level 1 in the fair value hierarchy. It is determined by the Group as the average of the 'ask' and 'bid' quotes on the last working day of the reporting period (year), published in an international information system for financial instruments, eliminating the highest and the lowest quotes (extreme values).

Other financial assets

The other financial assets include mainly receivables under a lease agreement and payments under card transactions.

The fair value of these items coincides with or is close to their carrying (amortised) amount as far as they are of short-term nature.

The Group classifies *other financial assets* at Level 3 of the fair value hierarchy.

Due to banks

The amounts due to banks include placements (deposits) and borrowings in the form of loans.

The fair value of floating or fixed rate items with an original maturity *up to* 3 months, coincides with or is close to their carrying (amortised) amount.

The fair value of floating or fixed rate items and original maturity *over* 3 months is based on the discounted cash flows using average interest rates quoted in the money market for instruments having similar risk, currency and maturity.

The Group classifies the fair value of these assets at Level 2 of the fair value hierarchy.

Due to customers

The amounts due to customers include funds attracted from individuals, legal entities and municipalities in the form of term deposits and current accounts.

The fair value of floating or fixed rate items with an original maturity *up to* 3 months, coincides with or is close to their carrying (amortised) amount. The fair value of floating or fixed rate items with original maturity *over* 3 months is calculated using the discounted cash flows technique applying average interest rates for the respective term and currency published by BNB.

The Group classifies the fair value of these assets at Level 2 of the fair value hierarchy.

Other financial liabilities

The other financial liabilities include mainly transfers for execution, guarantees under assignment agreements and letters of credit and estimate accruals.

The fair value of these items coincided with or is close to their carrying (amortised) amount as far as they are of short-term nature.

The Group classifies *other financial liabilities* at Level 3 of the fair value hierarchy.

The table below presents the carrying amounts and fair values of the Group's financial instruments, including their fair value hierarchy levels.

As at 31.12.2019					Fair value			
	Note	Financial instruments at amortised cost	Financial instruments at FVOCI	Total	Level 1	Level 2	Level 3	Total
		BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
Financial assets measured at fair value								
Securities at fair value through other comprehensive income	15	-	48.155	**48,155**	48.155	-	-	**48,155**
Financial assets not measured at fair value								
Cash and balances with the Central Bank	12	119.586	-	**119,586**	21.184	98.402	-	**119,586**
Due from banks	13	116.986	-	**116,986**	-	116.986	-	**116,986**
Loans and advances to customers	14	592.303	-	**592,303**	-	-	598.254	**598,254**
Securities at amortised cost	16	56.577	-	**56,577**	58.436	-	-	**58,436**
Other financial assets	22	1.287	-	**1,287**	-	-	1.287	**1,287**
Total		**886,739**	**48,155**	**934,894**	**127,775**	**215,388**	**599,541**	**942,704**
Financial liabilities not measured at fair value								
Due to banks	23	14.286	-	**14,286**	-	14.286	-	**14,286**
Due to customers	24	855.169	-	**855,169**	-	855.825	-	**855,825**
Other financial liabilities*	27	6.409	-	**6,409**	-	-	1.486*	**1,486***
Total		**875,864**	**-**	**875,864**	**-**	**870,111**	**1,486**	**871,597**

As at 31.12.2018					Fair value			
	Note	Financial instruments at amortised cost	Financial instruments at FVOCI	Total	Level 1	Level 2	Level 3	Total
		BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
Financial assets measured at fair value								
Securities at fair value through other comprehensive income	15	-	49,711	**49,711**	49,711	-	-	**49,711**
Financial assets not measured at fair value								
Cash and balances with the Central Bank	12	131,875	-	**131,875**	21,737	110,138	-	**131,875**
Due from banks	13	87,824	-	**87,824**	-	87,824	-	**87,824**
Loans and advances to customers	14	428,879	-	**428,879**	-	-	433,254	**433,254**
Securities at amortised cost	16	67,722	-	**67,722**	70,366	-	-	**70,366**
Other financial assets	22	1,038	-	**1,038**	-	-	1,038	**1,038**
Total		**717,338**	**49,711**	**767,049**	**141,814**	**197,962**	**434,292**	**774,068**
Financial liabilities not measured at fair value								
Due to banks	23	8,290	-	8,290	-	8,290	-	**8,290**
Due to customers	24	701,003	-	701,003	-	700,968	-	**700,968**
Other financial liabilities	27	2,480	-	2,480	-	-	2,480	**2,480**
Total		**711,773**	-	**711,783**	-	**709,258**	**2,480**	**711,738**

**The fair value of other financial liabilities does not include lease liabilities under IFRS 16.*

2.25.2.2. Measurement of the fair value of non-financial assets

(a) Fair value of assets held for sale

The Group determines the fair value of assets held for sale based on the estimated selling price of the respective assets for which there is high level of certainty that they will be realised in the short-term (up to 1 year). Assets held for sale are designated at Level 3 in the fair value hierarchy.

(b) Fair value of investment property

The fair value of investment property is calculated with the assistance of external, independent licensed valuators. It is designated at Level 3 based on the inputs to the valuation technique used. The fair value determined is the sum of the weighted average values derived as a result of the application of different valuation methods. The following valuation techniques and methods have been used: market approach, income approach and cost approach. The significant unobservable inputs in determining the fair values of investment properties include: costs to manage the property, determined as a percentage of the gross annual income from the property; rate of return for the revenue generated by the property; adjusting coefficients in relation to market benchmark transactions.

The table below present the carrying amounts and fair values of the Group's non-financial assets, designated at Level 3 of the fair value hierarchy:

Non-financial assets	Note	Carrying amount	Fair value	Carrying amount	Fair value
			Level 3		Level 3
		31.12.2019	31.12.2019	31.12.2018	31.12.2018
		BGN '000	BGN '000	BGN '000	BGN '000
Investment property	17	18,631	21,892	17,589	21,911
Assets held for sale	20	146	266	387	508
Total		18,777	22,158	17,976	22,419

2.25.3. Actuarial calculations

Actuary-type calculations based on assumptions related to mortality, personnel turnover rate, future salary levels and discount factor, which the management has accepted as reasonable and adequate to the Group, have been used to determine the present value of long-term retirement benefit obligations to personnel *(Note 27).*

2.25.4. Leases

2.25.4.1. Determining whether a contract contains a lease or lease components

Upon identification and classification of a lease or a lease component of a contract, the Group determines whether the contract contains an identifiable asset and whether it transfers the right of control over this asset for the contract term. The Group has identified the contracts for rent of office premises as containing lease components. The Group obtains economic benefits from the use of the premises and determines the manner, time, place and degree of use of the offices.

2.25.4.2. Determining the lease term of leases with renewal and termination options – as lessee

The Group determines the lease term as the non-cancellable period of the lease, together with both: a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

Upon determining the term of leases, the Group's management determines whether it is reasonably certain that it would exercise the extension/termination option, considering all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option to extend the lease, or not to exercise the option to terminate the lease, such as significant enhancement to the underlying asset, significant adaptation and customisation of the underlying asset, costs related to termination of the lease and costs for the lease, relocation and identification of another asset, the importance of the underlying asset for the Group's operations, etc.). Extension options (or the periods after the termination option) are only included in the lease term if it reasonably certain they will be extended (or will not be terminated). The Group reassesses the assessment of options upon the occurrence of a significant event or a significant change in circumstances that is within the Group's discretion and may impact the assessment.

After the commencement date, the Group reassesses the lease term upon the occurrence of a significant event or a significant change in circumstances that is within its control and affects whether the Group is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term.

The termination options are included in the lease term when the Group is reasonably certain it will not exercise these options.

2.25.4.3. Interpretation of what constitutes a penalty when determining lease terms

The Group accounts for several leases (cancellable) which do not have a specific lease term, and the term continues until any of the parties – lessee or lessor, terminates them. Some of the leases contain a termination notice period – for instance, not more than three months; respectively, the contract may not require any of the parties to pay amounts upon termination, as well as contracts with an option for multiple re-negotiation – which include an initial period and an unlimited number of re-negotiations after the initial period, unless terminated by either of the parties. With respect to these two types of contracts, the Group applies a wider interpretation of "penalty", based on reasonably substantiated economic incentive or factors of deterring nature or acting as a sanction (for instance: significant costs to find an alternative underlying asset, significant relocation costs, significance of the underlying asset for the Group's operation, etc.) For these two types of contracts, the Group's aim is that the lease term corresponds to its realistic judgement on the period of use of the underlying asset.

2.25.4.4. Determining the incremental interest rate of leases in which the Group is a lessee

In the cases when the Group is a lessee and cannot readily determine the interest rate to discount lease liabilities, it uses the incremental borrowing rate it would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of- use asset in a similar economic environment.

2.25.4.5. Review of indicators for impairment of right-of-use assets

As at the date of the financial statements, the Group's management performs an impairment review of right-of-use assets. If indicators exist that the approximate recoverable amount is lower than their carrying amount, the latter is impaired to the recoverable amount of assets.

The Group has performed a review and has determined that no indicators for impairment exist as at 31 December 2019.

2.25.5. Custodial services

The Group, through the parent (the Bank) performs safekeeping on clients' behalf in its capacity as investment intermediary. Such assets are not recognised in the consolidated statement of financial position, since the Bank does not have control thereon.

3. RISK MANAGEMENT POLICY DISCLOSURES

In the ordinary course of its business activities, the Group is exposed to a variety of financial risks the most important of which are credit risk, market risk (including interest rate and currency risk) and liquidity risk. The general risk management is focused on the difficulty to forecast financial markets and to minimise the potential adverse effects that might affect the financial performance and position of the Group. Financial risks are currently identified, measured and monitored through various control mechanisms introduced in order to establish adequate prices for the bank services and types of products and funds borrowed thereby, as well as to assess adequately the market circumstances of its investments and the forms for maintenance of free liquid funds through preventing undue risk concentration. The Group manages its business transactions according to the type of risk involved and on the basis of the different categories of trading instruments held.

Risk management structure

The main units which are directly responsible for risk management in the Group are located in the Bank (the Parent) and include:

Supervisory Board – performs overall supervision of risk management as well as the functions of a Risk Committee;

Management Board – responsible for the overall risk management approach and for approving risk management strategies and principles;

Assets and Liability Management Committee – analyses the current position of the Bank's assets and liabilities, monitors the risks related to the Bank's liquidity management, market, interest rate and foreign currency risk, and the financial instruments market and proposes specific measures in case of variance from the set limits;

Credit Committee and Committee on Determining Expected Credit Losses – performes current analysis of credit transactions from the perspective of credit risk management;

Risk Events Assessment Committee – takes decisions for the ultimate registration of occurred events, makes assessment of the losses, analyses registered data;

Executive Directors – exercise operating control over all banking transactions with a view to comply and maintain currently the set limits for the particular types of risks;

The Central Bank exercises additional supervision on the risk management in the Bank by requesting periodic reports and subsequent control on the observance of the regulatory set maximum exposure levels to particular types of risks.

Measurement and management of major risks

The management of the parent (the Bank) has approved various internal rules and methodologies for risk measurement based on statistical models and/or on empirical observations, analyses and judgements based on historical experience of the trends and relations between different factors and conditions.

Control over and management of the risks is structured mainly on the basis of limits set by type of operation. These limits reflect the Bank's strategy and its market position, as well as the level of the specific risk that the Bank defines as being acceptance for its operations.

Reports on the specific types of risks are prepared periodically for the purposes of subsequent analysis and possible adjustment of already set limits by individual types of transactions and deals.

3.1. Credit risk

Credit risk is the risk that the customers / counterparties will fail to pay to the Bank any amounts due in full and in due time.

The management of the specific credit risk is performed by the Committee on Determining Expected Credit Losses of the Bank and is supervised by the Management Board. The credit risk management function ensures that appropriate policies are established and the compliance of these policies with the related current monitoring procedures and controls for each type of credit exposure. At the subsidiary D Leasing EAD this function is performed by the Impairment Committee and is supervised by the Board of Directors of the company, and at the subsidiaries D Imoti EOOD and D Insurance Broker EOOD, the General Managers are responsible for credit risk management.

Due from banks

The parent (the Bank) manages the credit risk regarding bank counterparts by adopting an investment benchmark framework setting limits for exposures thereto. The limits are formed by means of a complex assessment based on: 1) official external credit rating by the following international rating agencies: Moody`s, Standard & Poor`s, Fitch, or an equivalent creditworthiness rating (given by or approved by the External Credit Rating Agency pursuant to Art. 135 of Regulation 575/2013); 2) periodic financial analysis of the bank's condition based on audited financial statements; 3) results of stress tests carried out by regulators, asset quality test; 4) other public information.

Loans to clients

Exposure to credit risk portfolio is managed through regular analysis of the borrower's ability to meet their principal and interest repayment obligations and through the mechanisms of establishing appropriate lending limits. Credit risk is reduced in part also by requesting and obtaining different types of collateral.

The monitoring process and review of the quality of the loan portfolio is defined in the periodic (quarterly) monitoring guidelines of the parent (Bank). Such monitoring is aimed at establishing whether there are changes in the business and status of business customers and the extent to which the requirements set upon the approval of the transaction are complied with. The review of the quality of the credit portfolio is performed on a monthly basis. According to changes in credit quality, loan exposures are classified at three stages, as disclosed in *Note 2.12.1.7.*

Policy and process of determining losses from impairment of loans to clients

The references herein below show where in these consolidated financial statements there are disclosures about the policies and process established by the parent (the Bank) to measure and impair risk exposures related to loans to clients according to IFRS 9 Financial Instruments:

- Explanation of the Group's system for internal assessment of risk exposures – individual and collective impairment approach (*Note 2.12.1.3.1* and *Note 2.12.1.7)*;
- How the Group determines, calculates and monitors a significant increase in credit risk and risk of default for individually and collectively assessed exposures (*Note 2.12.1.7* and *Note 2.25.1.2.2)*;

- Details about the calculation of expected credit losses at each stage of impairment *(Note 2.12.1.7* and *Note 2.25.1.2.2).*

Definition of default and recovery

Group assumes that a default has occurred when:

1/ There is little probability that the debtor will repay its debt in full, unless a Group company undertakes at least one of the following actions:

- forced realisation of the collateral;
- non-recognition of interest income;
- making specific credit adjustment resulting from identified significant deterioration of credit quality occurring after the Group accepted the exposure to the debtor;
- realisation of the loan payable with a significant economic loss from the debtor's exposure;
- restructuring of the loan payable which may result in a decrease in the amount of the payable, by means of significant remittal or deferral of the payment of principal, interest, or, where applicable, fees;
- a Group company or a third party has requested that an insolvency/liquidation procedure be initiated for the debtor, or a similar procedure related to the debtor's loan payable;
- the debtor has requested or is undergoing insolvency proceedings or has sought other similar protection, and this would result in a delay in the repayment or in a default of the loan payable;
- actions are taken to issue a forced execution list;
- in other cases, upon the Group company's discretion.

2/ The debtor has delayed payment of principal, interest or fees for over 90 days.

An exposure is no longer classified as "default" if each of the following conditions is met:

1/ For exposures segmented as "citizens and households" and "small business", under the following conditions:

- The debtor has no amounts past due for over 90 days;
- No restructuring measures have been applied over the last 12 months;

2/ For clients segmented as "large corporate clients" and "medium-sized corporate clients", under the following conditions:

- The debtor has no amounts past due for over 90 days;
- The debtor's condition has improved to a degree of assurance it will repay its contractual debt in full;
- No restructuring measures have been applied over the last 12 months;

Exposure at default

Exposure at default is the gross carrying amount of the financial instrument which is the object of impairment calculation. The Group determined the probability of default over the instrument's lifetime. In order to calculate EAD for a loan at Stage 1, the Group assesses the probability of default over the next 12 months. For financial assets at Stages 2 and 3, the Group assesses the probability of default over the instruments' lifetimes. Based on the Group's model, the calculated PD are applied for each of the stages.

Loss given default

Loss given default (LGD) is the ratio of loss from the exposure due to the counterpart's default, to the amount of exposure at default. In order to determine the LGD parameter, the Group calculates the potential loss which would occur if an exposure is in default and the only source of collection is realisation of the collaterals. The loss is measured as the difference between the exposure at default (EAD) and the realisable value of the collateral and is presented as a percentage of EAD. The LGD parameter is determined individually for each exposure at Stage 3 of the loan portfolio. Regarding Stage 1 and Stage 2, the Group applies LGD on a collective base according to the standardised framework to assess LGD. LGD values are reviewed at least once per year by the Bank's specialised credit risk department.

Significant increase in credit risk

At each reporting date the Group assesses if the credit risk has significantly increased following initial recognition, respectively it determines the change in risk resulting from default by comparing its level at the date of the financial statements to the risk level upon the initial recognition of the credit exposure.

Additionally, the Group currently performs regular monitoring and assessment of the credit risk level for all financial instruments in the scope of impairment under IFRS 9 using the following *obligatory criteria*: a) delays by over 30 days; b) restructuring measures applied; c) deterioration on key financial criteria for the Group, and *additional criteria*: a) indebtedness by over 90 days at other institutions; b) distraints, and other monitoring criteria in a report.

Grouping financial assets assessed on a collective base

The Group companies group financial assets assessed on a collective base by means of segmentation into sub-portfolios with common risk characteristics. The main parameters which are considered in the judgement to form "uniform" portfolios with common risk characteristics include: a) comparability of product and/or risk parameters; b) internal client segmentation based on the amount of funding requested and the annual sales revenue generated; c) repayment method and type of security; and d) amount of the total exposure by client.

As at 31 December 2019, the Group has divided its exposures into 17 sub-portfolios sharing similar risk characteristics based on pre-defined criteria. Currently, on a monthly basis, the Group monitors and analyses the criteria set which determine belonging to the respective sub-portfolio of existing or newly arising credit exposures.

Categorisation of credit exposures – renegotiated and restructured exposures

A renegotiated exposure for the Group is an instrument with respect to which the Group has made changes in the initial conditions of the debtor which do not lead to a significant change in the loan's cash flows and do not provide greater benefit to the debtor, and the loan is not treated as restructured pursuant to Implementing Regulation 1278/2015 – articles 163-183. The exposure is not identified as underperforming and there are no grounds to consider that the Group will not be able to collect the principal and interest. There are no circumstances demonstrating aggravation of the debtor's financial condition that would result in an impossibility to pay their debt to the Bank. The management monitors renegotiated loans on a continuous basis in order to ensure that all criteria have been met and that it is probable that future payments would not fall past due. The loans continue to be subject to individual or collective impairment. After the renegotiation of the terms and conditions any impairment is calculated using the original effective interest rate as calculated before the changes in the terms and conditions. Following renegotiation the loans are classified in the classification risk group to which they were allocated before the renegotiation.

A restructured exposure for the Group is a contract with respect to which restructuring measures have been applied. The restructuring measures comprise Group actions taken in favour of a debtor which experiences or is about to experience difficulties in meeting their financial obligations. These actions include:

- changes in the previously set terms and conditions of the agreement for which it is believed that the borrower will fail to discharge due to the financial difficulties (problematic debt) resulting in failure to service the debt; such amendment is only permitted when the debtor experiences financial difficulties;
- partial or full refinancing of the problematic debt agreement; such amendment is only permitted when the debtor experiences financial difficulties;
- change in previous contract conditions so that the new conditions provide greater benefit to the debtor;
- stipulating in the amended contract more favourable conditions compared to the ones that debtors with a similar risk profile would obtain from the same institution at the same time.

The exercise of clauses, which, when used upon the debtor's discretion, allow the debtor to change the contract terms (embedded restructuring clauses) are treated as restructuring measures when the institution approves the exercise of these clauses, having concluded that the debtor experiences financial difficulties.

Restructured loans are subject to individual or collective impairment. The original effective interest rate on the loan is used for the purpose of calculation of the individual impairment.

A loan ceases to be classified as restructured when all of the conditions listed below are met: (a) the loan is serviced, including when it was reclassified from non-performing but indications already exist that it should not be considered non-performing; (b) the minimum two-year probation period as of the date on which a restructured exposure is believed to be serviced has expired; (c) at least during half of the probation period regular payments of amounts that are not insignificant have been made; and (d) none of the exposures to the debtors is past due by over 30 days at the end of the probationary period.

Internal process of assessment and classification of credit exposures

According to the internal assessment process and pursuant to Regulation (EU) 575/2013 of the European Parliament and the Council of EU dated 26 June 2013, the parent company (the Bank) divides its client portfolio into performing loans (those for which no default has been identified) and non-performing loans (those for which a default has been identified). The performing exposures of the parent company (the Bank) are those exposures which meet the following criteria:

- The debtor has no past due payables to the parent company (the Bank), or if there are past due principal, interest or fee (which constitutes interest income), the period is not more than 90 days;
- The parent company (the Bank) believes that it is probable that the debtor may not repay in full its loan payables without subsequent collateral disposal;
- The credit exposure is classified in Stages 1 and 2.

The non-performing exposures of the parent company (the Bank) are those exposures which meet the following criteria:

- The parent company (the Bank) believes that it is unlikely that the debtor repays the payables in full unless additional actions are taken thereby;
- The debtor has principal, interest or fee past due by over 90 days.

Debt and equity securities

To manage the risk of exposures to debt and equity securities, D-Commerce Bank AD uses the ratings of external credit agencies such as Standard&Poor's, Moody's, Fitch. The active management of risk from investments in securities is performed by introducing an investment framework – Benchmark. It constitutes a system of limits and investment restrictions of security portfolios and investments in bank counterparts over a respective time period. The benchmark is an optimal solution to an optimisation problem given the investment limits and the choice made. The benchmark reflects the long-term investment strategy regarding the combination between market and credit risk that the management is willing to undertake in order to achieve the Bank's investment objectives.

Financial guarantees, letters of credit and undrawn loans

The primary purpose of instruments in the form of guarantees and letters of credit is to ensure that funds are available to the customer as required. Guarantees and letters of credit which represent irrevocable commitments that the Group will make payments in the events that a customer cannot meets its obligations to a third party, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertaking by the Group on behalf of a customer, authorise a third party to draw drafts on the Bank up to a stipulated amount by observing specific terms and conditions. They are secured by a definite quantity of goods and therefore carry less risk than a direct borrowing.

The undrawn portions of authorised credit agreements in the form of loans, guarantees or letters of credit represent commitments of the Group. With respect to credit risk the Group is potentially exposed to loss in an amount equal to the total undrawn commitments. However, the likely amount of the loss is less than the total unused commitments since most of these types of commitments require the customer to maintain specific credit standards. The Group monitors on a current basis the utilisation of the loan as longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Maximum exposure to credit risk

The exposure to credit risk attributable to financial assets recognised in the consolidated statement of financial position is as follows:

Financial assets	**31.12.2019 BGN '000**	**31.12.2018 BGN '000**
Cash and balances with the Central Bank	119,586	131,875
Due from banks	116,986	87,824
Loans and advances to customers	592,303	428,879
Securities at fair value through other comprehensive income	48,155	49,711
Securities at amortised cost	56,577	67,722
Other financial assets	1,287	1,038
Total financial assets	**934,894**	**767,049**

The exposure to credit risk attributable to off-balance sheet contingent commitments is as follows:

	31.12.2019 BGN '000	**31.12.2018 BGN '000**
Bank guarantees and letters of credit	21,116	39,269
Undrawn amount of authorised loans	65,859	54,287
	86,975	**93,556**
	1,021,869	**860,605**

Maximum credit exposure

At 31 December the maximum exposure to credit risk, the coverage of the maximum credit exposure with the collateral accepted by the Group, measured at fair value and the net exposure to credit risk by type of financial assets are presented below:

31.12.2019	**Maximum exposure to credit risk**	**Coverage of the maximum credit exposure with the collateral accepted by the Group measured at fair value**				**Net exposure to credit risk**
		Cash	*Real estate*	*Other acceptable collateral*	*Total acceptable collateral*	
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Cash and balances with the Central Bank	119,586	-	-	-	-	119,586
Due from banks	116,986	-	-	-	-	116,986
Loans and advances to customers	592,303	30,593	379,201	3,321	413,115	179,188
Securities at fair value through other comprehensive income	48,155	-	-	-	-	48,155
Securities at amortised cost	56,577	-	-	-	-	56,577
Other financial liabilities	1,287	-	-	-	-	1,287
Total	**934,894**	**30,593**	**379,201**	**3,321**	**413,115**	**521,779**

31.12.2018	Maximum exposure to credit risk	Coverage of the maximum credit exposure with the collateral accepted by the Group measured at fair value				Net exposure to credit risk
		Cash	*Real estate*	*Other acceptable collateral*	*Total acceptable collateral*	
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Cash and balances with the Central Bank	131,875	-	-	-	-	131,875
Due from banks	87,824	-	-	-	-	87,824
Loans and advances to customers	428,879	4,948	289,050	3,653	297,651	131,228
Securities at fair value through other comprehensive income	49,711	-	-	-	-	49,711
Securities at amortised cost	67,722	-	-	-	-	67,722
Other financial liabilities	1,038	-	-	-	-	1,038
Total	**767,049**	**4,948**	**289,050**	**3,653**	**297,651**	**469,398**

Due from banks

The table below presents amounts due from banks as at 31 December 2019 and 31 December 2018 based on Moody's ratings.

	31.12.2019 BGN'000	**31.12.2018 BGN'000**
Aa1 to A3	36,181	26,902
Baa1 to Ba3	29,058	-
Without rating	51,747	60,922
	116,986	**87,824**

In accordance with Regulation (EU) No 575/2013 of the European Parliament, dated 26 June 2013, exposures to bank institutions for which a credit assessment by a recognized External Credit Assessment Institution (ECAI) is not available shall be assigned the credit quality of the respective central government of the jurisdiction – in this case being Republic of Bulgaria with a credit rating Baa2.

Loans and advances to customers

The table below provides information on the carrying amount of loans and advances granted, the coverage of the maximum loan exposure by the collateral accepted by the Group measured at fair value and the net exposure to credit risk as at 31 December allocated to the internal risk groups of the Group:

31.12.2019	**Carrying amount**	**Category under IFRS 9 on 31 December 2019**			**Coverage of the maximum credit exposure with the collateral accepted by the Bank measured at fair value**				**Net exposure to credit risk**
		Stage 1	**Stage 2**	**Stage 3**	***Cash***	***Real estate***	***Other acceptable collateral***	***Total acceptable collateral***	
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Performing exposures	571,306	494,286	77,020	-	30,589	358,933	3,161	392,683	178,623
Non-performing exposures	20,997	-	-	20,997	4	20,268	160	20,432	565
	592,303	**494,286**	**77,020**	**20,997**	**30,593**	**379,201**	**3,321**	**413,115**	**179,188**
including:									
Exposures to companies	*497,168*	*401,990*	*75,358*	*19,820*	*29,946*	*313,082*	*3,274*	*346,302*	*150,866*
Exposures to individuals	*95,135*	*92,296*	*1,662*	*1,177*	*647*	*66,119*	*47*	*66,813*	*28,322*

31.12.2018	Carrying amount	Category under IFRS 9 on 31 December 2018			Coverage of the maximum credit exposure with the collateral accepted by the Bank measured at fair value				Net exposure to credit risk
		Stage 1	**Stage 2**	**Stage 3**	***Cash***	***Real estate***	***Other acceptable collateral***	***Total acceptable collateral***	
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Performing exposures	403,512	331,480	72,032	-	4,944	267,172	2,545	274,661	128,851
Non-performing exposures	25,367	-	2,315	23,052	4	21,878	1,108	22,990	2,377
	428,879	**331,480**	**74,347**	**23,052**	**4,948**	**289,050**	**3,653**	**297,651**	**131,228**
including:									
Exposures to companies	*353,205*	*259,043*	*72,655*	*21,507*	*4,249*	*238,369*	*3,419*	*246,037*	*107,168*
Exposures to individuals	*75,674*	*72,437*	*1,692*	*1,545*	*699*	*50,681*	*234*	*51,614*	*24,060*

Collateral

The Group accepts as collateral various types of real estate such as residential, commercial and administrative, hotels and other estate, and in some cases production buildings, vacant land or agricultural land. The value of the mortgaged property in most cases fully covers the loan amount. The accepted collaterals are initially measured at their current fair value, which is determined by independent, certified appraisers in accordance with a list approved by the parent's (Bank's) management, or by the Bank's internal appraisers. In the course of periodic reviews of the loan status the accepted collateral is revalued following the same procedure. In the cases of real estate properties for retail and small business customers, the Bank applies annual indexation based on public NSA statistical information regarding the change in prices by cities and regions. The indexation of residential properties is only applied when the change in prices does not indicate an annual decrease greater than 10%.

Other collateral includes pledges over movable property, surety and promissory notes. The Group requires 100% coverage when the collateral is surety or promissory note, while pledges over movable property are accepted as a supplement to the main collateral.

The table below presents the fair value of all ***types of collateral*** held by the Group as at 31 December 2019 and 31 December 2018:

	Loans and advances to customers	
	31.12.2019	**31.12.2018**
	BGN '000	**BGN '000**
Against loans provisioned individually and on a portfolio basis:		
Mortgages of real estate	797,216	626,107
Cash deposits	1,291	1,596
Other collateral	3,716,591	2,768,112
	4,515,098	**3,395,815**
Against past due but unprovisioned loans:		
Mortgages of real estate	25,698	25,770
Cash deposits	5	681
Other collateral	103,865	118,692
	129,568	**145,143**
Against neither past due, nor provisioned loans:		
Mortgages of real estate	24,419	54,773
Cash deposits	38,648	8,764
Other collateral	161,265	250,791
	224,332	**314,328**

Credit exposures to companies

The credit exposures to companies are subject to collective or individual assessment of credit risk and impairment testing. The creditworthiness of a company tends to be the most relevant indicator of credit quality of a loan exposure to it. However, collateral provides additional security and the Group requires from its customers to provide it. The Group accepts collaterals in the form of first ranking mortgage of real estate, rights over all of their assets, as well as other guarantees and titles.

The Group periodically analyses the collateral provided in terms of possible changes in their value due to alteration in the market conditions, regulatory framework or because of subsequent disposal arrangements of the borrower with respect to the collateral. If these valuation changes lead to breach in the requirements as to the sufficiency of the collateral, the Group requires extra collateral security in a certain period of time.

The Group considers all individual cases and assesses the risks related to the options for renegotiation of the original terms and conditions of concluded agreements upon request by the counterparty. These terms and conditions are usually related to: extension of the terms for utilisation of loans because of non-compliance with the schedules of the construction works or the investment project, increase / decrease in the authorised loan amount, interest rates, especially with regard to loans with floating interest rate or the repayment schedules in view of the amounts of specific repayment instalments and individual maturities, and in certain cases – changes in the accepted collateral.

Credit exposures to individuals

Residential mortgage lending

The table below presents credit exposures from mortgage loans to customers – individuals – by range of the loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral. The gross amount does not include any impairment allowances. The valuation of the collateral excludes future costs to acquire and sell the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at the origination of the loan, updated based on assessment of residential property changes.

	31.12.2019 BGN '000	31.12.2018 BGN '000
Loan-to-value (LTV) ratio		
Less than 50%	8,475	5,621
Over 50% to 70%	13,370	11,194
Over 70% to 90%	16,611	18,942
Over 90% to 100%	2,189	3,704
Over 100%	772	410
Total	**41,417**	**39,871**

Internal risk groups of loans and advances to customers

The tables below present information about the gross and carrying amount of loans and advances, expected credit loss and amortised cost following impairment as at 31 December allocated by internal risk group of the Group companies and impairment stages:

31.12.2019	**Stage 1 on a collective basis** BGN'000	**Stage 2 on a collective basis** BGN'000	**Stage 3 on an individual basis** BGN'000	**Total** BGN'000
Performing exposures	497,124	78,940	-	576,064
Non-performing exposures	-	-	53,325	53,325
Expected credit loss	*(2,838)*	*(1,920)*	*(32,328)*	*(37,086)*
Amortised cost following impairment	**494,286**	**77,020**	**20,997**	**592,303**

31.12.2018	**Stage 1 on a collective basis** BGN '000	**Stage 2 on a collective basis** BGN '000	**Stage 3 on an individual basis** BGN '000	**Total** BGN '000
Performing exposures	333,705	73,910	-	407,615
Non-performing exposures	-	2,348	58,468	60,816
Expected credit loss	*(2,225)*	*(1,911)*	*(35,416)*	*(39,552)*
Amortised cost following impairment	**331,480**	**74,347**	**23,052**	**428,879**

The table below presents information on the gross carrying amount of loans and advances, the impairment accrued and the amortised value following impairment as at 31 December, allocated by internal risk group and period past due:

31.12.2019	Performing and not impaired BGN '000	Individually impaired BGN '000	Portfolio impaired BGN '000	Past due but not impaired BGN '000	Total BGN '000
Serviced exposures	29,970	-	545,917	177	576,064
Unserviced exposures	5,892	39,033	-	8,400	53,325
Expected credit losses	-	*(32,328)*	*(4,758)*	-	*(37,086)*
Carrying amount	**35,862**	**6,705**	**541,159**	**8,577**	**592,303**

31.12.2018	Performing and not impaired BGN '000	Individually impaired BGN '000	Portfolio impaired BGN '000	Past due but not impaired BGN '000	Total BGN '000
Serviced exposures	3,560	-	403,414	641	407,615
Unserviced exposures	6,093	44,028	2,348	8,347	60,816
Expected credit losses	-	*(35,415)*	*(4,137)*	-	*(39,552)*
Carrying amount	**9,653**	**8,613**	**401,625**	**8,988**	**428,879**

The carrying amount of *past due but not provisioned loans and advances to customers* as at 31 December, by number of days past due, is as follows:

Days past due	**31.12.2019 BGN '000**	**31.12.2018 BGN '000**
up to 30 days	245	734
30-60 days	-	95
60-90 days	-	744
90-180 days	1,947	1,510
over 180 days	6,385	5,905
Carrying amount	**8,577**	**8,988**

The table below presents an analysis of the carrying amount of loans and advances to customers with applied restructuring measures:

31.12.2019	**Stage 1 BGN '000**	**Stage 2 BGN'000**	**Stage 3 BGN '000**	**Total BGN '000**
Restructured financial assets	1,946	12,365	14,728	29,039
incl. restructured in 2019	-	*11,353*	*9,204*	*20,557*

31.12.2018	**Stage 1 BGN '000**	**Stage 2 BGN'000**	**Stage 3 BGN '000**	**Total BGN '000**
Restructured financial assets	-	2,315	18,233	20,548
incl. restructured in 2018	-	-	*9,032*	*9,032*

Debt and equity securities

Debt and equity securities measured at fair value through other comprehensive income

The table below presents the carrying amounts of debt and equity securities measured at fair value through other comprehensive income, grouped by rating assigned by Moody's as at 31 December 2019 and 31 December 2018:

	31.12.2019 BGN'000	31.12.2018 BGN'000
Aa1 to A3	11,902	9,831
Baa1 to Ba3	30,019	37,753
Lower than Ba3	4,121	-
Without rating	2,113	2,127
	48,155	49,711

Debt securities measured at amortised cost

The debt securities measured at amortised cost, at the amount of BGN 46,377 thousand (31 December 2018: BGN 67,722 thousand) are with a rating Baa2 and BGN 10,200 thousand with rating B1, determined against the rating of the respective security published by Moody's rating agency.

Credit risk - concentration

Due from banks

The Group, mostly through the parent company (the Bank) currently monitors the risk of concentration to individual counterparties based on approved limits. They are defined as follows:

- ✓ Total limit to bank-counterparty – determined on the basis of the official rating of the bank assigned by internationally recognised credit rating agencies. It includes limits of the following types of transactions: deposit limit, forex limit, trade / portfolio limit;
- ✓ Internal rating of the countries and bank-counterparties – determined on the basis of Methodology for Defining the Internal Credit Rating of Countries and Bank-counterparties developed by the Bank through assessment of their financial position;

The determination and control on meeting and compliance with limits to banks form part of the overall risk management system of D Commerce Bank AD. Concentration is monitored by means of:

✓ Determining the level of potential risk of forming permissible risk exposure of unsecured amounts due to counterparty banks;

✓ Determining limits to fix the amount of forming permissible risk exposure of unsecured amounts due to each counterparty bank depending on its creditworthiness;

✓ Determining limits to fix the amount of forming permissible risk exposure of unsecured amounts – foreign bonds issued by foreign banks, financial institutions and foreign corporations with whom the Bank does (not) maintain correspondence;

✓ Determining limits to fix the amount of forming permissible risk exposure by types of financial instruments;

✓ Determining limits to fix the amount of forming permissible risk exposure of unsecured amounts – sovereign bonds granted against collateral (repo transactions) of banks registered in Bulgaria with whom the Bank does (not) maintain correspondence;

The risk concentration of amounts due from banks is presented in the table below:

	31.12.2019 BGN '000	%	31.12.2018 BGN '000	%
Due from Bulgarian banks	76,971	66%	60,645	69%
Due from foreign banks	40,333	34%	27,205	31%
Total before impairment	**117,304**	100%	**87,850**	100%
Impairment for credit losses	(318)		(26)	
Total	**116,986**		**87,824**	

Loans and advances to customers

The management of the parent company (the Bank) currently monitors the credit risk of concentration of loans and advances to customers by economic sectors, and by counterparts based on approved limits. They are determined as follows:

- ✓ Limit for maximum exposures to a single person or economically related parties – determined with respect to credit exposures to customers – non-financial institutions within the meaning of Art. 395 of Regulation (EU) 575/2013;
- ✓ Limit by lending target industry and the respective main activity of borrowers – determined based on analysis and findings regarding the specific sectors that D Commerce Bank AD finances in accordance with its strategy (condition, perspectives, yield, development trends in the short- and long-term) and the level of classified loans for the respective target industry and the respective main activity of the borrower;
- ✓ Limits on the term –determined based on analysis and findings regarding statistical data presented by BNB on the distribution of loans by maturity, maturity structure of liabilities and the expectations of D Commerce Bank AD regarding the development of its deposit business and classified exposures;
- ✓ Limits by amount – determined based on analysis and findings regarding statistical data presented by BNB on the distribution of loans by amount, strategy of D Commerce Bank AD for the development of its market position and the level of classified exposures;
- ✓ Limits by currency – determined based on statistical data presented by BNB on the distribution of loans by currency, structure of liabilities by currency and the level of classified loans by currency.

The regulatory limits and the internal bank limits for maximum exposures to a single person and economically related parties, including to banks-counterparties, are assessed and analysed periodically and are reported to the Bank's Management Board.

Credit risk concentration by lending target industry is presented in the table below:

	31.12.2019 BGN '000	%	31.12.2018 BGN '000	%
Construction – buildings	102,742	16%	64,786	14%
Individuals and households	101,023	16%	82,963	18%
Trade and services	99,573	16%	90,100	19%
Production	89,377	14%	32,267	7%
Agricultural production and trade	70,931	11%	62,098	13%
Tourism	46,781	7%	28,628	6%
Insurance / leases/ finance	32,100	5%	24,510	5%
State and local government	26,163	4%	10,932	2%
Transport and communications	9,157	2%	14,510	3%
Pharmacy, healthcare	11,119	2%	14,206	3%
Trade in fuel / energy carriers	10,148	2%	14,080	3%
Construction – roads, facilities, networks	13,033	2%	9,409	2%
RES – photovoltaic power plants	1,515	0%	2,130	1%
Scrap trade	69	0%	154	0%
Other	15,658	3%	14,658	4%
Total before impairment	**629,389**	100%	**468,431**	100%
Impairment of credit losses	(37,086)		(39,552)	
Total	**592,303**		**428,879**	

Credit risk concentration by primary business of the customers is presented in the table below:

	31.12.2019 BGN '000	%	31.12.2018 BGN '000	%
Individuals and households	98,950	16%	80,313	17%
Trade	98,066	15%	66,144	14%
Construction	74,110	12%	62,210	13%
Real estate/Leases	60,960	10%	26,198	6%
Agriculture	52,217	8%	42,386	9%
Public	35,980	6%	26,614	6%
Light industry	40,867	6%	24,523	5%
Energy	35,442	6%	1,218	0%
Tourism	23,313	4%	28,800	6%
Insurance/finance	20,728	3%	24,146	5%
Heavy industry	18,360	3%	19,672	4%
Services	18,432	3%	17,349	4%
Transport	12,240	2%	16,226	3%
Waste/wastewater	12,172	2%	11,596	2%
Health/pharmacy	10,828	2%	10,438	2%
Wood/paper/packaging	2,406	0%	2,893	1%
Transport vehicles	1,586	0%	2,599	1%
Publishing	561	0%	1,289	1%
Computer technologies	107	0%	576	0%
Culture/entertainment	44	0%	391	0%
Other	12,020	2%	2,850	1%
	629,389	100%	**468,431**	100%
Allowance for credit losses	(37,086)		(39,552)	
Total	**592,303**		**428,879**	

The table below presents information on Group's concentration in large credit exposures as at 31 December:

	31.12.2019		31.12.2018	
	BGN'000	% of capital	BGN'000	% of capital
The largest total credit exposure *	34,600	27,23%	20,776	20,63%
Total amount of the five largest credit exposures *	105,404	82,97%	79,925	79,39%
Total amount of all credit exposures * - over 10% of capital	146,578	115,38%	139,065	138,13%

* Including related customers – at gross carrying amount and off-balance sheet commitments

A big exposure is any exposure equal to or exceeding 10% of the Bank's capital, determined in accordance with Regulation 575/2013.

Debt and equity securities

In order to minimise the concentration in security portfolios, the parent company (the Bank) has adopted limits determined based on the credit risk, type, amount and issuer of the financial instruments.

The types of securities that the parent company (the Bank) uses include:

✓ Debt instruments of central state government (debt instruments issued by national central banks);

✓ Debt instruments of local and regional government bodies (debt instruments of government agencies and supranational institutions);

✓ Debt instruments of credit institutions;

✓ Debt instruments of other issuers;

✓ Corporate shares;

For each of these types, the parent company (the Bank) has adopted limits on their maximum exposure.

The concentration of the debt and equity securities held by the Group based on the type of issuer is presented in the table below:

	31.12.2019	%	31.12.2018	%
	BGN '000		BGN '000	
Issued by the government of the Republic of Bulgaria	49,901	48%	73,126	62%
Issued by credit institutions	24,464	23%	24,223	21%
Issued by foreign governments and governmental agencies	18,236	17%	9,022	8%
Other	12,131	12%	11,062	9%
Total	104,732	100%	117,433	100%

A summary analysis of credit risk exposures by type of financial asset and off-balance sheet commitment, industry segment, geographic principle and stage of impairment of credit risk is presented in the table below:

31.12.2019	**Stage 1 Individual**	**Stage 1 Collective**	**Stage 2 Individual**	**Stage 2 Collective**	**Stage 3**	**Total**
Portfolios						
Securities measured at fair value through other comprehensive income	48,155	-	-	-	-	**48,155**
Securities measured at amortised cost	56,577	-	-	-	-	**56,577**
Due from banks	116,986	-	-	-	-	**116,986**
Loans and advances to customers	-	494,286	-	77,020	20,997	**592,303**
				Balance-sheet exposure		***814,021***
Undrawn commitments under loan agreements	-	63,795	-	2,004	60	**65,859**
Guarantees and letters of credit	-	20,485	-	606	25	**21,116**
				Off-balance exposure		***86,975***
Industry segment						
Finance	153,581	27,527	-	4,037	276	**185,421**
Government	68,137	22,411	-	3,624	97	**94,269**
Citizens and households	-	94,642	-	1,823	1,179	**97,644**
Commerce	-	131,422	-	25,278	5,812	**162,512**
Construction	-	67,916	-	19,522	9,952	**97,390**
Fuel	-	7,572	-	1,655	2,325	**11,552**
Production	-	79,645	-	2,645	1,042	**83,332**
Services	-	63,151	-	18,436	314	**81,901**
					Total	***814,021***
Region						
Transnational	-	-	-	-	-	-
Europe	172,595	494,286	-	77,019	20,997	**764,897**
America	5,524	-	-	-	-	**5,524**
Asia	43,599	-	-	1	-	**43,600**
					Total	***814,021***

31.12.2018	**Stage 1 Individual**	**Stage 1 Collective**	**Stage 2 Individual**	**Stage 2 Collective**	**Stage 3**	**Total**
Portfolios						
Securities measured at fair value through other comprehensive income	49,711	-	-	-	-	**49,711**
Securities measured at amortised cost	67,722	-	-	-	-	**67,722**
Due from banks	87,824	-	-	-	-	**87,824**
Loans and advances to customers	-	331,480	-	74,347	23,052	**428,879**
				Balance-sheet exposure		***634,136***
Undrawn commitments under loan agreements	-	48,228	-	5,937	122	**54,287**
Guarantees and letters of credit	-	39,269	-	-	-	**39,269**
				Off-balance exposure		***93,556***
Industry segment						
Finance	123,109	24,863	-	648	64	**148,684**
Commerce	-	89,862	-	21,281	7,641	**118,784**
Government	82,148	9,550	-	4,558	-	**96,256**
Construction	-	66,679	-	11,918	6,929	**85,526**
Citizens and households	-	76,298	-	1,927	1,560	**79,785**
Services	-	37,808	-	27,233	2,638	**67,679**
Production	-	21,016	-	3,238	1,802	**26,056**
Fuel	-	5,365	-	3,580	2,421	**11,366**
					Total	***634,136***

31.12.2018	Stage 1 Individual	Stage 1 Collective	Stage 2 Individual	Stage 2 Collective	Stage 3	Total
Region						
Europe	199,441	331,441	-	74,383	23,055	**628,320**
America	389	-	-	-	-	**389**
Asia	5,427	-	-	-	-	**5,427**
					Total	*634,136*

3.2. Market risk

Market risk is the risk of adverse movements in the level of interest rates, foreign currency exchange rates and the prices of equity instruments. These movements may affect the Group's profitability.

The Group, mainly through the parent (the Bank) manages the portfolios of financial instruments owned thereby considering the changing market conditions. The market risk exposure is managed in accordance with the risk limits as determined by the parent's (Bank's) management through purchase and sale of financial instruments or by opening of hedging positions.

3.2.1 Interest rate risk

Banking activity within the parent leads to continuous maintenance of positions sensitive to the movement of market interest rates, which impacts its financial position and cash flow dynamics. Interest rate risk is the possibility of a potential change in the net interest income or the net interest rate margin and the market value of equity due to changes in the total market interest rate levels.

Interest rates on assets and liabilities denominated in Bulgarian Levs are usually based on the movements of the basic interest rate determined by BNB. Interest rates on assets and liabilities denominated in Euro are based on the quotations of the European Central Bank.

In case of floating rate assets and liabilities, the parent (the Bank) is exposed to the risk of changes in the basic interest points, which serve for the definition of interest rates, being the difference between the characteristics of floating rate indices, such as the basic interest rate, the six-month LIBOR or different types of interest. The risk management policy is aimed at optimising the net interest income and achieving market interest rate levels consistent with the Bank's strategy.

Risk management procedures are related to the current maintenance of a reasonable interest margin between the applicable interest rates for borrowings and to active bank transactions and are applied in the context of the Bank's sensitivity to interest rate fluctuations.

The Group, mainly through the parent (Bank) monitors continuously interest rate movements in foreign currencies, the mismatch in interest rate levels and in the maturity structure of its assets and liabilities. It also monitors price changes and the yields of traded government securities. Interest rate risk is actively monitored by the Analyses, Risk Management and Liquidity Departments in order to ensure compliance with the market risk limits. Assets and Liabilities Management Committee monitors currently interest rate risk to which the Bank is exposed and takes decisions as to changes in the interest rates.

The following table summarises the Group's interest rate risk. It includes information on the carrying amount of Group's financial assets and liabilities based on the contractual interest rates and their maturity structure and sensitivity to changes in the interest rates by period.

Interest sensitivity analysis

Financial assets and liabilities

31 December 2019	**Carrying amount**	**Up to 3 months**	**3 – 6 months**	**6 – 12 months**	**1 – 5 years**	**Over 5 years**	**Interest-free**
	BGN '000	**BGN '000**	**BGN '000**	**BGN '000**	**BGN '000**	**BGN '000**	**BGN '000**
Cash and balances with the Central Bank	119,586	-	-	-	-	-	119,586
Due from banks	116,986	116,986	-	-	-	-	-
Loans and advances to customers	592,303	553,609	13,437	18,174	4,009	3,074	-
Securities at fair value through other comprehensive income	48,155	13,114	4,262	2,054	17,834	10,760	131
Securities at amortised cost	56,577	5,098	-	10,154	41,325	-	-
Other financial assets	1,287	-	-	-	-	-	1,287
Total assets	**934,894**	**688,807**	**17,699**	**30,382**	**63,168**	**13,834**	**121,004**
Due to banks	(14,286)	(14,286)	-	-	-	-	-
Due to customers	(855,169)	(601,083)	(89,443)	(120,422)	(44,221)	-	-
Other financial liabilities	(6,409)	(394)	(377)	(661)	(3,034)	(463)	(1,480)
Total liabilities	**(875,864)**	**(615,763)**	**(89,820)**	**(121,083)**	**(47,255)**	**(463)**	**(1,480)**
Difference	**59,030**	**73,044**	**(72,121)**	**(90,701)**	**15,913**	**13,371**	**119,524**

Financial assets and liabilities

31 December 2018	**Carrying amount**	**Up to 3 months**	**3 – 6 months**	**6 – 12 months**	**1 – 5 years**	**Over 5 years**	**Interest-free**
	BGN '000	**BGN '000**	**BGN '000**	**BGN '000**	**BGN '000**	**BGN '000**	**BGN '000**
Cash and balances with the Central Bank	131,875	-	-	-	-	-	131,875
Due from banks	87,824	67,834	19,990	-	-	-	-
Loans and advances to customers	428,879	393,336	10,240	16,206	4,158	4,939	-
Securities at fair value through other comprehensive income	49,711	7,387	3,281	79	29,144	9,678	142
Securities at amortised cost	67,722	22,030	-	-	45,692	-	-
Other financial assets	1,038	-	-	-	-	-	1,038
Total assets	**767,049**	**490,587**	**33,511**	**16,285**	**78,994**	**14,617**	**133,055**
Due to banks	(8,290)	(8,290)	-	-	-	-	-
Due to customers	(701,003)	(497,282)	(60,086)	(108,569)	(35,066)	-	-
Other financial liabilities	(2,480)	-	-	-	-	-	(2,480)
Total liabilities	**(711,773)**	**(505,572)**	**(60,086)**	**(108,569)**	**(35,066)**	**-**	**(2,480)**
Difference	**55,276**	**(14,985)**	**(26,575)**	**(92,284)**	**43,928**	**14,617**	**130,575**

Sensitivity of the financial result to changes in interest rates

The table below demonstrates the Group's sensitivity to possible changes in interest rates by 0.10 points and 0.20 points calculated on the basis of an average monthly structure of interest rate sensitive assets and liabilities maintained by the Group and under the assumption that the effects of all other variables are ignored. The effect is measured and presented as impact on the post-tax consolidated financial result and on the equity.

Interest-sensitive assets and liabilities currency	Increase / (decrease) in interest rate	Impact on post-tax financial result	Impact on equity
		2019	2019
		BGN '000	BGN '000
BGN	10 bp/(10 bp)	228/(228)	228/(228)
Other currency	10 bp/(10 bp)	220/(220)	220/(220)
BGN	20 bp/(20 bp)	453/453)	453/(453)
Other currency	20 bp/(20 bp)	438/(438)	438/(438)

Interest-sensitive assets and liabilities currency	Increase / (decrease) in interest rate	Impact on post-tax financial result	Impact on equity
		2018	2018
		BGN '000	BGN '000
BGN	10 bp/(10 bp)	156/(156)	156/(156)
Other currency	10 bp/(10 bp)	183/(183)	183/(183)
BGN	20 bp/(20 bp)	311/(311)	311/(311)
Other currency	20 bp/(20 bp)	365/(365)	365/(365)

3.2.2. Currency and price risk

Foreign currency risk

Currency risk is the risk of impact of fluctuations in the prevailing foreign currency exchange rates on the Group's financial position and cash flows as a result of open foreign currency positions. The net exposure in each currency is constantly monitored by the parent's (Bank's) management and the Financial Markets and Investments Directorate, as well as the members of the Assets and Liabilities Management Committee.

The Group is exposed to currency risk when performing transactions in financial instruments denominated in foreign currency. After the introduction of the Currency Board in the Republic of Bulgaria the Bulgarian Lev is pegged to the Euro, due to which there is no open currency risk related to the Euro and only movements of the exchange rate of the Bulgarian Lev to currencies outside the Eurozone affect the figures in the consolidated financial statements.

Foreign currency risk is the risk of adverse impact of fluctuations in the prevailing foreign currency exchange rates on the Group's financial position and cash flows. The Group's policy is to keep the major portion of its assets and liabilities denominated in Euro or Bulgarian levs. In addition, the Group does not perform significant operations and does not hold open positions in currencies other than the Euro.

Financial Markets and Investments Directorate at the Parent manages the Bank's assets and liabilities within the determined limits in order to achieve the set objectives and indicators for return on investments. The amount of the open currency position of the Bank by currency is monitored on a daily basis and the necessary measures are undertaken to minimise the potential losses for the Bank due to changes in the exchange rates. Analyses show that the Bank is exposed to minimum currency risk because it maintains limited daily open exposures of the different types of currencies other than the Euro, which has a fixed exchange rate to the Bulgarian Lev.

The table below summarises the Group's exposure to foreign currency risk. It includes financial instruments and contingent liabilities and commitments of the Group at carrying amount, categorised by currency.

31 December 2019	In USD	In EUR	In BGN	In other currency	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Financial assets					
Cash and balances with the Central Bank	1,177	11,432	106,521	456	**119,586**
Due from banks	14,921	88,938	9,629	3,498	**116,986**
Loans and advances to customers	4,538	274,386	313,379	-	**592,303**
Securities at fair value through other comprehensive income	-	44,534	3,621	-	**48,155**
Securities at amortised cost	-	30,419	26,158	-	**56,577**
Other financial assets	535	42	710	-	**1,287**
Total financial assets	**21,171**	**449,751**	**460,018**	**3,954**	**934,894**
Financial liabilities					
Due to banks	-	2,936	11,350	-	**14,286**
Due to customers	20,991	239,981	590,454	3,743	**855,169**
Other financial liabilities	94	4,016	2,299	-	**6,409**
Total financial liabilities	**21,085**	**246,933**	**604,103**	**3,743**	**875,864**
Net balance sheet currency position	**86**	**202,818**	**(144,085)**	**211**	**59,030**
Off-balance sheet currency position	**(105)**	**265**	**-**	**(161)**	**(1)**
Open foreign currency position	**(19)**	**-**	**-**	**50**	**31**
Contingent liabilities and commitments	**-**	**23,318**	**63,657**	**-**	**86,975**

31 December 2018	In USD	In EUR	In BGN	In other currency	Total
Financial assets	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**
Cash and balances with the Central Bank	772	17,008	113,610	485	**131,875**
Due from banks	21,811	35,806	26,832	3,375	**87,824**
Loans and advances to customers	5,187	215,011	208,681	-	**428,879**
Securities at fair value through other comprehensive income	-	45,972	3,739	-	**49,711**
Securities at amortised cost	-	35,361	32,361	-	**67,722**
Other financial assets	516	110	412	-	**1,038**
Total financial assets	**28,286**	**349,268**	**385,635**	**3,860**	**767,049**
Financial liabilities					
Due to banks	-	627	7,663	-	**8,290**
Due to customers	27,969	230,778	438,744	3,512	**701,003**
Other financial liabilities	249	713	1,457	61	**2,480**
Total financial liabilities	**28,218**	**232,118**	**447,864**	**3,573**	**711,773**
Net balance sheet currency position	**68**	**117,150**	**(62,229)**	**287**	**55,276**
Off-balance sheet currency position	**(39)**	**355**	**-**	**(319)**	**(3)**
Open foreign currency position	**29**	**-**	**-**	**(32)**	**(3)**
Contingent liabilities and commitments	**12**	**24,572**	**68,972**	**-**	**93,556**

With respect to monetary assets and liabilities denominated in a foreign currency, which are not hedged, the Group maintains an acceptable net exposure by purchasing and selling foreign currency at spot rates, where appropriate.

Foreign currency sensitivity analysis

Foreign currency sensitivity is determined from the fluctuations in the exchange rates of the currencies in which the Group maintains open positions. As at the date of the financial statements this is mainly the US Dollar. The analysis of the Group's sensitivity to the fluctuations in the exchange rates is based on the condition and structure of the foreign currency assets and liabilities and the open foreign currency position as at 31 December. The effect of foreign currency sensitivity in case of 10 % increase/decrease in the current exchange rates of the Bulgarian Lev to the US Dollar and the other foreign currency exposures based on the structure of the foreign currency assets and liabilities as at 31 December and under the assumption that the influence of the other variables is ignored, is measured and presented as impact on the Group's post-tax financial result and on the equity.

The influence of the US dollar and the other currencies on the (post-tax) consolidated profit of the Group in case of 10% increase in their exchange rates to the Bulgarian Lev is insignificant.

The management of the parent (the Bank) is of the opinion that the above analysis of the foreign currency sensitivity based on the balance sheet structure of the foreign currency assets and liabilities also reflects the foreign currency sensitivity of the Group during the year.

Securities price risk

Price risk is one of the market risks which is related to the decrease in the value of the investment as a result of adverse changes in the market prices. The main factors that influence prices are macroeconomic factors reflecting the overall position of the issuer, the political situation, the specifics of the industry sector, the expectations of the local and international markets and the market participants based both on actual information and often on subjective circumstances. The sharp decline in security prices would be unfavourable in several respects, such as occurrence of financial losses and potential deterioration of liquidity, loss of market positions. The Group, mainly through the parent (the Bank) manages this type of risk, mainly through the parent, by including in its portfolio different types of securities and only securities of prime issuers, of medium and high credit quality. The formal financial instrument liquidity criteria are studied upon each decision to purchase financial instruments, as well as periodically thereafter, in accordance with the internal rules of the parent (the Bank).

3.3. Liquidity risk

Liquidity risk is the risk that the Group might be unable to meet its obligations as they fall due as a result of customer deposit withdrawals, cash requirements resulting from contractual commitments or other cash outflows. Such outflows would deplete cash resources available to the Group for customer lending, trading activities and investments. In extreme circumstances the lack of liquidity may result in reductions in the financial statements of financial positions and sales of assets, or potentially in the Group's inability to fulfil its lending commitments. The risk that the Group is unable to meet its obligations is inherent mainly for all banking operations and can be affected by a range of institution-specific or market-wide events, including, but not limited to credit events, systemic shocks and natural disasters.

The Group's liquidity management process is carried out mainly by the parent (the Bank) under the supervision by the Financial Markets and Investments Department and includes:

- Day-to-day funding through control over the future cash flows in order to meet the resource requirements. This includes replenishment of funds as they mature or are borrowed by customers.
- Control over the liquidity ratios of the statement of financial position against internal or regulatory requirements; and
- Management of the concentration and profile of the Group's debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week or month, as these are key periods for liquidity management. The starting points for those projections is an analysis of the contractual maturity of financial liabilities and the expected collection date of financial assets.

The Group develops appropriate policies which ensure:

- sufficient liquid assets to meet liabilities as they arise;

- a prudent proportion of medium-term assets funded by medium-term liabilities; and
- liquidity control on a daily basis.

The Management Board of the parent (the Bank) designates the Assets and Liabilities Management Committee (ALMC) as the body responsible for the liquidity management, as well as management of the market, interest rate and currency risk.

ALMC is a permanent collective body responsible for the management of assets and liabilities, as well as the development and use of a system for managing the liquidity of D Commerce Bank AD. As the body for liquidity management it is competent to draw action plans in case of unforeseen outflows of funds due to unexpected events or unfavourable circumstances, taking into account the possible impact of alternative scenarios for the Group or the market as a whole, as well as combination thereof. The ALMC analyses all reports on liquidity, stress tests and scenarios in a liquidity crisis in accordance with the requirements of the banking legislation and the Liquidity Management Rules. The Committee monitors the reports for the currency structure of assets and liabilities, the reports for open positions and risk structure of the securities portfolio.

Liquidity requirements to support calls under guarantees are considerably less than the amount of the commitments because the Group does not generally expect a third party to draw funds under the agreement. The total outstanding contractual amount of such commitments does not necessarily represent future cash requirements as many of these commitments will expire or will be terminated without being funded.

Financial Market and Investments Directorate controls unmatched medium-term assets, the level and type of undrawn lending commitments, the use of overdraft facilities and the impact of off-balance sheet liabilities such as guarantees and standby letters of credit.

The sources for funding are monitored regularly in order to maintain a wide diversification by currency, geographic location, providers, products and term.

The table below presents the percentage values of the long-term liquidity ratio:

	2019	**2018**
	%	**%**
At 31 December	259,01%	601,43%
Average value for the period	385,69%	445,18%
Highest value for the period	524,34%	624,36%
Lowest value for the period	259,01%	211,69%

The table below presents the maturity structure of the consolidated financial assets and liabilities of the Group at carrying amounts and the Group's off-balance sheet commitments:

31 December 2019	Carrying amount BGN '000	Up to 1 month BGN '000	1-3 months BGN '000	3 months to 1 year BGN '000	1 – 5 years BGN '000	Over 5 years BGN '000
Cash and balances with the Central Bank	119,586	119,586	-	-	-	-
Due from banks	116,986	116,986	-	-	-	-
Loans and advances to customers	592,303	8,373	31,967	158,794	243,687	149,482
Securities at fair value through other comprehensive income	48,155	131	7,439	4,034	25,616	10,935
Securities at amortised cost	56,577	4,271	-	10,331	41,975	-
Other financial assets	1,287	-	1,287	-	-	-
Total assets	**934,894**	**249,347**	**40,693**	**173,159**	**311,278**	**160,417**
Due to banks	14,286	66	196	2,918	11,106	-
Due to customers	855,169	510,238	56,220	240,728	47,445	538
Other financial liabilities	6,409	132	1,742	1,038	3,030	467
Total liabilities	**875,864**	**510,436**	**58,158**	**244,684**	**61,581**	**1,005**
Undrawn loan commitments and contingent commitments	**86,975**	**53,280**	**5,176**	**19,099**	**9,255**	**165**

31 December 2018	Carrying amount BGN '000	Up to 1 month BGN '000	1-3 months BGN '000	3 months to 1 year BGN '000	1 – 5 years BGN '000	Over 5 years BGN '000
Cash and balances with the Central Bank	131,875	-	131,875	-	-	-
Due from banks	87,824	374	87,450	-	-	-
Loans and advances to customers	428,879	7,731	10,274	114,411	202,207	94,256
Securities at fair value through other comprehensive income	49,711	142	2,866	386	36,640	9,677
Securities at amortised cost	67,722	-	22,030	-	45,692	-
Other financial assets	1,038	-	1,038	-	-	-
Total assets	**767,049**	**8,247**	**255,533**	**114,797**	**284,539**	**103,933**
Due to banks	8,290	8	28	1,344	5,145	1,765
Due to customers	701,003	450,719	44,099	166,854	38,687	644
Other financial liabilities	2,480	-	2,480	-	-	-
Total liabilities	**711,773**	**450,727**	**46,607**	**168,198**	**43,832**	**2,409**
Undrawn loan commitments and contingent commitments	**93,556**	**29,457**	**2,774**	**16,988**	**43,266**	**1,071**

The consolidated financial assets and liabilities and the off-balance sheet commitments of the Group by remaining term to maturity determined against the contractual maturity as at the date of the consolidated statement of financial position are presented below. The table is prepared on the basis of undiscounted cash flows and the earliest date on which a payable becomes due for payment. The amounts include principal and interest for balance sheet items, and the undrawn loan commitments and contingent commitments are presented at the off-balance sheet amount of the commitment.

31 December 2019	Up to 1 month BGN '000	1-3 months BGN '000	3 months to 1 year BGN '000	1 – 5 years BGN '000	Over 5 years BGN '000	Total BGN '000
Cash and balances with the Central Bank	119,586	-	-	-	-	119,586
Due from banks	91,643	25,413	-	-	-	117,056
Loans and advances to customers	58,708	25,386	179,310	268,581	172,182	704,167
Securities at fair value through other comprehensive income	131	7,446	2,534	29,583	11,282	50,976
Securities at amortised cost	4,325	74	11,330	44,308	-	60,037
Other financial assets	-	1,287	-	-	-	1,287
Total assets	**274,393**	**59,606**	**193,174**	**342,472**	**183,464**	**1,053,109**
Due to banks	82	212	3,051	10,724	1,105	15,174
Due to customers	540,943	59,941	204,943	50,118	-	855,945
Other financial liabilities	137	1,750	1,071	3,102	477	6,537
Total liabilities	**541,162**	**61,903**	**209,065**	**63,944**	**1,582**	**877,656**
Undrawn loan commitments and contingent commitments	**53,280**	**5,176**	**19,099**	**9,255**	**165**	**86,975**

31 December 2018	Up to 1 month BGN '000	1-3 months BGN '000	3 months to 1 year BGN '000	1 – 5 years BGN '000	Over 5 years BGN '000	Total BGN '000
Cash and balances with the Central Bank	131,875	-	-	-	-	131,875
Due from banks	73,174	6,294	20,000	-	-	99,468
Loans and advances to customers	54,278	14,269	130,274	215,194	113,427	527,442
Securities at fair value through other comprehensive income	142	2,875	918	39,189	10,372	53,496
Securities at amortised cost	100	22,103	694	49,238	-	72,135
Other financial assets	-	1,038	-	-	-	1,038
Total assets	**259,569**	**46,579**	**151,886**	**303,621**	**123,799**	**885,454**
Due to banks	18	37	1,429	5,420	1,790	8,694
Due to customers	452,648	46,659	161,351	40,425	-	701,083
Other financial liabilities	-	2,480	-	-	-	2,480
Total liabilities	**452,666**	**49,176**	**162,780**	**45,845**	**1,790**	**712,257**
Undrawn loan commitments and contingent commitments	**29,457**	**2,774**	**16,988**	**43,266**	**1,071**	**93,556**

3.4. Custody of assets

The parent (the Bank) is registered as an investment intermediary and carried out transactions on clients' behalf in accordance with Ordinance 38 of the Financial Supervision Commission (FSC). The Bank has an approved policy with respect to trusted transactions on clients' behalf, developed in accordance with the requirements of Art. 28-31 of Ordinance 38 of the FSC.

The Bank maintains accountability and conditions on holding financial instruments and cash in a way that allows it at any time to differentiate a client's assets held from the assets of all other clients and from the Bank's own assets. The parent in its capacity as investment intermediary takes due care in:

- the selection of a depositary institutions for the safekeeping of its clients' financial instruments and determining of conditions in its contract therewith;
- the performance of periodic review and assessment of the depositary institutions and the conditions of its contract therewith in relation to the safekeeping of clients' financial instruments, at least once per year.

3.5. Capital management

Package CRD IV (Directive 2013/36/EU and Regulation (EU) No 575/2013) became effective in 2014. It includes requirements for calculation and reporting of capital requirements and financial information. The scope, frequency and timeliness for presentation of this information to the regulatory body are introduced by Regulation (EU) No 680/2014 of 16 April 2014. As a result, regulatory capital requirements of D Commerce Bank AD are based on the provisions of the Package CRD IV, Reporting requirements under Regulation (EU) No. 680/2014 – Equity and capital requirements – COREP.

Regulatory capital

For regulatory purposes the equity of the Bank consists of the following elements:

- Tier 1 capital (the whole amount is classified as Common equity Tier 1 capital), which consists of issued capital, share premium and general reserves reduced by the following deductions – goodwill, intangible assets and other regulatory adjustments related to items that are included in balance sheet capital or assets of the Bank but are treated differently for capital adequacy regulation.
- Tier 2 capital: includes revaluation reserves from real estate used for banking activity reduced by regulatory adjustments related to items that are included in the balance sheet capital or assets of the Bank, but are treated differently for capital adequacy regulation.

The Bank calculates the total capital adequacy ratio as a percentage of equity (regulatory) capital and risk-weighted assets. Risk-weighted assets represent the amount of risk-weighted assets for credit, market and operational risk. Tier 1 capital adequacy is the ratio between Tier 1 capital and risk-weighted assets. The total capital adequacy ratio cannot be less than 13.5%, and Tier 1 capital adequacy ratio – less than 11.5%.

Capital items

Equity (capital base)	**Basel III 31.12.2019 BGN '000**	**Basel III 31.12.2018 BGN '000**
Common equity Tier 1 capital		
Equity instruments paid-in	90,064	75,000
Reserves	36,563	26,467
Accumulated other comprehensive income	1,697	233
Decreases in Common equity Tier 1 capital:		
Intangible assets	(1,229)	(1,025)
Other transitional adjustments to Common equity Tier 1 capital	(51)	-
Common equity Tier 1 capital instruments of financial companies where the institution has significant investments	-	-
Excess of the amount deducted from the additional Tier 1 capital items over the additional Tier 1 capital	-	-
Total	**127,044**	**100,675**
Tier 2 capital	**-**	**-**
Equity	**127,044**	**100,675**

Risk-weighted assets	**31.12.2019 BGN '000**	**31.12.2018 BGN '000**
Risk-weighted balance sheet exposure	640,311	439,624
Risk-weighted off-balance sheet exposure	26,653	33,790
Total risk-weighted assets for credit risk	**666,964**	**473,414**
Total exposures to position, currency and commodity risk	**-**	**-**
Total risk exposures to operational risk	**65,338**	**63,838**
Total risk exposures	**732,302**	**537,252**

Capital ratios	**31.12.2019**	**31.12.2018**
Total capital ratio	17,35%	18,74%
Tier I capital ratio	17,35%	18,74%

The policy of the Group for management and capital allocation is determined by the parent's (Bank's) Management Board. The allocation of capital among the various operations and activities is aimed at optimising the profitability of allocated capital. The process is carried out under the supervision of the Asset and Liabilities Management Committee as a review of the levels of commitment of the Group for credit, market and operational risk.

4. NET INTEREST INCOME

Net interest income includes:

	2019 BGN '000	2018 BGN '000
Interest income		
Loans and advances to customers	24,348	21,527
Securities at amortised cost	1,570	2,094
Securities at fair value through other comprehensive income	779	644
Deposits with banks	498	499
	27,195	**24,764**
Interest expense		
Deposits from customers	(2,351)	(2,321)
Current accounts at other banks	(310)	(558)
Deposits from banks	(160)	(129)
Interest on leases	(65)	-
	(2,886)	**(3,008)**
Net interest income	**24,309**	**21,756**

5. NET FEE AND COMMISSION INCOME

Net fee and commission income includes:

	2019 BGN '000	2018 BGN '000
Fee and commission income		
Cash operations and money transfers	4,377	4,650
Communication fees	2,530	2,376
Customers' accounts fees	1,442	1,205
Fees and commissions on loans	352	426
Bank guarantees and letters of credit	311	418
Other	46	43
	9,058	**9,118**

	2019 BGN '000	2018 BGN '000
Fee and commission expense		
Electronic debit card fees	(860)	(823)
Nostro accounts in other banks	(212)	(239)
Cash clearance	(25)	(20)
Securities transactions	(31)	(25)
Other	(42)	(51)
	(1,170)	**(1,158)**
Net fee and commission income	**7,888**	**7,960**

6. NET TRADING INCOME

Net trading income includes:

	2019 BGN '000	2018 BGN '000
Net gain on foreign currency assets and liabilities	358	2,436
Net gain on foreign currency transactions	1,592	1,058
Net gain on transactions with securities	-	8
Net dividend income	1	-
	1,951	**3,502**

7. NET GAIN OR LOSS ON IMPAIRMENT OF FINANCIAL ASSETS

The net (gain)/loss of impairment of financial assets includes:

	2019 BGN '000	2018 BGN '000
Impairment of loans and advances granted	*2,973*	*3,405*
Reversed impairment of loans and advances granted	*(3,220)*	*(5,129)*
Net gain/(loss) on impairment for credit losses of loans and advances granted	**(247)**	**(1,724)**
Net loss on impairment for credit losses of nostro accounts and interbank deposits	292	18
Net loss on impairment for credit losses of securities at fair value through other comprehensive income	150	26
Net loss on impairment for credit losses of other financial assets	102	27
	297	**(1,653)**

The net (gain)/loss on impairment for credit losses of loans and advances to customers is as follows:

	2019 BGN '000	2018 BGN '000
Impairment for credit losses of loans on an individual basis (specific), net	(869)	(1,663)
Impairment for credit losses of loans with common credit risk on a portfolio basis (collective), net	622	(61)
	(247)	**(1,724)**

8.OTHER OPERATING INCOME, NET

The Group's other operating income includes:

	2019 BGN '000	2018 BGN '000
Rental income from investment property	373	224
Revenue from sales of non-financial services	274	303
Proceeds from sales of investment property	168	1,320
Carrying amount of the investment property sold	(161)	(1,320)
Gain on sales of investment property	7	-
Proceeds from sales of other assets	*1,406*	*1,846*
Carrying amount of other assets sold	*(745)*	*(742)*
Gain on sales of other assets	661	1,104
Proceeds from sales of property and equipment	-	*5*
Carrying amount of property and equipment sold	-	(4)
Gain on sales of property and equipment	-	1
Proceeds from sale of assets held for sale	316	-
Carrying amount of assets held for sale	(254)	-
Gain on sale of assets held for sale	62	-
Other operating income	787	365
	2,164	**1,997**

9. ADMINISTRATIVE OPERATING EXPENSES

Administrative operating expenses include:

	2019 BGN '000	2018 BGN '000
Personnel expenses	13,404	12,701
Depreciation and amortisation expense	3,386	1,557
Other administrative operating expenses	10,415	11,602
	27,205	**25,860**

Personnel expenses include:	2019 BGN '000	2018 BGN '000
Current wages and salaries	11,177	10,516
Social security/health insurance contributions	1,888	1,737
Accruals for long-term retirement benefit obligations *(Note 27)*	60	60
Accruals for unused paid leaves	279	388
Total	**13,404**	**12,701**

Other administrative operating expenses include:	2019 BGN '000	2018 BGN '000
Communications and IT services	1,837	1,370
Bank Restructuring Fund	1,755	1,725
Annual contribution to the Bulgarian Deposit Insurance Fund	1,246	1,204
Other taxes and charges	1,169	1,254
Security and cash collection services	1,074	1,045
Materials	779	700
Maintenance of office, office equipment, vehicles	566	471
Advertising and representation events	423	340
Consulting, audit and legal services	350	458
Litigation provisions	-	414
Rentals	218	1,840
Insurance	130	143
Business trip costs	77	39
Membership fees	44	42
Net (gains)/losses from impairment of non-financial assets	-	(36)
Other expenses	747	593
Total	**10,415**	**11,602**

The Bulgarian Deposit Insurance Fund determines the due premium contribution of each bank by taking into accounts its risk profile and the amount of the guaranteed deposits with the bank for the previous year, calculated as the average amount of the guaranteed deposits at the end of each quarter. The premium contributions may be annual, extraordinary, annual premium contributions at reduced amount.

The accrued expenses on statutory joint audit of the consolidated financial statements of the parent (the Bank) for the year amount to BGN 5 thousand (2018: BGN 5 thousand).

The net (gain) or loss from impairment of non-financial assets includes:

	2019 BGN '000	2018 BGN '000
Accrued impairment of investment property	-	*75*
Reversed impairment of investment property	-	-
Net change in the impairment of investment property	-	75
Accrued impairment of other assets	-	311
Reversed impairment of other assets	-	(422)
Total	**-**	**(36)**

10. INCOME TAX EXPENSE

The main components of the income tax expense for the periods ended 31 December are:

	2019 BGN'000	2018 BGN'000
Consolidated statement of profit or loss and other comprehensive income (within profit or loss for the year)		
Taxable result for the year under tax returns	8,787	8,861
Current income tax expense for the year – 10% (2018: 10 %)	(889)	(886)
Deferred income taxes related to:		
Origination and reversal of temporary differences	(4)	(226)
Total income tax expense carried to the consolidated statement of profit or loss and other comprehensive income (within profit or loss for the year)	**(893)**	**(1,112)**
Reconciliation of income tax expense applicable to the accounting profit or loss		
Accounting profit for the year	8,810	11,008
Income tax – 10% (2018: 10%)	(881)	(1,101)
From unrecognised amounts as per tax returns related to:		
increases – BGN 121 thousand (2018: BGN 111 thousand)	(12)	(11)
Total income tax expense carried to the consolidated statement of profit or loss and other comprehensive income (within profit or loss for the year)	**(893)**	**(1,112)**

The tax effects related to other components of comprehensive income are as follows:

	2019 BGN'000			2018 BGN'000		
	Pre-tax amount	**Tax effects recognised in equity**	**Amount net of tax**	**Pre-tax amount**	**Tax effects recognised in equity**	**Amount net of tax**
Items that will not be reclassified to profit or loss						
Remeasurement of liabilities under defined benefit pension plans	(1)	-	(1)	(1)	-	(1)
Items that may be reclassified to profit or loss						
Net change in the fair value of financial assets at fair value through other comprehensive income	1,436	-	1,436	(649)	-	(649)
Net change in the provisions for expected credit losses from debt securities at fair value through other comprehensive income	28	-	28	26	-	26
Total other comprehensive income for the year	**1,463**	-	**1,463**	**(624)**	-	**(624)**

11. OTHER COMPREHENSIVE INCOME

Other comprehensive income includes:	*2019 BGN '000*	*2018 BGN '000*
Net change in the fair value of financial assets at fair value through other comprehensive income		
Gains/(Losses) incurred during the year	*1,436*	*(649)*
	1,436	(649)
Net change in the allowance for expected credit losses from debt securities at fair value through other comprehensive income	28	26
Remeasurement of liabilities under defined benefit pension plans *(Note 27)*	(1)	(1)
	1,463	(624)
Income tax relating to items of other comprehensive income	-	-
Total comprehensive income for the year	1,463	(624)

12. CASH AND BALANCES WITH THE CENTRAL BANK

Cash and balances with the Central Bank include:

	31.12.2019 BGN '000	**31.12.2018 BGN '000**
Cash on hand *(Note 29)*	21,184	21,737
Balances with the Central Bank *(Note 29)*, including:	98,402	110,138
Current account	*22,730*	*26,980*
Minimum required reserve in BGN	*75,672*	*83,158*
	119,586	**131,875**

The Bulgarian National Bank may accrue interest in BGN on the minimum required reserve and the excessive reserves at an amount set by the BNB Management Board. The interest on excessive reserves may be a negative figure unless the excessive reserves have been required as a result of a supervisory measure.

13. DUE FROM BANKS

The gross carrying amount, the allowance for credit losses and the amortised cost of amounts due from banks, by types, as at 31 December, are as follows:

	31.12.2019 BGN '000	**31.12.2018 BGN '000**
Term deposits	75,373	44,730
Current accounts and demand deposits	41,931	43,120
Local banks	*31,146*	*28,676*
Foreign banks	*10,785*	*14,444*
Allowance for credit losses	*(318)*	*(26)*
	116,986	**87,824**

As at 31 December 2019 and 31 December 2018, due from banks are classified in Stage 1. Expected credit losses have been calculated on an individual basis (*Note 7*).

The movement in the allowance for *expected credit losses* from amounts due from banks is as follows:

	2019 BGN'000	**2018 BGN'000**
Balance at 1 January	(26)	(8)
Increase in the impairment for expected credit losses recognised within profit or loss for the year	(365)	(264)
Decrease (reversal) of the impairment for expected credit losses recognised within profit or loss for the year	73	246
Balance at 31 December	(318)	(26)

14. LOANS AND ADVANCES TO CUSTOMERS

As at 31 December, the carrying amount of loans and advances to customers includes:

	31.12.2019 BGN '000	**31.12.2018 BGN '000**
Loans	604,994	450,290
Receivables under finance leases	24,395	18,141
	629,389	468,431
Allowance for credit losses	*(37,086)*	*(39,522)*
	592,303	**428,879**

The table below presents the amortised cost of loans granted and finance lease receivables by customer type:

Customer type	**31.12.2019 BGN '000**	**31.12.2018 BGN '000**
Enterprises	**526,060**	**385,014**
Individuals		
- consumer loans	46,928	38,896
- residential mortgage loans	51,175	39,871
Total individuals	**98,103**	**78,767**
Agricultural producers	**5,226**	**4,650**
	629,389	**468,431**

The movements in the allowance for credit losses on loans and advances to customers and finance lease receivables are as follows:

	Stage 1 (collective impairment) BGN '000	**Stage 2 (collective impairment) BGN '000**	**Stage 3 (individual impairment) BGN '000**	**2019 BGN '000**	**2018 BGN '000**
Balance at 1 January	(2,225)	(1,911)	(35,416)	(39,552)	(41,302)
Impairment accrued	(1,369)	(1,088)	(516)	(2,973)	(3,405)
Reversed impairment	756	1,079	1,385	3,220	5,129
Written-off	-	-	2,219	2,219	26
Balance at 31 December	(2,838)	(1,920)	(32,328)	(37,086)	(39,552)

As at 31 December the balance of the allowance for credit losses on loans and advances to customers and finance lease receivables includes:

	31.12.2019 BGN '000	**31.12.2018 BGN '000**
Credit losses on an individual basis (specific)	32,328	35,416
Credit losses on a portfolio basis (collective)	4,758	4,136
	37,086	**39,552**

Leases

The *net investment in finance leases* is the difference between the gross investment in the finance lease, less the unearned finance income and the accrued impairment. It is as follows:

Net investment in finance leases	**31.12.2019 BGN '000**	**31.12.2018 BGN '000**
Gross investment in finance leases	29,488	22,393
Unearned finance income	(5,093)	(4,252)
Net minimum lease payments	**24,395**	**18,141**
Impairment for credit losses	(115)	(242)
Net investment in finance leases	**24,280**	**17,899**

The structure of *net investment in finance leases* is as follows:

	31.12.2019 BGN '000	31.12.2018 BGN '000
Net investment in finance leases		
Maturity of up to 1 year	-	-
Maturity of 1 to 5 years	6,101	6,763
Maturity of more than 5 years	18,179	11,136
	24,280	**17,899**

The concentration of the Group in the ten largest groups of exposures to customers is as follows:

	31.12.2019 BGN '000	31.12.2018 BGN '000
Total gross carrying amount of the ten largest exposures to customers*	166,530	148,871
Percentage of the amount of gross loans and off-balance sheet commitments (*Note 3.1*)	23,25%	26,49%

* Including related customers, balance sheet and off-balance sheet commitments

15. SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The securities at fair value through other comprehensive income as at 31 December 2019, presented by original maturity, are as follows:

	Nominal amount	Fair value	Interest rate (coupon)	Effective interest rate	Maturity
	31.12.2019	31.12.2019	31.12.2019	31.12.2019	31.12.2019
	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
DEBT SECURITIES at fair value through other comprehensive income					
Government bonds – Republic of Bulgaria					
Short-term bonds denominated in EUR	3,490	3,524	1.85%	1.00%	February 2020
Government bonds – Republic of Turkey					
Short-term bonds denominated in EUR	1,956	2,051	5.125%	2.13%	May 2020
Medium-term bonds denominated in EUR	1,956	2,070	4.35 %	2.43%	November 2021
	3,912	4,121			
Government bonds – Republic of Italy					
Short-term bonds denominated in EUR	3,912	3,915	0,00%	0,72%	March 2020
Corporate bonds					
Short-term shares denominated in EUR	1,956	1,982	1.398%	0,44%	September 2020
Medium-term bonds denominated in EUR	22,883	23,547	0.072 % - 6.00 %	0.32 %- 4.69%	March 2021 – April 2023
Long-term bonds denominated in EUR	9,779	10,935	3.50%	3,48%	June 2025
	34,618	36,464			
TOTAL DEBT SECURITIES	**45,932**	**48,024**			

Equity instruments at fair value through other comprehensive income		
Shares denominated in BGN	*20*	97
Shares denominated in EUR	-	*34*
TOTAL EQUITY SECURITIES	**20**	**131**
Total	**45,952**	**48,155**

	Nominal amount	Fair value	Interest rate (coupon)	Effective interest rate	Maturity
	31.12.2018 BGN '000	31.12.2018 BGN '000	31.12.2018 BGN '000	31.12.2018 BGN '000	31.12.2018 BGN '000
DEBT SECURITIES at fair value through other comprehensive income					
Government bonds – Republic of Bulgaria					
Medium-term bonds denominated in BGN	3,490	3,597	1.85%	1.00%	February 2020
Short-term bonds denominated in EUR	1,809	1,807	-0,272%	0.45%	January 2019
	5,299	5,404			
Government bonds – Republic of Turkey					
Short-term bonds denominated in EUR	978	1,031	5,875%	1,76%	April 2019
Medium-term bonds denominated in EUR	3,912	4,096	4.35 %-5.125 %	2.13 %-2.43 %	May 2020-November 2021
	4,890	5,127			
Government bonds – Republic of Italy					
Medium-term bonds denominated in EUR	3,912	3,895	0,00%	0,72%	March 2020
	3,912	3,895			
Corporate bonds					
Medium-term bonds denominated in EUR	23,177	23,278	0.16% - 4.875%	0,32% - 4.57%	September 2020 – December 2021
Long-term bonds denominated in EUR	11,441	11,865	3.50 % - 6.00 %	3.48 %-4.69%	April 2023 – June 2025
	34,618	35,143			
TOTAL DEBT SECURITIES	**48,719**	**49,569**			
Equity instruments at fair value through other comprehensive income					
Shares denominated in BGN	*20*	108			
Shares denominated in EUR	-	34			
TOTAL EQUITY SECURITIES	**20**	**142**			
Total	**48,739**	**49,711**			

The movement in the fair value of securities at fair value through other comprehensive income is as follows:

	2019 BGN'000	2018 BGN'000
Balance at 1 January	**49,711**	**37,753**
Increase (additions)	-	30,624
Decreases (disposals and/or maturity)	(2,911)	(18,049)
Net impact of revaluation to fair value	1,436	(649)
Change in interest accrued	(81)	32
Balance at 31 December	**48,155**	**49,711**

As at 31 December 2019 and 31 December 2018 the debt securities at fair value through other comprehensive income are classified in Stage 1. Expected credit losses have been determined on an individual basis (*Note 7*).

The movement in the allowance for credit losses from debt securities at fair value through other comprehensive income is as follows:

	2019 BGN'000	2018 BGN'000
Balance at 1 January	**(104)**	**(78)**
Increase in the impairment for credit losses on debt instruments, recognised within other comprehensive income	(48)	(64)
Decrease (reversal) of the impairment for credit losses on debt instruments, recognised within other comprehensive income	20	38
Balance at 31 December	**(132)**	**(104)**

As at 31 December 2019, the Group has blocked securities pledged as collateral of budget accounts, at the amount of BGN 3,642 thousand (31 December 2018: BGN 5,454 thousand).

16. SECURITIES AT AMORTISED COST

As at 31 December 2019, the carrying amount of debt securities at amortised cost includes:

	Nominal amount	Gross carrying amount	Expected credit loss	Amortised cost	Fair value	Interest rate (coupon)	Effective interest rate	Maturity
	31.12.2019	**31.12.2019**	**31.12.2019**	**31.12.2019**	**31.12.2019**	**31.12.2019**	**31.12.2019**	**31.12.2019**
	BGN '000	**BGN '000**	**BGN '000**	**BGN '000**	**BGN '000**	**BGN '000**	**BGN '000**	**BGN '000**
Government bonds								
Government bonds – Republic of Bulgaria – in BGN	25,485	26,280	-	26,280	27,518	*4.00% - 5.00%*	*3.21%-5.17%*	*July 2020- July 2023*
Government bonds – Republic of Bulgaria – in EUR	19,848	20,097	-	20,097	20,626	*2.00 % - 3.50 %*	*2.18 % -2.82%*	*January 2020- March 2022*
Government bonds – Republic of Turkey – in EUR	9,779	10,322	(122)	10,200	10,292	*4,35%*	*2,43%*	*November 2021*
	55,112	**56,699**	**(122)**	**56,577**	**58,436**			

	Nominal amount 31.12.2018	Amortised cost 31.12.2018	Fair value 31.12.2018	Interest rate (coupon) 31.12.2018	Effective interest rate 31.12.2018	Maturity 31.12.2018
	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
Government bonds						
Government bonds – Republic of Bulgaria – in BGN	31,267	32,361	34,405	*2.50% -5.00 %*	*2.16 %-5.17 %*	*January 2019 – July 2023*
Government bonds – Republic of Bulgaria – in EUR	34,791	35,361	35,961	*2.00 % -4.50 %*	*2.18 % -2.91 %*	*January 2019 – March 2022*
	66,058	**67,722**	**70,366**			

The movement in the gross carrying amount of securities at amortised cost is as follows:

	2019 BGN'000	2018 BGN'000
Balance at 1 January	67,722	80,641
Acquired in the year	10,327	-
Matured in the year	(22,436)	(12,739)
Change in current interest rate	1,086	(180)
Balance at 31 December	56,699	67,722

The movement in the allowance for credit losses on debt securities at amortised cost is as follows:

	2019 BGN'000	2018 BGN'000
Balance at 1 January 2019	-	-
Increase in the impairment for credit losses on debt securities at amortised cost	(126)	-
Decrease (reversal) in the impairment for credit losses on debt securities at amortised cost	4	-
Balance at 31 December 2019	**(122)**	-

As at 31 December 2019, investments at amortised cost at a total amount of BGN 46,788 thousand (31 December 2018: BGN 69,225 thousand) are blocked as collateral of budget funds.

17. INVESTMENT PROPERTY

	2019 BGN '000	2018 BGN '000
Book value		
Balance at 1 January	**19,223**	**14,374**
Additions	998	3,861
Assets in progress	482	1,810
Disposals	(184)	(822)
Balance at 31 December	**20,519**	**19,223**
Depreciation and impairment loss		
Balance at 1 January	**1,634**	**1,373**
Depreciation charge for the year	277	261
Disposals	(23)	(75)
Impairment	-	75
Balance at 31 December	**1,888**	**1,634**
Carrying amount at 1 January	**17,589**	**13,001**
Carrying amount at 31 December	**18,631**	**17,589**

As at 31 December 2019, the fair value of investment property is BGN 21,892 thousand (2018: BGN 21,911 thousand) *(Note 2.25.2.2)*.

18. PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS

	Land and buildings		Information equipment		Furniture and fixtures		Other		Assets in progress		Right-of-use assets		Total	
	2019 BGN '000	2018 BGN '000	2019 BGN '000	2018 BGN'000	2019 BGN '000	2018 BGN '000	2019 BGN '000	2018 BGN '000	2019 BGN '000	2018 BGN '000	2019 BGN '000	2018 BGN '000	2019 BGN '000	2018 BGN'000
Book value														
Balance at 1 January	27,105	27,105	4,841	4,802	3,210	3,141	3,958	4,029	1,098	741	-	-	40,212	39,818
Recognised on 1 January under IFRS 16	-	-	-	-	-	-	-	-	-	-	6,387	-	6,387	-
Additions	15,078	-	1	-	-	-	13	-	994	908	246	-	16,332	908
Disposals	-	-	(73)	(111)	(11)	(25)	(4)	(78)	(305)	(300)	(146)	-	(539)	(514)
Transfer	-	-	443	150	110	94	69	7	(622)	(251)	-	-	-	-
Balance at 31 December	42,183	27,105	5,212	4,841	3,309	3,210	4,036	3,958	1,165	1,098	6,487	-	62,392	40,212
Depreciation and impairment loss														
Balance at 1 January	1,827	1,442	4,010	3,789	2,783	2,621	3,714	3,654	-	-	-	-	12,334	11,506
Depreciation charge for the year	528	385	348	329	176	187	104	138	-	-	1,646	-	2,802	1,039
Disposals	-	-	(73)	(108)	(11)	(25)	(4)	(78)	-	-	(63)	-	(151)	(211)
Balance at 31 December	2,355	1,827	4,285	4,010	2,948	2,783	3,814	3,714	-	-	1,583	-	14,985	12,334
Carrying amount														
Carrying amount at 31 December	39,828	25,278	927	831	361	427	222	244	1,165	1,098	4,904	-	47,407	27,878
Carrying amount at 1 January	25,278	25,663	831	1,013	427	520	244	375	1,098	741	-	-	27,878	28,312

As at 31 December 2019, the Group's tangible fixed assets included: land amounting to BGN 2,455 thousand (31 December 2018: BGN 2,137 thousand) and buildings of carrying amount of BGN 37,373 thousand (31 December 2018: BGN 23,142 thousand).

As at 31 December 2019, the property, plant and equipment include assets with book value of BGN 8,856 thousand (31 December 2018: BGN 8,472 thousand), which have been fully depreciated but are still in use in the Group's operations.

As at 31 December 2019, right-of-use assets are related to leases of office premises.

19. INTANGIBLE ASSETS

	Software	
	2019	**2018**
	BGN '000	**BGN '000**
Book value		
Balance at 1 January	**2,249**	**1,639**
Additions	**511**	614
Disposals	-	(4)
Balance at 31 December	**2,760**	**2,249**
Amortisation and impairment loss		
Balance at 1 January	**1,224**	**968**
Amortisation charge for the year	**307**	257
Disposals	-	(1)
Balance at 31 December	**1,531**	**1,224**
Carrying amount at 1 January	**1,025**	**671**
Carrying amount at 31 December	**1,229**	**1,025**

20. ASSETS HELD FOR SALE

The assets held for sale available as at 31 December 2019, including residential property at the amount of BGN 146 thousand (31 December 2018: BGN 387 thousand) have been acquired by the Group in 2018 in return for repayment of underperforming loans of its borrowers. These assets are not used, nor are there plans to use them in the Group's operations. The management of the parent (the Bank) is actively seeking buyers thereof in order to dispose of them until December 2020.

The movement in the assets held for sale over the two periods is as follows:

	2019	**2018**
	BGN '000	**BGN '000**
At 1 January	**387**	-
Additions	13	387
Disposals	(254)	-
At 31 December	**146**	**387**

21. CURRENT TAX RECEIVABLES

Current tax receivables include:

	31.12.2019 BGN '000	31.12.2018 BGN '000
Value added tax	395	133
Corporate tax	63	26
Total	**458**	**159**

22. OTHER ASSETS

Other assets include:	31.12.2019 BGN '000	31.12.2018 BGN '000
Assets acquired through collateral	*10,669*	*10,839*
Allowance for impairment	*(359)*	*(361)*
	10,310	10,478
Guarantee deposits with suppliers	628	618
Prepayments	556	414
Other assets	790	635
Total	**12,284**	**12,145**

Including:	31.12.2019 BGN '000	31.12.2018 BGN '000
Non-financial assets	10,997	11,107
Financial assets	1,287	1,038
Total	**12,284**	**12,145**

23. DUE TO BANKS

Due to banks represent funds attracted from banks and related mainly to credit lines with a carrying amount as at 31 December 2019: BGN 14,286 thousand (31 December 2018: BGN 8,290 thousand). Receivables under loans granted to Group clients under Bulgarian Development Bank (BDB) programme have been pledged in favour of BDB.

The contractual conditions of amounts *due to banks* are as follows:

	Amount	Currency	Maturity	31.12.2019 BGN '000	31.12.2018 BGN '000
Bulgarian Development Bank AD	10,000	BGN '000	31.05.2025	11,338	7,663
Bulgarian Development Bank AD	1,500	EUR`000	20.05.2023	2,948	627
Total				**14,286**	**8,290**

Change in liabilities from financing activities

The table below presents the reconciliation between the opening and closing balances in the consolidated statement of financial position for the liabilities from financing activities for the year ended 31 December 2019:

	01.01.2019	*Interest paid*	*Princi-pal paid*	*Princi-pal received*	*Accruals under the effective interest rate method*	*Other non-cash changes*	*31.12.2019*
Due to banks	8,290	(160)	(382)	6,369	160	9	**14,286**
Lease liabilities	6,387*	-	(1,685)	-	65	162	**4,929****
Total liabilities from operations	**14,677**	**(160)**	**(2,067)**	**6,369**	**225**	**171**	**19,215**

**Impact from application of IFRS 16 on 1 January 2019 (see Note 2.3)*
***Lease liabilities are included in Other liabilities (see Note 27)*

	01.01.2018	*Interest paid*	*Net outgoing cash flows*	*Accruals under the effective interest rate method*	*31.12.2018*
Due to banks	9,036	(141)	(756)	151	**8,290**
Total liabilities from financing activities	**9,036**	**(141)**	**(756)**	**151**	**8,290**

24. DUE TO CUSTOMERS

	31.12.2019	**31.12.2018**
	BGN '000	**BGN '000**
Individuals		
- term deposits	286,254	234,419
- saving accounts	81,095	85,922
- demand deposits	69,268	57,058
	436,617	**377,399**
Private entities and other financial institutions		
- term deposits	79,654	68,837
- demand deposits	338,898	254,767
	418,552	**323,604**
	855,169	**701,003**

As at 31 December 2019, 3% of the total amounts due to customers (31 December 2018: 6%) represent funds of the sole owner – shareholder and parties related thereto.

Deposits from customers include customer deposits restricted by the Group: as collateral for loans and issued bank guarantees at the amount of BGN 39,983 thousand (31 December 2018: BGN 11,040 thousand), as well as accounts subject to special terms and conditions: accumulation accounts at the amount of BGN 1,349 thousand (31 December 2018: BGN 314 thousand).

25. CURRENT TAX LIABILITIES

Current tax liabilities include:

	31.12.2019 BGN '000	31.12.2018 BGN '000
Withholding tax	44	42
Final income tax	31	29
One-off taxes on expenses	21	22
Personal income tax	3	4
Value added tax	14	9
	113	**106**

The following tax audits and inspections have been carried out in relation to the Group companies by the issue date of these consolidated financial statements:

D Commerce Bank AD:

- under VAT audit – inspection until 31.12.2009; audit – for the period from 1 September 2019 until 30 November 2019;
- full-scope tax audit – until 31 December 2009;
- National Social Security Institute – until 31 January 2015.

D Leasing EAD

- VAT audit and inspection – until 31 December 2018.

No tax audits and inspections have been carried out with respect to the subsidiaries *D Insurance Broker EOOD* and *D Imoti EOOD*.

A tax audit shall be performed within a 5-year period after the end of the year when the tax return for the respective liability has been submitted. The tax audit confirms the ultimate tax payable of the taxable person, unless in the cases explicitly provided for in the legislation.

26. DEFERRED TAXES

Deferred income taxes as at 31 December are related to the following items of the consolidated statement of financial position:

	temporary difference	*tax*	*temporary difference*	*tax*
	31.12.2019	***31.12.2019***	***31.12.2018***	***31.12.2018***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***
Property, equipment and investment property	(5,197)	(520)	(4,187)	(419)
Total deferred tax liabilities	**(5,197)**	**(520)**	**(4,187)**	**(419)**
Accruals for unused leaves of personnel and bonuses	468	47	485	49
Long-term retirement benefit obligations	467	47	420	42
Tax loss	280	28	170	17
Other receivables	-	-	277	28
Other assets (collaterals acquired)	359	36	309	31
Litigation provisions	-	-	414	41
Securities at fair value through other comprehensive income	1,669	167	233	23
Right-of-use assets	33	3	-	-
Total deferred tax assets	**3,276**	**328**	**2,308**	**231**
Deferred income tax liabilities, net	**(1,921)**	**(192)**	**(1,879)**	**(188)**

On recognising deferred tax assets, the probability for a reversal of the individual differences and the abilities of the Group companies to generate sufficient taxable profit in the future, have been taken into account.

The change in the balance of deferred taxes for 2019 was as follows:

Deferred tax (liabilities)/ assets	***01.01.2019***	***Recognised in the current profit and loss***	***31.12.2019***
	BGN '000	**BGN '000**	**BGN '000**
Property, equipment and investment property	(419)	(101)	(520)
Accruals for paid leaves of personnel and bonuses	49	(2)	47
Long-term retirement benefit obligations	42	5	47
Tax loss	17	11	28
Other receivables	28	(28)	-
Other assets (acquired collaterals)	31	5	36
Court provisions	41	(41)	-
Securities at fair value through other comprehensive income	23	144	167
Right-of-use assets	-	3	3
Total	**(188)**	**(4)**	**(192)**

The change in the balance of deferred taxes for 2018 was as follows:

Deferred tax (liabilities)/ assets	***01.01.2018***	***Recognised in the current profit and loss***	***31.12.2018***
	BGN '000	**BGN '000**	**BGN '000**
Property, equipment and investment property	(322)	(97)	(419)
Accruals for paid leaves of personnel and bonuses	43	6	49
Long-term retirement benefit obligations	38	4	42
Due from banks	1	(1)	-
Tax loss	3	14	17
Other receivables	70	(42)	28
Other assets (collaterals acquired)	-	31	31
Litigation provisions	-	41	41
Loans to clients	109	(109)	-
Securities at fair value through other comprehensive income	96	(73)	23
Total	**38**	**(226)**	**(188)**

27. OTHER LIABILITIES

Other liabilities include:

	31.12.2019	**31.12.2018**
	BGN '000	**BGN '000**
Lease liabilities	4,929	-
Other liabilities	1,295	1,675
Long-term retirement benefit obligations	467	420
Current liabilities to personnel and social security	441	446
Transfers in progress	419	983
Advances from the sale of assets acquired from collaterals	173	257
Prepaid credit account management fees	27	29
Guarantees on cession agreements and letters of credit	17	7
	7,768	**3,817**

Including:	**31.12.2019**	**31.12.2018**
	BGN '000	**BGN '000**
Financial liabilities	6,409	2,480
Non-financial liabilities	1,359	1,337
	7,768	**3,817**

Current liabilities to personnel include accruals for unused leaves and the social security contributions thereon.

The *long-term retirement benefit obligations* to personnel include the present value of Bank's liability, at the date of the consolidated statement of financial position, to pay indemnities to its employees upon coming of age for retirement.

In accordance with the Labour Code in Bulgaria, every employee is entitled to an indemnity on retirement at the amount of two gross monthly salaries, and if he or she has worked for the same employer during the last 10 years of their service the indemnity amounts to six gross monthly salaries at the time of retirement. This is a defined benefits plan. *(Note 2.20).*

For the purpose of establishing the amount of the liability as at 31 December 2019, the Bank has assigned actuarial valuation by using the services of a certified actuary.

The movements in the present value of retirement benefit obligations to personnel are as follows:

	2019 BGN '000	2018 BGN '000
Present value of the obligation at 1 January	**420**	**378**
Interest cost	4	5
Current service cost	53	55
Payments made in the year	(11)	(19)
Remeasurement gains or losses for the year	1	1
Present value of the obligation at 31 December	**467**	**420**

The amounts accrued in the consolidated statement of profit or loss and other comprehensive income as long-term retirement benefits of personnel are as follows:

	2019 BGN '000	2018 BGN '000
Current service cost	53	55
Interest cost	4	5
Components of defined benefit plan costs recognised in profit or loss *(Note 10)*	**57**	**60**
Remeasurement gains or losses on the retirement benefit obligations, including:		
Actuarial losses/(gains) arising from changes in financial assumptions	12	(16)
Actuarial (gains) arising from changes in demographic assumptions	(43)	(67)
Actuarial losses arising from experience adjustments	32	84
Components of defined benefit plans cost recognised in other comprehensive income *(Note 11)*	**1**	**1**
Total	**58**	**61**

The following actuarial assumptions were used in calculating the value of the liabilities as at 31 December 2019:

- mortality rate – in accordance with the table issued by the National Statistics Institute for the total mortality rate of the population in Bulgaria for the period 2016 – 2018 (31 December 2018: 2013 – 2015);
- staff turnover rate -- applied probability of leave prior to retirement of 4.50% per year (2018: 3.50%).
- discount factor – the rate applied is based on the effective annual interest rate 1% (31 December 2018: 1.25%). It is based on the market yield on the long-term government securities (of 10-year maturity). Considering that the average term to pensioning is longer than 11 years, the discount rate has been established through extrapolation;
- the assumption for the future level of the salaries is based on the information provided by Group's management and amounts to 2% annual growth for 2019 for the first three years and 1% for the remaining period (2018: 2%).

28. CAPITAL AND RESERVES

Share capital

As at 31 December 2019, the registered share capital of D Commerce Group AD amounts to BGN 90,064 thousand (31 December 2018: BGN 75,000 thousand), distributed in 90,064 (2018: 75,000) ordinary registered dematerialised voting shares with a par value of BGN 1,000 each.

The share capital structure is as follows:

Shareholder	**Shares held as at 31.12.2019**	**Percentage**	**Shares held as at 31.12.2018**	**Percentage**
Fuat Guven	50,000	55.52%	50,000	66.67%
Fortera AD	40,064	44.48%	25,000	33.33%
Total	**90,064**	**100%**	**75,000**	**100%**

Reserves

Group's *reserves* are summarised in the table below:

	31.12.2019 BGN '000	**31.12.2018 BGN '000**
Statutory reserves (Reserve Fund)	36,427	26,467
Reserve of financial assets at fair value through other comprehensive income	1,666	202
Total	**38,093**	**26,669**

Statutory reserves (Reserve Fund)

The Credit Institutions Act does not prescribe specific rules for the setting aside of *statutory reserves (Reserve Fund)*. The Bank sets aside such reserve under the requirements of the general provisions of the Commercial Act, namely: at least one tenth of the post-tax profit, funds paid above the nominal amount on issuance of capital, the sum of the additional payments made against privileges granted on the acquired shares, other sources specified in the Articles of Association or designated by resolution of the General Assembly until the Reserve Fund reaches up to 1/10 of the share capital determined by the Articles of Association. In addition, under the Credit Institutions Act banks are not allowed to pay dividends before reaching the minimum reserves required by law or by the Articles of Association, or in case the distribution of dividends will result in violation of the regulatory capital adequacy ratios.

The Bank may use the funds from the *statutory reserve (Reserve Fund)* to cover current or prior period losses, but cannot use it for distribution of dividends without permission by BNB.

As at 31 December 2019, the *statutory reserves (Reserve Fund)* of the Group amount to BGN 36,427 thousand (31 December 2018: BGN 26,467 thousand) whereas the minimum amount required under the Commercial Act is reached.

The movements in the *statutory reserves (Reserve Fund)* are as follows:

	2019 BGN '000	2018 BGN '000
Balance at 1 January	**26,467**	**16,871**
Distribution of profit	9,960	9,596
Balance at 31 December	**36,427**	**26,467**

The reserve of financial assets at fair value through other comprehensive income is formed from the effects of remeasurement of securities measured at fair value through other comprehensive income. Upon derecognition of debt securities, the reserve is recycled through the consolidated statement of profit and loss and other comprehensive income (through profit or loss for the period). Upon derecognition of equity securities, the reserve is not recycles through the consolidated statement of profit and loss and other comprehensive income (through profit or loss for the period). Prior to the adoption of IFRS 9, the name of this reserve was *Available-for-sale financial assets reserve* and upon derecognition of the investment, it was subject to statement (recycling) through the consolidated statement of comprehensive income (within profit or loss for the period).

As at 31 December 2019, it amounts to BGN 1,666 thousand (31 December 2018: BGN 202 thousand).

The movements in the *reserve of financial assets at fair value through other comprehensive income* is as follows:

	2019 BGN '000	2018 BGN '000
Balance at 1 January	**202**	**825**
Gains/(Losses) on remeasurement to fair value for the year	1,436	(649)
Net change in the impairment for expected credit losses on financial assets at fair value through other comprehensive income	28	26
Balance at 31 December	**1,666**	**202**

Retained earnings amount to BGN 8,077 thousand as at 31 December 2019 (31 December 2018: BGN 10,121 thousand).

The movements of *retained earnings* are as follows:

	2019 BGN '000	2018 BGN '000
Balance at 1 January	**10,121**	**9,822**
Net profit for the year	7,917	9,896
Distribution of profit to reserves	(9,960)	(9,596)
Actuarial losses from remeasurement	(1)	(1)
Balance at 31 December	**8,077**	**10,121**

29. CASH AND CASH EQUIVALENTS

For the purposes of the consolidated statement of cash flows cash and cash equivalents comprise the following balances with original maturity up to 3 months:

	31.12.2019 BGN '000	31.12.2018 BGN '000
Cash on hand *(Note 12)*	21,184	21,737
Current accounts with the Central Bank *(Note 12)*	22,730	26,980
Minimum obligatory reserve (*Note 12*)	75,672	83,158
Amounts due from banks with original maturity of up to 90 days *(Note 13)*	116,986	87,824
Cash and cash equivalents in the consolidated statement of cash flows	**236,572**	**219,699**

30. CONTINGENT LIABILITIES AND COMMITMENTS

Financial guarantees and letters of credit

The Group provides financial guarantees and letters of credit to guarantee the performance of its customers to third parties. These arrangements have fixed limits and are generally valid for a period of up to one year.

The amounts of concluded agreements for undertaken commitments and contingent liabilities are presented in the table below:

	31.12.2019 BGN '000	31.12.2018 BGN '000
Contingent liabilities		
Bank guarantees and letters of credit		
- in BGN	15,274	32,734
- in foreign currency	5,842	6,535
	21,116	**39,269**
Irrevocable commitments		
Undrawn amount of authorised loans		
- in BGN	48,383	36,237
- in foreign currency	17,476	18,050
	65,859	**54,287**
	86,975	**93,556**

As at 31 December 2019 and 31 December 2018, the amount of credit losses related to guarantees granted, letters of credit and irrevocable commitments is insignificant in its amount; therefore, it has not been recognized in these consolidated financial statements.

Nature of instruments and credit risk

These commitments of contingent nature are bearers of off-balance sheet credit risk as only arrangement fees and provisions for potential losses are recognised in the statement of financial position until the commitments expire or are fulfilled. The amounts reflected in the table below with respect to guarantees represent the maximum accounting loss that would be recognised as at the date of the financial statements if the counterparties fail to discharge their contractual liabilities in full. Many of the contingent liabilities will expire without being paid fully or partially. Therefore, the amounts do not represent expected future cash flows. Collaterals held for the issuance of bank guarantees and letters of credit are 100% and represent mainly deposits restricted with the Group, mortgage of real estate, bank guarantees issued by other banks and promissory notes.

When conditions for enforcement of an issued guarantee occur the Group assesses the possibilities for recourse to the counterparty and potential realisation of the collaterals provided.

Court proceedings

As at 31 December 2019, respectively as at 31 December 2018, there were no material legal claims against Group companies that might have a significant impact on the Group and/or its financial position.

31. RELATED PARTY TRANSACTIONS

The Group's related parties and type of relation are as follows:

Related parties	***Type of relation***
Mr. Fiat Guven	Main shareholder
Fortera AD	Shareholder
Emelda Deri Konfeksiyon Turizm Insaat Sanayi Ve Dis Ticaret Anonim Sirketi	Company under common control through main shareholder
Gama Invest AD	Company under common control through main shareholder
Elkabel AD	Company under common control through main shareholder
Aidatour AD	Company under common control through main shareholder
Varna Moda AD	Company under common control through main shareholder
Shop Shipka Fuat Guven – Turkey	Company under common control through main shareholder
Shop Shipka Fuat Guven OOD	Company under common control through main shareholder
Emelda EOOD	Company under common control through main shareholder
Trakiya-97 EOOD	Company under common control through main shareholder
Stil-93 OOD	Company under common control through main shareholder
Eleforce OOD	Company under common control through main shareholder
Kardzhali – Tabac AD	Company under common control through main shareholder
Svilengrad – Gas AD	Company under common control through main shareholder
Shipka – Oil EOOD	Company under common control through main shareholder
Vasilevi Bros OOD	Company under common control through main shareholder
Shipka – Fuat – Guven – Varna OOD	Company under common control through main shareholder
Borisov and Borisov law firm	Key management personnel

The natural persons who are part of the key management personnel are disclosed in Note 1.2.

(a) Outstanding balances with related parties

Account type	Relation type	31.12.2019 BGN '000	31.12.2018 BGN '000
Deposits, current and escrow accounts	Entity under a common control through main shareholder	21,754	36,307
Deposits and current accounts	Shareholder	2,399	7,743
Deposits and current accounts	Key management personnel	1,049	1,041
		25,202	45,091
Loans granted	Entity under common control through main shareholder	3,558	3,732
Loans granted	Key management personnel	620	401
Loans granted	Shareholder	-	-
		4,178	4,133
Issued guarantees and letters of credit	Entity under common control through main shareholder	863	863
		863	863

(b) Related party transactions

Income / expense	Relation type	2019 BGN '000	2018 BGN '000
Interest income	Entity under common control through main shareholder	132	137
Interest income	Key management personnel	10	13
		142	150
Commissions income	Entity under common control through main shareholder	39	37
Commissions income	Key management personnel	1	1
Commissions income	Shareholder	1	1
		41	39
Interest expense	Entity under common control through main shareholder	82	104
Interest expense	Shareholder	3	13
Interest expense	Key management personnel	2	5
		87	122

(c) Remuneration of key management personnel

	2019 BGN '000	2018 BGN '000
Remuneration of key management personnel	2,025	1,948

The members of the key personnel are disclosed in *Note 1.*

32. EVENTS AFTER THE DATE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The global spread of the COVID-19 pandemic has influenced a number of economic sectors, as far as entire industrial areas and whole countries are placed under quarantine. On 13 March 2020, a state of emergency was declared in Bulgaria. Strict anti-epidemic measures were imposed in the country, as well as restrictions aimed to limit the virus spread. This has resulted in disruption of the normal business activities of almost all economic subjects in Bulgaria.

Due to the unpredictable dynamic of COVID-19, the scope and impact on the Group's business, incl. its future operations, assets and liabilities, are difficult and practically impossible to be accurately estimated at this stage, but the expectation is that the pandemic might have a direct adverse impact on the credit activity and the quality of already granted loans and on the valuation of certain securities and properties. The initial assessment of the management is that no facts and factors have been identified questioning the validity of the going concern principle for the Group.

In accordance with the measures taken by the state government and the Management Board of the Bulgarian National Bank, the Group's management has taken quick measures to respond to the critical situation, aimed at preserving the health and life of its employees and clients, as well as measures to support its clients' business positions related to preserving the loan portfolio quality. An operational crisis group has been set up. The measures taken so far to limit the adverse effects on the Group's operations are as follows:

- Carrying out a number of information and awareness campaigns about possible COVID-19 contamination prevention;
- Provision of personal protective equipment to both employees and clients visiting the bank's offices;
- Organising work schedules for the Bank offices and work from home;
- Simplification of the process of loan renegotiation;
- Daily monitoring of the loan portfolio with the aim of express identification of debtor issues and urgent development of measures for risk reaction and management;
- Possibility for extending the term of revolving loans;
- Daily monitoring of securities markets and forecasts thereon in order to take specific measures, if needed;
- Ongoing monitoring of properties' market and forecasts thereon.

No other events have occurred after the date of the consolidated annual financial statements that may have impact on the Group's consolidated financial statements as at 31 December 2019.