BULGARIAN DEVELOPMENT BANK GROUP

BULGARIAN DEVELOPMENT BANK

NATIONAL GUARANTEE FUND
PART OF BULGARIAN DEVELOPMENT BANK

MICRO FINANCING INSTITUTION JOBS
PART OF BULGARIAN DEVELOPMENT BANK

ANNUAL DISCLOSURE
on consolidated basis

for the year
2018

Pursuant to requirements of Part Eight "Disclosure by Institutions" of Regulation (EU) № 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) №. 648/2012 (Regulation (EU) 575/2013)

2019

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1 REPORTING ENTITY

At the end of 2018, the Financial Group of "Bulgarian Development Bank" AD (the "Group"[1] or the "Financial Group") included "Bulgarian Development Bank" AD ("BDB", "Bank", "parent company") and its subsidiaries: "National Guarantee Fund" EAD (NGF), "Micro Financing Institution JOBS" EAD (MFI) and "Capital Investment Fund" AD (CIF).

Also, at the beginning of 2019, the Bank established two new subsidiaries: "BDB Leasing" EAD and "BDB Factoring" EAD, which will be part of BDB's Finance Group.

1.1 Parent Company

"Bulgarian Development Bank" AD was established on March 11, 1999 as a joint-stock company in Bulgaria under the name of "Encouragement Bank" AD.

On April 23, 2008, the "Bulgarian Development Bank" Act was adopted (SG, №. 43 of April 29, 2008). The BDB Act regulates the structure and scope of the Bank's activities, including those of its subsidiaries, envisaged for incorporation. On June 26, 2008, a general meeting of shareholders was convened to change the company name from "Encouragement Bank AD" to "Bulgarian Development Bank" AD, and its Articles of Incorporation were amended in line with with the new provisions of the Bulgarian Development Bank Act. Until the change in the Bank's name is entered in the Companies Register, all rights and obligations envisaged for the "Bulgarian Development Bank" AD apply to "Encouragement Bank" AD.

The Bank's seat and registered address is 1, Dyakon Ignatiy Str., Sredets District, 1000 Sofia.

1.2 BDB Finance Group Subsidiaries

"National Guarantee Fund" EAD was set-up on August 12, 2008 as a sole shareholder joint-stock company, with BDB having 100% interest therein;

Micro Financing Institution JOBS EAD (MFI) was incorporated on January 14, 2011 as a sole shareholder joint-stock company, with BDB having 100% interest therein;

"Capital Investment Fund" AD (CIF) was set-up on August 24, 2018 and registered in the Companies Register on October 4, 2018 as a joint stock company, with BDB ultimately having 100% interest therein (BDB holding directly 84.62%, or 550,000 shares, and indirectly 15.38% through NGF – the holder of the remaining 100,000 shares).

The seat and registered address of the above said subsidiaries is 1 Dyakon Ignatiy Str., Sredets District, 1000 Sofia.

[1] As of the end of 2018, the Bank is the sole owner of the capital of Maritza EOOD (TCM) and the company is not part of the strategic business model of the BDB Finance Group or the BDB Group.

1.3 Reporting currency

The functional and presentation currency of the Bank's financial statements is the Bulgarian Lev (BGN). The financial statements are presented in BGN thousands (BGN’000).

1.4 Scope and method of consolidation

This disclosure is prepared on a consolidated basis for all of the Bank's equity participations in the financial institutions and commercial entities, which it controls.

In the consolidated financial statements prepared in accordance with the accounting standards in force, as well as for the purposes of these disclosures, the financial statements of following subsidiaries are consolidated in the BDB Group (“National Guarantee Fund” EAD, “Micro Financing Institution JOBS” EAD and “Capital Investment Fund AD”), as well as the company “Trade Centre Maritsa” EOOD, whose single shareholder is the Bank. These companies are consolidated using the full consolidation method, on a line-by-line basis, applying an accounting policy that is unified for the significant entities. The investments of the parent company are eliminated against the equity participations in the subsidiaries at the date of acquisition. The intra-group transactions, assets and liabilities are completely eliminated, incl. the unrealized intra-group profit or loss.

***Table 1**: Template 3: EU LI3 — Outline of the differences in the scopes of consolidation (entity by entity) as per EBA/GL/2016/11*

Name of entity	Method of accounting consolidation	Method of regulatory consolidation				Description of entity
		Full consolidation	Proportional consolidation	Neither consolidated,Hor deducted	Deducted from equity	
“National Guarantee Fund” EAD	Full consolidation	X	-	-	-	Non-banking financial institutions
“Micro Financing Institution JOBS” EAD	Full consolidation	X	-	-	-	Non-banking financial institutions
“Capital Investment Fund” EAD	Full consolidation	-	-	-	X	Equity investment company
“Trade Centre Maritsa” EOOD	Full consolidation	-	-	-	X	Non-significant entity – renting out retail spaces

The differences between the accounting and regulatory scope of consolidation are shown in the below Table 2: Template 1 - EU LI1 below.

***Table 2**: Template 1 - EU LI1 — Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories – as per EBA/GL/2016/11*

(BGN'000)

	a	b	c	d	e	f	g
			Carrying values of items				
	Carrying values as reported in published financial statements	Carrying values under the regulatory scope of consolidation	Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from the capital
Assets							
Cash and balances at central banks	297,622	297,622	297,622	-	-	-	-
Items in course of collection from other banks	-	-	-	-	-	-	-
Trading portfolio assets	-	-	-	-	-	-	-
Financial assets at fair value	653,657	656,157	656,157	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-
Loans and advances to banks	430,003	429,979	429,979	-	-	-	-
Loans and advances to customers	1,048,034	1,048,034	1,048,034	-	-	-	-
Receivables from the State Budget	471,999	471,999	471,999	-	-	-	-
Reverse repurchase agreements and other similar secured borrowings	-	-	-	-	-	-	-
Assets held for sale	5,012	5,012	5,012	-	-	-	-
Securities measured at amortized cost	10,216	10,216	10,216	-	-	-	-
Other assets	1,609	1,485	1,485	-	-	-	-
Assets acquired from collateral foreclosure	27,128	27,128	27,128	-	-	-	-
Investment property	7,649	7,649	7,649	-	-	-	-
Investments in subsidiaries	-	17,982	-	-	-	-	20,482

	a	b	c	d	e	f	g
	Carrying values as reported in published financial statements	Carrying values under the regulatory scope of consolidation	Carrying values of items				
			Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from the capital
Property, plant and equipment, intangible assets	37,597	32,884	32,553	-	-	-	331
Deferred tax assets	261	261	261	-	-	-	-
Current tax receivables	1,774	1,774	1,774	-	-	-	-
Net investment in finance lease	932	932	932	-	-	-	-
Total assets	**2,993,493**	**3,009,114**	**2,990,801**	**-**	**-**	**-**	**20,813**
Liabilities							
Deposits from credit institutions	5,759	5,759	-	-	-	-	-
Current tax liabilities	22	4	-	-	-	-	-
Deposits from customers other than credit institutions	1,171,825	1,188,077	-	-	-	-	-
Provisions	7,828	7,828	-	-	-	-	-
Other liabilities	2,780	2,600	-	-	-	-	-
Borrowings from international institutions	904,782	904,782	-	-	-	-	-
Other borrowings	110,331	110,255	-	-	-	-	-
Items in the curse of collection due to other banks	-	-	-	-	-	-	-
Customer accounts	-	-	-	-	-	-	-
Repurchase agreements and other similar secured borrowings	-	-	-	-	-	-	-
Liabilities in the trading book	-	-	-	-	-	-	-
Financial liabilities measured at fair value	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-
Total liabilities	**2,203,327**	**2,219,305**	**-**	**-**	**-**	**-**	**-**

The main sources of differences between regulatory exposure amounts and carrying values in financial statements are shown in the Table below.

***Table 3**: Template 2 - EU LI2 — Main sources of differences between regulatory exposure amounts and carrying values in financial statements - as per EBA/GL/2016/11*

(BGN'000)

		a	b	c	d	e
		Total	**Items subject to**			
			Credit risk framework	**Counterparty Credit Risk (CCR) framework**	**Securitization framework**	**Market risk framework**
1	**Assets carrying value amount under the regulatory scope of consolidation (as per Template EU LI1)**	**3,009,114**	**2,990,801**	-	-	-
2	Liabilities carrying value amount under the regulatory scope of consolidation (as per Template EU LI1)	2,219,305	-	-	-	-
3	Total net amount under the regulatory scope of consolidation	-	-	-	-	-
4	Off-balance sheet amounts	908,809	908,809	-	-	-
5	*Differences in valuations*	-	-	-	-	-
6	*Differences due to different netting rules other than those already included in row 2*	-	-	-	-	-
7	*Differences due to provisions*	-	-	-	-	-
8	*Differences due to prudential filters*	-	-	-	-	-
9	*Adjustments due to transitional measures in relation to IFRS 9*	*10,650*	*10,650*	-	-	-
10	**Exposure amounts considered for regulatory purposes**	**3,910,260**	**3,910,260**	-	-	-

The differences between the carrying values (disclosed in the consolidated financial statements) and the regulatory exposure amounts are due to the different consolidation scope of the subsidiaries. For regulatory purposes, only subsidiaries that are financial institutions (FI) are consolidated.

2 RISK MANAGEMENT POLICIES, RULES AND PROCEDURES

2.1 Management strategies and processes for each individual risk category

Risk management within the BDB Group is a complex of methods and procedures that the Bank uses to identify, measure, and monitoring of its risk exposures. The Bank manages the following main risk categories it is exposed to:

- *Credit risk;*
- *Liquidity risk;*
- *Market risk;*
- *Operational risk;*

In risk management, the BDB Group applies policies and procedures relevant to the nature and complexity of its activity.

2.2 Credit risk management

According to Article 434, paragraph 2 of Regulation (EU) 575/2013, equivalent disclosure is made in the 2018 annual consolidated financial statements.

2.3 Liquidity risk management

According to Article 434, paragraph 2 of Regulation (EU) 575/2013, equivalent disclosure is made in the 2018 annual consolidated financial statements.

2.4 Market risk management

According to Article 434, paragraph 2 of Regulation (EU) 575/2013, equivalent disclosure is made in the 2018 annual consolidated financial statements.

2.5 Operational risk management

According to Article 434, paragraph 2 of Regulation (EU) 575/2013, equivalent disclosure is made in the 2018 annual consolidated financial statements.

3 STRUCTURE AND ORGANIZATION OF THE RISK MANAGEMENT FUNCTIONS

3.1 For the parent company

For the purpose of adequate credit risk management, the Bank has established and constantly operating decision-making and controlling bodies for the lending process in BDB, as follows:

Supervisory Board – endorses the decisions of the Management Board for exposure to credit risk with competences and limits set out in the Bank's Articles of Incorporation and BDB's Credit Manual, and has such other powers as provided for by the aforesaid deeds;

Management Board - performs overall risk management supervision and approves the risk management strategies, principles and specific methods, techniques and procedures. As a body that approves lending transactions, it decides on the loan proposals (after considering and discussing the business units' proposals, the opinions of the Risk Department and the Legal Department, and the collateral valuations), with such competences and limits as set out in the Bank's Articles of Incorporation and the Credit Manual, both at the level of lending transactions and borrowers, and also within limits for the Bank's loan portfolio.

Executive Directors and Board Members - exercise ongoing operational control over the maintenance of and monitoring to the limits determined for the particular types of risk and control over the application of the established procedures.

The Bank carries out approach of centralized risk management, which involves:

- Adoption of policies and procedures and direct involvement in the risk management process by the Management Board and the Risk Committee;
- Delegation of clear competence - rights and responsibilities of employees from the relevant units;
- Separation of the risk management and control activities from the business operations generating risk.

Risk Committee - on the proposal of the Management Board (MB), adopts restrictions and limits with regard to economic sectors, limits for high-risk clients, limits for the concentration of credit risk in loan portfolio and limits for concentration of the insurance coverage of the collateral. At least on a quarterly basis reviews the Bank's overall risk profile.

The credit risk management and control, channels for information and reporting, procedures for imposing measures for breach of risk limits and any other restrictions are laid down and described in the relevant rules and procedures.

Committee on Asset and Liability Management (ALCO) - The specialized body for centralized liquidity management is the Committee on Asset and Liability Management (*ALCO*). It is responsible for the strategic management of assets and liabilities, for management of the market risk, including liquidity risks, for the credit risk management, and for the exposure quality assessment and classification. ALCO conducts a liquidity management policy in accordance with the Bank's overall strategy, performs systematic liquidity analysis, monitors, analyzes and forecasts cash flows and maturity bands under going concern and liquidity crisis scenarios and scenarios for the purpose of the liquidity coverage ratio (LCR) according to Regulation (EU 2015/61). ALCO monitors the adequacy of liquid assets and liquidity buffers and proposes to the Management

Board changes in the Bank's development guidelines, in accordance with the current or potential liquidity situation and diversification of assets and liabilities. The members of ALCO are approved by the Management Board of the Bank.

ALCO is also a specialized internal body for the monitoring, assessment, classification and provisioning/impairment of risk exposures in 2018.

Market risk control is entrusted to ALCO. The ALCO Committee reviews the impact of the interest rate risk and other banking risks on the current liquidity and outlines operational measures to manage liquidity and optimize market risks.

The Risk Department and the Treasury Department monitor the day-to-day implementation of the risk management policies adopted by the Bank's Management Board.

For adequate management and control of operational risk, the Bank applies the model of three levels of defence:

- **The first level** of defence extends to those units within the Bank that have business or support functions. These structures have the primary function to exert preventive operational risk control, to meet the standards and policies of the Bank and to take effective actions to manage this risk.
- **The second level** of timely defence has operational responsibilities and extends to the Management Board, supported by the Risk Department. These structures are responsible for the implementation of the operational risk management policy and ensuring compliance therewith. The operational risk is controlled in accordance with the procedures and rules adopted by the Management Board.
- **The third level** of defence extends to the Risk Committee, which oversees the overall compliance with the Bank's risk management policies and overall risk profile.

3.2 *For the subsidiary "National Guarantee Fund" EAD:*

The main units directly responsible for the risk management are the following:

Management Board of the *Single Shareholder* (BDB) – performs overall supervision on risk management;

Board of Directors – carries out overall risk management supervision; responsible for overall risk management approach and for approval of risk management strategies, principles and the specific methods, techniques and procedures;

Committee on Provisions– analyses the guaranteed portfolios in terms of overall credit risk management for the total guaranteed portfolio, as well as of each guarantee deal and beneficiary of the guarantee itself;

Risk and Monitoring Department – performs general monitoring with respect to the guaranteed portfolios by carrying out inspections (current and after a claim for payment has been filed) of the commercial banks regarding the fulfilment of the terms and conditions of their guarantee agreements at the level of both the single client and individual portfolio. The Department also identifies, assesses, monitors and applies measures for mitigate the impact of the major risks.

3.3 For the subsidiary "Micro Financing Institution JOBS" EAD:

The main units directly responsible for the risk management are the following:

Management Board of the *Single Shareholder* (BDB) – performs overall supervision on risk management;

Board of Directors – adopts rules and procedures for risk management. Controls risk factors for the activity of the Company and adopts resolutions within its powers. It also analyses the credit transactions amounting to above BGN 100,000 in terms credit risk management when they are being approved;

Credit Committee – it continuously monitors and analyses the credit and lease portfolio of the Company from the point of view of the credit risk, incl. on the level of individual transaction or credit exposures of related parties;

Credit Council – analyses the credit and lease transactions in terms of credit risk management during their authorization and/or renegotiation;

Operational Management (Executive Director and Procurator) – organizes the activities for implementation of the Rules on Risk Management adopted by the Board of Directors. Creates a work organization, which ensures the observation of the specified limits and levels of risk. Exercises control over the compliance of the analysis, risk estimation and evaluation procedures used by the relevant employees with the internal legislative documents adopted by the Board of Directors

Risk Management Department – develops and implements the risk management system. Prepares and submits periodic reports to the Board of Directors in order to evaluate the risks in the business activity, incl. the keeping within the limits, and it regularly reports to the operational management of the Company. It performs initial and ongoing inspection of the risk assessment methods. It controls the input data necessary for evaluating the risk according to an applicable method of reliability and sufficiency.

3.4 Scope and nature of the risk measurement and reporting system

The BDB Group has established a clearly defined organizational structure with proper allocation of responsibilities among management levels and independence between the risk generating units and structures responsible for the risk assessment and control. The risk measurement and reporting system covers the identification, measurement, monitoring and control of credit, liquidity, market and operational risk and other risks. The system encompasses all processes and evaluated the exposures recorded in the balance sheet, as well as off-balance sheet items that are risk-bearing and, under certain conditions, can affect the profit and loss and/or the amount of the balance sheet items of the BDB Group.

The risk is measured and assessed using methods and approaches based on good banking practice, with the relevant methodologies and procedures being regularly reviewed and updated by the units involved in the processes.

3.5 Risk Reduction

BDB Group's propensity to risks taking is determined by its capacity, which depends on the amount and structure of available equity and the ability to increase the capital.

In the process of corporate lending, detailed procedures are applied to study and analyze the economic viability of each business project or client and the quality and characteristics of the collateral offered. A major credit risk mitigation tool is to create acceptable, liquid, properly insured collateral that sufficiently covers the probable credit losses.

The Bank controls the concentration of credit risk for the loan portfolio through a system of limits, incl. by economic sectors, high-risk clients, groups of related parties, collateral insurers, etc.

Furthermore, the BDB Group has a low level of market risk exposure, which it maintains through control and restraints/limits.

3.6 Number of directorships held by members of the governing bodies

Bulgarian Development Bank AD has two-tier corporate governance structure, which includes the Supervisory Board (composed of three members) and a Management Board composed of three Executive Directors. № member of the Supervisory Board/Management Board is a Department/Unit Head in the Bank.

At least one of the members of the Management Board of the parent company (BDB) participates in the management of the subsidiaries.

Information about the number of directorships in the BDB Group disclosed in the Annual Report for the 2018 financial year and in accordance with the disclosure requirements of Part Eight of Regulation (EU) № 575/2013 (EBA / 2016/11) is provided in the Table below, and, in addition to the 2018 annual financial statements, a disclosure of the directorships in “BDB Leasing” EAD and “BDB Factoring” EAD, subsidiaries established in 2019, is included.

***Table 4**: Directorships in BDB Group as of June 30, 2019*

BDB Group company	Governing Body	Function/ Department Head	Function Holder
“Bulgarian Development Bank” AD	Supervisory Board	Chairman	Lachezar Borisov
“Bulgarian Development Bank” AD	Supervisory Board	Deputy Chairman	Mitko Simeonov
“Bulgarian Development Bank” AD	Supervisory Board	Member	Velina Burska
“Bulgarian Development Bank” AD	Management Board	Chairman and CEO	Stoyan Mavrodiev
“Bulgarian Development Bank” AD	Management Board	Deputy Chairman and Executive Director	Rumen Mitrov
“Bulgarian Development Bank” AD	Management Board	Member and Executive Director	Nikolay Dimitrov
“National Guarantee Fund” EAD	Board of Directors	Chairman	Stoyan Mavrodiev
“National Guarantee Fund” EAD	Board of Directors	Deputy Chairman and Executive Director	Angel Djalazov
“National Guarantee Fund” EAD	Board of Directors	Member and Procurator	Andon Georgiev
“MICRO FINANCING INSTITUTION JOBS” EAD	Board of Directors	Chairman	Rumen Mitrov
“MICRO FINANCING INSTITUTION JOBS” EAD	Board of Directors	Deputy Chairman	Nikolay Dimitrov
“MICRO FINANCING INSTITUTION JOBS” EAD	Board of Directors	Member and Executive Director	Angel Djalazov
“MICRO FINANCING INSTITUTION JOBS” EAD	Board of Directors	Member and Procurator	Hristina Todorova
“Capital Investment Fund” AD	Board of Directors	Chairman and Executive Director	Stoyan Mavrodiev
“Capital Investment Fund” AD	Board of Directors	Deputy Chairman	Rumen Mitrov
“Capital Investment Fund” AD	Board of Directors	Member	Nikolay Dimitrov
“BDB Leasing” EAD (established in 2019)	Board of Directors	Chairman and Executive Director	Stoyan Mavrodiev
“BDB Leasing” EAD (established in 2019)	Board of Directors	Deputy Chairman	Rumen Mitrov
“BDB Leasing” EAD (established in 2019)	Board of Directors	Member	Nikolay Dimitrov
“BDB Factoring” EAD (established in 2019)	Board of Directors	Chairman and Executive Director	Stoyan Mavrodiev
“BDB Factoring” EAD (established in 2019)	Board of Directors	Deputy Chairman	Rumen Mitrov
“BDB Factoring” EAD (established in 2019)	Board of Directors	Member	Nikolay Dimitrov

3.7 *Disclosures pursuant to Article 435 (b) and (c) of Regulation (EU) 575/2013*

In order to comply with the Credit Institutions Act, BNB Ordinance №. 20 of April 24, 2019 on the approval of Management Board (Board of Directors) and Supervisory Board members of a credit institution and requirements regarding the performance of their functions, the Guidelines to assess the suitability of management body members and key function holders (EBA/GL/2017/12 of March 21, 2017) and the Guidelines on Internal Governance (EBA/GL/2017/11 of March 21, 2017), BDB has developed the following internal regulations: Policy for the selection and assessment of suitability in the BDB Group; Policy for the introduction and training of members of the governing bodies; and Rules for the operations of the Recruitment Committee.

In addition to the Policy for the selection and assessment of suitability in the BDB Group, a Continuity Plan (Continuity Register) has been made in accordance with Article 435 (b) of Regulation (EU) 575/2013. The said Continuity Plan is also consistent with the disclosure of the Policy on Diversity under Article 435 (b) of Regulation (EU) 575/2013.

3.8 *Risk Committee*

By resolution of the Supervisory Board adopted on January 24, 2015, a Risk Committee was created within the Bank, consisting of the members of the BDB Supervisory Board, the majority of which are independent within the meaning of Article 10a, paragraph 2 of the Credit Institutions Act (CIA). The Chair of the Risk Committee may not at the same time be Chair of the Recruitment Committee under Article 73c of CIA, or Chair of the Remuneration Committee under Ordinance №. 4 of 2010 on the requirements for the remuneration in banks, or Chair of the Bank's Audit Committee under the Independent Financial Audit Act, nor President of the Bank's Supervisory Board. The Risk Committee's Operational Rules are to be drafted in accordance with the latest amendments to BNB Ordinance №. 7 of April 24, 2014 on the organization and management of risks in banks and bringing the Bank's operations in line with the regulatory framework. In 2018, 8 meetings of the Risk Committee were held, which reviewed the quarterly summary reports of the Risk Department on the risk management in the BDB Group and other documents.

3.9 *Flows of risk information sent to the management body*

The Risk Management Department monitors and reports on the implementation of the limits set in the internal regulations for the management and control of inherent risks in the operations of the Group. Reports are given on a regular basis and, where necessary, addressed to the responsible bodies and committees of the Bank (ALCO, Risk Committee, Management Board, etc.).

4 EQUITY STRUCTURE AND ELEMENTS

As of December 31, 2018, the BDB Group’s equity was BGN 746,915,000 and, compared to the end of the previous year, it was BGN 7,402,000 (or 2.7% higher).

***Table 5**: Equity as disclosed in the 2018 Annual Financial Statements*

(BGN'000)

	2018	2017
OWN FUDNS	746,915	739,513
TIER I CAPITAL	746,915	739,513
COMMON EQUITY TIER I CAPITAL	746,915	739,513
Share capital	601,774	601,774
Statutory reserves	73,672	71,989
Additional reserves	76,190	68,105
Accumulated other comprehensive income	10,901	10,961
Intangible assets	(331)	(282)
Investments in subsidiaries	(20,482)	
Other transitional adjustments to CET I Capital	(9,649)	(2,205)
Elements of or deductions from CET I Capital - other	(4,458)	(10,829)
ADDITIONAL TIER 1 CAPITAL	-	-
TIER II CAPITAL	-	-
TOTAL RISK EXPOSURE	2,071,469	1,495,506
Currency risk	59,461	
Operational risk – Basic indicator approach	120,013	115,088
CET I Capital ratio	36.06%	49.45%
TOTAL CAPITAL ADEQUACY ratio	36.06%	49.45%

5 CAPITAL REQUIREMENTS

5.1 Internal capital adequacy assessment process (ICAAP)

The main objective of the internal capital adequacy assessment process (ICAAP) of the BDB Group is to maintain optimal capital adequacy, i.e. to maintain optimal capital coverage of the banking risks to ensure the Group's strategic goals, while observing the banking regulations and applicable legislation.

The complexity and scope of the ICAAP is consistent with the nature, size and complexity of the operations of the Bank and its subsidiaries. The internal capital adequacy assessment process in the BDB Group covers the capital size, type (structure by elements) and distribution to cover all the risks the Bank is or may be exposed to in its operations. The ICAAP includes the following aspects:

- Analysis of the amount of required capital - quantitative assessment of the capital requirements by risks through stress tests, on order to determining the amount of required capital upon simulation of critical scenarios;
- Analysis of the type (structure) of required capital – ongoing assessment throughout the year for the achievement of the goals set for a predominant participation of the permanent capital;
- Analysis of the allocation of required capital – periodic assessment of the achievement of Bank's objectives to maintain acceptable levels of credit, market,

operational and liquidity risk and analysis of the dynamics of capital allocation by types of risks.

5.2 Capital requirements for credit risk

When calculating the capital requirements for credit risk, the BDB Group uses a standardized approach. The capital requirements for credit risk cover both credit and dilution risk in the banking book and counterparty risk for the overall operations. Balance sheet assets, equalized off-balance sheet items and OTC derivatives are included. The capital requirement for credit risk using the standardized approach is 8%.

The table below shows the risk-weighted exposures and capital requirements for credit risk broken down by exposure class.

***Table 6**: Template 4 – EU OV1 Overview of RWAs /risk-weighted assets/ - as per EBA/GL/2016/11*

(BGN'000)

			RWA		Minimum capital requirements
			Dec 31, 2018	Dec 31, 2017	Dec 31, 2018
	1	**Credit risk (excl. CCR)**	**1,891,995**	**1,380,418**	**151,360**
Article 438 (c) and (d)	2	thereof: the standardised approach	1,891,995	1,380,418	151,360
Article 438 (c) and (d)	3	thereof: the foundation IRB (FIRB) approach	-	-	-
Article 438 (c) and (d)	4	thereof: the advanced IRB (AIRB) approach	-	-	-
Article 438 (d)	5	thereof: equity IRB under the simple risk-weighted approach or the IMA	-	-	-
Article 107 Article 438 (c) and (d)	**6**	**Counterparty credit risk (CCR)**	-	-	-
Article 438 (c) and (d)	7	thereof: mark to market	-	-	-
Article 438 (c) and (d)	8	thereof: original exposure	-	-	-
	9	thereof: the standardised approach	-	-	-
	10	thereof: internal model method (IMM)	-	-	-
Article 438 (c) and (d)	11	thereof: risk exposure amount from contributions to the default fund of a CCP	-	-	-
Article 438 (c) and (d)	12	thereof: CVA	-	-	-
Article 438 (e)	**13**	**Settlement risk**	-	-	-
Article 449 (o) and (i)	14	Securitisation exposures in the banking book (after the cap)	-	-	-
	15	thereof: IRB approach	-	-	-
	16	thereof: IRB supervisory formula approach (SFA)	-	-	-
	17	thereof: internal assessment approach (IAA)	-	-	-

			RWA		Minimum capital requirements
			Dec 31, 2018	Dec 31, 2017	Dec 31, 2018
	18	thereof: the standardised approach	-	-	-
Article 438 (e)	**19**	**Market risk**	**59,461**	**0**	**4,757**
	20	thereof: the standardised approach	59,461	0	4,757
	21	thereof: IMA	-	-	-
Article 438 (e)	22	Large exposures	-	-	-
Article 438 (f)	**23**	**Operational risk**	**120,013**	**115,088**	**9,601**
	24	thereof: basic indicator approach	120,013	115,088	9,601
	25	thereof: the standardised approach	-	-	-
	26	thereof: advanced measurement approach	-	-	-
Article 437, paragraph 2, Articles 48 and 60	27	Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
Article 500	28	Floor adjustment	-	-	-
	29	**Total**	**2,071,469**	**1,495,506**	**165,718**

5.3 Detailed disclosures for the allocation of exposure classes according to criteria established by Regulation 575 and in accordance with EBA Guidelines – EBA/GL/2016/11

5.3.1 Exposure to credit risk and dilution risk

When calculating the capital requirements for credit risk, the BDB Group uses a standardized approach. For the purposes of credit risk mitigation, a simplified approach is used through an exposure substitution technique (secured by highly liquid assets or guarantees).

Balance sheet items include all assets of the Bank (net of impairment losses and provisions), except amounts recognized as equity reductions. Off-balance sheet exposures consist of undrawn amounts of approved loans and issued bank and credit guarantees.

The total amount of exposures (before measuring the effects of credit risk mitigation) as of December 31, 2018 is BGN 3,907,760,000, compared to BGN 3,376,587,000 at the end of 2017. The average amount of exposures (before measuring the credit risk mitigation effects) in 2018 was BGN 3,536,964,000 compared to BGN 3,133,485,000 at the end of 2017.

The Table below shows a breakdown of the average and net amount of exposures by class in as of December 31, 2018.

***Table 7**: Template 7 - EU CRB-B — Total and average net amount of exposures under the standardized approach - as per EBA/GL/2016/11*

(BGN'000)

		a	b
		Net amount of exposures at the end of the period	**Average net exposures for the period**
16	Central governments or central banks	907,068	722,379
17	Regional governments or local authorities	-	-
18	Public sector entities	-	2,487
19	Multilateral development banks	7,232	7,190
20	International organizations	-	-
21	Institutions	479,940	418,751
22	Corporates	1,370,489	1,163,734
23	of which: SME	*480,493*	*120,123*
24	Retail exposures	605,801	787,411
25	of which: SME	*22,081*	*19,608*
26	Exposures secured by mortgages on immovable property	310,062	190,873
27	of which: SME	-	-
28	Exposures in default	148,816	167,406
29	Exposures/items associated with particularly high risk	1,956	1,957
30	Covered bonds	-	-
31	Claims on institutions and corporates with a short-term credit assessment	-	-
32	Collective investment undertakings	-	-
33	Equity exposures	199	164
34	Other exposures	76,197	74,612
35	**Total standardised approach**	**3,907,760**	**3,536,964**
36	**Total**	**3,907,760**	**3,536,964**

The BDB Group main segment is corporate clients and credit institutions, and enterprises from the general government sector, which is why the capital requirements for them are the highest: the *Corporates* exposure class holds the largest relative share: 35.07%, followed by the *Central governments or central banks* class with 23.21%.

5.3.2 Exposure to counterparty credit risk

The counterparty credit risk is the risk arising from the possibility that the counterparty may default before the final settlement of the cash flows in the transaction. It is typical of derivative transactions, repo transactions, securities or commodities lending/borrowing transactions, extended settlement transactions, margin lending transactions and other money market transactions.

The BDB Group does not engage in derivative or commodity transactions, "long settlement transactions" and "margin lending transactions" as referred to in Regulation (EU) 575/2013.

Insofar as the bulk of transactions subject to counterparty credit risk treatment are concluded with other local and foreign banks, the identification, measurement, monitoring and control of these exposures are regulated in the internal banking regulations.

In managing counterparty risk, the Bank considers the following sources of risk:

- Default risk, incl. government and counterparty default risk;
- Concentration risk;
- Settlement risk.

The risk management with regard to counterparty banks is implemented through a system of counterparty limits based on the Group's risk tolerance (determined in the form of a specific portion of the counterparty risk capital), the credit quality and scale of the counterparty, the maturity of the exposure and the characteristics of the financial instrument.

The Bank has a comprehensive risk management system for counterparty banks set out in the counterparty bank risk management rules and procedures and in the counterparty bank credit risk analysis and assessment procedure.

The procedure for setting operating limits for counterparty banks consists of the following steps:

1. Determining the risk tolerance for interbank transactions by allocating a certain amount of capital as an exposure limit for counterparty banks.
2. Determining the internal ratings of counterparty banks in accordance with the counterparty bank credit risk analysis and assessment procedure;
3. Transforming the allocated capital into limits for counterparty banks based on the default probabilities determined in accordance with the counterparty bank credit risk analysis and assessment procedure.
4. The limits are brought in line with the concentration risk limits, whereupon the admissible risk exposure amounts for the counterparty banks are determined.
5. Allocating exposure limits into individual limits by specific financial instrument, taking into account the risk weights thereof and the current and potential business.
6. The competent authority of the Bank approves global limits by counterparty bank, maturity class and financial instrument.

The counterparty bank credit risk analysis and assessment procedure comprises of quantitative and qualitative groups of factors determining an integral assessment of default risk and characterizing the past and current status of counterparty banks, their potential and prospects for development, and the impact of the external environment and market situation on the degree of risk. These groups of factors are summarized as follows:

- capital adequacy;
- asset quality;
- profitability ratios;
- liquidity and financing;
- property and external environment;
- capital support.

The analysis depends on a number of factors such as: amount, duration and type of exposure, experience gained from previous contacts of the Bank and its subsidiaries (including of other banks and institutions) with the counterparty bank, the results of its activities, the availability of sufficient and high liquid collateral, etc. The level of risk that the Group is prepared to assume is determined individually in accordance with its credit policy and the specifics of the exposure. In assessing the creditworthiness of a potential counterparty, the most representative and broadest possible information related to its overall condition is analyzed. Where specific features exist, they are measured by changes in the relative weight of each risk component.

5.3.3 Geographical distribution of exposures

The BDB Group operates mainly on the Bulgarian market. At the end of the year, 91.54% of the Bank's assets and off-balance sheet exposures are towards residents from Bulgaria and 8.46% are to residents from Europe and the rest of the world.

The Table below shows a breakdown of exposures by class and region (before the effects of credit risk mitigation):

***Table 8**: Template 8 – EU CRB-C — Geographical breakdown of exposures by class and region as per EBA/GL/2016/11*

(BGN'000)

		Net amount						
		Bulgaria	**Europe: EU Member States (other than Bulgaria)**	**Europe: Non-EU Member States -**	**Russia**	**USA**	**Other**	**Total**
7	Central governments or central banks	792,872	114,196	-	-	-	-	**907,068**
8	Regional governments or local authorities	-	-	-	-	-	-	-
9	Public sector entities	-	-	-	-	-	-	-
10	Multilateral development banks	-	7,232	-	-	-	-	**7,232**
11	International organizations	-	-	-	-	-	-	-
12	Institutions	364,736	16,487	1,343	93,432	3,942		**479,940**
13	Corporates	1,278,546	22 523	-	-	-	69,420	**1,370,489**
14	Retail exposures	605,801	-	-	-	-	-	**605,801**

		Net amount						
		Bulgaria	**Europe: EU Member States (other than Bulgaria)**	**Europe: Non-EU Member States -**	**Russia**	**USA**	**Other**	**Total**
15	Exposures secured by mortgages on immovable property	310,062	-	-	-	-	-	**310,062**
16	Exposures in default	148,816	-	-	-	-	-	**148,816**
17	Exposures associated with particularly high risk	-	1,956	-	-	-	-	**1,956**
18	Covered bonds	-	-	-	-	-	-	-
19	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	**0**
20	Collective investment undertakings	-	-	-	-	-	-	**0**
21	Equity exposures	199	-	-	-	-	-	**199**
22	Other exposures	76,197	-	-	-	-	-	**76,197**
23	**Total standardized approach**	**3,577,229**	**162,394**	**1,343**	**93,432**	**3,942**	**69,420**	**3,907,760**
24	**Total**	**3,577,229**	**162,394**	**1,343**	**93,432**	**3,942**	**69,420**	**3,907,760**

5.3.4 *Concentration of exposures by industry or counterparty types*

The balance sheet exposure of the Group by industry and exposure classes is shown below.

***Table 9**: Template 9 - EU CRB-D — Concentration of exposures by industry or counterparty types - as per EBA/GL/2016/11*

(BGN’000)

		a	b	c	d	e	f	g	h	i	j	l	m	n	o	u
		Agriculture	**Industry**	**Waste Collection and Disposal**	**Construction**	**Trade**	**Transport and Communications**	**Hotel Management**	**Real Estate Operations**	**Professional and Administrative Activities**	**Public administration and defence, compulsory social security / Government**	**Financial Services**	**Other**	**NPISHs**	**Individuals**	**Total**
7	Central governments or central banks	-	-	-	-	-	-	-	-	-	609,781	297,287	-	-	-	**907,068**
8	Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	7,232	-	-	-	**7,232**
11	International organizations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Institutions	-	-	-	-	-	-	-	-	-	-	479,940	-	-	-	**479,940**
13	Corporates	9,569	338,765	3,605	66,119	66,520	182,409	699	-	47,511	99,283	556,009	-	-	-	**1,370,489**
14	Retail exposures	6,417	7,478	10	1,616	3,087	899	538	31	2,059	-	-	721	582,175	770	**605,801**

		a	b	c	d	e	f	g	h	i	j	l	m	n	o	u
		Agriculture	Industry	Waste Collection and Disposal	Construction	Trade	Transport and Communications	Hotel Management	Real Estate Operations	Professional and Administrative Activities	Public administration and defence, compulsory social security / Government	Financial Services	Other	NPISHs	Individuals	Total
15	Exposures secured by mortgages on immovable property	18,972	46,674	-	46,960	30,266	19,010	125,776	4,186	16,796	-	-	-	-	1 422	**310,062**
16	Exposures in default	5,870	42,343	0	30,051	27,801	16,622	5,706	13,310	4,133	67	2,903	-	-	10	**148,816**
17	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	1,956	-	-	-	**1,956**
18	Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
19	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
20	Collective investment undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
21	Equity exposures	-	-	-	-	-	-	-	-	-	-	184	-	-	-	**199**
22	Other exposures	-	-	-	-	-	-	-	-	-	2,024	45,549	28 624	-	-	**76,197**
23	**Total standardised approach**	**40,828**	**435,260**	**3,615**	**144,746**	**127,689**	**218,940**	**132,719**	**17,527**	**70,499**	**711,155**	**1,391,060**	**29,345**	**582,175**	**2,202**	**3,907,760**
24	**Total**	**40,828**	**435,260**	**3,615**	**144,746**	**127,689**	**218,940**	**132,719**	**17,527**	**70,499**	**711,155**	**1,391,060**	**29,345**	**582,175**	**2,202**	**3,907,760**

The highest share belongs to the following exposures: Financial Services – 35.60%, Public administration and defence, compulsory social security / Government – 18.20%, and NPISHs (Non-profit institutions serving households (NPISH) – 14.9%.

5.3.5 Breakdown of exposures by residual maturity and exposure class

The Table below shows the balance sheet exposure of the BDB Group by residual maturity and exposure class.

***Table** 10: Template 10 - EU CRB-E — Maturity of exposures – as per EBA/GL/2016/11*

(BGN'000)

		a	b	c	d	e	f
		Net exposure value					
		Upon demand	**< 1 year**	**> 1 year < 5 years**	**> 5 years**	**No stated maturity**	**Total**
7	Central governments or central banks	297,287	99,298	235,233	275,250	-	**907,068**
8	Regional governments or local authorities	-	-	-	-	-	-
9	Public sector entities	-	-	-	-	-	-
10	Multilateral development banks	-	-	-	-	2,538	**2,538**
11	International organizations	-	-	-	-	-	-
12	Institutions	4,709	327,257	7,162	96,380	-	**435,508**
13	Corporates	-	133,417	111,565	432,328	-	**677,310**
14	Retail exposures	-	3,888	480,548	6,209	-	**490,645**
15	Exposures secured by mortgages on immovable property	-	32,550	71,497	156,889	-	**260,936**
16	Exposures in default	-	37,592	46,117	64,088	-	**147,797**
17	Exposures associated with particularly high risk	-	-	-	-	546	**546**
18	Covered bonds	-	-	-	-	-	-
19	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
20	Collective investment undertakings	-	-	-	-	-	-
21	Equity exposures	-	-	-	-	199	**199**
22	Other exposures	-	-	-	-	76,197	**76,197**
23	**Total standardised approach**	**301,996**	**634,002**	**952,122**	**1,031,144**	**79,480**	**2,998,744**
24	**Total**	**301,996**	**634,002**	**952,122**	**1,031,144**	**79,480**	**2,998,744**

5.3.6 Credit quality of exposures

Table 11: *Template 11 EU CR1-A — Credit quality of exposures by exposure class and instrument – as per EBA/GL/2016/11*

(BGN’000)

		a	b	c	d	e	f	g
		Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
		Exposures in default	Non-defaulted exposures					(a+b-c-d-e)
16	Central governments or central banks	-	907,110	42	-	-	-	907,068
17	Regional governments or local authorities	-	0	0	-	-	-	0
18	Public sector entities	-	0	0	-	-	-	0
19	Multilateral development banks	-	7,232	0	-	-	-	7,232
20	International organizations	-	-	-	-	-	-	0
21	Institutions	-	480,981	1,041	-	-	-	479,940
22	Corporates	-	1,381,413	5,453	5,471			1,370,489
23	Of which: SME	-	485,136	4,643	-	-	-	480,493
24	Retail exposures	-	606,930	377	752	-	-	605,801
25	Of which: SME	-	22,279	198	-	-	-	22,081
26	Exposures secured by mortgages on immovable property	-	310,820	758	-	-	-	310,062
27	Of which: SME	-	-	-	-	-	-	-
28	Exposures in default	297,649	-	148,833	-	-	-	148,816
29	Exposures associated with particularly high risk	-	1,956	0				1,956
30	Covered bonds	-	-	-	-	-	-	-
31	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-
32	Collective investment undertakings	-	-	-	-	-	-	-
33	Equity exposures	-	199	-	-	-	-	199
34	Other exposures	-	76,197	-	-	-	-	76,197
35	**Total standardised approach**	**297,649**	**3,772,838**	**156,504**	**6,223**	-	-	**3,907,760**

		a	b	c	d	e	f	g
		Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
		Exposures in default	Non-defaulted exposures					(a+b-c-d-e)
36	**Total**	**297,649**	**3,772,838**	**156,504**	**6,223**	-	-	**3,907,760**
37	of which: Loans	275,230	1,474,342	134,119	752	-	-	1,614,701
38	of which: Debt securities	-	660,631	42	0	-	-	660,589
39	of which: Off-balance-sheet exposures	1,019	915,618	2,150	5,471	-	-	909,016

***Table 12**: Template 12: EU CR1-B — Credit quality of exposures by industry or counterparty types – as per EBA/GL/2016/11*

(BGN'000)

		a	b	c	d	e	f	g
		Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
		Defaulted exposures	Non-defaulted exposures					(a+b-c-d-e)
1	Agriculture, forestry and fishing	7,595	35,022	1,789	-	-	-	**40,828**
2	Industry	86,697	394,705	46,142	-	-	-	**435,260**
3	Waste Collection and Disposal	-	3,702	87	-	-	-	**3,615**
4	Construction	74,471	117,098	46,823	-	-	-	**144,746**
5	Trade	37,239	99,976	9,526	-	-	-	**127,689**
6	Transport and Communications	21,997	202,688	5,745	-	-	-	**218,940**
7	Hotel Management	5,778	127,197	256	-	-	-	**132,719**
8	Real Estate Operations	13,322	4,242	37	-	-	-	**17,527**
9	Professional and Administrative Activities	4,417	67,072	337	653	-	-	**70,499**
10	Public administration and defence, compulsory social security / Government	928	711,554	1,327	-	-	-	**711,155**
11	Financial Services	44,661	1,394,920	43,878	4,643	-	-	**1,391,060**
12	Other	525	29,345	525	-	-	-	**29,345**
13	NPISHs	-	583,102	-	927	-	-	**582,175**
14	Individuals	19	2,215	32	0	-	-	**2,202**
15	**Total**	**297,649**	**3,772,838**	**156,504**	**6,223**	-	-	**3,907,760**

Table 13: Template 13: EU CR1-C — Credit quality of exposures by geography - as per EBA/GL/2016/11

(BGN'000)

		Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
		Defaulted exposures	Exposures in default					(a+b-c-d)
		a	b	c	d	e	f	g
1	Bulgaria	297,649	3,442,069	156,266	6,223	-	-	**577,229**
2	Europe – EU-Member States (other than Bulgaria)	-	162,428	34	-	-	-	**162,394**
3	Europe – Non-EU-Member States	-	1,467	124	-	-	-	**1,343**
4	Russia	-	93,432	-	-	-	-	**93,432**
5	USA	-	3,942	-	-	-	-	**3,942**
6	Other countries	-	69,500	80	-	-	-	**69,420**
7	**Total**	**297,649**	**3,772,838**	**156,504**	**6,223**	-	-	**3,907,760**

Table 14: Template 14 - EU CR1-D — Ageing of past-due exposures – as per EBA/GL/2016/11

(BGN'000)

		a	b	c	d	e	f
		Gross carrying values					
		< 30 days	> 30 days < 60 days	> 60 days < 90 days	> 90 days < 180 days	> 180 days < 1 year	> 1 year
1	Loans	2,113,512	82,790	62,755	1,767	5,178	147,737
2	Debt securities	660,632	-	-	-	-	-
3	**Total exposures**	**2,774,144**	**82,790**	**62,755**	**1,767**	**5,178**	**147,737**

__Table 15__: Template 15 - EU CR1-E — Non-performing and forborne exposures – as per EBA/GL/2016/11

(BGN’000)

		a	b	c	d	e	f	g	h	i	j	k	l	m
		Gross carrying values of performing and non-performing exposures							**Accumulated impairment and provisions and negative fair value adjustments due to credit risk**				**Collaterals and financial guarantees received**	
			Of which performing but past due > 30 days and <= 90 days	**Of which performing forborne**	**Of which non-performing**				**On performing exposures**		**On non-performing exposures**		**On nonperforming exposures**	**Of which forborne exposures**
						Of which defaulted	**Of which impaired**	**Of which forborne**		**Of which forborne**		**Of which forborne**		
01 0	Debt securities		-	-	-	-	-	-	-	-	-	-	-	-
02 0	Loans and advances		59,860	59,860	-	266,718	264,912	54,842	-	378	-	10,083	137,785	104,241
03 0	Off-balance-sheet exposures		-	-	-	-	-	-	-	-	-	-	-	-

***Table 16**: Template 16 - EU CR2-A — Changes in the stock of general and specific credit risk adjustments – as per EBA/GL/2016/11*

(BGN'000)

		a	b
		Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
1	**Opening balance**	**(158,288)**	**(5,907)**
1a	Effect of initial application of IFRS 9	**(8,458)**	**(2,068)**
2	Increases due to amounts set aside for estimated loan losses during the period	(33,543)	(3,355)
3	Decreases due to amounts reversed for estimated loan losses during the period	26,235	4,998
4	Decreases(write-offs) due to amounts taken against accumulated credit risk adjustments	7,183	0
5	Transfers between credit risk adjustments	0	0
6	Impact of exchange rate differences	0	0
7	Business combinations, including acquisitions and disposals of subsidiaries	0	0
8	Other adjustments	(174)	(2)
9	**Closing balance**	**(167,045)**	**(6,333)**
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	0	0
11	Specific credit risk adjustments directly recorded to the statement of profit or loss	0	0
12	Adjustments of specific credit risk adjustments of risk-weighted assets – Balance-sheet exposures	10,651	
13	Balance of general and specific credit risk adjustment under the standardised approach	(162,727)	

The total amount of general and specific credit risk impairment/adjustments for the Group's exposures is BGN 173,380,000. Of these, BGN 4,842,000 are for regular credit exposures on balance sheet receivables (phase 1 under IFRS 9), of which, BGN 804,000 for the general credit risk impairments are for the purpose of additional protection and covering of existing risks and losses, which cannot be specifically determined for each individual exposure. The rest of the general and specific credit risk adjustments on the exposures under balance sheet and off-balance sheet items for expected credit losses (phase 2 and phase 3 under IFRS 9) amount to BGN 168,536,000.

Table 17: Template 17 -: EU CR-B — Changes in the stock of defaulted and impaired loans and debt securities – as per EBA/GL/2016/11

(BGN'000)

		a
		Gross carrying value of defaulted exposures
1	**Opening balance**	318,136
2	Loans and debt securities that have defaulted or impaired since the last reporting period	4,925
3	Returned to non-defaulted status	(3,545)
4	Amounts written off	(11,782)
5	Other changes	(10,085)
6	**Closing balance**	297,649

5.4 Capital requirements for market risk

Market risk is the risk of incurring losses as a result of adverse movement of market prices of debt and equity instruments from the trading book and of adverse movement of market prices of of foreign exchange and commodity instruments from the banking and trading books.

On December 31, 2018, the BDB Group had no calculated capital requirements for market risk. The BDB Group does not keep a trading book and is not subject to capital requirements for market risk from trading activities. The Bank implements a strategy to minimize market risk by using relatively simple financial instruments and not maintaining daily positions in the trading book. The Group's open foreign exchange position is effectively managed and during the reporting year, the BDB Group has calculated that there is no capital requirement for foreign exchange risk as of December 31.

The BDB Group has no positions in commodities and commodity derivatives.

The capital requirements for market risk are disclosed in the Table below.

__Table 18__: Template 34 EU MR1— Market risk under the standardised approach - as per EBA/GL/2016/11

(BGN'000)

		a	b
		RWAs	**Capital requirements**
	Outright products	-	-
1	Interest rate risk (general and specific)	-	-
2	Equity risk (general and specific)	-	-
3	**Foreign exchange risk**	**59,461**	**4,757**
4	Commodity risk	-	-
	Options	-	-
5	Simplified approach	-	-
6	Delta-plus method	-	-
7	Scenario approach	-	-
8	Securitisation (specific risk)	-	-
9	**Total**	**59,461**	**4,757**

5.5 Capital requirements for operational risk

The BDB Group calculates a capital requirement for operational risk using the Basic Indicator Approach. In this approach, the capital requirement is equal to 15 percent of the average gross income of the BDB Group over the last three years.

The capital requirement for operating risk for 2018 is BGN 9,601,000 for risk exposures to operational risk amounting to BGN 120,013,000.

5.6 Capital buffers, general capital requirements and capital surplus/(shortfall)

On December 31, 2018, pursuant to BNB Ordinance №. 8 of April 24, 2014, on capital buffers in banks, the BDB Group maintained the following capital buffers:

Capital buffer of BGN 51,787,000, equivalent to 2.5% of the total risk weighted exposure amount;

Systemic risk buffer of BGN 62,114,000, equal to 3% of the total risk weighted exposure amount;

In 2018, given that BDB was identified as Other Systemically Important Institutions (O-SII), a buffer of 0.125% of the total risk weighted exposure amount was calculated by the supervising authorities for the Bank;

The total capital requirements on December 31, 2018 and December 31, 2017 are shown in the Table below:

***Table 19**: Total capital requirements - according to information announced in the 2018 IFRS*

(BGN'000)

Name	2018	2017
Minimum capital requirements for Common Equity Tier 1 (4.5%)	93,216	67,298
Minimum capital requirements for Tier 1 capital (6%)	124,288	89,730
Minimum total capital requirements (8%)	165,718	119,640
Capital conservation buffer (2.5%)	51,787	37,388
Systemic risk buffer (3%)	62,144	44,863
Other Systemically Important Institutions Buffer (0.125%)	2,589	-
Adjusted capital requirements for common equity (10%)	209,736	149,551
Adjusted capital requirements for Tier 1 capital (11.5%)	240,808	171,983
Adjusted total capital requirements (13.5%)	282,238	201,893
Total capital surplus (before buffers)	581,197	619,873
Total capital surplus (before buffers)	464,677	537,620

5.7 Impaired exposures

In accordance with Article 442 (a) and (b), in BDB Group, the definitions of "past due" and "impaired" exposures, as well as the Bank's definition of "forborne" exposures applied for accounting and regulatory purposes, are in line with the definitions given by the European Banking Authority /EBA/. Accordingly, exposures over 90 days past due are considered non-performing (defaulted) exposures as laid down in the BDB Credit Manual and are subject to impairment test in accordance with the Policy and Rules on Calculation of Expected Credit Loss and Impairment of Exposures in BDB. All, if any, phase 2 and phase 3 exposures that are past due but not impaired are disclosed in the 2018 annual financial statements.

In accordance with the effective accounting policies of the Bank (adopted after the reporting date of the 2018 financial year), a financial asset is impaired if its carrying amount is greater than its expected recoverable amount.

The Group calculates impairments on a portfolio basis for receivables under EEMFBNP (Energy Efficiency of Multy-Familly Buildings National Programme) and partly for off-balance sheet exposures.

The Group books impairment on an individual and collective basis exposures, depending on the borrower's risk profile, based on a decision of the Provision Committee.

Exposures in the Group's corporate loan book are mainly divided into three categories depending on existing impairment indicators: change in the objective indicators, on the basis of which the initial assessment and subsequent monitoring of exposure/client is carried out, which would lead to a change in cash flows from financial assets, including overdue payments by the borrower: Phase

1, "regular" (with assigned internal rating from 1 to 6 incl.; Phase 2, "watch /forborne" (with assigned internal rating 7), and Phase 3, 'problematic/non-performing' (with assigned internal rating of 8, 9 or 10). For clients, who on a day-to-day basis show no indication of increased risk, the Group periodically (at least once a year) reviews their financial position and legal status, including collaterals, to determine whether there is a need for a change in the impairment rate for the risk of loss and/or a change in the assessment of the degree of credit risk. For clients with increased credit risk, such review is done every 6 months and for 'problematic/non-performing' clients – on a quarterly basis.

Following the recommendations of the Basel Committee and their transposition into regulations within the European Union, in particular Regulation 575/2013/EU and Directive 2013/36/EU, commercial banks must introduce in their internal regulations an internal rating system , which allows comparability with an official credit rating of borrowers from recognized external rating institutions using the internationally used scale of ten credit rating categories, including two non-performing credit categories.

The Group has developed a detailed internal regulatory framework, including Policy and Rules on Calculating Expected Credit Loss and Impairment of Exposures, Credit Risk Analysis and Assessment Procedure at Bulgarian Development Bank AD, and BDB Credit Manual, ensuring full compliance of the said policy and procedures, upon calculation of an internal credit rating, with the said EU regulations. The amount of impairment is calculated as the difference between the current amortized cost of the client's exposure to the Group and its recoverable amount.

The abovementioned documents, the Accounting Policy, and the annual financial statements of BDB for the year 2018 also provide details the methods of applying individual and collective basis for impairments, the method, the risk parameters used and the indicators of impairment for determining the expected credit losses (ECL), applying impairment of financial instruments (measured at fair value and amortized cost), determining the ECL on off-balance sheet commitments (including portfolio guarantees).

According to Article 434, paragraph 2 of Regulation (EU) 575/2013, equivalent disclosure of impaired and/or past due exposures is made in the 2018 annual financial statements.

The structure of the Group's financial assets by risk classification groups at amortized cost is as follows:

Table 20*: Financial assets by risk classification groups at amortized cost – as per information disclosed in the 2018 AFS.*

(BGN'000)

On December 31, 2018	Regular (Phase 1)	Forborne (Phase 2)	Non-performing (Phase 3)	Total
Cash in hand and in a current account with the Central Bank	297,622	-	-	297,622
Receivables from banks	431,119	-	-	431,119
Loans for commercial properties and construction	257,036	70,797	66,661	394,494
Commercial loans	252,676	72,842	116,503	442,021
Agricultural loans	-	-	2,040	2,040
Consumer loans	778	-	19	797
Residential mortgage loans to individuals	1,436	-	-	1,436
Loans to other individuals	63,107	-	44,661	107,768
Other loans and receivables	128,382	93,833	40,419	262,634
Net investment in financial lease	632	225	561	1,418
Receivables from the Republican Budget	472,803	-	-	472,803
Financial assets at fair value through other comprehensive income	653,657	-	-	653,657
Securities carried at amortized cost	10,216	-	-	10,216
Other financial assets	908	-	-	908
Total financial assets	**2,570,372**	**237,697**	**270,864**	**3,078,933**

Changes in the aggregate of collective(general) and specific credit risk adjustments are disclosed in Template 16: EU CR2-A – as per EBA/GL/2016/11

5.8 Disclosure pursuant to Article 473a of Regulation (EU) 575/2013 (EC) 575 /2013

BDB has chosen to apply the transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds, a static approach under paragraph 2 of Article 473a "Introduction of IFRS 9" of Regulation 575/2013.

According to Article 473a paragraph 7, the Bank adds to the Common Equity Tier 1 (CET1) Capital the estimated amount of 9,649,000 and recalculates the carrying value of exposures, and reduces the specific credit risk adjustments.

Table 21: *Template IFRS 9-FL - Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs - as per EBA/GL/2018/01*

(BGN'000)

		a	b	c	d	e
		T	T-1	T-2	T-3	T-4
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1) capital	**746,915**	-	-	-	-
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**737,266**	-	-	-	-
3	Tier 1 capital	**746,915**	-	-	-	-
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**737,266**	-	-	-	-
5	Total capital	**746,915**	-	-	-	-
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**737,266**	-	-	-	-
	Risk-weighted assets (amounts)		-	-	-	-
7	Total risk-weighted assets	**2,071,469**	-	-	-	-
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**2,059,309**	-	-	-	-
	Capital adequacy ratios		-	-	-	-
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	**36.06%**	-	-	-	-
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**35.80%**	-	-	-	-
11	Tier 1 (as a percentage of risk exposure amount)	**36.06%**	-	-	-	-
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**35.80%**	-	-	-	-
13	Total capital adequacy (as a percentage of risk exposure amount)	**36.06%**	-	-	-	-
14	Total capital adequacy (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied Leverage ratio	**35.80%**	-	-	-	-
					Leverage ratio	
15	Total exposure measure	**19.70%**	-	-	-	-
16	Leverage ratio	**19.70%**	-	-	-	-
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**19.49%**	-	-	-	-

6 EXTERNAL CREDIT ASSESSMENT INSTITUTIONS (ECAIS) INFORMATION USED IN IMPLEMENTING A STANDARDIZED CREDIT RISK APPROACH

In determining the credit quality of an exposure, the BDB Group uses the credit assessments of EBA-recognized External Credit Assessment Institutions (ECAIs): Standard & Poor's, Moody's or Fitch, and the correspondence between each institution's alphanumeric rating scale and credit quality level. If there is more than one ECAI assessment, the provisions of Article 138 of Regulation (EU) 575/2013 apply.

ECAI assessments are used for the exposure class of receivables or contingent receivables from institutions, and receivables from foreign central governments, given that such are not in place for other exposure classes.

Depending on the credit quality of the counterparties and the residual maturity of the exposures, the risk-weighted value that contributes to determining the credit risk capital requirements is determined.

The Table below shows the Bank's exposures to counterparties for which credit quality is assigned by a recognized ECAI - External Credit Assessment Institutions.

***Table 22**: Template 20 - EU CR5 — Standardized approach – as per EBA/GL/2016/11*

(in BGN'000)

	Exposure classes	Risk weight												Deducted from capital	Total	of which unrated
		0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%			
1	Central governments or central banks	465,100	-	9,370	415,002	8,962	0	8,634	-	-	-	-	-	-	**907,068**	854,701
2	Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
3	Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
4	Multilateral development banks	2,538	-	-	-	4,694	-	-	-	-	-	-	-	-	**7,232**	7,232
5	International organizations	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
6	Institutions	-	-	-	-	330,555	0	47		0	147,987	1 351	-	-	**479,940**	409,751
7	Corporates	-	-	-	-	-	-	-	-	-	1,370,489	-	-	-	**1,370,489**	1,370,489
8	Retail exposures	-	-	-	-	-	-	-	-	605,801	-	-	-	-	**605,801**	605,801
9	Exposures secured by mortgages on immovable property	-	-	-	-	-	9,166	21,423	-	-	279,473	-	-	-	**310,062**	310,062
10	Exposures in default	-	-	-	-	-	-	-	-	-	105,165	43,651	-	-	**148,816**	148,816
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	1,956	-	-	**1,956**	1,956
12	Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
14	Collective investment undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
15	Equity instruments	-	-	-	-	-	-	-	-	-	199	-	-	20,482	**20,681**	20,681
16	Other items	335	-	-	-	-	-	-	-	-	73,838	-	2 024	331	**76,528**	76,528
17	**Total**	**467,973**	**0**	**9,370**	**415,002**	**344,211**	**9,166**	**30,104**	**0**	**605,801**	**1,977,151**	**46,958**	**2 024**	**20,813**	**3,928,573**	**3,806,017**

7 UNENCUMBERED ASSETS

Information on encumbered assets as per EBA Guidelines EBA/GL/2014/03 is disclosed in the Tables below:

***Table 23**: Template A – Assets – as per EBA/GL/2014/03*

(BGN'000)

		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		010	040	060	090
010	**Assets of the reporting institution**	17,893		2,991,221	
030	Equity instruments	-	-	5,237	5,237
040	Debt securities	7,350	7 350	653,240	653,240
120	Other assets	-		94,510	

***Table 24**: Template B – Collateral received – as per EBA/GL/2014/03*

(BGN'000)

		Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
		010	040
130	**Collateral received by the reporting institution**	-	65,208
150	Equity instruments	-	-
160	Debt securities	-	65,208
230	Other collateral received	-	-
240	**Own debt securities issued other than own covered bonds or asset-backed securities (ABSs)**	-	-

***Table 25**: Template C – Encumbered assets /collateral received and associated liabilities – as per EBA/GL/2014/03*

(BGN'000)

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and asset-backed securities (ABSs) encumbered
		010	030
010	**Carrying amount of selected financial liabilities**	**16,613**	**17,893**

8 INTERNAL MODELS FOR MARKET RISK

The BDB Group uses internal models in the measurement of market risk.

9 EXPOSURE TO OPERATIONAL RISK

In calculating the capital requirements for operational risk, the BDB Group uses the Basic Indicator Approach.

10 EQUITY INSTRUMENTS IN THE BANKING BOOK

The equity instruments held by the BDB Group amount to BGN 2,736,000 and have an insignificant share (less than 0.1%) in the total assets of the Bank. They do not have a material impact on the Group's operations and results.

11 INTEREST RATE RISK IN THE BANKING BOOK

Nature of interest rate risk, basic assumptions and frequency of measurement of interest rate risk. According to Article 434, paragraph 2 of Regulation (EU) 575/2013, equivalent disclosure is made in the 2018 annual financial statements.

Income fluctuation in the application of interest rate shocks

According to Article 434, paragraph 2 of Regulation (EU) 575/2013, equivalent disclosure is made in the 2018 annual financial statements.

12 SECURITIZATION

The BDB Group does not apply securitization in its operations.

13 CREDIT RISK MITIGATION TECHNIQUES

To increase security and minimize credit risk, the BDB Group provides secured loans to its clients according to the principle of sufficiency and liquidity of collateral. Accepted collateral is recorded at market value and fixed assets are valued by a licensed appraiser. Said valuation is subject to a reduction factor that reflects the possibility of liquidation of the collateral, using the reduced value obtained in the loan approval process. The movable and immovable property approved as collateral is analyzed from time to time for possible change in value, and, if a change is found that does not meet the requirement for sufficient collateral, the Bank gives a specific period within which this requirement should be met. The Group accepts the following main types of collateral:

- mortgage;
- a pledge of movable property, a business enterprise, an aggregate;
- pledge of receivables on a deposit or current account with a bank, as well as deposit of monetary funds as collateral on an account opened with BDB;
- financial collateral by transferring ownership or providing a pledge within the meaning of the Financial Collateral Contracts Act;

- pledge of government and municipal securities;
- pledge of dematerialized bearer securities, including other financial instruments with investment characteristics, such as stocks, bonds, other debt securities, units of mutual funds, etc.;
- guarantee issued by the state, central bank, credit institution, internationally recognized institution, municipality or others.
- risk exposure insurance;
- commercial securities – promissory note, bill of exchange, check and others, including issued by a third party (non-debtor), in favor of the Group or endorsed (incl. for a pledge) in favor of such third party;
- pledge of a company shares or an object of industrial property (patent, trademark and others).
- such other eligible collateral as provided for by the applicable law.

In the course of credit risk mitigation, the BDB Group uses only part of the collateral options listed above. Secured protection is provided by assets that are sufficiently liquid and have a relatively constant time value.

The types of collateral used by the BDB Group to mitigate credit risk are financial collateral, security with guarantees and residential and commercial mortgages that meet the requirements of Article 208 of Regulation (EU) 575/2013. In recognizing financial collateral for credit risk mitigation, the BDB Group monitors compliance with low correlation, legal requirements and certainty and with operational requirements.

The BDB Group has established and operates systems and procedures for the monitoring, control and evaluation of the loan portfolio quality as well as a system of portfolio-level limits. Procedures and mechanisms are in place for the ongoing monitoring, reporting and management of the loan portfolio, requiring periodic and, if necessary, exceptional reports on the financial and legal status of each debtor/group of debtors. The Group uses internal rating generation models to assess and monitor credit risk.

Table 26: Modified Template 18 - EU CR3 — Credit risk mitigation (CRM) technique - Overview – as per EBA/GL/2016/11

(BGN'000)

Collateral used as credit risk mitigant as of December 31, 2018					
	Financial collateral		Secured by residential property	Secured by commercial property	Secured by guarantees
	Blocked cash collateral	Pledged government securities			
Institutions	10,543	35,714	-	-	-
Public sector entities	-	-	-	-	-
Corporates	72,562	-	-	-	-
Retail	433	-	-	-	-
Secured by real estate	4,049	-	13,084	42,832	-
Defaulted exposures	-	-	-	-	-
Total	**87,587**	**35,714**	**13,084**	**42,832**	**0**

***Table 27**: Template 19 - EU CR4 - Standardised approach – Credit risk exposure and CRM effects – as per EBA/GL/2016/11*

(BGN'000)

	a	b	c	d	e	f
	Exposures before CCF and CRM		**Exposures after CCF and CRM**		**RWAs and RWA density**	
Exposure classes	**On-balance sheet amount**	**Off-balance-sheet amount**	**On-balance sheet amount**	**Off-balance sheet amount**	**RWA**	**RWA density**
Central governments or central banks	907,068	-	1,414,833	110,123	52,367	3
Regional governments or local authorities	-	-	-	-	-	-
Public sector entities	-	-	-	-	-	-
Multilateral development banks	2,538	4,694	2,538	4,694	939	
Institutions	435,508	44,432	389,251	22,429	184,895	45
Corporates	677,310	693,179	677,230	546,850	1,123,264	92
incl. SMEs with application of SME Support Factor	-	-	-	-	-	-
Retail exposures	490,645	115,156	18,559	3 508	12,270	56
incl. SMEs with application of SME Support Factor	-	-	-	-	-	-
Exposures secured by mortgages on immovable property	260,936	49,126	256,887	24,563	265,587	94
Exposures in default	147,797	1,019	147,797	1,019	170,642	115
Exposures associated with particularly high risk	546	1,410	546	1,410	2,934	150
Equity exposures	199	-	199	-	199	100
Other exposures	76,197	-	90,904	71,897	78,898	48
Total	**2,998,744**	**909,016**	**2,998,744**	**786,493**	**1,891,995**	**50**

In mitigating credit risk, the BDB Group does not use on-balance sheet and off-balance sheet netting and credit derivatives.

14 LEVERAGE

The BDB Group calculates the leverage ratio by dividing the amount of Tier 1 capital by the sum of the exposure values for all assets and off-balance sheet items not deducted in the calculation of the Tier 1 capital, in percentages, meeting the requirements of Article 429 of Regulation (EU) 575/2013.

On December 31, 2018, BDB Group's leverage ratio was 19.7%.

15 REMUNERATION POLICY AND PRACTICE

In 2015, a comprehensive review of the documents on human resource management and development was made, which resulted in the adoption of a single integrated Human Resource Management and Development Manual of the BDB Group in December 2015, which was amended and supplemented in 2017.

The Human Resource Management and Development Manual of the BDB Group describes the procedures and rules on attracting, selecting, administering, evaluating, remunerating and development of BDB Group employees, using an integrated approach in their implementation and communication, so that the BDB Group should have motivated employees who have a clear vision of their role and place in the team, have appropriate knowledge and skills, and apply their competencies to the fullest extent possible to achieve the Group's strategic goals.

The Manual was prepared in accordance with BNB Ordinance №. 4 of December 21, 2010 on the requirements for the remuneration in banks (Ordinance №. 4) and is consistent with other applicable national legislation, incl. regulations and provisions of EBA, EC, Council of Europe and other EU bodies directly applicable to Bulgaria.

At present, and in order to comply with the regulatory requirements, the BDB Group is in the process of drafting the following internal regulations, which will replace the current Manual, as follows: Internal Wage Rules, Remuneration and Other Benefits Policy, Remuneration Committee Rules of Procedure, Attestation Rules and Procedures, Internal Labor Rules, and Internal Rules and Procedures for the Appointment, Job Introduction, Training and Resignation of Employees.

The bodies involved in the process of approval and monitoring of the remuneration policy are:

- Supervisory Board (SB);
- Remuneration Committee;
- Risk Committee;
- Management Board;
- Board of Directors of subsidiaries;
- Group Internal Audit Department;
- Compliance Department;
- Planning, Analysis and Regulations Department;
- Human Resource Management.

BDB's Supervisory Board has the following competencies:

- approves BDB Group's remuneration policy;
- monitors the implementation of the policy and approves any changes thereto;
- makes decisions on the size of remuneration of the Bank's Management Board members;
- is responsible for a basic and independent review of the policy, from time to time (at least once a year), assessing whether it is functioning as intended and whether it is compliant

with the national and international regulations, principles and standards.

It is the Supervisory Board's primary responsibility to ensure that the BDB Group's remuneration policy promotes sound and efficient risk management, does not encourage excessive risk-taking, and does not restrict the Bank from developing and maintaining a stable capital base.

In accordance with the requirements of BNB Ordinance № 4, BDB has established a Remuneration Committee. The Remuneration Committee is composed of at least three members, the majority of which are independent within the meaning of Article 10a, paragraph 2 of CIA. Chairman and members of the Committee are the BDB Supervisory Board members.

The *Remuneration Committee* prepares and proposes remuneration resolutions, taking into account the impact on risk and risk management in the BDB Group, long-term interests of shareholders, investors and other interested parties. The activity of the Remuneration Committee will be described in detail in the BDB Remuneration Committee Rules of Procedure.

Without prejudice to the Remuneration Committee's tasks, the Risk Committee shall verify that the incentives provided by the remuneration policies and practices take into account risk, capital, liquidity, etc.

The Bank's *Management Board* adopts the remuneration policy and submits it to the Supervisory Board for approval.

The *Board of Directors of Subsidiaries* monitors the implementation of the policy within the relevant company.

The Group's *Internal Audit Department* reviews periodically the structure, implementation and impact of the remuneration and other benefits policy on the BDB Group risk profile and how this impact is managed in accordance with the BDB's strategy, national and international rules, principles and standards.

The *Compliance Department* monitors the compliance of the policy and changes thereof with the applicable legislation, regulations and internal banking regulations.

In order to ensure that the remuneration and other benefits policy is in line with the Bank's risk management strategy and framework, the HR Department, the Compliance Department, and the Planning, Analysis and Regulations Department review the policy annually. The outcome of the review is submitted to the attention of the Management Board/Supervisory Board and to the Remuneration Committee and, where a need for change is identified, proposals for such change are submitted.

Information on the relationship between remuneration and performance

The remuneration and other benefits of BDB Group are not related to BDB Group’s annual financial result and the risk assumed, but are a function of the performance of employees, assessed in terms of the annual staff appraisal, labor market, work-life balance, and good practices in the banking sector.

Main structural features of the remuneration system, information on the criteria based on which the right to acquire shares, options and variable remuneration is determined. Basic parameters and justification of variable remuneration schemes and other material incentives.

Remuneration at BDB is formed by the following components:

- fixed remuneration (not affected by the results and risk assumed) – it is determined on the basis of the employee's position, depending on the responsibilities he/she assumes and the relevant professional experience and functional responsibilities as defined in the job description or management contract. The fixed remuneration consists of:
    - gross monthly salary;
    - other fixed payments provided at the discretion of the Bank, independent of its financial results and non-generating risk-taking incentives. The other fixed payments are:
        - ✓ additional fixed payments (additional payments provided at the discretion of the employer to all employees, such as social expenses or additional payment of a portion of the monthly salary equal to all employees for the Christmas or Easter holidays);
        - ✓ additional fixed remuneration - meeting the requirements of the Guidelines to be qualified as fixed remuneration (determined in advance, transparent, not subject to change, not related to the employee's role in the organization, etc.).
- Variable remuneration (performance based) - not applicable in BDB.

The Bank has adopted a list of staff categories in the companies to which the provisions of BNB 2010 Ordinance № 4 on the requirements for the remuneration in banks apply. In addition to the senior management staff (members of the Supervisory Board and the Management Board), this list also includes all department and unit heads in the bank and its subsidiaries.

16 EVENTS AFTER THE REPORTING PERIOD

In pursuance of its strategy and in order to channel specific and new activities in separate companies, BDB has established two new subsidiaries, "BDB Leasing" EAD and "BDB Factoring" EAD, with the Bank being the single shareholder and having 100% equity interest in both companies. The new entities were organized by resolution of the Board of Directors adopted on March 6, 2019 and have equity capital of BGN 2,000,000 each.

In April 2019, the international rating institution *Fitch Ratings* upgraded the outlook for the long-term credit rating of „Bulgarian Development Bank" AD from BBB with a stable outlook to BBB with a positive outlook.

APPENDIX 1: LIST OF TABLES: