BULGARIAN DEVELOPMENT BANK

BULGARIAN DEVELOPMENT BANK AD

ANNUAL MANAGEMENT REPORT

INDEPENDENT AUDITORS' REPORT AND

ANNUAL SEPARATE FINANCIAL STATEMENTS

31 December 2019

Unofficial translation from Bulgarian

ANNUAL SEPARATE REPORT ON THE ACTIVITIES

FOR 2019

BULGARIAN DEVELOPMENT BANK

ANNUAL MANAGEMENT REPORT OF BULGARIAN DEVELOPMENT BANK AD FOR 2019

BULGARIAN DEVELOPMENT BANK

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BULGARIAN DEVELOPMENT BANK

GENERAL INFORMATION

Bulgarian Development Bank AD

Shareholding structure as at 31 December 2019

The State through the Minister of Economy - 99.9999% and DSK Bank - 0.0001%

Supervisory Board as at 31.12.2019:

- Luchezar Borisov – Chairman of the Supervisory Board;
- Mitko Simeonov - Vice Chairman of the Supervisory Board;
- Velina Burska - Member of the Supervisory Board.

Management Board as at 31.12.2019:

- Stoyan Mavrodiev - Chairman of the Management Board and Chief Executive Director;
- Rumen Mitrov - Vice Chairman of the Management Board and Executive Director;
- Nikolay Dimitrov - Member of the Management Board and Executive Director.

Head office and registered address as at 31.12.2019:

1000 Sofia, Sredets area, 1 Dyakon Ignatii Str.

Registration Number - UIC 121856059

***Join auditors of Bulgarian Development Bank AD*:**

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1303 Sofia
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INFORMATION ABOUT THE BANK

THE GROUP

At the end of 2019, the Financial Group Bulgarian Development Bank (the „Group"[1] or the "Financial Group") comprise Bulgarian Development Bank AD („BDB", the „Bank") and its subsidiaries - National Guarantee Fund EAD (NGF), Micro Financing Institution Jobs EAD (MFI), Capital Investments Fund AD (CIF) and the established in 2019 subsidiaries – BDB Leasing EAD (BDB Leasing) and BDB factoring EAD (BDB Factoring).

Bulgarian Development Bank AD

Bulgarian Development Bank AD, UIC 121856059 was established on 11 March 1999 as a joint-stock company under the name of Encouragement Bank AD. By means of the Bulgarian Development Bank Act (BDBA), on 23 April 2008 the name and scope of activity of the Bank were changed, so as to be able to apply schemes and instruments to finance public investments and projects of priority for the country's economy.

Being the only state-owned bank in the country, BDB provides funding for programmes entrusted to it specifically by the government of the Republic of Bulgaria. The exposure to a customer or group of related clients, other than credit institutions, central governments and central banks, complies with the requirements and limits of Regulation 575/2013/EU taking into account the effect of credit risk mitigation under a procedure laid down by the Management Board.

Bulgarian Development Bank AD holds a license for banking activity issued by the Bulgarian National Bank No B25/25.02.1999 updated with an Ordinance of the Supervisory body No RD22-2272/ 16.11.2009.

Bulgarian Development Bank AD holds a license for an investment intermediary issued by the Financial Supervision Commission with Ordinance No 4 of 08.01.2002 according to which it may provide investment services and perform investment activities[2] under Article 6, paragraph 2 of the Markets in Financial Instruments Act (MFIsA), as well as additional services under Art. 6, paragraph 3 of the MFIsA.

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[1]At the end of 2019, the Bank is a sole owner of the capital of Trade Center Maritsa EOOD (TCM); however, the company is not a part of the strategic business model of the Financial Group of BDB.

[2] Investment services are provided and investment activities are performed in accordance with the requirements of MFIsA, Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (Directive 2014/65/EU or MIFID II), Regulation (EU) 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012 (Regulation (EU) 600/2014), Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of

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The Bank does not provide investments services, nor investment activities under Article 6, paragraph 2, items 8 and 9 of the MFIsA - organization of a multilateral trading facility and an organized trading facility.

As of 31 December 2019, the paid-in capital is BGN 601,774 thousand (31 December 2018: BGN 601,774 thousand). The capital consists of 6,017,735 ordinary registered voting shares of par value BGN 100 each. As of the date of preparation of this report, the ownership of the capital is distributed as follows: 99.9999% of it is held by the Republic of Bulgaria, represented by the Ministry of the Economy, 0.0001% is held by DSK Bank.

BDB is governed in accordance with Article 5 of BDBA, according to which the Bank has a two-tier management system with the Minister of Economy exercising the state's rights at the General Assembly of Shareholders of the Bank. Members of the BDB's management bodies are appointed in compliance with BDBA, Credit Institutions Act, Commercial Act, and the Regulations on their implementation, adopted by Bulgarian National Bank.

Bulgarian Development Bank AD has not acquired own shares pursuant to Article 187e of the Commercial Act (CA).

BDB is not a party to transactions falling within the scope of Article 240b of the Commercial Act with reference to Article 247 of the same Act.

There are no shares of the Bank acquired, held or assigned during the reporting year by the members of the management bodies. Pursuant to Article 6, paragraph 4 of the BDBA, the members of the Management and controlling bodies, the procurators and the senior management cannot hold shares and cannot be provided with options for shares of BDB, and in subsequent accounting periods no agreements may be concluded as a result of which in any future period changes may occur in the relative volume of shares held by current shareholders.

The average number of staff of the Bank as of the end of 2019 is 216 employees.

Bulgarian Development Bank AD has no branches.

The head office and registered address of BDB is at 1, Dyakon Ignatii Str., 1000 Sofia City.

BDB complies with the applicable Bulgarian and European environmental protection legislation. The Bank conducts an environmental impact analysis of all projects for which such an analysis is required under the applicable legal framework. In the project implementation process, BDB requires the submission of the necessary permits and documents, and strictly monitors the precise implementation of the projects. In case there are stricter environmental requirements set out in the loan agreements with external creditors, BDB requires compliance with these higher standards by its clients and monitors their performance.

In the field of human resource development, BDB focuses on continuing support for development and training of staff, creating prerequisites for professional growth of its highly qualified professionals.

BDB has no dedicated research and development unit and Bank is currently not planning actions in this area, but staff training.

The Bank's financial performance and ratios are stable. There are no non-financial indicators, the value of which would affect the results of its principal activity.

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the Council as regards organizational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive (Delegated Regulation (EU) 2017/565) and the acts on their implementation.

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MAIN FOCUS ACTIVITIES AND PROJECTS IN 2019

KEY EVENTS

In 2019 the most significant changes in the regulatory framework of the Bank are the following: changes in the Anti Money Laundering Act, Updated Ordinance No 4 on the Requirements for Remunerations in Banks, Ordinance No 7 on the Organization and Risk Management of Banks, Ordinance No 10 on the Internal Controls in Banks, Ordinance No 20 on the Issuance of Approvals to Members of the Management Board and Supervisory Board of a Credit Institution and Performance Requirements for Their Duties, Guidelines of EBA on Management of non-performing and forborne exposures (EBA/GL/2018/06), Guidelines of EBA on Disclosure of non-performing and forborne exposures (EBA/GL/2018/10), Guidelines on outsourcing arrangements (EBA/GL/2019/02), Guidelines for the estimation of LGD appropriate for an economic downturn ('Downturn LGD estimation') (EBA/GL/2019/03), Guidelines on specification of types of exposures to be associated with high risk (EBA/GL/2019/01), Guidelines on connected clients under Article 4 (1) (39) of Regulation (EU) No 575/2013 and BNB Ordinance No 37 on the Internal Exposures of Banks; changes in Markets in Financial Instruments Act and applicable regulations and the Personal Data Protection Act.

In the past 2019, the main activities in the field of information technology development were the consolidation and modernization of the Bank's hardware and software environment, as well as compliance with the growing number of new regulatory requirements for banking institutions. The overall SWIFT infrastructure and services were successfully transferred to the service desk of BORICA AD -SaaS, which increased the reliability of the service and reduced the overall maintenance costs. Besides, API Gateway to BORICA platform was successfully created in accordance with PSD2 requirements for payment services. The Bank's web banking was completely modernized and 2FA (2-factor authentication) was implemented for additional security. A large-scale project has been launched and implemented to change and upgrade the Bank's hardware environment in the main and spare data center to support the BDB's growing business, including the introduction of the next generation firewalls to fully enhance cyber security.

In 2019, the international rating agency Fitch Ratings carried out its regular annual review and confirmed the credit rating of the Bulgarian Development Bank AD. In April 2019, Fitch Ratings Agency upgraded the outlook of the long-term credit rating of BDB from BBB Stable Outlook to BBB, Positive Outlook. Following the next review in November 2019 Fitch Ratings revised the outlook of the long-term credit rating from BBB, Positive Outlook to BBB Stable Outlook. This is the highest credit rating assigned to a Bulgarian financial institution, and for BDB it is limited by the rating of the sovereign - the Bulgarian State.

Rating effective as of	As of 31.12.2017	As of 31.12.2018	As of 31.12.2019 and the date of preparation of the Management Report
Date of preparation of the rating:	13.12.2017	06.12.2018	27.11.2019
Long term Rating (IDR, SRF)	„BBB"	„BBB"	„BBB"
Outlook	Stable	Stable	Stable

The rating agency's assessment is based on the reliable support of the sovereign - the Bulgarian State, the BDB's good financial performance, its good capitalisation, and its role in supporting the government's economic policy. The stable outlook shows the existence of a balance in risks associated with credit rating assessments.

The stable equity base contributes significantly to the high capital adequacy. BDB is the institution with the highest level of capitalization in the banking system of Bulgaria, significantly above the statutory minimum.

The General Assembly of Shareholders of BDB held in November 2019 approved the audited financial statements /separate and consolidated/ of the institution for 2018, certified by the joint auditors, Ernst & Young

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Audit OOD and Zaharinova Nexia OOD. Bulgarian Development Bank reported a profit for distribution for 2018 amounting to BGN 25,130 thousand. The General Assembly took a decision to distribute the 2018 profit of the Bank according to para 3 of Ordinance No 1 of the Council of Ministers of 31 May 2019 as follows:

- Dividend for shareholders amounting to 80% of the profit in compliance with Art. 247 of the Commercial Act;
- The remaining balance of the profit to be taken to Other Reserves heading.

In 2019, the product and credit portfolio of the Bank continued to develop, as also the diversification of the sources of financing.

At the end of 2019, BDB has signed agreements with two commercial banks and five non-financial institutions under the COSME+ Programme in support of small and medium-sized businesses. The COSME+ Programme is implemented with support from the European Fund for Strategic Investments for indirect financing of small and medium-sized enterprises with guarantee facility and counter-guarantee. The COSME Programme builds upon the Entrepreneurship and Innovation Programme (EIP) launched in the period 2007-2013. The Programme's total budget amounts to EUR 2,300,000 thousand and covers the period 2014-2020. Four areas of support are included in its scope - improving access to finance for SMEs in the form of equity and debt instruments; improving access to SME markets worldwide, improving framework conditions for business competitiveness and promoting entrepreneurship.

The implementation of the Leasing Line Programme directed towards partners - non-banking financial institutions - lessors registered with BNB and carrying our finance lease activities continued in 2019 as well.

At the end of 2019, BDB signed an agreement for BGN 1 million under the launched in 2018 programme for indirect support for SMEs through commercial banks and non-banking financial institutions. The programme is for indirect financing of farmers who are members of mutual credit cooperatives of private farmers. Its budget amounts to BGN 15 million. The loans are limited up to BGN 1,500 thousand and mature within 5 years.

In 2019, the BDB developed and further expanded the useful effect of the COSME+ programme renewed in 2018. In the last annual period BDB established new partnerships with five non-bank financial institutions and concluded with them on-lending transactions under the COSME+ Programme for EUR 9.6 million. As a result, the total amount of the resource directed by the BDB under this Programme to SMEs amounts to EUR 24.6 million provided to form portfolios of a total of 6 banks and non-bank financial institutions. Structured under the COSME mechanism of the European Investment Fund, the renewed BDB Programme offers banks and non-bank financial institutions up to a 10-year on-lending financing in euro at an interest rate of 3M EURIBOR+1.9 % and 60 % guarantee (on principal and contractual interest up to 90 days) on sub-deals representing sub-loans and bank guarantees in favour of SMEs. The programme's budget is EUR 33,333,333 and the maximum exposure to SMEs amounts to EUR 150,000. Maximum annual interest on regular principal on sub-loan is up to 3M EURIBOR + 5.7% in general or up to 3M EURIBOR + 5.7% and 0% management commission for financing "Projects with social impact", encouraging the realization of investment projects with main or predominant purpose to ensure real employment and integration of people with disabilities, young people without families and children subject to juvenile justice through the business of the businessman-borrower. The maximum total remuneration for commitment under a sub-transaction - bank guarantee is up to 2% per year. The programme provides for priority consideration of the requests of start-ups and creates relief in the provision of collateral on behalf of the final recipients - SMEs.

As it becomes increasingly popular on the microfinancing market, BDB took action before the EIF and concluded an agreement to extend the deadline for the formation of portfolios of sub-transactions that shall benefit from BDB guarantee and, accordingly, from the EIF's counter-guarantee.

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As a result of the BDB structured on-lending Programme for private farmers, more than 380 private farmers from Plovdiv region were given the opportunity to access a low-interest loan resource for their activities, and for the last two quarters of 2019, sub-loans worth more than BGN 500 thousand were granted. Through this Programme, BDB provided indirect funding to private farmers through mutual-aid credit cooperatives, which are listed in the BNB register as non-bank financial institutions, but because of their competitive business they are strongly isolated from affordable lending resources provided by commercial banks and rely mainly on contributions to their capital by their members or foreign capital. BDB makes it possible to meet this deficit by providing for a start budget of the Programme of BGN 15 million and a maximum individual on-lending limit to a credit cooperative of BGN 1.5 million for a five-year period, with very attractive interest rates and a 0 % commission for financing management.

In 2019, BDB implemented a new product for indirect financing to SMEs lessees under operating lease contracts, named Program for providing credit lines for operating leases in favour of small and medium-sized enterprises "ALL/4/ SME On-Landing Program". Within the year, BDB approved the conclusion of two on-lending contracts with leasing companies providing assets to SMEs on operating leases for a total amount of EUR 6 million.

In 2019, the existing programmes from previous periods continued their development: Program Forward (low interest financing with a 30% guarantee facilitating access to finance for SMEs) and the Leasing Line Program (facilitating access to a resource for the purchase and leasing of assets used in the business of SMEs).

BDB's policy is to attract mainly a long-term resource to finance its credit activity and thus creates a natural balance between the term of the asset and the liability. In 2019 BDB utilized nearly BGN 530 million from International financial institutions. These funds are fully allocated to loans and used to support the Bulgarian business. In 2019, the entire contractual amount of the agreement signed on 13 December 2018 with the China Development Bank under the "One Belt, One Road" initiative was also utilized.

In June, the International Economic Forum "Roads to Partnership" was held. The event marks the 20th anniversary of the Bank. The focus of the meeting was the European discussion under the InvestEU programme and its future potential in the South East Europe. Specialists that define the policies, leading financiers, top representatives of the European Commission and presidents of banks, took part in the Forum, organized by BDB.

InvestEU programme provides for a single European tool for support of the investments for the period 2021-2027. The programme is based on the successful experience of EFSI implementation and current EC tools. The InvestEU Programme will provide a guarantee from the EU budget that will support financial products provided by the partners implementing the Programme. Investments are stimulated in four political "windows" (areas) in which financial products will be developed: sustainable infrastructure, research, innovation and digitisation, SMEs and small intermediate enterprises, social investment and skills. BDB is actively working on the Pillar Assessment, which is a mandatory step before the inclusion of a financial institution as an implementing partner under the Programme. An initial financial model for the financial products under the Program has also been developed.

In October 2019 BDB received a positive opinion from the European Commission on the principle of eligibility for participation in the InvestEU Programme.

In December 2019 BDB received approval from the Commission for participation as implementing partner under the Connecting Europe Facility - Transport Blending Facility), under which projects receive a 25% grant from the European Commission.

2019 passed for the Bulgarian Development Bank under the sign of its twenty-year anniversary. In this regard, a complete rebranding of BDB and an advertising campaign was carried out through the main media channels – television, radio and internet media.

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For eight months – from April to November 2019 together with the Regional Museum of History of Sofia, the education campaign of BDB "My European Capital" was held. It was aimed at high school students and ended with an exhibition of graduates of the drawing schools in the exhibition hall of Largo.

After the establishment of the Capital Investment Fund in 2018, in March 2019 BDB also established two new subsidiaries – BDB Leasing EAD and BBR Factoring EAD – with a scope of activity financial lease and factoring services. The formation of the new companies turns the institution into a full-fledged financial group offering a wide range of financial services.

In the future, the Bank will continue to offer working capital financing, capital investment and export financing for small and medium-sized businesses. The Bank offers flexible and market-friendly financial solutions that meet the specifics of the borrower and the funded project.

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SUCCESSFULLY IMPLEMENTED PROGRAMS AND PROJECTS

Bulgarian Development Bank AD – Programs of national significance

In 2019 as well, Bulgarian Development Bank AD continues to provide financing under the Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP) approved by Decree No 18 of 2 February 2015 of the Council of Ministers of the Republic of Bulgaria (the Program). The Programme is oriented to the renovation of multi-family residential buildings with a main objective to secure better living conditions for the residents in the multi-family residential buildings, heat comfort and higher quality of living environment. The implementation of energy efficiency measures in multi-family residential buildings will contribute to higher level of the energy efficiency of multi-family residential buildings and energy costs decrease; improving the exploitation features for extending the life cycle of the buildings; and providing conditions of living environment in line with the sustainable development criteria. The Programme has significant environmental effect – according to an expert evaluation as a result of the Programme, the reduction of carbon dioxide emissions is estimated at 319,000 tCO_2/year and the energy saving is 726,000,000 kWh/year. The economic effect consists of giving more opportunities to business for Economic activity - designers, construction industry, companies for technical audits, companies for energy efficiency audits, materials' producers, etc., as also participation in the implementation of the Programme of small and medium-sized companies from all over the country. The Programme achieves also social effects by providing additional employment; establishing traditions in the management of multi-family residential buildings; and increasing public awareness of the ways for energy efficiency enhancement. The program activities cover the entire territory of Republic of Bulgaria, within 265 municipalities. The financial resource set aside by the State budget for the Programme amounts to BGN 2 billion.

Examples of projects financed by the Bank:

A company working in the field of logistics, transport and shipping, operating in a logistics base consisting of 3 /three/ main terminals located close to the town of Sofia, as well as 8 /eight/ local hubs located near Plovdiv, Stara Zagora and Varna. Currently, the company is the largest logistics operator under temperature regime in Bulgaria. All services offered can be carried out within temperature ranges from +20 to -25C. Since its establishment in 2005, the company has offered its customers integrated 3PL logistics services of high quality, which is based on dynamic and modern infrastructure, a network of own and hired vehicles and qualified employees. The activity of the company and the logistics center is regulated by the certificate of registration by the Bulgarian Food Safety Agency, HACCP internal audit management system, ISO 9001:2008, as well as certification according to international standard IFS Logistics. This makes it possible to store and distribute food and ingredients for the production of goods for direct consumption, as well as certification of goods without the customers themselves being certified. The main directions under way are warehousing, commodity control and inventory management, accurate time distribution and other value-added services (including Cross-docking, commissioning, palletization, packaging and repackaging of goods, insurance of transported and stored goods, labelling).

A high-tech and fast-growing group in the field of digital and offset printing. The companies within the group carry out activities related to digital wide-format printing; offset printing; construction and maintenance of advertising facilities; information technologies and professional digital printing solutions; design and construction of integrated information management systems in the field of printing and advertising business; complex solutions in the field of external and interior advertising. The group has 20 years of successful market history and leadership positions in the industry, with a market share of 40% of the wide-format market in Bulgaria, as a result of high-tech equipment, high print quality, closed production cycle, qualified staff, ERP management systems. The production activity is carried out through printing facilities in Sofia (sub part of the

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National Palace of Culture – 13,000 sq.m.) and Varna with a total area of 5,466 sq.m. The group has a long-term relationship with counterparties. A diversified client portfolio is maintained with over 900 customers, mostly corporate, including Mondelize (Kraft Foods), Coca Cola, Nestle, Shell, Praktiker, Beiersdorf (Nivea), Kaufland, McDonald's, Carlsberg, Heineken, Metro Cash & Carry, Mr. Bricolage, Billa, Mobiltel, Vivacom, Zagorka, Postbank, Ficosota, DSK Bank (OTP), UniCredit Bulbank, as well as agencies New Moment New Ideas Company, DDB Sofia, Zenith Media, Zak, TBWA, Noble Graphics, Gray Worldwide, Maccan Ericson, etc.

Start-up, fast-growing micro-enterprise working in the field of technological innovation. It sells on the territory of three continents – USA, Europe and Asia, through three micro hubs built on the territory of Bulgaria, Serbia and the USA. The main product – therapeutic glasses is associated with the application of "AYO" technology, representing a method of dealing with insomnia, lack of energy and Jet-Lag, which acts in the following three directions:

- Stimulation of sensory cells in the eye retina, by imitating sunlight;
- Suppress melatonin production by sending signals from sensory cells to the human brain.
- Subsequent sharp increase in melatonin levels;

The technology integrates to Smart phones through an iOS and Android application that manages it. For the realization of the high-tech product, the company works closely with Hoover Dam Technology.

Combined plant and livestock farm, having one of the most modern milk production facilities in the region of Eastern Bulgaria, located in the Municipality of General Toshevo, Dobrich. Currently, the farm has 1,850 dairy animals, providing an annual yield of 4.2 – 4.5 million litters of fresh cow's milk. After realization of the investment program, the capacity of the company is expected to reach 2,800 animals and the production on an annual basis – over 10 million litters. The cow farm works closely with "Macler" Bulgaria and Danone – Romania.

OVERVIEW OF THE ECONOMIC ENVIRONMENT AND BANKING SYSTEM IN 2019

In 2019, the Bulgarian economy continued to report record low unemployment combined with a decrease in the trade deficit and an increase in foreign investment. GDP growth during the year remains sustainable and ahead of the euro area and EU averages – the NSI data for 2019 show GDP growth of the EU-27 by 1.5% and of Bulgaria by 3.4% compared to the previous year 2018. For 2019 GDP reaches a nominal value of BGN 118,669 billion with BGN 16,973,000 per capita. GDP growth slowed in the second half of the year, influenced by decreased export and stocks. For 2019, the growth is 3.4%. The main driver of GDP growth remains domestic consumption. During the year, the biggest increase in gross value added was recorded by the real estate operations sectors (+5.6%), Financial and insurance activities (+4.8%) and General government (+4.6%).

The trade balance deficit for 2019 is BGN 6.7 billion compared to BGN 6.8 billion for 2018. Export increased by 4.2% on annual base and import by 3.6%. There has been a decrease in the trade balance deficit in third countries and an increase in the deficit to the EU. According to BNB data, foreign direct investments exceeded EUR 1 billion at the end of 2019, compared to EUR 537 million for the whole 2018. The investments are mainly in the form of debt instruments - loans from parent companies that are granted to their Bulgarian companies.

Gross external debt at the end of December 2019 is EUR 34.1 billion (55.8% of GDP), which is EUR 956.2 million (2.9%) more than at the end of 2018. The external debt of the private sector increased by EUR 210 million and the state debt increased by EUR 59 million during the year. The reason for the new government debt was the additional cost of buying the American planes. At the beginning of 2020, government securities were placed for BGN 200 million. The average weighted yield on the five-year government securities decreased to -0.11%. For the first time, the state has managed to reach negative yields in this maturity segment.

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High economic growth contributed to lower unemployment in 2019. According to data of the NSI, the unemployed in 2019 are 142.8 thousand. Compared to 2018, the number of unemployed people decreased by 17.6%. On the basis of the economically employed population, it can be assumed that there is almost no longer unemployed population left and the business begins to suffer from a lack of staff. This creates competitiveness challenges and implies measures to intensify growth. It also has a positive impact on wages, which will contribute to individual consumption (the biggest factor in GDP – on final use costs).

The average salary for the country in December 2019 is BGN 1,349 and its annual growth is 12%. The increase in the public sector is 12.2% compared to the corresponding period for 2018, while in the private sector growth is 12.1%. A wage growth in the public sector is set in 2020 budget.

According to preliminary data of NSI, consumer prices continue to increase in 2019, with the average annual inflation for the period January - December 2019 compared to the period January - December 2018 being 2.5%. The main reason for the growth in prices during the year are Restaurants and Hotels (+5.7%) and Food products and soft drinks (+4.9%). A relatively significant decrease was observed in the Communications sector (-2.6%).

By the end of 2019, international financial institutions and leading financial market participants had expected increase of global growth by 3.2% in 2020, but according to the World Bank's latest forecast, the global economy will report its biggest decline since the end of World War II in 2020 due to the coronavirus pandemic. This will lead to a significant decrease in consumer incomes and millions of people will fall into poverty, according to the forecast. Global gross domestic product will decrease by 5.2% in 2020, Bulgaria's GDP is expected to decrease by 6.2%, and in developing economies the decline will average 2.5%.

Banking sector

The past 2019 was one of the most successful year for the banking sector in Bulgaria, marked with record-high profits, growth of bank portfolios and a decrease in the share of bad loans. The environment of low and negative interest rates will continue to have an impact on the cost of financing, net interest income levels and banks' interest margins. With regard to the consolidation processes – in 2019 the process of merger of Piraeus Bank Bulgaria – a bank in the second group, into Eurobank Bulgaria, which falls into the first group, according to the classification of BNB, has been completed.

As of December 31, 2019, 24 banks operate in Bulgaria, five of which are branches of foreign banks. The total amount of assets of the banking system increased by 8.2% on an annual basis to BGN 114.2 billion (EUR 58.4 billion). The five largest banks, which, according to the classification of the Banking supervision department of BNB, fall under the so-called first group of banks comprise 62.1% of the total amount of assets in the banking system. At the end of 2018, their market share was 59.4%. As at 31 December 2019, the market share of second group banks decreased from 41.7% to 34.7%, and that of a third group, which includes branches of foreign banks, increased to 3.2% from 2.9%, compared to a year earlier.

The banking system's profit after taxes at the end of December was BGN 1.675 million and represents an annual decrease of BGN 3 million (-0.2%). The profit dynamics is due to the decrease in general administrative expenses and the increase in net income from fees and commissions. Banks were able to reduce their administrative expenses despite the increase in employee benefits. During the year almost all banks increased their fees and commissions which resulted in higher revenue.

Deposits attracted by banks continue to grow. At the end of December 2019, their amount reached BGN 85.16 billion despite low interest rates. This is an evidence for trust in the system, but the lack of a capital market and rising prices in the real estate market also contributes. The increase in deposits is also a result of a high

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tendency for saving by households, who hold about two-thirds of deposits in the banking system (65.3% at the end of December 2019).

As of the end of December, loans to credit institutions decreased by BGN 709 million. Mortgage loans continued their steady growth with BGN 135 million for December 2019, while loans to companies decreased by BGN 403 million during the month. Compared to the corresponding period for 2018, the loans granted grew by BGN 5.43 billion which in nominal terms is less than the borrowed funds.

As at 31 December 2019, the volume of non-performing loans (excluding central banks and credit institutions) decreased to BGN 3.94 billion or up to 5.9% as a share, with the downward trend continuing. Although the level of non-performing loans still remains above the EU average, at the end of 2019 the level of coverage of gross non-performing loans and advances in the Bulgarian banking system is at a level of 59%. By comparison, the coverage rate for European banks, according to ECB data for the third quarter of 2019, is 44.45%.

BDB compared with the banks operating in the country

In the period 2017-2019 BDB realized the strongest growth and significant growth of assets since its establishment, like most national development banks in the region. The Bank has achieved a stable structure of operational assets and a balanced portfolio, and demonstrates the capacity to fulfil special mandates of the government.

The spread of the Covid-19 pandemic paralyzed the business and had a strong negative effect on the global and Bulgarian economy. To address the negative effects and business expectations of the beginning of March 2020, the government has taken measures that bring financial resources directly into the economy. BDB has undertaken the implementation of two government mandates after its capital was increased by BGN 700 million: special mandate for guarantee programmes with a budget of BGN 200 million and an anti-crisis programme with a budget of BGN 500 million for portfolio guarantees for business loans. The programmes are implemented with the participation of commercial intermediary banks, which grant 6-year loans and loans without fees, commissions and penalties for their service. As a result of the increased capital, BDB became the fourth largest bank by the indicator in Bulgaria.

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OVERVIEW OF THE ACTIVITY AND SELECTED FINANCIAL INFORMATION

Operating results

Bulgarian Development Bank AD continues to work actively towards the objectives set, while maintaining high levels of liquidity and capitalization. The process of modernisation and updating the BDB's operations continued throughout 2019 as well, while the Bank continued to increase the volume of its activity.

Key financial ratios as of 31 December 2019:

Comprehensive income	2019	2018	Change YoY
Net interest income	61,433	53,791	14.2%
Net fee and commission income	1,931	2,027	-4.7%
Net income on foreign exchange deals	421	379	11.1%
Net gain/(loss) on financial assets at fair value through other comprehensive income	3,687	738	399.6%
General and administrative expenses	26,320 -	22,948	14.7%
Other operating income (Net results)	911	1,547	-41.1%
Income before impairment	**42,063**	**35,534**	**18.4%**
(Expenses) from impairment and provisions	29,001 -	8,781	230.3%
Profit before income tax	**13,062**	**26,753**	**-51.2%**
Income tax expense	2,005 -	1,623	23.5%
Net profit for the year	**11,057**	**25,130**	**-56.0%**
Actuarial gains /(losses) on defined benefit plans, net of taxes	48	33	-245.5%
Net change in fair value of financial assets at fair value through other comprehensive income	6,128	1,108	453.1%
Total comprehensive income for the year	**17,137**	**26,271**	**-34.8%**

The 2019 interest income amounts to BGN 72,855 thousand (for 2018: BGN 63,280 thousand) or an increase by 15.1% compared to prior reporting year which is due to the increased volume of credit receivables in the financing of the corporate business in the direct loan portfolio. Interest expenses also increase amounting to BGN 11,422 thousand for 2019 compared to BGN 9,489 thousand for 2018 or an increase by 20.4% taking into account the increased volume of borrowings from international financial institutions for the financing of the Bank's activities. As a result of the realized for 2019 interest income and expenses, net interest income for the financial year 2019 was reported 14.2% higher in comparison with 2018, with a value of BGN 61,433 thousand (for 2018: BGN 53,791 thousand).

Net income from fees and commissions amounts to BGN 1,931 thousand compared to BGN 2,027 thousand for 2018, representing a decrease of 4.7%.

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Net profit on financial assets measured at fair value in other comprehensive income for 2019 recorded significant growth on an annual basis, reaching BGN 3,687 thousand compared to BGN 738 thousand for the financial year 2018.

As at 31 December 2019, general and administrative expenses, including depreciation and amortization expenses, amounted to BGN 26,320 thousand and are higher by 14.7% than the expenses for 2018 (as of December 31, 2018: BGN 22,948 thousand). As of the end of 2019, general and administrative expenses are 14% below those planned for the period in Budget 2019, with the cost-to-revenue ratio significantly lower than the average level for the banking system.

As at 31.12.2019, the financial result of the Bulgarian Development Bank AD after taxes was a profit of BGN 11,057 thousand compared to BGN 25,130 thousand for the previous reporting year. The decrease in the reported financial result is due to the significantly higher amount of accrued expenses for impairment and provisions in 2019.

Statement of financial position indicators as of 31.12.2019:

Financial position	As at 31.12.2019	As at 31.12.2018	Change YoY
Assets			
Cash in hand and balances in current account with the Central Bank	250,619	297,622	-15.8%
Receivables from banks	339,248	429,548	-21.0%
Financial assets at amortised cost	1,821,671	1,511,079	20.6%
Financial assets at fair value through other comprehensive income	542,119	594,249	-8.8%
Investments in subsidiaries	109,488	105,625	3.7%
Fixed assets	36,955	32,818	12.6%
Other assets	46,991	41,820	12.4%
Total assets	**3,147,091**	**3,012,761**	**4.5%**
Liabilities			
Deposits from credit institutions	7,877	5,759	36.8%
Borrowings from international institutions	1,211,937	904,782	33.9%
Deposits from customers other than credit institutions	1,134,049	1,307,522	-13.3%
Other borrowings	17,119	17,306	-1.1%
Other liabilities	7,090	5,406	31.2%
Total liabilities	**2,378,072**	**2,240,775**	**6.1%**
Equity			
Issued capital	601,774	601,774	0.0%
Retained earnings	11,057	25,130	-56.0%
Revaluation reserve on financial assets at fair value through other comprehensive income	12,183	6,055	101.2%
Other reserves	144,005	139,027	3.6%
Total equity	**769,019**	**771,986**	**-0.4%**
Total liabilities and equity	**3,147,091**	**3,012,761**	**4.5%**

As at 31 December 2019, the Bank's assets amounted to BGN 3,147,091 thousand, representing an increase of 4.5% compared to the previous year.

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The credit activity of BDB consists of both direct lending and indirect financing through programs for funding commercial banks, which use the received funds to provide loans to SMEs and agricultural producers, i.e. the so called on-lending.

As at the end of 2019, the financial assets measured at amortised cost increased by 20.6%, the largest share of the increase being the increase in the gross value of the loans and advances directly granted, which as at 31 December 2019 amounted to BGN 1,808,945 thousand (compared to BGN 1,197,889 thousand as at 31 December 2018), or an increase of 51% for the reporting year 2019.

Under the National Energy Efficiency Programme (NEEP) launched in 2015, the total agreed funding under the signed contracts is BGN 1,950,074 thousand at the end of 2019 (compared to the end of 2018 – BGN 1,842,885 thousand). The sites for which targeted financing contracts have been concluded with the Bank are a total of 2,022. Under the Energy Efficiency of Multi-Family Residential Buildings National Programme by the end of 2019 - completed loans under which the Ministry of Regional development and Public Works has forwarded amounts to BDB AD are for 1,715 buildings. The utilized amount is BGN 1,864,010 thousand and gross receivables on loans with accumulated interest amounted to BGN 145,139 thousand (as at 31.12.2018 – BGN 472,803 thousand).

In 2019, the Bank continued to actively develop its business, supporting Bulgarian businesses, continuing to maintain a diversification of the industry structure of its loan portfolio. Greater dynamics are observed in the relative shares in the credit portfolio of the following sectors: Industry (increase by 903%), Tourist services (growth of 146%), Transport (growth of 78%). (Note 19B to the annual financial statements).

Borrowings from international institutions at the end of 2019 comprise 50.9% of the liability structure and amount to BGN 1,211,937 thousand compared to BGN 904,782 thousand at the end of 2018. BDB utilized EUR 180,000 thousand in the fourth quarter under the third tranche of the Financial Cooperation Agreement signed in December 2018 with the Development Bank of China for a total amount of EUR 300,000 thousand.

DEVELOPMENT STRATEGY

BDB is a key instrument and a channel for conducting government economic policies, including in specific areas, regions, industries and social groups. The Bank and the companies actively collaborate with all government state structures in order to ensure maximum impact of the public funds targeted on support of the economic development. The focus of the activity is pre-export, export and bridge financing.

BDB and its subsidiaries operate in full transparency and apply the best banking and management practices. A core objective of the Bank is to reach the sectors of the economy and borrowers experiencing difficulties in accessing and obtaining financing, by providing financial solutions and products to overcome market imperfections.

In pursuing its mission, BDB supports government efforts for acceleration of economic growth in the country by means of providing expertise and performing activities in all area of economic policies, facilitating the absorption of the EU structural funds, enhancing the export potential of the country, financing public and public-private project or partnerships of strategic national or regional importance, incl. infrastructural projects, etc.

The spread of the Covid-19 pandemic paralyzed business and had a strong negative effect on the global economy. To address the negative effects and business expectations of early March 2020, the government has taken measures that bring financial resources directly into the economy. BDB took over the implementation of two government mandates after its capital was increased by BGN 700 million: special mandate for guarantee programmes with a budget of BGN 200 million and an anti-crisis programme with a budget of BGN 500 million for guarantees portfolios for business loans. The programmes are implemented with the participation of

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commercial intermediary banks, which grant 6-year loans and loans without fees, commissions and penalties for their service.

The main principle underlying the BDB's activity is not to allow distortion of competition and displacement of the traditional commercial banks from the market. By compensating any existing market shortages in financing certain segments and clients, BDB and its subsidiaries contribute to adjusting their risk profile and further facilitate the increase of bank mediation and growth in credit volumes in the economy.

The strategic goals of BDB are:

- To facilitate the economic growth by supporting regions and sectors of the economy with established market shortage and potential for growth;
- To help SMEs quickly overcome the crisis by balancing between different sectoral priorities and national economic priorities and programmes endorsed by the government;
- To stimulate the economic activity of the investors for the modernization of the material and technological basis and for boosting the competitiveness of the economy;
- To facilitate the economic growth of the regions through financing, including syndicated, of sizable, strategic and infrastructural, by their nature, projects and investments;
- To support the development of competitive production initiatives and sectors of the economy of proven export potential;
- To facilitate, jointly with the other institutions in the country, the access to financing of innovative and newly established companies (start-ups);
- To facilitate and support the direction of capital flows to the Bulgarian economy.

In planning and carrying out its operational objectives, BDB will maintain the two approaches to support SMEs in the country - through direct lending and through indirect programmes through commercial banks. BDB follows the principles of prudent risk assessment and adequate management of these risks.

With regard to direct lending, the Bank will further develop focused product lines related to SME support. To fulfil the objectives, priorities will be pre-export, export and bridge financing. Traditionally, the Bank will continue to provide financing for small and medium-sized businesses with a longer loan period and relieved legal requirements for loan collateral.

The Bank considers that, in a context of high liquidity in the banking sector, the absorbing of part of the risk, namely additional risk that discourages commercial banks from financing, would be a key factor in the success of indirect programmes.

BDB, together with the Group's companies, will interact with the operational programme management bodies in Bulgaria, identifying existing problems in the financing of specific measures and offering solutions for their removal, including specific forms for their financing. At an accelerated pace, consultations will be carried out in order to adequately include the BDB in the overall model of public resource management, in support of the development of the country's economy. The Bank considers its participation in it as an essential step in increasing the effectiveness of measures to support the Bulgarian economy.

DEVELOPMENT OF BULGARIAN DEVELOPMENT BANK AD IN 2020

The Bank's main strategic objectives and policies in 2020-2021 will be as follows:

- Continued growth of funding to support the development of the national economy and the realization of the economic priorities of the government;
- Conducting a sustainable process for the formation and development of targeted product lines, within the framework of the two main approaches for financing SMEs;

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- Conservative assessment of the risks assumed and maintaining a high level of coverage of bad loans with provisions.

The Bank intends to significantly diversify its funding sources. The Bank will use bond instruments in the formation of liability where balancing, in terms of the international and the domestic market, will be made currently and depending on the specific market conditions.

BDB intends to apply for the role of a direct guarantee implementing partner under the InvestEU programme, a programme that is to be a major support channel for business in the next programming period in the EU.

In the context of the Covid-19 pandemic, BDB as the only state bank that has implemented a number of initiatives to support companies and citizens for whom the epidemiological situation has negatively affected the ability to carry out their activities, work, etc. The Bank will continue to be a key instrument for realization of the government policy in the post-crisis recovery phase.

INTERNAL CONTROL

The internal control processes within the Bank include the following components:

a) control environment - a description of the control environment can be found in items Risk Management, Control Environment, and in the Corporate Governance Statement, Control Environment section;
b) risk assessment process - a description of the control assessment of the risks of the Bank may be found in Corporate Governance Statement, Risk Management section;
c) information system, including the related business processes relevant to the financial reporting, and communication - description of the information system of the Bank may be found in the Risk Management and Control Environment sections;
d) control activities - a description of the control activities of the Bank may be found in the Risk Management section, part of Corporate Governance Statement, Structures for Risk Management and Committees to the Management Board sections;
e) ongoing monitoring of controls - a description of the ongoing monitoring and control of the Bank may be found in Corporate Governance Statement, Structure for Risk Management and Committees to the Management Board sections.

RISK MANAGEMENT

In managing its risk, BDB applies policies and procedures based on best practices and appropriate to the nature and complexity of its activity. In the course of the ordinary activity, BDB is exposed to various financial risks, the occurrence of which may lead to losses and to deterioration of the financial stability of the Bank. These risks are identified, measured and limited to acceptable levels by means of limits and restrictions that reflect the BDB's willingness to take specific risks in order to achieve its strategic objectives. The risk management process is important for the Bank's profitability and existence. The most significant risks, to which the Bank is exposed, are credit, market, liquidity and operational risks.

CREDIT RISK

The credit risk is the key risk to which Bulgarian Development Bank is exposed, and therefore, its management is a key priority of the Bank's activity. The credit risk management is carried out in compliance with the BDB Act, and the effective statutory laws and regulations of the Republic of Bulgaria, regulating the credit activity, the established international norms and best banking practices. BDB uses internal rating for the evaluation and management of the credit risk (incl. from counterparties) under the exposures. Bodies for

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monitoring, control and assessment of the quality of the credit portfolio have been created and are functioning at Bulgarian Development Bank. Procedures and mechanisms have been introduced for ongoing monitoring, recording and management of the credit portfolio, requiring periodic, and if necessary, extraordinary reports on the financial and legal status of each borrower and liable persons When new circumstances are established, which may lead to a change in the risk profile of the borrowers, including increasing the risk of default of the credit exposure, adequate measures are undertaken, which take into account the risk profile of the debtor. When managing the credit risk, BDB follows a system of internal Bank limits by economic sectors, by instruments, as well as other credit limitations and thresholds for concentration, and the results from the monitoring of their compliance are reported to the competent bodies. The system of limits is reviewed and updated periodically.

MARKET RISK

In managing the currency risk, BDB follows the principle of maintaining minimum open FX positions through the observing of established limits. The positions of the Bank in various currencies, as well as the general FX position are monitored on a daily basis. The FX positions are not formed for speculative purposes, but are the consequence of the currency transactions, occurring in the course of the ordinary bank activity. These foreign exchange operations relate to the current financing needs of the position. In managing its assets and liabilities, due to the specifics of its financing, BDB seeks to maintain these assets and liabilities in EUR or BGN. The Bank's open FX position takes into account the terms and possibilities for netting the EUR and BGN positions in accordance with the applicable regulatory framework.

In managing interest rate risk, the Bank follows the principle of maintaining a balanced structure of its interest-sensitive assets and liabilities, seeking to maintain consistency between the frequency of change in interest on assets and liabilities, as well as a correlation between the applicable reference interest rates on assets and on the liabilities of the BDB. A system of limits for the maximum acceptable (quantitative) impact of various shock scenarios on the change in market interest rates on net interest income and the economic value of the Bank's capital has been introduced. The internal limit framework mitigates the potential risk on expected future returns and the economic value of capital, within acceptable levels corresponding to the risk tolerance of the BDB. The interest rate risk assessment is carried out using a set of techniques including yield-based measurement, measurement of the economic value of capital, analysis of discrepancies, interest rate stress scenarios.

The assumption of risks when transacting on the money and capital markets is managed by a system of limits reflecting the risk profile of the investments. These limits are determined according to parameters of the portfolio, like counterparty, financial instrument, maturity, etc. The system of limits is periodically reviewed, while the compliance with the limits is subject to daily monitoring. The securities portfolio, created by BDB in order to invest the available funds, is characterized by a relatively low interest rate risk and comprises relatively liquid government securities and securities issued by reliable institutions, i.e. low price risk. BDB does not maintain trade portfolio and is not subject to capital requirements for market risk from trading activities, in accordance with regulatory provisions.

LIQUIDITY RISK

Liquidity risk management and control is carried out through day-to-day liquidity monitoring and management, maintaining access to sufficient liquidity to ensure the discrepancies between cash inflows and outflows at maturity intervals, both in a normal banking environment and in different liquidity-aggravated scenarios. The liquidity of BDB is managed by strictly monitoring the ratios, indicating the liquidity position by periods. The liquidity risk is measured by applying additional scenarios for the cash flows from operations. In addition, the liquid buffers of the Bank are measured and monitored, as well as the additional sources of financing upon market and idiosyncratic shocks. The main focus of liquidity management is to maintain an

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adequate level of liquidity buffer in accordance with the established limits and restrictions set according to the risk tolerance of the BDB.

OPERATIONAL RISK

For operational risk management BDB applies a systematic approach covering the collection of objective information, timely identification of operational risk, its measurement (qualitative and quantitative), the identification of dependencies with other types of risk and the application of measures to limit its impact on the financial performance and on the capital of the Bank. The operational risk is managed by strictly monitoring and registering all operational events occurring in the activity of the various units as a result of the processes within the Bank identifying and managing the full range of operational risks. Operational events, which are more frequent, and the ones having great potential or real impact on the BDB's financial result, are subject to strict investigation and monitoring. They serve as the basis for the analysis of the operational risk in various scenarios, including operational risk stress tests. The operational risk is measurable and controllable, while a registry of the operational events is maintained and used as basis for analysis and improvement of the Bank's working processes and for minimizing the conditions, which could potentially lead to operational events and loss for the Bank. The necessary capital for operational risk is calculated by using the basis indicator approach pursuant to the applicable regulatory framework.

RECOVERY PLAN (DIRECTIVE 59/15.05.2014/EU)

BDB has developed a Recovery Plan of the BDB Group. At the end of the reporting year 2019 it is a valid document approved by decision of the MB No32/31.05.2019 and decision of SB No16/21.06.2019. As of the date of preparation of this report its latest update, approved by decision of the MB No. 5/06.02.2020 and decision of the SB No. 4/19.02.2020, was submitted to BNB. The Plan complies with the requirements laid down in the Law on the Recovery and Resolution of Credit Institutions and Investment Firms, Guidelines on recovery plan indicators and Technical advice on critical functions and core business lines of the European Banking Authority.

The Recovery Plan addresses the systemically important/critical functions of the BDB Group and sets out the recovery indicators - a system of indicators the Bank observes with the aim of early identification of potential situations which could jeopardize the financial performance of the institution. The prerequisites for the implementation of the recovery measures set out in the Recovery Plan are described. Scenarios and recovery options are considered which, in the event of activation of the Recovery Plan, can be taken, as well as the internal communication and decision-making process. A communication action plan has been elaborated in case of activation of the Recovery Plan.

The Recovery plan is updated once a year and proposed for validation by the MB and SB of BDB. Furthermore, the Recovery Plan is updated in the event of a material change in the legal or organisational structure, activity or financial position of the Bank, or in the financial system in Bulgaria, which may have a significant impact on its effectiveness.

CONTROL ENVIRONMENT

Internal control in the Bank is a continuous process carried out by the management bodies and by persons engaged in internal control functions. Elements of internal control are systems for:

1. management control;
2. risk control;
3. reporting and information; and
4. internal audit.

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The first three elements of the internal control system are within the competence and powers of the relevant authorities. The fourth element of internal control is a responsibility of the group's internal audit.

The internal control of the Bank is organised as an independent assessment of the legality of the banking transactions and is carried out by monitoring and verifying the financial, accounting and other operations, as well as by the way how the powers of officials in decision-making are exercised. The internal control system of the Bank is subject to the requirement of economy, efficiency and reasonable sufficiency.

Internal control is carried out simultaneously as preventive, ongoing and subsequent control over the Bank's positions and its separate processes, activities and transactions. The general internal control over the activities of the Bank is performed by the Supervisory Board.

For implementing the effective framework of risk management and internal control, the Bank applies the model of the three lines of defence:

The first line of defence is the management control that the leaders of the operational units are exercising. The operational management identifies, evaluates, controls and mitigates risks, ensuring that they operate in accordance with the objectives set out in advance.

The second line of defence is the risk management and compliance function carried out by the Risk Management, Compliance and the Classified Information Departments with regard to the prevention of money laundering and terrorist financing. In their activities, these departments are supported by Management, Analysis and Regulation and Legal Departments. The second line of defence is independent from the first one in terms of organisation, and carries out preventive and ongoing control.

The third line of defence is the internal audit function. Internal Audit of the Group Department carries out ex-post control and provides assurance to senior management with respect to the effectiveness of risk management, internal control and corporate governance, as well as the way in which the first and second lines achieve the risk management and control objectives. Internal Audit of the Group Department provides comprehensive assurance from the position of the highest level of independence in the organisation, through a direct subordination to the Supervisory Board.

Management assigns powers and responsibilities for the operating activity in line with a detailed internal normative set of documents, which are in conformity with the current national and European legislations, where in order to guarantee the relationships in accountancy and reporting, and various specialized committees, by hierarchy of authorities, were formed to the MB and SB of BDB as stated in the Corporate Governance Statement, being part of the current financial statements.

The Bank has developed an internal set of documents, which includes policy and communications focused on ensuring that all employees understand the goals of the Bank, knows how individual actions are interconnected and contribute towards these goals, and who and how is reporting and what is their responsibility.

BDB has established an information system, including business processes related to it, providing the necessary quality and control of the financial accountability and communication.

The Bank's audit committee monitors the financial reporting processes, the effectiveness of internal control systems and the effectiveness of risk management systems; moreover, it monitors the independent financial audit, reviews the independence of the registered auditor, and makes recommendations for selecting a registered auditor.

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BANK SUPERVISION AUTHORITIES PURSUANT TO THE BULGARIAN LEGISLATION

As of 31 December 2019, the Bank has observed all regulatory requirements of BNB and the Bulgarian legislation.

The capital adequacy ratio on an individual basis as of 31 December 2019 was 29.09% (31 December 2018: 35.96%). The coverage of assets with capital buffers exceeds by many times the statutory requirements. BDB continues to maintain a good liquidity level. The liquidity coverage ratio (according to the definition of Regulation 575 /2013/EU, LCR) of the Bank is 533% as of 31 December 2019 (compared to 1,331% at the end of 2018).

INTERNATIONAL COOPERATION

BDB continues to develop successful partnerships with leading European and international financial institutions, including through participating in renowned associations. This cooperation enables the Bank to take advantage of the best banking practices, know-how, information on financial products, and also to participate in their development and implementation. BDB has direct access to up-to-date general and specific information about the latest changes in the legislative framework at European level and its implementation in the area of the development banks, and has the opportunity to participate in the process of negotiating these amendments. The membership in international specialized associations allows BDB to take part in seminars and meetings with the European Commission and its Directorates.

- Since 2005 BDB is an active member of the European Association of Public Banks (EAPB). The membership in EAPB contributes for the exchange of experience and best practices between BDB and the European public banks. In November 2019 BDB participated in the annual meeting and the annual conference of the leaders of EAPB members'.
- Since 2007, BDB is a full member of the Network of European Financial Institutions (NEFI), including representatives from 19 institutions from various European countries. The mission of NEFI is to improve the exchange of information and ideas in order to facilitate SME's access to financing.
- In 2019, BDB continued its participation in the activity of the European Association of Long-term Investors (ELTI). BDB is a co-founder of this organization. In November BDB took part in the general meeting of the Association.
- After being the first President by rotation and took the host's role at the First International Meeting of the China-CEEC Interbank Association of China and the Central and Eastern European countries in July 2018, in April 2019 BDB participated in a meeting of the Board of Directors and a meeting of the Committee of Senior Officials within the association. The BDB was also presented in a seminar on "Concepts and Practices for Sustainable Development" in China.
- BDB is a shareholder of the European Investment Fund (EIF) and regularly participates in the discussions of the Group of Financial Institutions - shareholders, where the guidelines for development of the activities and policy of EIF are discussed. BDB regularity votes on various topics - the admission of new shareholders and other organizational matters. In 2019 BDB hosted the Meeting of EIF Minority Shareholders.
- BDB organized and hosted a Meeting of Development Banks from the Balkans and Central and Eastern Europe. Five new institutions joined the Memorandum of Cooperation signed in 2018 in Sofia. Currently, the partners include eleven national and multilateral development banks from Croatia, Hungary, Macedonia, Romania, Bosnia and Herzegovina, Serbia, Slovenia and Bulgaria. The Memorandum allows for the implementation of major infrastructure projects without the accumulation of debt by individual governments and by using resources from different sources.

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- In 2019, the BDB became a member of the Central and Eastern European Chamber of Commerce and Industry (Singapore). The organisation is aimed at supporting and promoting business, trade, investment, finance, services, industry, economic and commercial interests between CEE members and Singapore.

BANK GOVERNANCE

There were no charges in the main BDB corporate governance principles in 2019.

Bulgarian Development Bank AD has a two-tier corporate governance structure, which consists of Supervisory Board (SB) and Management Board (MB). As of 31 December 2019 the management structure consists of the following:

Supervisory Board (SB) of BDB:

***Luchezar Borisov** - Chairman of the SB*

Luchezar Borisov was born in 1987 in Samokov. He completed his Master studies in Macroeconomics and Accounting and Finance at the University of National and World Economy (UNWE). He has several specializations in Bulgaria and abroad, including in Entrepreneurship and Risk Capital in AUBG, Project Management in WIFI, Austria, Encouragement of Foreign Direct Investments in JICA, Japan, Stock exchange and Banking in CITIBANK, etc. He has rich experience in corporative management. Mr. Borisov has been part of the management of both private and state-owned companies in the industry, energy and financial sectors. Currently he is a Deputy Minister of Economy,

***Mitko Simeonov** - Deputy Chairman of the SB*

Mitko Simeonov has a Master degree in Law from the New Bulgarian University and a Master degree in International Economic Relations from the University of National and World Economy. He also holds a postgraduate degree in financial management from the University of National and World Economy. He was Deputy Executive and Executive Director of the Agency for Privatization and Post-Privatization Control.

***Velina Burska** - Member of the SB*

Velina Burska has a Master Degree in Economics and Organization of Internal Trade from the University of National and World Economy. From 2002 to 2017 she was the director of the Post-Privatization Control Directorate at the Agency for Privatization and Post-Privatization Control.

Management Board of BDB:

***Stoyan Mavrodiev** Chairman of the Management Board and Chief Executive Director*

Stoyan Mavrodiev holds a Master degree in Law from Sofia University "St. Kliment Ohridski" and a Master degree in Finance from the University of National and World Economy. He attended a series of courses at the International Tax Academy in Amsterdam, and has also trained in the US Department of State's International Program of Leaders. His career started as a legal, tax and business consultant at PricewaterhouseCoopers. In the period 1996-2006, he worked as a financial and legal consultant in the United Consulting, which he also managed. From 2009 to 2010 he is Deputy Chairman of the Commission for Economic Policy, Energy and Tourism and member of the Budget and Finance Committee of the 41st National Assembly. For 6 years (2010-2016), he is Chairman of the Financial Supervision Commission (FSC), which oversees and regulates the financial system and the non-banking financial sector in Bulgaria. From 2010 to 2016 he is a member

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of the Advisory Financial Stability Board (FSF). In this period, it is also a member of a number of international organizations, including ESMA, EIOPA, ESRB, IOSCO, IAIS and IOPS.

***Rumen Mitrov** - Deputy Chairman of the Management Board and Executive Director*

Rumen Mitrov holds a Master of Accounting and Control from the University of National and World Economy. His professional experience began in 1994 at NRA Sofia. In the period 2000-2003 he is the manager of the petroleum products import company "GMN GAZ", and from 2003 to 2011 he is engaged in financial and tax consultancy as manager of the two accounting companies "Eurotim Bulgaria" and "RM Consult". From 2011 to 2016, he was consecutively appointed Director of "Investment Activity Supervision", "Regulatory Policy", and "Coordination, Analysis and Policy of Supervisory and Supervision Activities" divisions in the Financial Supervision Commission (FSC).

***Nikolay Dimitrov** - Member of the Management Board and Executive Director*

Nikolay Dimitrov holds a Ph.D. in Economics from the University of National and World Economy (UNWE) with specializations "International Economic Relations" and "Finance". Between 2007 and 2015, he completed a number of additional courses and qualifications at the Judge Business School at Cambridge University (UK), the Investment Banking Institute (USA), among others. His banking career started at the end of 2003 and went through Raiffeisen Bank and United Bulgarian Bank. He joined the Bulgarian Development Bank in July 2011, in January 2012 become Head of the Investment Banking and Project Finance Department, and since April 2013 he is Head of the Corporate Banking Division. Alongside, he has been an associated professor at the Department of International Economic Relations at UNWE over the period 2010-2017.

Bulgarian Development Bank AD is represented by either two of the Chief Executive Director, Executive Directors and the Procurator, jointly.

Contracts signed with related parties involved in the management and participation of the Bank's MB and SB members in other companies

There are no contracts signed pursuant to Art. 240b of the Commercial Act between the members of the SB and MB or persons related to them, on one hand, and the Bank, on the other, which fall beyond the ordinary course of business or which deviate significantly from the market conditions.

In 2019, there were no concluded deals between BDB and its related parties, or offers for signing such deals, which fall outside the scope of the ordinary activity, or which significantly deviate from the market conditions, to which BDB or its subsidiary is a party.

There are no material contracts of the Bank, which lead to action, are amended, or terminated, due to change in the control of the Bank, when performing a compulsory public procurement procedure. As far as there is a legal restriction regarding the acceptable range of shareholders of BDB, pursuant to the BDBA, no such contracts are expected to be concluded.

The BDB Group does not have practice and has not concluded agreements between the BDB and the management bodies or employees for the payment of compensation upon resignation or dismissal without legal grounds thereof, or upon terminating the legal employment relationships by reasons related to tender offers.

A participation, pursuant to Art.247, Para.2, item 4 of the Commercial Act, of members of the SB and MB in commercial companies as general partners holding more than 25 per cent of the capital of another company, as well as their participation in the management of other business companies or cooperatives as procurators, managers or members of boards, is as follows (as of 31 December 2019):

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With respect to members of the Supervisory Board (SB) of the Bank:

- Luchezar Dimitrov Borisov - Chairman of the SB - he participates in the management of Energy Efficiency and Renewable Sources Fund, UIC: 131330278, member of the MB of the company;
- Mitko Emilov Simeonov - he has no participations in the capital and management of other companies;
- Velina Ilieva Burska - she has no participations in the capital and management of other companies.

With respect to members of the Management Board (MB) of the Bank:

Stoyan Todorov Mavrodiev - Chief Executive Director, Chairman of the MB; he participates in the management of the following commercial companies:

- Capital Investments Fund AD, UIC: 205322014, a subsidiary of the Bank, as Chairman of the Board of Directors and Executive Director;
- National Guarantee Fund EAD, UIC: 200321435, a subsidiary of the Bank, as Chairman of the Board of Directors;
- BDB Leasing EAD, UIC: 205565411, a subsidiary of the Bank, as Chairman of the Board of Directors and Executive Director;
- BDB Factoring EAD, UIC 205566082 a subsidiary of the Bank, as Chairman of the Board of Directors and Executive Director.

Participation in the share capital of commercial entities:

- Real Estate Ventures EOOD, UIC: 131160908, sole owner.

Rumen Dimitrov Mitrov - Executive Director, Vice Chairman of the MB, he participates in the management of the following commercial companies:

- Micro Financing Institution Jobs EAD, UIC: 201390740, a subsidiary of the Bank, as Vice Chairman of the Board of Directors;
- Capital Investments Fund AD, UIC: 205322014, a subsidiary of the Bank, as Vice Chairman of the Board of Directors;
- BDB Leasing EAD, UIC: 205565411, a subsidiary of the Bank, as Vice Chairman of the Board of Directors;
- BDB Factoring EAD, UIC 205566082 a subsidiary of the Bank, as Vice Chairman of the Board of Directors.

Participation in the share capital of commercial entities: none.

Nikolay Dimitrov Dimitrov - Executive Director, member of the MB; he participates in the management of the following commercial companies:

- Micro Financing Institution Jobs EAD, UIC: 201390740, a subsidiary of the Bank, as a member of the Board of Directors;

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- Capital Investments Fund AD, UIC: 205322014, a subsidiary of the Bank, as a member of the Board of Directors;
- BDB Leasing EAD, UIC: 205565411, a subsidiary of the Bank, as Member of the Board of Directors;
- BDB Factoring EAD, UIC 205566082 a subsidiary of the Bank, as Member of the Board of Directors.

Participation in the share capital of commercial entities: none.

Details about the full amount of the remuneration, rewards and/or benefits paid by the issuer and its subsidiaries to each one of the members of the management and control bodies for the reporting financial year are disclosed in Note 13 to the financial statements.

TRANSACTIONS WITH COMPANIES UNDER JOINT CONTROL OF THE STATE

The owner of BDB is the Bulgarian state. Transactions with related parties and companies under the common control with the state are disclosed in Note 38 to the separate financial statements of BDB for 2019.

EVENTS AFTER THE DATE OF THE FINANCIAL STATEMENTS

COVID-19 pandemic and BDB capital increase

In connection with the COVID-19 epidemic, the Bulgarian government has taken a number of measures to support the economy. The Bank was assigned an extremely important role in the implementation of the Bulgarian government policy for overcoming the economic consequences caused by the pandemic. The measures with a direct effect on the Bank were as follows:

Decree No 52 of 26 March 2020 approved changes to the budget of the Ministry of Economy for 2020 for additional payments for financing the budget balance at the expense of the central budget of up to BGN 700 million to increase the shareholders' capital of the BDB. By decision No 215 of 27 March 2020, the Council of Ministers decided to increase the capital of the Bulgarian Bank by BGN 700 million, using the funds "to implement measures to support the economy in connection with the COVID-19 epidemic, including the issuance of portfolio guarantees to banks to allow them to provide more flexible conditions for business loans for a certain period, under certain conditions and under individual assessment on a case-by-case basis".

By implementing these measures an extraordinary General shareholders meeting was held on 02.04.2020 when a decision was taken to increase the Bank's capital through issue of 7,000,000 newly registered dematerialized voting shares with nominal value of BGN 100 each at the total amount of BGN 700,000,000. Thus, the capital of Bank was increased from BGN 601,773,500 to BGN 1,301,773,500.

By Decree No 134 of 18 June 2020 the Council of Ministers approved changes in the budget of the Ministry of economy for 2020 and additional payments for financing the budget balance at the expense of the central budget. By Decision No 402 of 18 June 2020 of the Council of Ministers the Bulgarian State decided to increase its shareholding in the capital of Bulgarian Development Bank AD through a cash contribution at the total amount of BGN 140 000 000.

Implementing these measures a General shareholders meeting was held on 06.07.2020 when a decision was taken to increase the Bank's capital through issue of 1 400 000 new registered dematerialized voting shares with nominal value of BGN 100 each at the total amount of BGN 140 000 000. Thus, the capital of Bulgarian Development Bank AD was increased from BGN 1,301,773,500 to BGN 1,441,773,500.

By Decision No 257 of 14 April 2020, the Council of Ministers approved the interest-free loan guarantee program to protect people deprived of the opportunity to work due to the COVID-19 pandemic, with a budget of BGN 200 million proposed by the BDB. The program will be secured with the increase of the Bank's capital according to Decision No 215 of the Council of Ministers from 2020.

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By Decision No 310 of 7 May 2020, the Council of Ministers approved the Portfolio Guarantee Programme to support the liquidity of micro, small and medium-sized enterprises (SMEs) affected by the emergency state and the COVID-19 epidemic proposed by the BDB, with a budget of BGN 500 million. The programme will be secured with the Bank's capital increase according to Decision No 215 of the Council of Ministers of 2020.

In relation to the responsibilities and mandates assigned to overcome the economic consequences of the spread of COVID-19, BDB has developed an information portal https://bbr.bg/covid/ providing up-to-date information on the progress of the following two programmes in which the Bank participates:

- Interest-free loan program for individuals on unpaid leave and self-insured persons (with a budget of up to BGN 200 million)
- Anti-crisis programme to support small and medium-sized enterprises (with a budget of up to BGN 500 million)

The Bank is in the process of analysing the potential effect of these measures on its financial position and operating results.[3]

In addition, by decision of the BNB of 9 April 2020, the BNB approved the proposed by Association of Banks in Bulgaria procedure for deferral and settlement of due obligations to banks and their subsidiaries - financial institutions in connection with the state of emergency introduced on 13.03.2020 by the National Assembly in connection with the COVID 19 pandemic to which the Bank joined. It is a private moratorium, in accordance with EBA guidelines (EBA/GL/2020/02). The effect of this moratorium on the Bank's business in short term is yet to be calculated.

In mid-July 2020, the BDB joined a request of the Association of Banks in Bulgaria for extending the deadlines in the moratorium on payments. The changes relate to:

- extension of the deadline for submitting a request from customers of banks for deferral of liabilities and their approval by banks – until 30 September 2020.
- extension of the deadline for deferring liabilities of bank customers – until 31 March 2021.

The extension of the deferral procedure applies to exposures for which no request for deferral of payments has been submitted before 22 June 2020.

Changes in the Bank's Management Board

By Decision of the Supervisory Board of the BDB under Protocol No 10 of 06.04.2020 Mr. Jivko Ivanov Todorov was elected as a new member of the Management Board of the BDB. Mr. Jivko Todorov is authorized to represent and manage the Bank as Executive Director. The circumstances are recorded in the Commercial Register on 14.04.2020.

By Decision of the Supervisory Board of the BDB under Protocol No 12 of 08.04.2020, the authorization of the Chief Executive Director to represent the Bank was withdrawn and a decision was taken to dismiss Mr. Stoyan Todorov Mavrodiev as a member of the Management Board of the Bank. The circumstances are recorded in the Commercial Register on 22.04.2020.

[3] The world's leading financial institutions - IMF, WB, EBRD, EIB - as well as governmental and supranational structures expect a significant economic downturn in 2020, followed by an uncertain recovery in 2021. The Bulgarian economy is expected to decline between 3% (MoF) and 7.1% (EC), followed by growth between 4.8% (EBRD) and 6% (IMF) in 2021. The bank has yet to analyze the impact of these data on its portfolio.

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By Decision of the Supervisory Board under Protocol No 12 of 14.04.2020, Mr. Panayot Ivov Filipov was elected as a new member of the Management Board of the BDB. This circumstance was recorded in the Commercial Register on 24.04.2020. Mr Panayot Filipov is authorized to represent and manage the Bank as Executive Director. This circumstance was recorded in the Commercial Register on 30.04.2020.

By Decision of the Supervisory Board under Protocol No 18 of 24.04.2020, the authorization of the Executive Director to represent the Bank was withdrawn and a decision was taken to dismiss Mr. Rumen Dimitrov Mitrov as a member of the Management Board of the Bank. This circumstance was recorded in the Commercial Register on 30.04.2020.

Changes in the Bank's Supervisory Board

By Decision of the General shareholders meeting of the Bank on 20.08.2020 Mr. Luchezar Borisov was dismissed as a member of the Supervisory Board and replaced by Mr. Stamen Yanev. The replacement of Mr. Luchezar Borisov with Mr. Stamen Yanev in the Supervisory Board was recorded in the Commercial Register on 26.08.2020.

Amendments to the Statute of the Bank

By Decisions of the Extraordinary General Meeting of Shareholders of the Bank held on 02.04.2020 and 06.07.2020 changes in capital have been consistently adopted and reflected in the Statute of the BDB as follows – by BGN 700,000,000, according to a decision of the GMS held on 02.04.2020 and by BGN 140,000,000, according to a decision of the GMS held on 06.07.2020.

By decision of the General Meeting of Shareholders, held on 20.08.2020, changes were adopted in the Statute of the Bank governing the functional characteristics of the Executive Directors of the Bank and the position of "CEO" was deleted. At the date of preparation of the report, these changes have been requested for approval by the regulatory authority.

Change in the structure of the Bank

By decisions of the Management Board of 12.05.2020, 22.06.2020 and 21.08.2020 confirmed by the Supervisory Board on 14.05.2020, 29.06.2020 and 01.09.2020 the Bank made changes to its organizational structure as follows:

- Closed the departments General Secretary and Cabinet of Management Board;
- Transferred departments "Strategic development and planning", "Public relations" and "Concessions" previously subordinated to the head of Cabinet of the Management Board to executive director and department "Strategic development and planning" is transformed to a division and renamed to "Strategic development";
- "Classified information" Department is transformed to "Classified information" Division;
- "Secretariat" Department is separated from "Administration" Division and is directly subordinated to executive director;
- The position "Data protection officer", part of "Classified information" Division is separated and is directly subordinated to executive director;
- A new Division "Monitoring and financial instruments" was established.

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For the purpose of function and control allocation among the executive directors of BDB the structure components of the Bank's organizational structure are grouped in sectors as follows:

Sector № 1

- "Risk" Division
- "Credit Administration" Division
- „Non-Performing Loans" Division
- „Legal" Division
- „Information Technologies" Division
- „Classified information" Division
- Data protection officer

Sector № 2

- „Corporate banking" Division
- „Treasury" Division
- „On-lending Programs" Division
- „Investment banking and project financing" Division
- „International Financial Institutions and EU Funds" Division
- „Monitoring and financial instruments " Division
- „Administrative" Division
- „Human Resources" Division
- „Security" Division
- „Public Concession" Department
- „Secretariat" Department

Sector № 3

- „Accounting" Division
- „Planning, Analysis and Regulations" Division
- „Operations and Client Services" Division
- „Compliance" Division
- „Strategic development" Division
- „Public relations" Department
- Chief economist

The allocation of responsibilities among the members of the Management Board of BDB is as follows:

Sector 1 – Mr. Panayot Filipov, Executive Director, member of Management Board
Sector 2 – Mr. Nikolay Dimitrov, Executive Director, member of Management Board
Sector 3 – Mr. Jivko Todorov, Executive Director, member of Management Board

With regard to the Bank no other significant events have occurred within the period from the reporting date to the date of approval of this report that require additional disclosures in the annual financial statements as of 31 December 2019:

MANAGEMENT'S REPRESENTATIONS

Management of BDB declares that the enclosed annual separate financial statements give true and fair view of the property and financial position of the Bank at the end of 2019, and the determination of the financial

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result for the year in compliance with the applicable legislation. Suitable accounting policies have been used and applied consistently. In the preparation of the annual financial statements, judgments have been made, as necessary, in accordance with the prudence concept. Management applies consistently the applicable accounting standards and the annual financial statements have been prepared on a going concern basis.

The Bank's management dedicates efforts to maintain an adequate accounting system that complies with applicable accounting standards. The annual financial statements disclose the standing of the Bank with a reasonable degree of accuracy.

All measures have been undertaken to preserve the assets of the Bank, to prevent fraud and violations of the laws in the country and regulations of BNB on the bank activity.

The current Management Report was approved on 30 September 2020 by MB of the Bulgarian Development Bank, and it was signed by:

....	....	....
NIKOLAY DIMITROV	**JIVKO TODOROV**	**PANAYOT FILIPOV**
EXECUTIVE DIRECTOR	**EXECUTIVE DIRECTOR**	**EXECUTIVE DIRECTOR**

BULGARIAN DEVELOPMENT BANK
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BULGARIAN DEVELOPMENT BANK

CORPORATE GOVERNANCE STATEMENT OF BDB GROUP

PRINCIPLES OF CORPORATE GOVERNANCE

This Corporate Governance Statement has been prepared on the grounds of Article 40, paragraph 1 of the Accountancy Act. The information provided takes into account the fact that Bulgarian Development Bank AD has not issued securities admitted to trading on a regulated market or shares traded on a multilateral trading facility.

BDB GROUP

At the end of 2019, the Financial Group Bulgarian Development Bank (the "Group" or "the Financial Group") comprises Bulgarian Development Bank AD ("BDB", the "Bank") and its subsidiaries - National Guarantee Fund EAD (NGF), Micro Financing Institution Jobs EAD (MFI), Capital Investments Fund AD (CIF), BDB Leasing EAD and BDB Factoring EAD.

Bulgarian Development Bank holds a license to carry out banking activities issued by the Bulgarian National Bank, No B25/ 1999, updated by order of the supervisory authority No RD22-2272/ 16.11.2009. As a credit institution established pursuant to a special act - the BDB Act („BDBA") - and at the same time, applying all regulatory requirements of BNB and the European legislation, and in performing its mission of being a sustainable instrument of the government policy for promoting the development of the small and medium-sized businesses in Bulgaria, Bulgarian Development Bank AD has set as its goal to be a benchmark for good corporate governance and corporate responsibility, while consistently and strictly observing the National Corporate Governance Code of 2016, The Code of Professional Conduct of 2017 adopted by the Bank, the Code of Ethics of the Internal Audit of the BDB Group of 2019, as well as good corporate and banking practices.

Bulgarian Development Bank AD holds a license for an investment intermediary issued by the Financial Supervision Commission, by Decision № 4 issued on 08.01.2002, according to which it may provide investment services and perform investment activities under Article 6, paragraph 2 of the Markets in Financial Instruments Act (MFIsA), as well as additional services under Art. 6, paragraph 3 of the MFIsA.

Investment services are provided and investment activities are performed in accordance with the requirements of MFIsA, Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (Directive 2014/65/EU or MiFID II), Regulation (EU) 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012 (Regulation (EU) 600/2014), Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive (Delegated Regulation (EU) 2017/565) and the acts on their implementation.

The Bank does not provide investments services, nor performs investment activities under Article 6, paragraph 2, items 8 and 9 of the MFIsA - organisation of a multilateral trading facility and an organised trading facility.

Bulgarian Development Bank AD applies and maintains systems and procedures that guarantee the security, completeness and confidentiality of its operations as an investment broker.

In view of the above, the Bank has adopted and updated its internal regulations in accordance with the applicable legislation.

BULGARIAN DEVELOPMENT BANK AD

Bulgarian Development Bank AD (BDB, the Bank) was incorporated on 11 March 1999 as a joint stock company under the name of Encouragement Bank AD.

On 23 April 2018, the Bulgarian Development Bank Act (BDBA) was adopted. It arranges the scope of activity of the Bank and its subsidiaries that may be established.

Head office and registered address of Bulgarian Development Bank AD is Sofia 1000, Sredets area, 1, Dyakon Ignatii Street.

As of 31 December 2019, Bulgarian Development Bank AD has no branches.

The Bank has fulfilled the requirements of BNB of minimum statutory shareholding capital for exercising bank activity, as well as the capital requirements of BDBA. Since its establishment and until August 2017, the government shareholding in BDB is controlled by the Ministry of Finance of the Republic of Bulgaria. On 4 August 2017, by amendment of the BDB Act pursuant to SG, Issue 63 of 2017, the government shareholding went under the control of the Minister of the Economy of the Republic of Bulgaria. As of the date of preparation of this Statement, the ownership of the capital is allocated as follows: 99.9999% is owned by the Republic of Bulgaria, represented by the Ministry of the Economy, 0.0001% is owned by DSK Bank.

As of 31 December 2019, the capital of the parent company (the Bank) consists of 6,017,735 registered dematerialized voting shares of par value BGN 100 each. The shares of BDB are not offered on a regulated market.

The Bulgarian Development Bank Act sets forth that a package of at least 51% of the shares of the capital of the Bank shall be state owned, which are non-transferable. The rights on the shares cannot be subject to transfer agreements.

Pursuant to Art. 6 Par. 4 of the BDB Act the shares in the capital of the Bank, besides the Bulgarian state, may be acquired and owned by the Council of Europe Development Bank, the European Investment Bank and the European Investment Fund, by development banks of Member States of European Union. In these cases art. 31 of the Credit Institutions Act does not apply.

Pursuant to Art. 6 Par. 4 of the BDB Act the members of the Management and controlling bodies, the procurators and the senior management cannot hold shares and cannot be provided with options for shares of BDB, and in subsequent accounting periods no agreements may be concluded as a result of which in any future period changes may occur in the relative volume of shares held by current shareholders.

The management of BDB is carried out in compliance with Art. 5 of the BDB Act, pursuant to which the Bank has a two-tier management system with the Minister of Economy exercising the state's rights at the General Assembly of Shareholders of the Bank . Any amendment to the BDB Act and the right to issue or buy back shares are only possible by voting a new act or by amending the current act by the National Assembly. Under this article, only the Minister of the Economy, acting as representative of the majority shareholder in BDB, may decide to reduce the share capital through the redemption of shares.

At the end of 2019, BDB had no liabilities under existing or new issues of securities.

As of 31 December 2019, there is no pending court, administrative or arbitration proceeding related to liabilities or receivables of the BDB Group, amounting to 10 percent or more from its equity.

Pursuant to the Statute of BDB, the lending activity of the Bank is focused on:

- Pre-export and export financing of small and medium-sized enterprises (SMEs),
- Financing other operations of SMEs, either through intermediary banks or directly,
- Refinancing of banks granting loans to SMEs,

- Financing of investments by SMEs abroad.
- Participation in public and public-private projects or partnerships of strategic, national or regional importance.

The Bank also extends also other types of loans according to a procedure set by the Management Board, whereas the amount of the exposure to one customer or a group of related parties, other than credit institutions, central governments and central banks is subject to the requirements and limitations laid down in Regulation 575/2013/EU.

The Bank shall not lend funds to:

1. Activities not compliant with the National law, including for environment protection;
2. Business companies with unknown ultimate controlling owner;
3. Political parties and persons related to them. Persons related to political parties may be: youth, women's and other organizations, which the parties may establish according to the law, as well as entities, established by the political parties for performing the only business activities, which they are legally allowed to do - publishing activity, copyrights and using intellectual property, as well as the sale and distribution of printed, audio and audio-visual materials with party campaigning content;
4. Non-profit enterprises and organizations;
5. Media;
6. Activities related to sport and sports initiatives;
7. Activities prohibited by law.

The Bank provides loans directly or through commercial banks - intermediaries.

The terms and conditions for providing loans are determined by the Management Board.

The Management Board passes unanimous decision to form exposures to one client or a group of related clients, if it exceeds 5% of the Bank's equity, in compliance with requirements of the Credit Institutions Act and the internal rules of the Bank.

In view with its specific function related to carrying out state policy on promoting the business, BDB prioritizes its activity programs and products to promote SMEs, on-lending programs, export financing and financing under assigned mandates. The largest credit exposure of the Bank, provided to a group of related parties /other than bank institutions/, as of December 31, 2019, amounts to BGN 152,448 thousand at amortized cost (2018: BGN 150,129 thousand), which represents 20.74% of the Bank's equity (2018: 23.22%) (the eligible capital of the Bank calculated in accordance with Regulation 575 /2013/EU as equal to BGN 735,176 thousand (2018: BGN 646,679 thousand)). Analysis of the structure of the credit portfolio by segments is provided in the consolidated financial statements.

Bearing in mind the specific activity of the Bank, as of 31 December 2019, the funds attracted from 20 largest non-bank depositors represent 92.28% of the total amount of liabilities to other clients (31 December 2018: 95.47%).

The share of the largest non-bank depositor in the total amount of the liabilities to other customers amounts to 33.50% (as at 31 .12.2018: 33.70%).

In view of its specific activity, the BDB Group utilizes significant external funding from international financial institutions. Detailed information on the received external credit lines is disclosed in Note 30 to the Financial Statements.

NATIONAL GUARANTEE FUND EAD (NGF)

National Guarantee Fund EAD (NGF) is a company founded on 12 August 2008 on the basis of the Bulgarian Development Bank Act (BDBA) and was registered at the Commercial Register on 22 August 2008. According to the Credit Institutions Act (CIA), the National Guarantee Fund EAD is a financial institution entered in 2009 into the Register by BNB under Art.3, Par.2 of the Credit Institutions Act (CIA). In compliance with the Statute of the company the principal activities include:

- Issuing guarantees for supplementing the collateral under loans to small and medium-sized enterprises;
- Offering other products to small and medium-sized enterprises, like: guarantee for participation in a tender; performance guarantee; advance payment guarantee; guarantee for payment of a loan of an exporter, etc.;
- Issuing guarantees for supplementing collateral under loans to small and medium-sized enterprises, carrying out research and development and for implementing these products and scientific developments into the industry;
- The guarantees issued by NGF at its own risk may cover not more than 50 percent of the liability. By an amendment to the BDB Act, promulgated in the State Gazette, issue 102 of 21 December 2012, the guarantees issued by NGF EAD in connection with guarantee schemes under the Rural Development Programme for 2007 - 2013 and Development of the Fisheries Sector Operational Programme for 2007 - 2013 may cover up to 80 percent of the liability;
- Other activities, not particularly prohibited by law.
- The registered capital of the Company as of 31 December 2019 amounted to BGN 80,000,000 split into 800,000 shares with nominal amount of BGN 100 each, the shares are ordinary, materialised, registered and indivisible, and each share gives the right to one vote. The Company's capital is fully paid-in.

The seat and management address of the National Guarantee Fund EAD (NGF) is Sofia, 1, Dyakon Ignatii Str.

As of 31 December 2019, NGF has no branches.

MICRO FINANCING INSTITUTION JOBS EAD (MFI JOBS)

Micro Financing Institution JOBS EAD (MFI Jobs) was registered at the Commercial Register on 14 January 2011. The principal activities include micro financing, including providing micro-loans, acquiring from third parties and leasing industrial equipment, automobiles and other vehicles, as well as other items /finance lease/, purchase and sale, and import of such items, consulting services, trade representation and mediation for local and foreign individuals and legal entities operating on the territory of the country, as well as any other activity not prohibited by law.

The registered capital of MFI Jobs as of 31 December 2019 amounted to BGN 7,643,000 distributed into 76,430 shares with nominal amount of BGN 100 each, the shares are ordinary, materialised, registered and indivisible, and each share gives the right to one vote. The Company's capital is fully paid-in.

Head office and registered address of MFI Jobs is Sofia, 1, Dyakon Ignatii Str.

As of 31 December 2019, MFI JOBS has no registered branches.

CAPITAL INVESTMENTS FUND AD (CIF AD)

Capital Investments Fund EAD (CIF) was incorporated on 24 August 2018 and registered on 04 October 2018 as a joint-stock company with 100 percent of ultimate participation of BDB (84.62% of direct participation of BDB, or 550,000 shares, and indirect participation through NGF - 15.38%, the owner of the remaining 100,000 shares). The registered address of MFI is at 1, Dyakon Ignatii Str., Sofia. The registered capital as of 31 December 2019 consisted of 650,000 registered shares with par value of BGN 100 each, of which the paid-in capital as of 31 December 2019 is BGN 16,250,000.

The principal activities of CIF includes:

- Participation in the capital of small and medium-sized enterprises;
- Provision of consulting services regarding the capital structure of small and medium-sized enterprises; consultation and services on incorporation of entities under Article 261 of the Commercial Act;
- Investment consultancy;
- Consulting services on the management of pools of securities of small and medium-sized enterprises;
- Other activities, not particularly prohibited by law.

Head office and registered address of CIF is Sofia 1000, 1, Dyakon Ignatii Str.

As of 31 December 2019, CIF had no registered branches and did not carry out operating activities.

BDB LEASING EAD

BDB Leasing is a joint-stock company established on 06.03.2019 on the basis of Art. 4, para. 7 of the Bulgarian Development Bank Act as a subsidiary of the Bank.

The sole owner of the capital of BDB Leasing is the Bulgarian Development Bank. The capital of the Company was paid-in in full at the time of the establishment and amounted to BGN 2,000,000, distributed to 20,000 ordinary registered shares with a par value of BGN 100 each.

The scope of BDB Leasing's activity is financial leasing, lending with funds that are not raised through public attraction of deposits or other repayable funds, all additional and servicing leasing and lending activities.

Head office and registered address of management of BDB Leasing is Sofia 1000, 1, Dyakon Ignatii Str.

BDB FACTORING EAD

BDB Factoring is a company incorporated on 06.03.2019 and registered on 31 March 2019 as a joint-stock company, with a 100% direct participation of BDB AD. It was established on the basis of Art. 4, para. 7 of the Bulgarian Development Bank Act as a subsidiary of the Bank.

The principal activities of BDB Factoring include carrying out transactions for the transfer of one-time or periodic monetary receivables arising from the supply of goods or the provision of services /factoring/, lending with funds that are not raised through public attraction of deposits or other repayable funds and any additional and servicing factoring and lending activities.

The capital of the Company was paid up in full at the time of the establishment and amounted to BGN 2,000,000, distributed to 20,000 ordinary registered shares with a par value of BGN 100 each.

Head office and registered address of BDB Factoring is Sofia 1000, 1, Dyakon Ignatii Str.

BULGARIAN DEVELOPMENT BANK

RISK MANAGEMENT WITHIN THE GROUP OF BDB

In the course of their ordinary activity, the companies from the BDB Group are exposed to various risks, the occurrence of which may lead to losses and to deterioration of the financial stability of the Group. These risks are identified, measured and assessed using controlling mechanisms in order to be managed and to avoid any unjustified concentration of a particular risk. The risk management process is essential for the Group's profitability. The most significant risks, to which the Group is exposed, are credit, market, liquidity and operational risks.

In managing the various types of risk arising out of the activity, the Group follows the principles of conservatism, objectivity and full compliance with all applicable national and European legislative acts and regulations. In support of this policy, the Group maintains substantially higher levels of liquid buffers and capital adequacy than the statutorily required.

The adopted internal normative document "Risk Management and Control Policy of BDB AD" sets out the objectives and principles for managing the main risks identified in the activities of "Bulgarian Development Bank" AD (BDB/Bank), including risk appetite, strategies, risk framework, management organization, as well as responsibilities for their measurement, control, management and reporting. The policy is applicable by "Bulgarian Development Bank" AD and its subsidiaries "National Guarantee Fund" EAD, "Microfinancing Institution Jobs" EAD, "Capital Investment Fund" AD, "BDB Leasing" EAD and "BDB Factoring" EAD.

MAIN RISKS

Credit risk

The credit risk is the main risk, to which BDB and the Group companies are exposed, therefore its management is crucial for its activity. The credit risk management takes place in compliance with the BDB Act and the effective laws and regulations of the Republic of Bulgaria that regulate the credit activity and the approved international standards and established best banking practices.

BDB uses internal rating for the evaluation and management of the credit risk (incl. from counterparties) under the exposures. Bodies for monitoring, control and assessment of the quality of the credit portfolio have been created and are functioning in BDB. Procedures and mechanisms have been introduced for ongoing monitoring, recording and management of the credit portfolio requiring periodic and, if necessary, extraordinary reports on the financial and legal status of each borrower and liable persons. If new circumstances are established, which may lead to a change in the risk profile of the borrowers, including increasing the risk of default of the credit exposure, adequate measures are undertaken, which take into account the risk profile of the debtor.

In managing the credit risk, BDB applies a system of internal limits by economic sectors, by instruments, as well as other credit restrictions and limits on concentration, while the results from the monitoring of their compliance are reported to the competent bodies. The system of limits is reviewed and updated periodically.

The credit risk management of the commitments recoded off-balance sheet (guarantees) of NGF takes place at two levels - at the level of the individual deal (guarantee) and at portfolio level. The credit risk at individual level is managed according to the internal rules and procedures for guarantee activity where the proposal for issuing a guarantee (undertaking a guarantee commitment) is reviewed and approved by the risk manager of NGF, then it is submitted for approval by two of the members of the Board of Directors of NGF. After having collected all approvals, the confirmation for issuing the guarantee is signed by the representatives of NGF. Under the guarantee scheme under the Rural Development Program there is a second level of approval - the so called Advisory Committee comprised of representatives of the Ministry of Agriculture and Foods and BDB, which approves each undertaken guarantee commitment under the program. At portfolio level, the credit risk is managed by set up limits for payment (caps), limiting the commitment of NGF to paying to a given bank up to a certain share of the size of the portfolio of guarantees issued under a specific program. The subsequent management of the credit risk assumed by NGF is through monitoring procedures, within which the Fund may exclude from coverage certain loans, which do not correspond to specific requirements of the signed guarantee agreements, from the guarantee portfolio.

The policy, which MFI JOBS has adopted in order to minimize the credit risk, is to make a preliminary assessment of the creditworthiness of the clients, as well as to request additional collateral under the lease and loan contracts and the transferred rights to receivables - insurances of lease assets, registration of the lease contracts in the Central Register of Special Pledges (CRSP), suretyships, promissory notes and special pledges on receivables, as well as mortgage of real estate and/or pledge on movable property when granting the loan.

In accordance with the current "Leasing Rules and Procedures" of BDB Leasing EAD, in order to minimize credit risk, the company assesses the creditworthiness of the leasing applicants by assessing quantitative and qualitative factors as well as the solvency of the lessee and the proposed guarantors/co-debtors (if any). In addition, the company leases assets with the self-participation of the lessee, including the VAT due.

In 2019 the subsidiaries of the Bank – BDB Factoring EAD and the Capital Investment Fund AD are operational, but without formed own portfolios.

Market risk

In managing the currency risk, BDB and the Group follow the principle of maintaining minimum open FX positions through the observing of established limits. The positions in various currencies, as well as the general FX position, are monitored on a daily basis. The FX positions are not formed for speculative purposes, but are the consequence of the currency transactions, occurring in the course of the ordinary bank activity. In managing its assets and liabilities, due to the specifics of its financing, BDB seeks to maintain these assets and liabilities in EUR or BGN. The Bank's open FX position takes into account the terms and possibilities for netting the EUR and BGN positions in accordance with the applicable regulatory framework.

In managing interest rate risk, the BDB Group follows the principle of maintaining a balanced structure of its interest-sensitive assets and liabilities, seeking to maintain consistency between the periodicity of change in interest on assets and liabilities, as well as a correlation between the applicable reference interest rates on the assets and liabilities of the Group. A system of limits for the maximum acceptable (quantitative) impact of various shock scenarios on the change in market interest rates on net interest income and the economic value of the Group's capital has been introduced. The internal limit framework limits the potential risk to expected future returns and the economic value of capital, within acceptable levels corresponding to the risk tolerance of the BDB Group. The interest rate risk assessment is carried out using a set of techniques including yield-based measurement, measurement of the economic value of capital, analysis of discrepancies, interest rate stress scenarios.

The assumption of risks when transacting on the money and capital markets is managed by a system of limits reflecting the risk profile of the investments. These limits are determined according to parameters of the portfolio, like counterparty, financial instrument, maturity, etc. The system of limits is periodically reviewed, while the compliance with the limits is subject to daily monitoring. The securities portfolio, created by the BDB Group in order to invest the available funds, is characterized by a relatively low interest rate risk and comprises relatively liquid government securities and securities issued by reliable institutions, i.e. low price risk. Due to the absence of a trade portfolio pursuant to the statutory regulations, the BDB Group does not allocate capital for market risk.

Liquidity risk

Liquidity risk management and control is carried out through daily liquidity monitoring and management, maintaining access to sufficient liquidity to ensure avoidance of any mismatches between inflow and outflow of cash flows at maturity intervals, both in a normal banking environment and in different liquidity-aggravated scenarios. The liquidity of the BDB Group is managed by closely monitoring ratios indicating the liquidity position by period. Liquidity risk is measured by applying additional cash flow scenarios. The Group's liquidity buffers and additional sources of funding for market and idiosyncratic shocks are measured and monitored. The main focus of liquidity management is to maintain an adequate level of liquidity buffer in accordance with the established limits and limits set according to the risk tolerance of the BDB Group.

Operational risk

For the management of operational risk, the BDB Group applies a systematic approach covering the collection of objective information, timely identification of operational risk, its measurement (qualitative and quantitative), the identification of dependencies with other types of risk and the application of measures to limit its impact on the financial performance and on the capital of the Bank. In the management of operational risk, all operational events arising in the activities of the different structural units as a result of processes in the activities of the BDB Group are recorded, identifying and managing the full range of operational risks. Operating events characterised by a higher frequency, as well as those with a large potential or real effect on the financial performance of the BDB or the Companies of the Group, are subject to close investigation and monitoring. They serve as the basis for operational risk analyses in various scenarios, including when performing an operational risk stress test. Operational risk is measurable and manageable by maintaining an operating event log that serves as a basis for analysing and improving work processes and minimizing conditions that would potentially lead to operational events and losses for the Group. Under the applicable regulatory framework, the capital required for operational risk is calculated using a base indicator approach.

STRUCTURE OF RISK MANAGEMENT

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

For the Parent Company (the Bank):

- Supervisory Board - performs overall supervision on risk management;
  Approves the risk management policies that define the objectives and principles for managing the main risks identified in the activities of the BDB Group, including risk appetite, strategies, risk framework, management organisation, as well as responsibilities for their measurement, control, management and reporting. The SB confirms the decisions of the Management Board for taking on credit risk, in accordance with the competences and limits set out in the Statute of the Bank and the BDB's Credit Activity Manual, as well as it has other powers provided for in the said acts. In carrying out its powers, the Supervisory Board of the Bank is assisted by specialized committees as follows:
  - Risk Management Committee (RMC) - advises the Supervisory Board and the Management Board on the overall current and future risk strategy and the Bank's propensity to take risks and supports the control of its implementation by senior management staff. The RMC approves proposals approved by the Management Board for limits/restrictions and policies for the management of the risks inherent in the bank's activities. The RMC regularly reviews information on the analysis, management and control of credit risks, informing it of the implementation of the established limits/restrictions and of decisions/measures to manage credit risks.

- Audit Committee (AC) – the responsibilities of the AC with regard to risk include monitoring of financial reporting processes, monitoring the effectiveness of internal control systems, monitoring the effectiveness of risk management systems, monitoring of internal audit activities and the implementation of the audit plan, monitoring the independent financial audit, making recommendations for the selection of a registered auditor and reporting to the Supervisory Board on all matters within its competence;
- Remuneration Committee - prepares and proposes remuneration decisions, taking into account the impact on risk and its management, the long-term interests of shareholders, investors and other stakeholders.
- Recruitment Committee – analyses periodically, at least once a year the structure, composition, number of members and results of the work of the Management Board and the Supervisory Board and makes recommendations for possible changes. Periodically reviews the Policy for selection, continuity and suitability assessment in "Bulgarian Development Bank" AD and makes recommendations for a change in it.

- Management Board (MB) – is responsible for the general approach to risk management and approves strategies, policies, principles and specific methods, techniques and procedures for risk management. The MB approves policies, rules, procedures, methodologies and limits corresponding to the risk appetite and risk strategies established in the BDB Group's risk management policies. It notifies SB of any circumstances that have occurred that are significant to the Bank. The Management Board has the following ancillary bodies, which function as specialised committees:
    - Assets and Liabilities Management Committee (ALCO) - it is responsible for the strategic management of the assets and liabilities and liquidity, and for the management of the market risks, within its competence, according to internal regulations;
    - The Committee on Impairments and Provisions (CIP) controls the process of monitoring, evaluating and classifying financial instruments, establishing expected credit losses and forming impairments
    - Complaints and Signals Commission – a body for dealing with complaints and signals submitted by employees of the Group.

- Executive Directors and Members of the MB - exercise current operating control on maintaining and observing the specified limits for the particular types of risk and the application of the established procedures

- Risk Management Department - provides independent information, analysis and expert assessment of risks and provides the management body with a comprehensive overview of all risks. The Department carries out activities related to identification, management, measurement, risk control and reporting, stress tests, monitoring limits and reporting their implementation in accordance with established escalation procedures, as well as providing opinions on risk management proposals and solutions for their compatibility with the Bank's risk tolerance.

- Compliance Department - is responsible for compliance with the regulatory framework, including the adaptation of the internal regulatory framework and the organization of the processes in the Bank to the changes that have occurred and/or are imminent. It provides information to the Management of the Bank through regular reports to the Management Board on compliance with the regulatory framework. If deficiencies are identified, it proposes measures to remedy any discrepancies admitted. It coordinates all internal normative documents in their development and updating.

- Internal audit of the Group (IAG) – as part of the internal control system helps to achieve the objectives of the BDB Group by applying a systematic and disciplined approach to assessing and improving the effectiveness of risk management, control and corporate governance processes. It carries out its activities according to an approved annual work plan, which is prepared on the basis of an assessment of the significance of the risk in the Group, providing the necessary audit coverage to support and improve the processes for identification and assessment of risks in the Group.

- "Planning, Analysis and Regulations" Department– performs the reporting to the Management Board and BNB by preparing reports, key indicators, business plans and their implementation, identifying risks at operational, business, reporting and strategic level and interacting with the other units in the Bank for their management.
  - Business units that take a risk apply the established rules and procedures for the management of credit risks, comply with the regulated restrictions regarding their activities and provide the necessary information for analysis, evaluation and informed decision-making.

For the subsidiary National Guarantee Fund (the Fund):

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

- Management Board of BDB AD (the parent company) - 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 separate client and individual portfolio. The Department also identifies, assesses, monitors and applies measures for limiting the impact of the major risks.

For the subsidiary BDB Leasing EAD:

The main units directly responsible for risk management are:

- Board of Directors – adopts rules and procedures for risk management. Controls the risk factors for the Company's activities and makes decisions within the limits of its powers;
- Operational management (Executive Director and Procurator) – organizes the activities for implementation of the risk management rules adopted by the Board of Directors. Creates a work organization that ensures compliance with the specified limits and levels of risk. Controls the compliance of the procedures used by the relevant employees for analysis, measurement and risk assessment with the internal normative documents adopted by the Board of Directors.
- Risk Management Department - develops and implements a risk management system. It prepares and submits to the Board of Directors periodic reports in order to assess the risks in the activity, including compliance with limits and reports ongoingly to the operational management of the Company. It carries out an initial and ongoing verification of risk assessment methods. It controls the input data necessary for the risk assessment according to an applicable method of reliability and sufficiency.

For the subsidiary BDB Factoring EAD:

The main units directly responsible for risk management are:

- Board of Directors – adopts rules and procedures for risk management. Controls the risk factors for the Company's activities and makes decisions within the limits of its powers;
- Operational management (Executive Director and Procurator) – organizes the activities for implementation of the risk management rules adopted by the Board of Directors. Creates a work organization that ensures compliance with the specified limits and levels of risk. Controls the compliance of the procedures used by the relevant employees for analysis, measurement and risk assessment with the internal normative documents adopted by the Board of Directors.
- Risk Management Department - develops and implements a risk management system. It prepares and submits to the Board of Directors periodic reports in order to assess the risks in the activity, including compliance with limits and reports ongoingly to the operational management of the Company. It carries out an initial and ongoing verification of risk assessment methods. It controls the input data necessary for the risk assessment according to an applicable method of reliability and sufficiency.

For the subsidiary Micro Financing Institution JOBS EAD:

The main units directly responsible for risk management are:

- Board of Directors – adopts rules and procedures for risk management. Controls the risk factors for the Company's activities and makes decisions within the limits of its powers. Also, analyses credit transactions worth more than BGN 100,000 in terms of credit risk management in their resolution;
- Credit Committee – currently monitors and analyses the Loan and Leasing Portfolio of the Company in terms of credit risk, including individual transactions;
- Credit Council – analyses credit and leasing transactions in terms of credit risk management in their resolution and/or renegotiation;
- Operational management (Executive Director and Procurator) – organizes the activities for implementation of the risk management rules adopted by the Board of Directors. Creates a work organization that ensures compliance with the specified limits and levels of risk. Controls the compliance of the procedures used by the relevant employees for risk analysis, measurement and assessment with the internal normative documents adopted by the Board of Directors;
- Risk Management Department - develops and implements a risk management system. It prepares and submits to the Board of Directors periodic reports in order to assess the risks in the activity, including compliance with limits and reports ongoingly to the operational management of the Company. It carries out an initial and ongoing verification of risk assessment methods. It controls the input data necessary for the risk assessment according to an applicable method of reliability and sufficiency.

For the subsidiary Capital Investment Fund AD:

The main units directly responsible for risk management are:

- Board of Directors – Approves the risk appetite of the Fund, as well as its internal rules and procedures. Approves the proposals relating to investments in units/shares within the limits of its powers. It also decides on the management of the investment portfolio;
- Chief Investment Expert - Makes an initial selection of companies applying for investments from the Fund. Prepares a proposal to the BD for making an investment in the selected companies, as well as for exiting an investment; Carries out ongoing monitoring and prepares reports/ action plan in case of adverse development in relation to the investment made;

- Chief Risk Expert - Monitors compliance with the approved limits in the CIF; Takes measures to measure and report on the different types of risks identified when carrying out the fund's activities; Takes part in the decision-making process for choosing and managing an investment. In the presence of negative indicators and adversely developed ones, it requires the preparation of a report with a follow-up plan for an investment and participates in the selection of an appropriate option for exiting it;
- Senior Legal Adviser - Prepares opinions on proposals on equity investments; Prepares/agrees the contractual documentation for the conclusion of the transaction; Consults the units when discussing issues and decisions related to the investment activities of the Fund.

BANK SUPERVISION AUTHORITIES PURSUANT TO THE BULGARIAN LEGISLATION

In compliance with the requirements of the framework of the laws and by-laws regulating the banking activity in the country, BDB must follow limitations, related to certain ratios in its separate and consolidated financial statements. As of 31 December 2019, BDB has observed all regulatory requirements of BNB and the Bulgarian legislation. The amounts of key ratios - capital adequacy and asset coverage ratio are among the highest within the Bulgarian banking system.

CONTROL ENVIRONMENT

Internal control in the BDB Group is a continuous process carried out by the management bodies and by persons engaged in internal control functions. Elements of internal control are systems for:

1. management control;

2. risk control;

3. accountability and information; and

4. internal audit.

The first three elements of the internal control system are within the competence and powers of the relevant authorities. The fourth element of internal control is a commitment of the group's internal audit.

In order to put in place an effective framework for risk management and internal control in the BDB Group three lines of protection are in place:

The first line of defence is the management control exercised by the heads of the operational units. Operational management identifies, assesses, controls and limit risks, ensuring that they operate in accordance with the objectives set in advance.

The second line of defence is the risk management and compliance function carried out by the Risk Management, Compliance and the Classified Information Departments with regard to the prevention of money laundering and terrorist financing. In their activities, these departments are supported by Management, Analysis and Regulation and Legal Departments. The second line of defence is independent from the first one in terms of organisation, and carries out preventive and ongoing control.

The third line of defence is the internal control function. Internal Audit of the Group Department carries out follow-up control and provides assurance to senior management with respect to the effectiveness of risk management, internal control and corporate governance, as well as the way in which the first and second lines achieve the risk management and control objectives. Internal Audit of the Group Department provides comprehensive assurance from the position of the highest level of independence in the organisation, through a direct subordination to the Supervisory Board (SB).

Management assigns powers and responsibilities for the operating activity in line with a detailed internal normative set of documents, which are in conformity with the current national and European legislations, where in order to guarantee the relationships in accountancy and reporting, and various specialized committees, by hierarchy of authorities, were formed to the MB and SB of BDB, as disclosed in the Corporate Governance Statement, which is an integral part of this financial report.

The Bank has developed an internal set of documents, which includes policies and communications focused on ensuring that all employees understand the goals of the Bank, knows how individual actions are interconnected and contribute towards these goals, and who and how is reporting and what is their responsibility.

The Bank has established an information system, including business processes related to it, providing the necessary quality and control of the financial accountability and communication.

The Bank's audit committee monitors the financial reporting processes, the effectiveness of internal control systems and the effectiveness of risk management systems; moreover, it monitors the independent financial audit, conducts a review of the independence of the registered auditor, and makes recommendations for selecting a registered auditor.

MANAGEMENT OF THE BULGARIAN DEVELOPMENT BANK

The Bulgarian Development Bank AD has a two-tier management structure, which consists of a Supervisory Board and a Management Board.

As of 31 December 2019 the management structure consists of the following:

BDB Supervisory Board

Lachezar Dimitrov Borisov – Chairman of the Supervisory Board

Lachezar Dimitrov Borisov was born in 1978 in Samokov. He completed his Master studies in Macroeconomics and Accounting and Finance at the University of National and World Economy (UNWE). He has several specializations in Bulgaria and abroad, including in Entrepreneurship and Risk Capital in AUBG, Project Management in WIFI, Austria, Encouragement of Foreign Direct Investments in JICA, Japan, Stock-exchange and Banking in CITIBANK, etc. He has rich experience in corporative management. Mr. Borisov has been part of the management of both private and state-owned companies in the industry, energy and financial sectors. Currently he is a Deputy Minister of Economy.

Mitko Emilov Simeonov *- Deputy Chairman of the SB*

Mitko Emilov Simeonov has a Master's degree in Law from the New Bulgarian University and a Master's degree in International Economic Relations from the University of National and World Economy. He also holds a postgraduate degree in financial management from the University of National and World Economy. He was Deputy Executive and Executive Director of the Agency for Privatization and Post-Privatization Control.

Velina Ilieva Burska *- Member of the SB*

Velina IlievaBurska has a Master's Degree in Economics and Organization of Internal Trade from the University of National and World Economy. From 2002 to 2017 she was the director of the Post-Privatization Control Directorate at the Agency for Privatization and Post-Privatization Control.

In fulfilment of the good practices of control and the system of the three pillars recommended within Basel III, a specialized body made up of Audit Committee, Risk Committee, Remunerations Committee and Recruitment Committee functions to the Supervisory Body.

Member	*Risk Committee*	*Recruitment Committee*	*Remunerations Committee*
Luchezar Dimitrov Borisov	Member	Chairman	Member
Mitko Emilov Simeonov	Chairman	Member	Member
Velina Ilieva Burska	Member	Member	Chairman

Audit Committee

The Audit Committee consists of the following members:

Krasimir Vasilev Yordanov – Chairman of the Audit Committee;

Krassimir Yordanov has a Master's degree in accounting and financial control from the SA "D. A. Tsenov – Svishtov" and a Master's degree in Law from the University "St. St. Cyril and Methodius". Mr. Yordanov also has a master's degree in speech and acting in public communications from NATFIZ "Kr. Sarafov", Sofia. Krasimir Vasilev Yordanov holds a PhD in economics, was an associate professor at New Bulgarian University between 2001 and 2015 and held the position of Chief Auditor at the Court of Auditors from 2001 to 2018. At present he is a professor at the International Business School – Blagoevgrad and associate professor at department Financial Control at the University of National and World Economy.

Rositsa Nikolova Grigorova – Member of the Audit Committee;

Rositsa Grigorova holds a Master's degree in Economics and Finance from the University of National and World Economy and a Master's degree in Automation Engineering from the Higher Chemical Technology Institute, Sofia. In her professional experience extending over 25 years, Mrs. Grigorova has held the following positions: lab technician at the Higher Chemical Technology Institute, economist in the Financial and Accounting Department of the Ministry of Defense, expert "Material and Technical Provision" at Military Construction Engineering EOOD, Head of Youth Programs and Projects Sector in the Directorate "Financial and Economic Activities Property Management" at the State Agency for Youth and Sports and State Expert, Junior Rank II in the Budget Department at the Ministry of Agriculture and Food. Rositsa Grigorova has held senior positions as Head of budget department at the Ministry of Labour and Social Policy, Head of Accounting Department at the Finance and Property Management Directorate at the Ministry of Regional Development and Public Works, as well as deputy financial director of BNT. She is currently Finance Director and Director of the Administration Directorate at the Bulgarian National Television.

Kalina Ivanova Mavrova – Member of the Audit Committee;

Kalina Mavrova holds a Master's degree in European Business and Finance from Nottingham Trent University, United Kingdom and has a bachelor's degree in International Economic Relations from the University of National and World Economy. Ms. Mavrova's professional experience began at the Bulgarian National Bank, where she was an intern and held the positions of expert in international communications and expert in public relations. Kalina Ivanova Mavrova continues her professional career at UniCredit Bulbank - Sofia, where she works as a product development expert and expert in marketing development. Mrs. Mavrova participated mainly in the project "Creation of an internal online portal for financial and economic analysis" during her internship at Unicredit S.P.A. – Bologna, Italy.

Management Board of BDB

Stoyan Todorov Mavrodiev – Chairman of the Management Board and Chief Executive Director

Stoyan Todorov Mavrodiev holds a Master's degree in Law from Sofia University "St. Kliment Ohridski" and a Master's degree in Finance from the University of National and World Economy. He attended a series of courses at the International Tax Academy in Amsterdam, and has also trained in the US Department of State's International Program of Leaders. His career started as a legal, tax and business consultant at PriceWaterhouseCoopers. In the period 1996- 2006, he worked as a financial and legal consultant in the United Consulting, which he also managed. From 2009 to 2010 he is Deputy Chairman of the Commission for Economic Policy, Energy and Tourism and member of the Budget and Finance Committee of the 41st National Assembly. For 6 years (2010-2016), he was Chairman of the Financial Supervision Commission (FSC), which oversees and regulates the financial system and the non-banking financial sector in Bulgaria. From 2010 to 2016 he was a member of the Advisory Financial Stability Board (AFSF). In this period, he was also a member of a number of international organizations, including ESMA, EIOPA, ESRB, IOSCO, IAIS and IOPS.

Rumen Dimitrov Mitrov – Deputy Chairman of the Management Board and Executive Director

Rumen Dimitrov Mitrov holds a Master's degree in Accounting and Control from the University of National and World Economy. His professional experience began in 1994 at NRA Sofia. In the period 2000-2003 he was the manager of the petroleum products import company "GMN GAZ", and from 2003 to 2011 he was engaged in financial and tax consultancy as manager of the two accounting companies "Eurotim Bulgaria" and "RM Consult". From 2011 to 2016, he was consecutively appointed Director of "Investment Activity Supervision", "Regulatory Policy", and "Coordination, Analysis and Policy of Supervisory and Supervision Activities" divisions in the Financial Supervision Commission (FSC).

Nikolay Dimitrov Dimitrov – Member of the Management Board and Executive Director

Nikolay Dimitrov holds a Ph.D. in Economics from the University of National and World Economy (UNWE) with specializations "International Economic Relations" and "Finance". Between 2007 and 2015, he completed a number of additional courses and qualifications at the Judge Business School at Cambridge University (UK), the Investment Banking Institute (USA), among others. His banking career started at the end of 2003 and went through Raiffeisen Bank and United Bulgarian Bank. He joined the Bulgarian Development Bank in July 2011, in January 2012 become Head of the Investment Banking and Project Finance Department, and since April 2013 he is Head of the Corporate Banking Division. Alongside, he has been an associated professor at the Department of International Economic Relations at UNWE over the period 2010 - 2017.

The Bulgarian Development Bank AD is represented by either two of the Chief Executive Director, Executive Directors and the Procurator, jointly. At the date of preparation of this document the Bank has no procurator.

In 2019, there have been no changes in the basic principles of governance in the BDB group.

Committees of the Management Board

The BDB Management Board, in conformity to the current legislation in Bulgaria and in EU, and following the best banking practices, has delegated part of its authorities to specialized committees - Committee on Assets and Liabilities Management and Commission on Complaints and Signals.

Meetings of the Committee on Assets and Liabilities Management (ALCO) take place on a monthly basis, at which meetings the main indicators relevant to the strategic management of the assets and liabilities of the Bank are reviewed. The main functions of ALCO are to identify, manage and monitor the liquidity risk of the Bank, to determine the strategy for attracting resources, to determine the pricing policy for the loans in order to ensure adequate margin above the costs of funds, to decide on the strategic liquidity of the Bank in order to ensure a regular and timely settlement of the current and future liabilities, both during normal circumstances and in event of liquidity crisis, to determine the structure of the liquidity buffers and the sources of additional funding. The materials reviewed at the meetings of the ALCO, along with the minutes from them, are reported to the Management Board of BDB on a timely basis after each session. The committees indicated below have the following composition:

Member	Asset and Liability Management Committee	Commission on Complaints and Signals	Committee on Impairments and Provisions
Stoyan Todorov Mavrodiev	Member		
Rumen Dimitrov Mitrov	Member		
Nikolay Dimitrov Dimitrov	Chairman		
Head of Risk Department	Member	Member	Member
Head of Legal Department		Member	
Head of Security Department		Member	
Head of the Planning, Analysis and Regulations Department	Member	Member	Chairman
Head of the Group Internal Audit Department		Member	
Head of Treasury Department	Member		
Head of the Compliance Department		Chairman	
Head of the International Financial institutions and EU Funds Department	Member		
Head of Corporate Banking Department			Member
Head of Investment Banking and Project Financing Department			Member
Head of Problem Loans Department			Member

*The chairmen are elected by the members for a period of one year.

Contracts with related parties involved in the management and participation of members of the mb and sb of the bank in other companies

There are no signed contracts pursuant to Art. 240b of the Companies Act between the members of the SB and MB or persons related to them, on one hand, and the Bank, on the other, which fall beyond the ordinary course of business or which significantly deviate from the market conditions.

In 2019, there were no concluded deals between BDB and its related parties, or offers for signing such deals, which fall outside the scope of the ordinary activity, or which significantly deviate from the market conditions, to which BDB or its subsidiary is a party.

There are no material contracts concluded, which lead to action, are amended, or terminated, due to change in the control of or over the Bank, or as a result of a compulsory public procurement procedure. As far as there is a legal restriction regarding the shareholding structure of BDB, no such contracts are expected to be concluded.

There is no practice of concluding agreements among the BDB Group companies and their management bodies and/or employees for the payment of compensation upon resignation or dismissal without legal grounds thereof, or upon terminating the legal employment relationships by reasons related to tender offers.

The participations, pursuant to Art.247, Para.2, item 4 of the Companies Act, of members of the SB and MB in commercial companies as general partners holding more than 25 % of the capital of another company, as well as their participation in the management of other business companies or cooperatives as procurators, managers or members of boards, is as follows (as of 31 December 2019):

I. With respect to members of the SB of the Bank:

Lachezar Dimitrov Borisov - Chairman of BDB Supervisory Board, no participations in commercial entities; participates in the management of

- Energy Efficiency and Renewable Sources Fund, UIC: 131330278, member of the MB of the Bank
- State Enterprise "Management and Administration of Dams", UIC: 205756975;

Mitko Emilov Simeonov – Vice Chairman of the Supervisory Board, no participations in the capital and management of other companies

Velina Hieva Burska - Member of the Supervisory Board, no participations in the capital and management of other companies

II. With respect to members of the MB of the Bank:

Stoyan Todorov Mavrodiev - Chairman of the MB and Chief Executive Director

Participations in the management of the following commercial entities:

- National Guarantee Fund EAD, UIC: 200321435, a subsidiary of the Bank, as Chairman of the Board of Directors;
- Capital Investments Fund AD, UIC: 205322014, a subsidiary of the Bank, as Chairman of the Board of Directors and Executive Director;
- BDB Leasing EAD, UIC: 205565411, a subsidiary of the Bank, as Chairman of the Board of Directors and Executive Director;
- BDB Factoring EAD, UIC 205566082 a subsidiary of the Bank, as Chairman of the Board of Directors and Executive Director;

Participation in the share capital of commercial entities:

- Real Estate Ventures EOOD, UIC: 131160908, sole owner.

Rumen Dimitrov Mitrov - Vice Chairman of the MB and Executive Director

Participations in the management of the following commercial entities:

- Micro Financing Institution Jobs EAD, UIC: 201390740, a subsidiary of the Bank, as Chairman of the Board of Directors;
- Capital Investments Fund AD, UIC: 205322014, a subsidiary of the Bank, as Vice Chairman of the Board of Directors;
- BDB Leasing EAD, UIC: 205565411, a subsidiary of the Bank, as Vice Chairman of the Board of Directors;
- BDB Factoring EAD, UIC 205566082 a subsidiary of the Bank, as Vice Chairman of the Board of Directors;

Participation in the share capital of commercial entities: none.

Nikolay Dimitrov Dimitrov – Member of the MB and Executive Director

Participations in the management of the following commercial entities:

- Micro Financing Institution Jobs EAD, UIC: 201390740, a subsidiary of the Bank, as Vice Chairman of the Board of Directors;

- Capital Investments Fund AD, UIC: 205322014, a subsidiary of the Bank, as a member of the Board of Directors,
- BDB Leasing EAD, UIC: 205565411, a subsidiary of the Bank, as Member of the Board of Directors;
- BDB Factoring EAD, UIC 205566082 a subsidiary of the Bank, as Member of the Board of Directors;

Participation in the share capital of commercial entities: none.

Information about the full amount of the compensations, rewards and/or benefits for the members of the Management and control bodies of the Bank for the fiscal accounting year, paid by the issuer and its subsidiaries is disclosed in the notes to the financial statements

MANAGEMENT OF THE SUBSIDIARIES

As of 31 December 2019, BDB owns the share capital of the following subsidiaries:

Sole owner of:

- National Guarantee Fund EAD, UIC: 200321435
- Micro Financing Institution Jobs EAD, UIC: 201390740;
- BDB Leasing EAD, UIC: 205565411;
- BDB Factoring EAD, UIC: 205566082;
- Trade Center Maritsa EOOD, UIC: 115619162;

Participates jointly with NGF AD in the capital of:

- Capital Investments Fund AD, UIC: 205322014, as the registered capital is allocated as follows (BDB holds 84.62% of the company's capital and NGF holds 15.38%).

National Guarantee Fund EAD

NGF EAD has a one-tier management system - Board of Directors, consisting of three members. As at 31 December 2019 the members are:

Board of Directors of the company:

Stoyan Todorov Mavrodiev *- Chairman of the Board of Directors*

Angel Atanasov Djalazov *- Vice Chairman of the Board of Directors and Executive Director*

Angel Atanasov Djalazov has over 15 years of experience in international investment banking, asset management, capital markets, project finance, investment products, supervision and financial instruments management. He has occupied consequently the positions of an investment manager of TBD Fund, Director of Legal Department at JD & MG, Executive Director and Chairman of the Board of Directors of the Managing company KD Investments and the investment company KD Pelican, Executive Director of Capital Dynamics-Bulgaria and Euro-Phoenix Financial Advisors, and Vice Chairman of FSC. He has knowledge of English, German, Russian and Dutch language.

Andon Georgiev Georgiev *- Member of the Board of Directors and Procurator*

Andon Georgiev holds a Master's degree in law from the Plovdiv University Paisii Hilendarski and a Master's degree in finance from St. Cyril and St. Methodius University of Veliko Tarnovo. He has occupied senior management positions, including the one of a Secretary General of the Financial Supervision Commission.

The company is represented by either two of the members of the Board of Directors, jointly, or by the Procurator and either one of the members of the Board of Directors, jointly.

The members of the BD of NGF EAD do not hold any shares of the Fund, nor do they have any special rights on the acquisition of such shares.

There are no contracts signed pursuant to Art. 240b of the Companies Act between the members of the BD of NGF EAD or individuals related to them, on one hand, and the Company on the other, which fall outside the scope of the company's ordinary activity, or which significantly deviate from market conditions.

The participations, pursuant to Art. 247, Para. 2, item 4 of the Companies Act, of members of the SB and MB in commercial companies as general partners holding more than 25 per cent of the capital of another company, as well as their participation in the management of other business companies or cooperatives as procurators, managers or members of boards, is as follows (as of 31 December 2019):

Stoyan Todorov Mavrodiev – Chairman of the Board of Directors of NGF

Participates in the management of:

- Bulgarian Development Bank AD, UIC: 121856059, Chief Executive Director and Chairman of the MB;
- Capital Investments Fund AD, UIC: 205322014, Chairman of the Board of Directors and Executive Director;
- BDB Leasing EAD, UIC: 205565411, Chairman of the Board of Directors and Executive Director;
- BDB Factoring EAD, UIC: 205566082, Chairman of the Board of Directors and Executive Director.

Participation in the capital of commercial entities:

- Real Estate Ventures EOOD, UIC: 131160908, sole owner of the capital.

Angel Atanasov Djalazov – Vice Chairman of the Board of Directors and Executive Director of NGF

Participates in the management of:

- Micro Financing Institution Jobs EAD, UIC: 201390740, Member of the Board of Directors and Executive Director.

Participation in the capital of commercial entities:

- BG LIFE OOD, UIC: 175273067, a partner holding 25% of the capital.

Andon Georgiev Georgiev does not participate in the management or capital of other trade companies.

Micro Financing Institution Jobs (MFI) EAD

MFI Jobs EAD has a one-tier management system - Board of Directors, consisting of three to five members. As at the end of 2019 the members are:

Board of Directors:

Rumen Dimitrov Mitrov – Chairman of the Board of Directors

Nikolay Dimitrov Dimitrov – Vice Chairman of the Board of Directors

Angel Atanasov Djalazov – Member of the Board of Directors and Executive Director

Hristina Atanasova Todorova – Member of the Board of Directors and procurator

Hristina Todorova holds a Master's degree in Law from the University of National and World Economy. She has long-standing experience in the financial sector. She participated in the elaboration of many draft laws, practices and administrative procedures in the area of non-banking sector. For 10 years she has worked in the Financial Supervision Commission (FSC) at various expert and managerial positions. She occupied the positions of Head of the Judicial Protection Department and Director of the Legal Department of FSC. As Director of the Legal Directorate, Hristina Todorova leads both the activities of creating and developing the legal framework in the non-banking financial sector, the procedural representation of the FSC and its bodies, and the protection of the interests of financial service users. In 2016, Hristina Todorova was elected Chair of the newly established Sectoral Conciliation Commission on Consumer Disputes Hearing and Settlement in the area of insurance and insurance intermediation at the Commission for Consumer Protection, including upon provision of remote financial services to this sector. In 2017, Hristina Todorova was Director of the Legal Department at the Ministry of Health.

The company is represented by either two of the members of the Board of Directors, jointly, or by the Procurator and either one of the members of the Board of Directors, jointly.

There are no contracts signed pursuant to Art. 240b of the Commerce Act between the members of the BD and/or individuals related to them, on one hand, and the company on the other, which fall outside the scope of the company's ordinary activity, or which significantly deviate from market conditions

The participation, pursuant to Art.247, Para.2, item 4 of the Commerce Act, of members of the BD of Capital Investments Fund AD in trade companies as general partners, holding more than 25 % of the capital of another company, as well as participation in the management of other business companies or cooperatives as procurators, managers or members of boards, is as follows:

Rumen Dimitrov Mitrov – Chairman of the Board of Directors

Participates in the management of:

- Bulgarian Development Bank AD, UIC: 121856059, Vice Chairman of the MB and Executive Director;
- Capital Investments Fund AD, UIC: 205322014, Vice Chairman of the Board of Directors;
- BDB Leasing EAD, UIC: 205565411, Vice Chairman of the Board of Directors;
- BDB Factoring EAD, UIC: 205566082, Vice Chairman of the Board of Directors.

Participation in the capital of commercial entities – none.

Nikolay Dimitrov Dimitrov – Vice Chairman of the Board of Directors

Participates in the management of:

- Bulgarian Development Bank AD, UIC: 121856059, Member of the MB and Executive Director;
- Capital Investments Fund AD, UIC: 205322014, Member of the of the Board of Directors;
- BDB Leasing EAD, UIC: 205565411, Member of the Board of Directors;
- BDB Factoring EAD, UIC: 205566082, Member of the Board of Directors.

Participation in the capital of commercial entities – none.

Angel Atanasov Djalazov – Member of Board of Directors and Executive Director

Participates in the management of:

- National Guarantee Fund, UIC: 200321435, Vice Chairman of the Board of Directors of the company and Executive Director.

Participation in the capital of commercial entities:

- BG LIFE OOD, UIC: 175273067, a partner holding 25% of the capital.

Hristina Atanasova Todorova – member of the Board of Directors and Procurator; she does not participate in the management or capital of other trade companies.

Capital Investments Fund AD

Bulgarian Development Bank holds 84.62% of the capital of Capital Investment Fund AD, UIC: 205322014, and 15.38 % of the company's capital are owned by the National Guarantee Fund AD.

CIF AD has a one-tier management system - Board of Directors, consisting of three members. As at the end of 2019 the members are:

Board of Directors:

Stoyan Todorov Mavrodiev – Chairman of the Board of Directors and Executive Director

Rumen Dimitrov Mitrov – Vice Chairman of the Board of Directors

Nikolay Dimitrov Dimitrov – Member of the Board of Directors

The company is represented by either two of the members of the Board of Directors, jointly.

There are no contracts signed pursuant to Art. 240b of the Commerce Act between the members of the BD and/or individuals related to them, on one hand, and the company on the other, which fall outside the scope of the company's ordinary activity, or which significantly deviate from market conditions

The participation, pursuant to Art.247, Para.2, Item 4 of the Commerce Act, of members of the BD of Capital Investments Fund AD in trade companies as general partners, holding more than 25% of the capital of another company, as well as participation in the management of other business companies or cooperatives as procurators, managers or members of boards, is as follows:

Stoyan Todorov Mavrodiev – Chairman of the Board of Directors and Executive Director

Participates in the management of:

- Bulgarian Development Bank AD, UIC: 121856059, Chairman of the MB and Chief Executive Director;
- National Guarantee Fund EAD, UIC: 200321435, Chairman of the Board of Directors;
- BDB Leasing EAD, UIC: 205565411, Chairman of the Board of Directors and Executive Director;
- BDB Factoring EAD, UIC: 205566082, Chairman of the Board of Directors and Executive Director.

Participation in the capital of commercial entities:

- Real Estate Ventures EOOD, UIC: 131160908, sole owner of the capital.

Rumen Dimitrov Mitrov – Vice Chairman of the Board of Directors

Participates in the management of:

- Bulgarian Development Bank AD, UIC: 121856059, Vice Chairman of the MB and Executive Director;
- Micro Financing Institution Jobs EAD, UIC: 201390740, Chairman of the Board of Directors;
- BDB Leasing EAD, UIC: 205565411, Vice Chairman of the Board of Directors;
- BDB Factoring EAD, UIC: 205566082, Vice Chairman of the Board of Directors.

Participation in the capital of commercial entities – none.

Nikolay Dimitrov Dimitrov – Member of the Board of Directors

Participates in the management of:

- Bulgarian Development Bank AD, UIC: 121856059, member of the MB and Executive Director;

- Micro Financing Institution Jobs EAD, UIC: 201390740, subsidiary of the Bank, Vice Chairman of the Board of Directors;
- BDB Leasing EAD, UIC: 205565411, subsidiary of the Bank, Member of the Board of Directors;
- BDB Factoring EAD, UIC: 205566082, subsidiary of the Bank, Member of the Board of Directors.

Participation in the capital of commercial entities– none.

BDB Leasing EAD

BDB Leasing has a one-tier management system - Board of Directors, consisting of three to five members. As of 31 December 2019 the members are:

Board of Directors:

Stoyan Todorov Mavrodiev – Chairman of the Board of Directors and Executive Director

Rumen Dimitrov Mitrov – Vice Chairman of the Board of Directors

Nikolay Dimitrov Dimitrov – Member of the Board of Directors

The company has an authorized procurator – ***Emil Valkanov Valkanov***.

The company is represented by either two of the members of the Board of Directors, jointly, or by the Procurator and either one of the members of the Board of Directors, jointly.

There are no contracts signed pursuant to Art. 240b of the Commerce Act between the members of the BD and/or individuals related to them, on one hand, and the company on the other, which fall outside the scope of the company's ordinary activity, or which significantly deviate from market conditions

The participation, pursuant to Art.247, Para.2, item 4 of the Commerce Act, of members of the BD of Capital Investments Fund AD in trade companies as general partners, holding more than 25 % of the capital of another company, as well as participation in the management of other business companies or cooperatives as procurators, managers or members of boards, is as follows:

Stoyan Todorov Mavrodiev – Chairman of the Board of Directors and Executive Director

Participates in the management of:

- Bulgarian Development Bank AD, UIC: 121856059, Chairman of the MB and Chief Executive Director;
- Capital Investments Fund AD, UIC: 205322014, Chairman of the Board of Directors and Executive Director;
- National Guarantee Fund EAD, UIC: 200321435, Chairman of the Board of Directors;
- BDB Factoring EAD, UIC: 205566082, Chairman of the Board of Directors and Executive Director.

Participation in the capital of commercial entities:

- Real Estate Ventures EOOD, UIC: 131160908, sole owner of the capital.

Rumen Dimitrov Mitrov – Vice Chairman of the Board of Directors

Participates in the management of:

- Bulgarian Development Bank AD, UIC: 121856059, Vice Chairman of the MB and Executive Director;
- Micro Financing Institution Jobs EAD, UIC: 201390740, Chairman of the Board of Directors;
- Capital Investments Fund AD, UIC: 205322014, Vice Chairman of the Board of Directors;
- BDB Factoring EAD, UIC: 205566082, Vice Chairman of the Board of Directors.

Participation in the capital of commercial entities – none.

Nikolay Dimitrov Dimitrov – Member of the Board of Directors

Participates in the management of:

- Bulgarian Development Bank AD, UIC: 121856059, member of the MB and Executive Director;
- Micro Financing Institution Jobs EAD, UIC: 201390740, Vice Chairman of the Board of Directors;
- Capital Investments Fund AD, UIC: 205322014, Member of the Board of Directors.
- BDB Factoring EAD, UIC: 205566082, Member of the Board of Directors.

Participation in the capital of commercial entities – none.

***Emil Valkanov Valkanov** – procurator. He does not participate in the management or capital of other companies.*

BDB Factoring EAD

BDB Factoring has a one-tier management system - Board of Directors, consisting of three to five members. As of 31 December 2019 the members are:

<u>Board of Directors:</u>

Stoyan Todorov Mavrodiev – Chairman of the Board of Directors and Executive Director

Rumen Dimitrov Mitrov – Vice Chairman of the Board of Directors

Nikolay Dimitrov Dimitrov – Member of the Board of Directors

The company has an authorized procurator – Georgi Vanyushev Lilyanov.

The company is represented by either two of the members of the Board of Directors, jointly, or by the Procurator and either one of the members of the Board of Directors, jointly.

There are no contracts signed pursuant to Art. 240b of the Commerce Act between the members of the BD and/or individuals related to them, on one hand, and the company on the other, which fall outside the scope of the company's ordinary activity, or which significantly deviate from market conditions

The participation, pursuant to Art.247, Para.2, item 4 of the Commerce Act, of members of the BD of Capital Investments Fund AD in trade companies as general partners, holding more than 25 % of the capital of another company, as well as participation in the management of other business companies or cooperatives as procurators, managers or members of boards, is as follows:

Stoyan Todorov Mavrodiev – Chairman of the Board of Directors and Executive Director

Participates in the management of:

- Bulgarian Development Bank AD, UIC: 121856059, Chairman of the MB and Chief Executive Director;
- Capital Investments Fund AD, UIC: 205322014, Chairman of the Board of Directors and Executive Director;
- National Guarantee Fund EAD, UIC: 200321435, Chairman of the Board of Directors;
- BDB Leasing EAD, UIC: 205565411, Chairman of the Board of Directors and Executive Director.

Participation in the capital of commercial entities:

- Real Estate Ventures EOOD, UIC: 131160908, sole owner of the capital.

Rumen Dimitrov Mitrov – Vice Chairman of the Board of Directors

Participates in the management of:

- Bulgarian Development Bank AD, UIC: 121856059, Vice Chairman of the MB and Executive Director;
- Micro Financing Institution Jobs EAD, UIC: 201390740, Chairman of the Board of Directors;
- Capital Investments Fund AD, UIC: 205322014, Vice Chairman of the Board of Directors;
- BDB Leasing EAD, UIC: 205565411, Vice Chairman of the Board of Directors.

Participation in the capital of commercial entities – none.

Nikolay Dimitrov Dimitrov – Member of the Board of Directors

Participates in the management of:

- Bulgarian Development Bank AD, UIC: 121856059, member of the MB and Executive Director;
- Micro Financing Institution Jobs EAD, UIC: 201390740, Vice Chairman of the Board of Directors;
- Capital Investments Fund AD, UIC: 205322014, Member of the Board of Directors.
- BDB Leasing EAD, UIC: 205565411, Member of the Board of Directors.

Participation in the capital of trade companies – none.

Georgi Vanyushev Lilyanov – procurator

Participates in the management of:

- SP Financial Services AD, UIC: 131143136 – Member of the Board of Directors.

Participation in the capital of trade companies – none.

In 2019, there were no material contracts concluded, which lead to action, are amended, or terminated, due to changes in the control or as a result of performing a compulsory public procurement procedure, and no such contracts are expected to be concluded.

TRANSACTIONS WITH COMPANIES UNDER THE JOINT CONTROL OF THE STATE

Owner of BDB is the Bulgarian state. The consolidated and separate financial statements of the Bank present detailed information regarding the deals of the BDB Group and of BDB with companies under the joint control of the state.

STRATEGY FOR DEVELOPMENT AND BUSINESS GOALS

The strategic goals of BDB are:

- To facilitate the economic growth by increasing its exposure in support of regions and sectors of with suppressed growth;
- To facilitate SMEs overcome the crisis quickly by balancing between different sectoral priorities and national economic priorities and programmes approved by the government;
- To facilitate the economic growth of the regions through financing, including syndicated, of sizable, strategic and infrastructural, by their nature, projects and investments
- To support the development of competitive production initiatives and sectors of the economy of proven export potential;
- To facilitate, jointly with the other institutions in the country, including commercial banks, the access to financing of innovative and newly established companies (start-ups);
- To facilitate and support the direction of capital flows to the Bulgarian economy.

BDB operates in full transparency and applies the best banking and management practices. A core objective of the Bank is to identify and analyse sectors of the economy, in which there are market imperfections and economic agents that experience difficulties in accessing and obtaining financing, With its financial and credit activities, BDB addresses these challenges and takes measures to facilitate access to funds and the adequacy of financial resources.

By using market banking instruments the Group supports the export potential and business competitiveness by compensating existing market deficiencies in the financing of certain segments. By financing the business the Bank changes the risk profile and indirectly encourages commercial banks to develop their exposure to them. In practice, the Bank accomplishes these tasks by "completing" the market, while not allowing a "displacing" of commercial banks, and its goal is not to maximize profits.

The Bank adequately assesses the risks assumed and provides credit and warranty lines which, to the maximum extent, allow it to transfer financial advantages to customers.

For the effective implementation of the above objectives and tasks, BDB relies on its status as a development bank and the opportunities to attract a long-term and cheap resource from European multilateral banks, international financial institutions and international commercial banks. International capital markets are another source of external financing.

In future, the BDB will continue to offer financing for working capital, capital investments and export finance for small and medium-sized businesses. The Bank offers flexible and market-based financial solutions that meet the specificity of the borrower and the project being funded.

SOCIAL RSPONSIBILITY AND POLICY OF DIVERSITY

The Bulgarian Development Bank traditionally dedicates its mission for corporate social responsibility to topics important for the public life, such as education, culture, art and history, entrepreneurship. Supporting vulnerable social groups and preserving the natural diversity is part not only of the corporate responsibility of the institution, but also of the understanding and personal involvement of a large number of the Bank's employees.

CULTURE, ART AND CULTURAL AND HISTORICAL HERITAGE

Bulgarian art, history and culture are among the foundations that build and preserve the Bulgarian national identity. For this reason, BDB makes consistent efforts to implement cultural initiatives and projects to preserve the achievements in this area.

This is the direction in which BDB continues its "How Sofia was transforming into an European city" campaign, aiming to promote and preserve the cultural heritage. 2019 was the 140th Anniversary since Sofia was declared the capital and the campaign continued with the new "My European Sofia" initiative together with the Regional History Museum Sofia. The initiative included "open lessons" for students, thematic lectures and historical tours. The campaign included children from art schools as well. They were introduced with the monuments of architectural heritage and drew their paintings.

In 2019, BDB supported the most prestigious classical music ranking in Bulgaria Musician of the Year, organised by the Bulgarian National Radio. Prize-winners are renown Bulgarian performers, such as Mincho Minchev, Gena Dimitrova, Rayna Kabaivanska, Krasimira Stoyanova, Vesko Panteleev-Eshkenazi, Yordan Kamdzhalov, Emil Tabakov, Teodosii Spasov, etc.

In 2019, the Bank provided financial support for the organization of the International Children's Festival in Bosilegrad. The participants include children from Bulgarian communities in Serbia, Macedonia, Ukraine, Moldova, etc., as the aim to maintain the contacts between Bulgarian communities and preserve native traditions and customs.

BDB is a long-term partner of the Bulgarian National Television's "History.bg" TV show. The show recalls important events and personalities from the past, presents the different points of view of modern scientists about them and has not only historical but also cultural and educational orientation.

In pursuance of its policy to support Bulgarian art, the BDB building continues to host temporary exhibitions of paintings and sculptures of both young and well-established Bulgarian artists.

EDUCATION AND ENTREPRENEURSHIP

Traditionally, BDB Group supports the largest start-up training program in Bulgaria - "The Founder Institute", which focuses on young entrepreneurs who learn how to develop their ideas into real profitable businesses.

For the second year in a row, the Bank is a partner in the annual study of the Bulgarian digital economy "Innovation Ship 2019", prepared by the Move.bg Foundation. The study is part of the digital development program EDIT, in partnership with leading organizations in the start-up ecosystem, which examines the specifics of staff selection, financing methods and the demographics of the Bulgarian digital business.

Among the educational projects implemented in cooperation with the BDB is the initiative of the Debate Club of the First English Language High School in Sofia for the FELS Open debate competition. It includes pupils and students who want to raise their awareness on current topics.

ECOLOGY

The Bank provided support for the activities of The Wild Animals Foundation - a Bulgarian non-governmental organization that provides treatment, rehabilitation and foster care to injured animals in order to return them to the wild. The funds donated by BDB were used to purchase equipment for a rescue center in Sofia.

VULNERABLE SOCIAL GROUPS

In 2019, BDB continues to support vulnerable social groups. The Bank supports organizations whose activities significantly improve the quality of life of disadvantaged people. These include:

- SOS Children's Villages Bulgaria Association

The Association provides foster care in a community of foster families and thus children deprived of parental care grow up in a family environment and successfully join the society. Communities of SOS foster families, who raise children in their own homes or dwellings owned by the association have been established in Sofia and Pernik.

- National Fund "St. Nikola"

The fund organizes a traditional Christmas campaign in support of children and adults with disabilities placed in social institutions. By supporting it, BDB contributes to a more fulfilling life for people with disabilities.

- UNICEF

BDB supports a UNICEF campaign aimed at reducing infant mortality. The initiative provides patronage nurses in the districts of Shumen and Sliven, who support families with young children in the first 1,000 days after the babies' birth. The project has provided assistance to over 12,400 families.

- Our Premature Children Foundation

The Bank donates to the Our Premature Children Foundation to support medical institutions and the purchase incubators and consumables.

- Bulgarian Christmas

The charity initiative "Bulgarian Christmas" is held under the patronage of the President of the Republic of Bulgaria and has so far helped hundreds of sick children by providing funds for diagnosis, treatment and rehabilitation. Highly specialized medical equipment was purchased for 22 medical institutions throughout the country.

- Bulgarian Red Cross

The partnership of Bulgarian Development Bank with Bulgarian Red Cross in their *The Easter for Everyone National Charity* in support of elderly people continued in 2019. The initiative includes provision of financial support to pensioners just before the holidays and aims to surmount the deficit of charity campaigns directed towards this social group.

In order to achieve the specific mission and objectives of the BDB, the management team of the Group strives to maintain and upgrade an adaptive, efficient and modern corporate culture and work environment tailored to the values of modern society. The main focus is to ensure stability, continuous development and upgrade the knowledge of the Group's team, strong commitment and permanent improvement of the services offered.

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NIKOLAY DIMITROV	**JIVKO TODOROV**	**PANAYOT FILIPOV**
EXECUTIVE DIRECTOR	**EXECUTIVE DIRECTOR**	**EXECUTIVE DIRECTOR**

BULGARIAN DEVELOPMENT BANK
BULGARIAN DEVELOPMENT BANK
SOFIA

INDEPENDENT AUDITOR'S REPORT AND ANNUAL SEPARATE FINANCIAL STATEMENTS DECEMBER 31, 2019

This document is a translation of the original Bulgarian text, in case of divergence the Bulgarian text shall prevail.

INDEPENDENT AUDITORS' REPORT

To the shareholders of Bulgarian Development Bank AD

REPORT ON THE AUDIT OF THE SEPARATE FINANCIAL STATEMENTS

Opinion

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

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the separate financial statements section of our report. We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including 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 separate financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the requirements of IFAA. 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 separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	*How our audit addressed the key audit matter*
Impairment of loans and advances to customers	
The assessment of impairment allowances for loans and advances to customers requires Bank management to exercise a significant level of judgment, especially as regards identifying impaired receivables and quantifying loan impairment. To assess the amount of allowances for expected credit losses, the Bank applies statistical models with input parameters obtained from internal and external sources. As disclosed in note 19 to the separate financial statements, the Bank has recorded as at December 31, 2019 loans and advances to customers at the gross amount of BGN 1,808,945 thousand and expected credit loss for uncollectability of loans and advances to customers amounting to BGN 156,045 thousand. Key assumptions, estimates and parameters in determining the expected credit losses are related to development of quantitative and qualitative indicators for following up a significant increase in credit risk for allocation of the separate customers' credit exposures to phases (Phase 1: Exposures without significant increase in credit risk; Phase 2: Exposures with significant increase in credit risk, but without objective evidence for impairment and Phase 3: Exposures with existing objective evidence for impairment); for determining "probability of default" (PD), "loss given default" (LGD) and "exposure at default" (EAD), as well as for inclusion of information about future development of macro-economic factors in the context of various scenarios in determination of the estimates for expected credit losses. A higher degree of uncertainty in the valuation is inherent in the assessment of expected credit losses for loans and advances to customers for Phase 1 and Phase 2 and depends on as to whether the Bank has sufficient historical information to test the assumptions used and calibrate the accuracy of the parameters PD and LGD in the impairment model.	During our audit we obtained understanding of the processes for calculation of expected credit losses for loans and advances, applied by the Bank. We assessed the adequacy of the policies, procedures and implemented controls in the process, in order to design our procedures in such way as to be able to address the identified risks of material misstatement in this area. We assessed the adequacy of the methodology used by the Bank to identify loan impairment and calculate impairment allowances on individual and portfolio basis. We tested the design and operating effectiveness of key controls management of the Bank has established over the impairment assessment processes. The testing focused on controls related to: - timely identification of significant increase in credit risk and correct classification of loans to corresponding impairment stages, - regular client creditworthiness review processes, - creation and regular review of watch-lists, - approval of experts' collateral valuation, - management review and approval of the impairment assessment results. We involved auditors' experts in the areas which required specific expertise. We have also reviewed the quality of the historical data used in the computation of the risk parameters and recomputed the impairment based on the risk parameters resulted from the models. We evaluated appropriateness of impairment methodologies and their application. We performed detailed substantive procedures on a risk-based sample of loans in order to verify the classification of loans and to identify any indications for impairment and whether additional allowances for impairment should be recorded. We

In addition, the determination of expected credit losses for loans and advances from Phase 3 is also related to the application of significant estimates and assumptions by management, in particular on the timing and value of expected future cash flows under the exposure, including the realisation of collateral. Because of the significance of the valuation of loans and advances to customers for the separate financial statements, and due to the fact that the assumptions in determining the expected credit losses include significant estimates and application of professional judgment, we identified impairment of loans and advances to customers as a key audit matter.	applied our professional judgment to assess the inputs used in the calculation of impairment losses and compared our assessment to the estimates applied by the Bank. We analysed the financial condition of the borrowers and inquired about any breaches of contracts and/or changes from the original terms and conditions of the contract. We have considered the impact of the current economic conditions, the valuation of collaterals, and other factors that may affect the recoverability of loans. We assessed the completeness, appropriateness and adequacy of the disclosures in the Bank's separate financial statements with regard to the measurement of loans and advances to customers.

Other matter

The separate financial statements of the Bank for the year ended December 31, 2018, were audited by other joint auditors who expressed an unmodified opinion on those statements on July 1, 2019.

Information Other than the separate financial statements and Auditors' Report Thereon

The managing Board of the Bank (the "Management") is responsible for the other information. The other information comprises the annual management report and the corporate governance statement, prepared by the management in accordance with Chapter Seven of the Accountancy Act, but does not include the separate financial statements and our auditors' report thereon.

Our opinion on the separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless it is not specifically stated in our auditors' report and to the extent it is specifically stated.

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

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the separate financial statements

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

In preparing the separate financial statements, management is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board and the Audit Committee of the Bank ("Those charged with governance") are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the separate financial statements

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

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

- Identify and assess the risks of material misstatement of the separate 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 Bank'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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate 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 auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate 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 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 June 13, 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, required to be reported by the Accountancy Act and Public Offering of Securities Act

In addition to our reporting responsibilities according to ISAs described in section "Information Other than the separate financial statements and Auditors' Report Thereon", with respect to the annual management report and the corporate governance statement, we have also performed the procedures, together with the required under ISA, in accordance with the "Guidelines regarding new extended reports and communication by the auditor" of the Professional Organization of Registered Auditors in Bulgaria - Institute of Certified Public Accountants (ICPA). These procedures include tests over the existence, form and content of the other information in order to assist us in forming an opinion as to whether the other information includes the disclosures and reporting as required by Chapter Seven of the Accountancy Act and the Public Offering of Securities Act (art. 100m, para 10 of POSA in relation to art. 100m, para 8, p. 3 and 4 of POSA), applicable in Bulgaria.

Opinion under Article 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, in our opinion:

- The information included in the annual management report for the financial year for which the separate financial statements have been prepared, is consistent with the separate financial statements.
- The annual management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.
- The information required by Chapter Seven of the Accountancy Act and Art. 100m, para 8 of the Public Offering of Securities Act is presented in the corporate governance statement covering the financial year for which the separate financial statements have been prepared.

Information in accordance with Art. 33 of Ordinance 38/2007 and Art. 11 of Ordinance 58/2018 of the Financial Supervisory Commission (FSC) outlining the Requirements for protection of financial instruments and clients' cash, for product management and for granting or receiving fees, commissions, other cash and non-cash benefits

- Based on the performed audit procedures and the acquired understanding of the Bank's activities in the context and the course of our audit of the Bank's separate financial statements as a whole, we have identified that the established and applied organization related to the keeping of clients' assets complies with the requirements of art. 28-31 of Ordinance 38/2007 of FSC and art. 3-10 of Ordinance 58/2018 of FSC regarding the Bank's activity as an investment intermediary.

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.

- Deloitte Audit OOD and Grant Thornton OOD were appointed as statutory auditors of the separate financial statements of the Bank for the year ended 31 December 2019 by the general meeting of shareholders held on February 24, 2020 for a period of one year.
- The audit of the separate financial statements of the Bank for the year ended 31 December 2019 represents first consecutive statutory audit engagement for that entity carried out by us.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report provided to the Bank's audit committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- 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 Bank.
- For the period to which our statutory joint audit refers, Deloitte Audit OOD (a company part of Deloitte network) has provided to the Bank, in addition to the statutory audit, the following services which have not been disclosed in Bank's annual management report or separate financial statements:

  - Professional services related to verification of a sample of credit files, review of the rules and procedures for classification, impairment and fair value measurement of financial instruments;

- Assurance services other than audit or review of historical financial information in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised) related to expressing an opinion on the compliance with the requirements of the EU for the following items: internal control system, accounting system, independent statutory audit, public tenders, financial instruments, exclusion from access to financing, publishing information about the recipients, and personal data protection. The period within the scope of the assessment is June 1, 2019 – May 30, 2020.

- For the period to which our statutory joint audit refers, Deloitte Audit OOD and Grant Thornton OOD jointly have provided to the Bank, in addition to the statutory audit, the following services which have not been disclosed in Bank's annual management report or separate financial statements:
  - Agreed-upon procedures to the application of BNB Ordinance 10 for the period January 01 – December 31, 2019, in accordance with the requirements of International Standard on Related Services 4400 "Engagements to Perform Agreed-upon Procedures regarding Financial Information".

Deloitte Audit OOD

Deloitte Audit OOD

Rositsa Boteva
Statutory Manager
Registered Auditor in charge of the audit

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 033
ДЕЛОЙТ ОДИТ ООД

103, Al. Stambolijski Blvd.
1303 Sofia, Bulgaria

Grant Thornton OOD

Silvia Dinova
Registered Auditor, in charge of the audit

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 032
ГРАНТ ТОРНТОН ООД

Mariy Apostolov
Statutory Manager
26, Cherni Vrah Blvd.
1421 Sofia, Bulgaria

September 30, 2020

BULGARIAN DEVELOPMENT BANK AD

SEPARATE STATEMENT OF FINANCIAL POSITION

AS OF 31 DECEMBER 2019

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	As of 31.12.2019	As of 31.12.2018
Assets			
Cash in hand and balances in current account with the Central Bank	17	250,619	297,622
Receivables from banks	18	339,248	429,548
Financial assets at amortized cost – Loans and advances to customers	19	1,652,900	1,039,080
Financial assets at amortized cost - Receivables from the State budget	20	166,821	471,999
Financial assets at amortized cost – Securities	21	1,950	-
Financial assets at fair value through other comprehensive income – debt instruments	22	538,541	590,966
Financial assets at fair value through other comprehensive income – equity instruments	22	3,578	3,283
Investments in subsidiaries	23	109,488	105,625
Property, plant and equipment, intangible assets	24	36,955	32,818
Investment property	25	7,633	7,649
Assets held for sale	26	-	4,840
Assets, acquired from collateral foreclosure	27	35,187	27,128
Other assets	27	3,507	712
Current tax receivables		664	1,244
Deferred tax assets		-	247
Total assets		**3,147,091**	**3,012,761**
Liabilities			
Borrowings from international institutions	30	1,211,937	904,782
Deposits from customers other than credit institutions	29	1,134,049	1,307,522
Deposits from credit institutions	28	7,877	5,759
Other borrowings	31	17,119	17,306
Provisions	32	2,939	3,185
Deferred tax liabilities		401	-
Other liabilities	33	3,750	2,221
Total liabilities		**2,378,072**	**2,240,775**
Equity			
Share capital	34	601,774	601,774
Retained earnings		11,057	25,130
Revaluation reserve on financial assets at fair value through other comprehensive income	35	12,183	6,055
Reserves	35	144,005	139,027
Total equity		**769,019**	**771,986**
Total liabilities and equity		**3,147,091**	**3,012,761**

The accompanying notes from 1 to 39 are an integral part of these separate financial statements. The separate financial statements were approved by the Management Board of Bulgarian Development Bank AD on 30.09.2020.

Jivko Todorov	**Panayot Filipov**	**Nikolay Dimitrov**	Ivan Lichev
Executive Director	*Executive Director*	*Executive Director*	*Chief Accountant and Preparer*

Auditors' report on the separate financial statements issued on 30.09.2020:

Deloitte Audit OOD, auditing company
Rositsa Boteva
Statutory Manager
Registered Auditor, in charge of the audit

Grant Thornton OOD, auditing company
Silvia Dinova, *Registered Auditor, in charge of the audit*

Mariy Apostolov, *Statutory Manager*

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

BULGARIAN DEVELOPMENT BANK

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 032 ГРАНТ ТОРНТОН ООД

BULGARIAN DEVELOPMENT BANK AD

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	2019	2018
Interest income	6	72,855	63,280
Interest expense	6	(11,422)	(9,489)
Net interest income	6	**61,433**	**53,791**
Fee and commission income	7	1,993	2,062
Fee and commission expense	7	(62)	(35)
Net fee and commission income	7	**1,931**	**2,027**
Net income on foreign exchange deals	8	421	379
Net gain on financial assets at fair value through other comprehensive income	9	3,687	738
Other operating income	10	2,410	3,004
Other operating expenses	11	(1,499)	(1,457)
Expenses on impairment and provisions	12	(29,001)	(8,781)
Operating income		**39,382**	**49,701**
Employee benefits	13	(13,898)	(11,690)
General and administrative expenses	14	(10,994)	(10,120)
Depreciation / amortisation expenses	24	(1,428)	(1,138)
Profit before income tax		**13,062**	**26,753**
Income tax expense	15	(2,005)	(1,623)
Net profit for the year		**11,057**	**25,130**
Other comprehensive income			
Items not to be reclassified to profit or loss in subsequent periods:			
Actuarial gains /(losses) on defined benefit plans, net of taxes	33	(48)	33
Items to be reclassified to profit or loss in subsequent periods:			
Net change in fair value of financial assets at fair value through other comprehensive income	16	6,128	1,108
Total other comprehensive income for the year, net of tax		**6,080**	**1,141**
Total comprehensive income for the year		**17,137**	**26,271**

The accompanying notes from 1 to 39 are an integral part of these separate financial statements. The separate financial statements were approved by the Management Board of Bulgarian Development Bank AD on 30.09.2020.

Jivko Todorov
Executive Director

Panayot Filipov
Executive Director

Nikolay Dimitrov
Executive Director

Ivan Lichev
Chief Accountant and Preparer

BULGARIAN DEVELOPMENT BANK SOFIA

Auditors' report on the separate financial statements issued on 30.09.2020:

Deloitte Audit OOD, auditing company
Rositsa Boteva
Statutory Manager
Registered Auditor, in charge of the audit

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

Grant Thornton OOD, auditing company
Silvia Dinova, *Registered Auditor, in charge of the audit*

Mariy Apostolov, *Statutory Manager*

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 032 ГРАНТ ТОРНТОН ООД

SEPARATE STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Share capital	Statutory reserves	Additional reserves	Revaluation reserve on financial assets at fair value through other comprehensive income	Retained earnings	Total
As of 1 January 2018	601,774	62,997	67,138	4,947	8,859	745,715
Profit	-	-	-	-	25,130	25,130
Other comprehensive income, net of taxes	-	-	33	1,108	-	1,141
Total comprehensive income for the period	-	-	33	1,108	25,130	26,271
Profit distribution	-	885	7,974	-	(8,859)	-
Total transactions with owners	-	885	7,974	-	(8,859)	-
As of 31 December 2018	**601,774**	**63,882**	**75,145**	**6,055**	**25,130**	**771,986**
Profit	-	-	-	-	11,057	11,057
Other comprehensive income, net of taxes	-	-	(48)	6,128	-	6,080
Total comprehensive income for the period	-	-	(48)	6,128	11,057	17,137
Dividends to equity holders					(20,104)	(20,104)
Profit distribution	-	5,026	-	-	(5,026)	-
Total transactions with owners	-	5,026	-	-	(25,130)	(20,104)
As of 31 December 2019	**601,774**	**68,908**	**75,097**	**12,183**	**11,057**	**769,019**

The accompanying notes from 1 to 39 are an integral part of these separate financial statements. The separate financial statements were approved by the Management Board of Bulgarian Development Bank AD on 30.09.2020.

Jivko Todorov	**Panayot Filipov**	**Nikolay Dimitrov**	**Ivan Lichev**
Executive Director	*Executive Director*	*Executive Director*	*Chief Accountant and Preparer*

Auditors' report on the separate financial statements issued on 30.09.2020:

Deloitte Audit OOD, auditing company
Rositsa Boteva
Statutory Manager
Registered Auditor, in charge of the audit

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

Grant Thornton OOD, auditing company
Silvia Dinova, *Registered Auditor, in charge of the audit*

Mariy Apostolov, *Statutory Manager*

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 032 ГРАНТ ТОРНТОН ООД

BULGARIAN DEVELOPMENT BANK SOFIA

This document is a translation of the original Bulgarian text, in case of divergence the Bulgarian text shall prevail.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	2019	2018
Cash flows from operating activities			
Profit for the year		11,057	25,130
Adjustments for:			
Dividend income	10	(1,339)	(909)
Impairment loss on loans	12	29,897	5,694
Expenses for / (Income from) guarantee provisions and unutilised credit commitments	12	(450)	1,152
Impairment loss on investments in subsidiaries		137	-
Impairment losses on financial assets at fair value through other comprehensive income		(641)	1,703
Impairment losses on financial assets at amortized cost		60	-
Losses on revaluation of investment properties		16	-
Impairment loss and sale of other assets	12	68	232
Net gain on revaluation of foreign currency assets and liabilities	8	6	(7)
Depreciation / amortisation expenses	24	1,428	1,139
Gain on sale of assets, acquired from collateral foreclosure		-	(437)
Carrying amount of written-off assets	24	7	1
Income tax expense	15	2,005	1,623
		42,251	**35,321**
Changes in:			
Receivables from banks		(25,524)	14,542
Loans and receivables		(626,647)	(357,433)
Loans to the State budget		305,178	265,517
Financial assets at fair value through other comprehensive income		41,444	(365,508)
Assets held for sale	27	4,772	(3,879)
Other assets		(9,610)	(26)
Deposits from credit institutions		2,118	(28,150)
Deposits from customers other than credit institutions		(173,473)	516,932
Provisions		204	2,255
Other liabilities		1,525	(278)
Cash flows (used in) / from operating activities		**(437,762)**	**79,293**
Corporate income tax paid		(2,700)	(2,640)
Taxes recovered		698	-
Net cash flows (used in) / from operating activities		**(439,764)**	**76,653**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	2019	2018
Cash flows from investing activities			
Cash payments for acquisition of property, plant and equipment, and intangible assets		(5,580)	(1,010)
Cash proceeds from sale of property, plant and equipment, and intangible assets		8	1
Cash proceeds from matured securities at amortized cost		-	593
Purchase of securities at amortized cost		(2,010)	-
Proceeds from sale of assets, acquired from collateral foreclosure		-	(2,521)
Proceeds from investment property		611	53
Dividends received from investments in subsidiaries		1,303	892
Acquisition of shares in subsidiaries		(4,000)	(13,750)
Net cash flows used in investing activities		**(9,668)**	**(15,742)**
Cash flows from financing activities			
Dividends paid to the equity owners		(20,104)	-
Cash paid on other borrowings		(307)	(202)
Cash received from other borrowings		120	16
Cash received from borrowings from international institutions		528,073	156,254
Cash paid on borrowings from international institutions		(220,918)	(121,294)
Net cash flows from financing activities		**286,864**	**34,774**
Net change in cash and cash equivalents for the period		(162,568)	95,685
Cash and cash equivalents at the beginning of period	37	617,301	521,616
Cash and cash equivalents at end of period	37	**454,733**	**617,301**
Operating interest-related cash flows			
Proceeds from interest		79,619	59,857
Interest paid		(10,738)	(8,019)

The accompanying notes from 1 to 39 are an integral part of these separate financial statements. The separate financial statements were approved by the Management Board of Bulgarian Development Bank AD on 30.09.2020.

Zhivko Todorov	**Panayot Filipov**	**Nikolay Dimitrov**	Ivan Lichev
Executive Director	*Executive Director*	*Executive Director*	*Chief Accountant and Preparer*

BULGARIAN DEVELOPMENT BANK SOFIA

Auditors' report on the separate financial statements issued on 30.09.2020:

Deloitte Audit OOD, auditing company
Rositsa Boteva
Statutory Manager
Registered Auditor, in charge of the audit

Grant Thornton OOD, auditing company
Silvia Dinova, *Registered Auditor, in charge of the audit*

Mariy Apostolov, *Statutory Manager*

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 032 ГРАНТ ТОРНТОН ООД

1. ORGANISATION AND OPERATING POLICY

The separate financial statements of the Bulgarian Development Bank AD ("BDB", "the Bank") for the year ending 31 December 2019 are approved for issue according to a decision of the Management Board of 30.09.2020.

Bulgarian Development Bank AD is a joint-stock company registered with the Commercial Register under UIC 121856059, with a seat in the city of Sofia, Sofia City Region, Bulgaria, and management address: 1 Dyakon Ignatij Str. The financial year of the Bank ends on 31 December.

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

The Bulgarian Development Bank Act was adopted on 23 April 2008 (SG 43/29.04.2008) to regulate the structure and the scope of Bank's activities, including those for its subsidiaries, envisaged for incorporation. By virtue of that law the functions and all rights and obligations were applied to Encouragement Bank AD. Pursuant to a requirement of the law, a General Meeting of the Shareholders was held (26 June 2008) at which the name of the Bank was changed to Bulgarian Development Bank and its Articles of Incorporation were amended in line with the new legal requirements thereto.

The Bank holds a general banking license, issued by Bulgarian National Bank (BNB) on 25 February 1999 with latest update of 16 November 2009 and is allowed to conduct all banking transactions permitted by the Bulgarian legislation. The Bank is also a licensed investment intermediary.

From the very beginning, the Bank was established with a special purpose – to support the implementation of the economic policies of the State by financing the business development of small and medium-sized enterprises (SME), including by supporting their investment and export abilities and initiatives. With the adoption of the Bulgarian Development Bank Act in 2008 this objective was further elaborated in the objectives, principles and scope of the Bank's activities set by the law.

The Bank's lending activity includes:

- pre-export and export financing of SME;
- financing SME operations and projects either through intermediary banks or directly;
- refinancing banks that grant loans to SME;
- financing SME investments abroad.

The main objectives of the Bank are:

- to promote, encourage and develop the general economic, export and technological potential of SMEs by facilitating their access to finance;
- drawing in and management of medium and long-term local and foreign resources needed for the implementation of economic development in the country;
- implementation of schemes and instruments to finance public investment projects that are priorities for the country's economy;
- fundraising and project management of international financial and other institutions; fundraising and grant funding in order to reduce regional misbalances in the country;
- financing of projects of local companies that create export, innovation, high employment and / or value added;
- financing of priority sectors of the economy, in line with the government policy for economic development.

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Bulgarian Development Bank AD has a two-tier system of governance, which comprises Supervisory Board (SB) and Management Board (MB). The Supervisory Board and the Audit Committee represent those charged with governance. As of 31 December 2019, the members of the Supervisory Board of BDB (SB) were: Lachezar Dimitrov Borisov – Chairman of SB, Mitko Emilov Simeonov – Vice Chairman and member of SB, Velina Ilieva Burska – member of SB.

The composition of the Management Board of BDB as of 31 December 2019 was as follows: Stoyan Todorov Mavrodiev - Chairman of MB and Chief Executive Officer; Rumen Dimitrov Mitrov - Vice Chairman / member of MB and Executive Director; Nikolay Dimitrov Dimitrov – member of MB and Executive Director.

The Bank is represented jointly by either two of the three Executive Directors.

As of 31 December 2019, the Bank's employees were 208 (31 December 2018: 191).

The Bulgarian Development Bank Act (2008) envisages the establishment of two Bank subsidiaries - the Capital Investment Fund AD and the National Guarantee Fund EAD (Note 23). National Guarantee Fund EAD was established in 2008 with BGN 80,000 thousand share capital and Capital Investment Fund AD was established in 2018 with share capital of BGN 65,000 thousand out of which 25% paid in as of 31 December 2019. The share of BDB in Capital Investment Fund AD is 85%.

In addition, in 2019 BDB established two new subsidiaries:

- BDB LEASING EAD, with a capital of BGN 2 million
- BDB FACTORING EAD, with a capital of BGN million

As at 31.12.2019 the Bulgarian Development Bank AD has no open branches.

These financial statements are separate financial statements. The Bank also prepares consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU) in which investments in subsidiaries are recognized and disclosed in accordance with IFRS 10 Consolidated Financial Statements.

2. BASIS OF PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS

Applicable standards

These separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

These financial statements have been prepared on a separate basis. The Bank prepares consolidated financial statements in accordance with the Accountancy Act. These separate financial statements shall be read together with the consolidated financial statements.

Statement of compliance

The separate financial statements of the Company have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS as adopted by the EU). Reporting framework "IFRS as adopted by the EU" is essentially the defined national basis of accounting "IAS, as adopted by the EU", specified in the Bulgarian Accountancy Act and defined in paragraph 8 of its Additional provisions.

These separate financial statements have been prepared on the historical cost basis except for the following items:

- Derivative financial instruments, measured at fair value through profit or loss;
- Tradable financial instruments, measured at fair value through profit or loss;
- Financial instruments, measured at fair value through other comprehensive income;
- Investment property, assets held for sale and assets acquired from collateral foreclosure carried at fair value, at cost less costs of sale and net realizable value (which, in the case of assets acquired from collateral foreclosure is their fair value, less costs of sale), as long as the fair value can be measured reliably.

Going concern

The Bank's management assessed the ability of the Bank to continue its activity as a going concern and is confident about the availability of sufficient resources to continue its normal operations in the foreseeable future. Moreover, management is not aware of any significant uncertainty that could cast doubts as to the ability of the Bank to continue as a going concern. In view of the above, these separate financial statements have been prepared on a going concern basis.

Order of liquidity and maturity structure

The Bank presents its separate statement of financial position in order of liquidity. An analysis regarding recovery of assets or settlement of liabilities is presented in Note 4.3.

Comparability of data

The separate financial statements provide comparative information with respect to one previous period.

Presentation currency

The Bulgarian lev is the reporting and functional currency. These separate financial statements are presented in thousands of Bulgarian leva (BGN'000).

2. BASIS OF PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

Accounting estimates

The preparation of the financial statements in accordance with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities, and the disclosure of contingent liabilities at the date of the financial statements. These estimates are made on the basis of information available as of the date of the financial statement and therefore, the actual results may differ from these estimates. The items presuming a higher level of subjective assessment or complexity, or where the assumptions and accounting estimates are material for the financial statements, are disclosed in the notes below.

Key estimates and assumptions of high uncertainty

a) Expected credit losses on assets carried at amortised cost

Monthly, the Bank reviews its loan portfolio and other assets carried at amortised cost in order to detect the existence of conditions presuming impairment in the current or future period, and to calculate impairment losses. When assessing whether to include the impairment loss in the separate statement of comprehensive income, the Bank's management considers whether there are and what are the observable indicators and data, which indicate that there is a measurable reduction in the expected cash flows from the loan portfolio as a whole, or respectively – a decrease associated with a particular loan/component from this portfolio. Such indicators and data are those that indicate the existence of an adverse change in the payment options by the borrowers from a particular group or by a particular borrower, or the presence of national, economic or other conditions that are associated with a particular risk for a given group/type of loans.

The main indicators for determining the risk groups are the debtor's financial condition and project implementation, funded by the loan, problems with servicing, including interest in arrears and maturing principal, sources of repayment and granted collateral, as a type and opportunity for realisation. Additionally, for loans, guaranteed by the European Investment Fund (EIF), the impairment loss is recognised after deduction of the portion borne by EIF (Note № 4.1).

In determining the future cash flows pattern, the Bank's management uses estimates, judgments and assumptions based on its historical loss experience, adjusted with European statistical data for assets with similar credit risk characteristics, as well as an objective evidence for impairment or expected impairment of the portfolio from unrealised loss in a particular component thereof. Analogous approach is used also for assessments at individual credit exposure, with respect to individually significant loans, taking into account the quality of collateral as well. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly so as to minimize the discrepancies between loss estimates and actual loss experienced (Notes 12 and 19).

2. BASIS OF PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

Key estimates and assumptions of high uncertainty (continued)

b) Measurement of financial instruments at fair value through other comprehensive income

Equity and debt instruments not quoted on stock markets

The Bank classifies as Financial assets at fair value through other comprehensive income its investments held in the form of non-publicly traded companies' shares / entities (less than 20% of their capital), which have been acquired with the aim to establish and develop business relations of interest to the Bank. Management measures these financial assets at fair value using methods that are allowed under IFRS 13, except in cases where it has judged that the cost of acquisition (cost) better reflects their fair value, namely:

- When there is no sufficient and up-to-date information to enable it to measure the fair value; or
- When there is a large scope of eligible methods and/or resultant valuations of the fair value and the cost approximates most closely the fair value within a range of values calculated (Notes 9 and 22).

Equity and debt instruments quoted on stock markets

As of 31 December 2019, the Bank conducted a detailed comparative analysis of the movements on the national and foreign stock markets of the stock market prices of public companies' shares and bonds listed for dealing held by it.

For investments in securities that are listed for dealing at stock exchange markets, management has carried out research and analyses and deems that they may be subsequently carried at fair value determined directly on the basis of completed transactions in the stock market in the last month of the financial year (Level 1). In addition, the applied prices are analysed for trends in the behaviour of stock exchange prices of the respective securities at least for the last three months of the year and respectively, to the date of issuing of the separate financial statements. (Notes 9, 16, 22).

The Bank impairs its debt instruments in compliance with its Policy and Methodology for assessment of expected credit losses and calculation procedure.

c) Provisions for bank guarantees issued

The Bank has formed provisions for a portfolio of contingent liabilities for payment in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Bank reviews its contingent liabilities the purpose of establishing whether any events have occurred, that would confirm to a large extent the probability that a commitment will be paid to settle an obligation. If such events occur, the Bank provides its liability up to the amount of its future costs related to the outflows of economic benefits/payments. These costs/losses are determined on the basis of the present value of the future net cash flows, representing the difference between the payment obligation and the possible inflows of subsequent recourse to the guarantee user or third parties (Notes № 12 and 32).

2. BASIS OF PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

Key estimates and assumptions of high uncertainty (continued)

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contract liabilities are measured initially at their fair values and, if not designated as at FVTPL and do not arise from a transfer of an asset, are measured subsequently at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount recognised initially less, where appropriate, cumulative amortisation of recognised revenue.

d) Actuarial calculations

In assessing the present value of the long-term liabilities to employees upon retirement, actuarial methods and calculations are used based on assumptions for mortality rate, staff turnover rate, future salary levels and a discount factor considered by management as reasonable and relevant to the Bank (Note 33).

e) Valuation of investment property

The fair value of investment property, which management considers reasonable and adequate for the Bank, is determined by certified independent appraisers. The valuations are conducted by using various valuation techniques, such as the recoverable amount method, the method of income capitalisation, the method of market analogues, where for each method a weight is set for the purposes of achieving the final fair value of investment property at the end of the reporting period (Note 25).

f) Assets acquired from collateral foreclosure

Assets acquired from collateral foreclosure include assets acquired by the bank as a result of non-performing loans. These assets are measured at the lower of at cost and net realisable value. The net realisable value, which management considers reasonable and adequate for the Bank, is determined by certified independent appraisers.

g) Fair value of financial instruments

Where the fair values of financial assets and liabilities on the separate statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from the Bank's historical observations and observable financial market indicators, where possible. However, where this is not feasible, a degree of judgement is required in establishing fair values. The assumptions include liquidity factors, volatility for longer derivatives and discount rates, early payments and assumptions for non-performance in connection with securities for which assets have been provided as collateral.

2. BASIS OF PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

2.1 Changes in accounting policies and disclosures

Reporting equity for regulatory purposes

Until 2018, the Bank treated its controlling interests in the capital of subsidiaries NGF EAD and MFI JOBS EAD as a deduction from equity for regulatory purposes. As at 31.12.2019 following a Decision of the Management Board of the BNB No162/30.04.2020 (BNB-41615/30.04.2020), the Bank changed its policy and began to report its participation in these companies as exposure under Art. 48 item 4 of Regulation 575/2013, resulting in an increase in regulatory capital by BGN 91,643 thousand. The decision has no other effects on the Bank's IFRS financial statements for 2019.

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year. The following amendments to IFRS have been adopted by the Bank as of 1 January 2019:

IFRS 16 Leases

The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their balance sheet and to have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The new standard was applied by the Bank using the modified retrospective approach. Previous periods have not been recalculated. For those leases that were previously classified as finance leases, the right-of-use asset and the lease liability were measured at the same amounts at the date of initial application of the standard at which they were measured under IAS 17 immediately before the date of initial application, respectively BGN 775 thousand right-of-use assets as at 1 January 2019 and lease liabilities of BGN 561 thousand as at that date.

The Bank has also applied the following new standards, amendments and interpretations to IFRS developed and published by the International Accounting Standards Board, which are mandatory for implementation for annual period beginning on 1 January 2019, but their application has no effect on the financial performance and financial position of the Bank:

- IFRS 9 Financial Instruments (Amendments) – Prepayment Features with Negative Compensation
- IAS 19 Employee Benefits (Amendments): Plan Amendment, Curtailment or Settlement
- IAS 28 Investments in Associates and Joint Ventures (Amendments) – Long-term Interests in Associates and Joint Ventures
- IFRIC 23 Uncertainty over Income Tax Treatments
- Annual Improvements to IFRSs 2015-2017 Cycle

2. BASIS OF PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

2.2 Standards issued but not yet effective and not early adopted

Standards issued but not yet effective or not early adopted up to the date of issuance of the Bank's financial statements are listed below. This listing is of standards and interpretations issued, which the Bank reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Bank intends to adopt those standards when they become effective.

Definition of Material (Amendments to IAS 1 and IAS 8)

Changes in the definition of 'materiality' align the definition used in the Conceptual Framework and in the standards.

The amendments explain how the definition should be applied by providing practical guidance that has previously been incorporated into other IFRSs. The change enters into force on 1 January 2020. The Bank does not expect an impact on its financial statements.

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

Changes to the interest rate benchmark reform (Amendments to IFRS 9, IAS 39 and IFRS 7) clarify that some entities will continue to use certain hedge accounting requirements, assuming that the reference rates on which hedged cash flows are based and the hedge instrument cash flows will not change as a result of the interest rate benchmark reform. The change enters into force on 1 January 2020. The Bank does not expect an impact on its financial statements.

Classification of assets as current or non-current (Amendments to IAS 1)

The changes aim to permanence in the application of the requirements by helping entities to determine, in reporting the financial position, debt and other liabilities with an uncertain repayment date, whether they should be classified as current (due or potentially repayable within one year) or non-current. These changes enter into force on 1 January 2023 and have not yet been adopted by the EU.

IFRS 3 Business Combinations (Amendments): Definition of a Business

The amendments are effective for annual periods beginning on or after January 1, 2020 and are adopted by EU. The amendments limit the definition of business, provide guidance supporting entities to estimate whether the acquired business is significant and introduce optional fair value concentration test.

2. BASIS OF PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

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

IFRS 17: Insurance Contracts

The standard is effective for annual periods beginning on or after 1 January 2021, replacing IFRS 4 Insurance contracts, with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. It requires the implementation of an ongoing assessment model according to which estimates are reviewed during each reporting period. Contracts are assessed using discounted cash flows with weighted probabilities, an explicit risk adjustment and a contracted services allowance representing unrealised contract profit, which is recognised as income during the coverage period. The standard has not been yet endorsed by the EU.

Conceptual Framework for Financial Reporting

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018, which is effective for annual periods beginning on or after 1 January 2020. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards.

The main amendments introduced in the revised Conceptual framework for financial reporting are related to measurement, including factors, which should be considered when choosing measurement basis, and to presentation and disclosure, including income and expenses which should be classified in other comprehensive income. The Conceptual framework also provides updated definitions for asset and liability and criteria for their recognition in the financial statements. The Conceptual framework for financial reporting has not yet been endorsed by the EU.

Together with the revised Conceptual Framework IASB also issues Amendments to References to the Conceptual Framework in IFRS Standards.

IFRS 16 Leases – Covid-19 related Rent Concessions, effective as of 1 June 2020, not yet adopted by the EU

The changes concern only lessees under leasing contracts who have received a discount on the rental amount or do not owe rent for a certain period of time as a result of the COVID-19 coronavirus pandemic. In this case, lessees may not consider reduced rental contributions or simplified rents for the periods up to or before 30 June 2021 as a lease modification, regardless of whether the rental amounts are subsequently increased after 30 June 2021.

IFRS 14 Regulatory Deferral Accounts (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard.

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded).

2. BASIS OF PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

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

Amendments to IFRS 3 Business Combinations: IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements.

Annual Improvements to IFRSs 2018-2020 Cycle effective as of 1 January 2022, not yet adopted by the EU

Annual Improvements to IFRSs 2018-2020 Cycle amend IFRS 1, IFRS 9, IFRS 16 and IAS 41.

The amendment in IFRS 9 clarifies which fees to be included when applying the "10 per cent" test in paragraph B3.3.6 of IFRS 9 when assessing whether it is necessary to write off a financial liability. The entity should include only fees paid or received between the company (borrower) and the lender, including fees paid or received either by the entity or by the lender on behalf of a third party.

Amendments to IAS 16 "Property, plant and equipment - Proceeds before intended use, effective as of 1 January 2022, not yet adopted by the EU

The amendments to IAS 16 "Property, plant and equipment - Proceeds before intended use amend the standard to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.

Amendments to IAS 37 "Onerous Contracts - Cost of Fulfilling a Contract", effective as of 1 January 2022, not yet adopted by the EU

Amendments to IAS 37 "Onerous Contracts - Cost of Fulfilling a Contract" adds that "the costs of fulfilling a contract include costs directly related to the contract". Costs directly related to a contract can be either additional costs for fulfilling the contract (examples of this are direct work, materials) or allocation of other costs directly related to fulfilling a contracts (an example may be the allocation of depreciation of property, plant and equipment used in the fulfilling of the contract).

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Financial instruments

IFRS 9 Financial instruments: classification and measurement

Recognition of assets

The Bank recognises a financial asset or financial liability in the statement of financial position, when and only when it is part of an existing contractual relationship regulating the instrument.

The Bank classifies financial assets as subsequently measured at amortised cost, at fair value in other comprehensive income or at fair value through profit or loss, as the case may be, on the grounds of:

a) a business model of the Bank for financial assets management
b) the features of the contractual cash flow of the financial asset.

Regardless of its election with regard to the reporting approach, the Bank has the option, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases, as per the paragraphs below:

a) If the Bank has liabilities under insurance contracts whose measurement incorporates current information and financial assets that it considers to be related and that would otherwise be measured at either fair value through other comprehensive income or amortised cost.
b) if the Bank has financial assets, financial liabilities or both that share a risk, and that gives rise to opposite changes in fair value that tend to offset each other.
c) if the Bank has financial assets, financial liabilities or both that share a risk, , that gives rise to opposite changes in fair value that tend to offset each other and none of the financial assets or financial liabilities qualifies for designation as a hedging instrument because they are not measured at fair value through profit or loss.

A financial asset is measured at amortised cost, if both of the following two criteria are met simultaneously:

a) The financial asset is held within a business model with the objective to collect their contractual cash flows (Hold to Collect business model); and
b) The contractual terms of the financial asset lead to generation of cash flows that are solely payments of principal and interest on the outstanding interest, on specific dates (SPPI).

A financial asset is measured at fair value in other comprehensive income, if both of the following two criteria are met simultaneously:

a) The financial asset is held within a business model with the objective to collect the contractual cash flows and sell the financial asset, and
b) The contractual terms of the financial asset lead to generation of cash flows that are solely payments of principal and interest on the outstanding interest, on specific dates.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

IFRS 9 Financial instruments: classification and measurement (continued)

Recognition of assets (continued)

A financial asset is measured at fair value through profit or loss, unless it is measured at amortised cost or at fair value in other comprehensive income in accordance with the above criteria.

Upon initial recognition, the Bank may make an irrevocable choice to include in fair value in other comprehensive income subsequent changes to an investment in an equity instrument that is not held for trading or is not a contingent remuneration recognised by a transferee in a business combination to which IFRS 3 applies.

Reclassification of financial assets

When and only when the Bank changes its business model for financial asset management, it reclassifies all financial assets affected, in line with the asset classification requirements. If the Bank applies such reclassification to financial assets, it shall apply it in the future, from the first day of the first reporting period following the change in business model that results in reclassifying the financial assets. The Bank does not recalculate previously recognised profits, losses (including gains or impairment losses) or interest.

Assessment and reporting

Upon initial recognition, in the case of a financial asset or financial liability not stated at fair value through profit or loss, the Bank measures a financial asset or a financial liability at fair value, taking into account as a probable increase and/or decrease of the transaction costs which are directly related to the acquisition or origination of the financial asset or financial liability.

Determination of a business model

The Bank defines the "business model with the objective to collect their contractual cash flows (Hold to Collect business model)" as a business model where the Bank's financial assets are managed with the objective to generate cash flows through collection of contractual cash flows over the instrument's lifetime. The Bank may use this business model in the event of converting the sale of assets with increased credit risk or in order to reduce the concentration risk. These financial assets are carried at amortised cost if as described above an additional criterion is met that the contractual terms of the financial asset give rise to cash flows, which are only principal payments and interest on outstanding principal, on specific dates (SPPI).

The Bank defines the "business model with the objective to collect the contractual cash flows and sell the financial asset" as a business model where the Bank's key management staff have decided that the collection of contractual cash flows and the sale of financial assets are an integral part of the achievement of the business model's objective and includes much more frequent and of higher value sales of financial assets than a business model with the main purpose of holding financial assets to collect contractual cash flows. These assets are reported as financial assets at fair value through other comprehensive income, if as described above an additional criterion is met that the contractual terms of the financial asset give rise to cash flows, which are only principal payments and interest on outstanding principal, on specific dates (SPPI).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

IFRS 9 Financial Instruments: classification and measurement (continued)

Determination of a business model (continued)

The Bank defines "other business models" as a business model that does not include the holding of financial assets for the purpose of collecting contractual cash flows or for the simultaneous collecting of contractual cash flows and selling financial assets. Typically, this process involves actively buying and selling financial assets. These assets are reported as financial assets at fair value through profit or loss.

Financial assets

The Bank initially recognises loans, receivables and deposits on the date they were incurred. All other financial instruments (including assets and liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Bank becomes a party to the contractual provisions of the instrument.

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or the Bank transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial asset that qualify for derecognition, which is created or retained by the Bank, is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the separate statement of financial position when, and only when, the Bank has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

The Bank has the following non-derivative financial assets:

- financial assets at fair value through profit or loss;
- financial assets at fair value through other comprehensive income;
- financial assets at amortised cost;

Financial assets at amortized cost

Financial assets measured at amortised cost are financial assets which are held within a "held to collect" business model and that are 'solely payments of principal and interest (SPPI)'. The Bank holds such financial assets within a business model with the objective to hold financial assets in order to collect contractual cash flows within the life of the asset. Such assets are initially measured at fair value plus incremental direct transaction costs. Subsequently, loans and receivables are measured at their amortised cost using the effective interest rate, less any impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Financial assets (continued)

Financial assets at amortized cost (continued)

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts for the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortized cost of a financial liability. In calculating the effective interest rate the expected cash flows are estimated taking into account all contractual terms and conditions under the financial instrument (for example early repayment options, extension options, call options and similar), excluding expected credit losses. The calculation includes all fees and other considerations paid or received by the contract counterparties that are an integral part of the effective interest rate, transaction costs and other premiums or discounts.

When calculating the effective interest rate, the Bank estimates the cash flows by considering all contractual terms of the financial instrument, but not considering any future credit losses.

The calculation includes all charges and other fees paid to or received by the contractors that are an integral part of the effective interest rate.

The Bank assesses whether evidence of impairment of loans and receivables exists for each specific asset, except for receivables from employees (Note 3: Impairment of financial assets). After a thorough review of the quality and impairment testing of standard exposures, the Bank established that as at 31 December 2019, as also in 2018, the expected credit loss on receivables from employees was 0%, and that which had arisen from receivables having occurred in relation to Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP) amounted to BGN 247 thousand (as at 31 December 2018: BGN 804 thousand).

Financial assets measured at amortised cost include cash and cash equivalents, receivables from banks, loans and advances to customers, receivables from the State budget, securities and trade and other receivables.

Financial assets at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income include equity and debt securities, and certain cases of loans and advances.

Financial assets measured at fair value through other comprehensive income are assets acquired under a business model with the objective of both holding to collect contractual cash flows and selling the financial assets.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

a) the financial asset is held within a business model whose objective is both collecting contractual cash flows and selling the financial assets; and

b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The debt instruments are initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of these debt instruments as a result of foreign exchange gains and losses, impairment gains or losses, and interest income calculated using the effective interest method are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Financial assets (continued)

When an investment is derecognised, the accumulated gains or losses in other comprehensive income are reclassified to profit or loss.

On initial recognition, the Bank may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the revaluation reserve. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to reserves.

Dividends on these investments in equity instruments are recognised in profit or loss in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Upon disposal of equity instruments from this category each amount recognized in the revaluation reserve of the instruments is reclassified to retained earnings.

Financial assets at fair value through profit or loss

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Bank designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition;
- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Bank has not designated any debt instruments as at FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss (continued)

Transaction related costs are recognized in profit or loss upon origination. Financial assets at fair value through profit or loss are measured at fair value and any related changes, including dividend income, are recognised in profit or loss.

Upon initial acquisition, the Bank's management determines whether a financial asset will be held for trading. Usually, management designates derivatives as such instruments.

A derivative is a financial instrument:

- Whose value changes in response to changes in interest rates, security prices, commodity prices, foreign exchange rates, price indices or interest rates, credit ratings or credit indices, or other variables;
- That requires no initial net investment, or one that is smaller than would be required for a contract with similar response to changes in market conditions;
- That is settled at a future date.

When upon entering a specific derivative transaction, the Bank defines a position to be hedged and all the requirements of IFRS 9 have been met, the corresponding derivative is recognised as such hedging and it shall be specified whether it hedges:

- deviations in the fair value of a specific asset (fair value hedge),
- differences in the estimated future cash flows (cash flow hedge), or
- the effect of investments in foreign subsidiaries (net investment hedge).

Derivatives that do not meet the criteria for hedge accounting are measured at fair value through profit and loss.

Initially, derivative financial instruments are measured at fair value (including transaction costs) and subsequently, they are measured at fair value. Derivatives are accounted for as assets when their fair value is positive and as liabilities when it is negative.

As of 31 December 2018 and 31 December 2019, the Bank has no financial assets measured at fair value through profit or loss.

Assets under trust management

The Bank provides trust management services that includes holding of or investing in assets on behalf of customers. Assets held under trust management, unless certain recognition criteria have been met, are not included in the Bank's financial statements since they are not assets of the Bank.

Bulgarian Development Bank AD performs services in its capacity as an investment intermediary in accordance with the provisions of the Public Offering of Securities Act (POSA). Being an investment intermediary, the Bank is obliged to comply with certain requirements in order to protect its customers' interests in accordance with the Markets in Financial Instruments Act (MFIA) and Ordinance 38, issued by the Financial Supervision Commission (FSC). Moreover, the Bank should also observe the requirements of Directive 2014/65/EC on the Markets in Financial Instruments (MiFID II) and Regulation 600/2014 of the EU on the Markets in Financial Instruments (MiFIR).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Assets under trust management (continued)

The Bank has developed and implements organization relating to the conclusion and performance of contracts with customers, the requirement of information from customers, keeping records and storage of client's assets, in compliance with the provisions of the above-mentioned National and European legal acts. The Bank has implemented a system of in-house internal control rules and procedures aiming at ensuring its full compliance with the bodies of legislation mentioned above.

Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL. Financial liabilities that are not contingent consideration of an acquirer in a business combination, held-for-trading, or designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

Initially, they are stated at fair value of cash flows received on the origination of the liability, less any transaction costs. Subsequently, any difference between the net cash flows and the residual value is recognised in profit or loss for the period using the effective interest rate method over the term of the liability. The financial liabilities reported by the Bank as deposits, borrowings and securities issued are stated at amortised cost.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or, where appropriate, a shorter period, to the gross carrying amount of financial asset or to the amortised cost of financial liability. When calculating the effective interest rate the Bank estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all charges and other fees paid to or received by the contractors that are an integral part of the effective interest rate.

Derecognition of financial instruments

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised when:

a) the contractual rights to receive cash flows from the financial asset have expired;
b) the contractual rights to receive cash flows from the financial assets have been transferred, or contractual rights to receive cash flows from the financial asset have been retained, but a contractual obligation has been assumed for their payment in full without material delay to a third party under a 'pass through' arrangement, and either:
   - the Bank has transferred substantially all the risks and rewards of the financial asset, or
   - the Bank has neither transferred nor retained substantially all the risks and rewards of the financial asset, but has transferred control of the asset.

When the Bank has transferred its contractual rights to receive cash flows from a financial asset and has neither transferred nor retained substantially all of the risks and rewards of the financial asset nor transferred control of the asset, the transferred financial asset is recognised to the extent of the Bank's continuing involvement in the asset. In this case, the Bank recognises the related obligation. The transferred asset and the concomitant obligation are evaluated to reflect the rights and obligations, which the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Derecognition of financial instruments (continued)

A financial liability is derecognised from the separate statement of financial position when it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts of the original and new liability is recognised in the separate statement of comprehensive income – in profit or loss.

Impairment of financial instruments

IFRS 9 requires the recognition of a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of the impairment depends on the probability of default of the debtor over the next 12 months after initial recognition, unless there has been a significant increase in credit risk, which requires the estimation of expected credit losses (ECL) over the lifetime of the financial asset.

The estimate of ECLs is based on all available, reasonable and justified information at the reporting date for past events, the current situation and the use of relevant macroeconomic indicators and reliable forecasts of future economic conditions. The key macroeconomic indicators, used by the Bank, are gross domestic product, unemployment, inflation, changes in oil prices, and changes in the USD exchange rate and 3M EURIBOR. The expected credit losses for loans classified in Stage 3 are measured on the basis of three macroeconomic scenarios – realistic, negative and optimistic, which are used in the calculation of the impairment by applying different weights. The results obtained can be further adjusted and expected credit losses increased or reduced to reflect future risks that cannot be modelled (mainly, legislative or regulatory).

The Bank has drawn up a methodology that introduces criteria for classifying financial assets in three categories (the so-called "stages"), transfer criteria between them and setting an impairment amount depending on the stage in which the underlying asset is classified.

The stages and their characteristics are described below:

- Stage 1 – includes standard (performing) loans without a significant increase in credit risk after initial recognition. The impairment of those assets is based on the probability of default of the debtor over the next 12 months or for a shorter period if the life of the instrument is shorter than one year.
- Stage 2 – includes assets with a significant increase in credit risk after initial recognition. Such an increase is presumed if the loan is past due for more than 30 days; the debtor is placed on watch; the debtor's credit rating has deteriorated at the reporting date compared to its rating on the date of recognition of the instrument, or the Bank expects the credit to be restructured. In this case, the expected credit losses are calculated for the entire lifetime of the asset;

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Impairment of financial instruments (continued)

- Stage 3 – includes assets, for which objective evidence exists that they are impaired, such as non-performing loans. The Bank has set specific criteria that determine when a debtor is in default. The expected credit losses for these instruments are also calculated for the entire lifetime of the instrument.

The absolute threshold for the transfer of credits among the levels is linked to the internal credit rating determined by the Bank of the borrower concerned. The Bank has set a credit rating of 7 as a transition limit to move to Stage 2 and credit rating 8 to move to Stage 3.

A financial asset classified in Stage 1 – Standard (Performing) – is impaired individually on the basis of the probability of default of the debtor during the next 12 months or less, if the life of the instrument or the residual term is less than one year.

A financial asset classified in Stage 2 – Watch – is an asset for which there has not been a significant increase in credit risk since initial recognition. The Bank considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due; the debtor has been reclassified as watch exposure; the debtor's credit rating has deteriorated as at the reporting date compared to its rating as at the date of recognition of the instrument, or the Bank expects that the credit will be restructured. In this case, the expected credit losses are calculated for the entire life of the asset.

A financial asset classified in Stage 3 – Non-performing - which is not recognised at fair value through profit and loss, is reviewed at each reporting date to assess whether there is objective evidence of its impairment. A financial asset is impaired when there is objective evidence that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence a financial asset is impaired includes default or delinquency by a borrower, restructuring of a liability to the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, adverse changes in the payment status of a borrower or issuer, economic conditions that lead to failures or the disappearance of an active market for a security.

Purchased or originated credit-impaired financial assets are assets that are credit-impaired at initial recognition. For these assets, the Bank recognises all changes in lifetime expected credit loss since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

Financial assets measured at amortised cost

The Bank impairs these assets on individual and collective bases.

The Bank considers evidence for impairment of financial assets measured at amortised cost (loans and receivables) at both individual and collective level. Assets with similar risk characteristics are collectively assessed for impairment.

In assessing collective impairment the Bank uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred. Impairment losses on financial assets measured at amortised cost are calculated as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Impairment of financial instruments (continued)

Financial assets measured at amortised cost (continued)

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Bank's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

Pursuant to the Policy and Rules for Calculation of Expected Credit Losses and Exposures' Impairment, the understanding of the Bank of the impairment on a collective (portfolio) basis is as follows:

„Article 32. (1) Based on a motivated proposal by Risk Department, the bank may designate sub-portfolios of exposures with similar risk characteristics.

(2) The indicators underlying the establishment of a sub-portfolio are controlled and monitored at least once a year in order to identify potential unfavourable dynamics and changes in the risk profile of the portfolio.

Article 33. The amount of the collective impairment is determined in accordance with the methodology adopted by the Bank. It is also possible to develop additional methodologies that take into account specific risk factors for particular sub-portfolios.

Article 34. For groups of financial instruments the credit risk of which has increased significantly since initial recognition, a portfolio assessment can be made taking into account the information that shows a significant increase in credit risk at the level of a group or sub-group of financial instruments. Thus, the Bank recognizes expected credit losses over the entire life of financial instruments the credit risk of which has increased significantly, even when there is no such evidence at the level of an individual instrument.

Article 35. (1) When the Bank determines whether there has been a significant increase in credit risk and recognizes loss adjustments on a collective basis, financial instruments may be grouped on the basis of common credit risk characteristics with the aim to conduct an analysis to identify a significant increase in credit risk in a timely manner.

(2) By grouping its financial instruments, the Bank complies with the principle of not impairing the quality of information available by grouping financial instruments with different risk characteristics. Common characteristics of credit risk include, but are not limited to: a type of instrument; credit risk rating; type of collateral; date of initial recognition; residual term to maturity; industry; geographical location of the borrower; and the relative value of the collateral compared to the financial asset if it affects the probability of default (for example, non-recourse loans in some jurisdictions or loan / collateral ratios)."

Currently, the Bank has designated as a portfolio for collective impairment its receivables on Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Impairment of financial instruments (continued)

Financial assets measured at amortised cost (continued)

For the Bank, *impairment on an individual basis* means (again, as defined in the same Policy) an assessment of the expected credit losses based on the exposure's individual parameters.

1. When the exposure is in Stage 3, an individual matrix is applied to the expected future cash flows from collateral realisation.

2. When the exposure is in Stage 1 or 2, a tool is used to compare the exposure's individual characteristics (such as maturity, payment models, sectors, etc.) with probabilities of non-performance, which have been observed historically with respect to similar exposures, as well as macroeconomic parameters, sector specifics, etc.

Financial assets measured at fair value through other comprehensive income

For debt instruments measured at FVTOCI no loss allowance is recognised in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investments revaluation reserve.

For equity securities no loss allowance is recognised and every movement in the fair value is recognised in other comprehensive income until the security is sold or derecognised.

Fair value of financial assets and liabilities

Definitions

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Bank discloses information about the fair value of those assets and liabilities for which there is market information available and the fair value of which significantly differs from their carrying amount.

The fair values of financial assets and liabilities that are quoted in active markets and for which there is market information available are based on announced market prices or closing prices. The use of real market prices and information reduces the need for management assessment and assumptions, as well as the uncertainty related to the determination of fair value. The availability of real market prices and information varies depending on products and markets, and changes according to the specific events and the general financial market conditions. For some of the other financial instruments the Bank determines the fair values by using of an evaluation method based on the net present value. The net present value calculation is provided by market yield curves and credit spreads, where necessary, for the respective instrument. The purpose of evaluation techniques is to determine fair value, which would be précised by direct market participants. The Bank has established control environment with respect to the assessment of fair values.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Instruments (continued)

Fair value of financial assets and liabilities (continued)

Definitions (continued)

The fair values of financial instruments not traded in active markets (such as derivatives not traded on the market), which are an object of a transaction between the parties, are determined using valuation techniques. These valuation techniques adhere to the use of market data when available and as less as possible to the use of specific assessments of the Bank.

Fair Value Hierarchy

The Bank applies the following hierarchy for measuring and disclosing the fair value of financial instruments using valuation techniques:

- Level 1 – quoted (unadjusted) market prices in active markets for identical instruments;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable either directly or indirectly. This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data;
- Level 3 – unobservable inputs for an asset or a liability. This category includes all instruments, for which the valuation technique does not include observable inputs and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments;

The fair value hierarchy of financial assets and liabilities is disclosed in Note 5.

Hedge accounting

IFRS 9 introduces a significant amendment to hedge accounting, requiring more extensive disclosures regarding the risk management activity. The Bank's business model does not provide taking of significant market or foreign currency positions. Insofar as the Bank is exposed to currency or interest rate risk, it takes appropriate measures to minimize that risk: matching the amount of active and passive exposures in the relevant currency, providing coverage of interest-bearing fixed-rate assets with similar interest-bearing fixed-rate liabilities.

The Bank fully assumes the market risk arising out of its securities regardless of whether they have been held to collect cash flows or to sell.

The Bank has no foreign subsidiaries to be consolidated.

The Bank does not report active financial instruments designated as hedging relationship and therefore, the requirements of IFRS 9, applicable to hedges, have no effect on the Bank's financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Cash and cash equivalents

For the purposes of the cash flow statement cash equivalents comprise cash in hand, cash in current accounts with other banks, deposits and placements with other banks – payable at sight and/or with original maturity of up to 3 months, including repo deals with original maturity of up to 3 months, as well as unrestricted (not blocked) balances with the Central Bank (BNB). The parent company (the Bank) maintains a minimum statutory reserve according to the requirements of BNB and for the purposes of cash flow statement it includes these funds included as a component of Cash and cash equivalents. They are presented in the separate statement of financial position at amortised cost.

For the purposes of preparation of the separate cash flow statement, bank overdrafts payable on demand and forming an integral part of the Bank's cash management are included as a component of Cash and cash equivalents.

3.2 Other assets

Assets held for sale

Assets are classified as held for sale, if their carrying amount will be recovered through a sale and not through a continuing use in the Bank's operations. Assets held for sale are stated initially at cost, with the transaction costs being taken into account in the initial measurement. Usually, these assets have been initially accepted by the Bank as collateral and subsequently acquired as a result of a "debt against property" exchange by borrowers that do not perform their obligations in accordance with the agreed contractual terms.

Assets classified in this group are available for immediate sale in their present condition. Management is usually engaged actively and performs actions to realise a sale transaction within at least one year after the date of classification of the asset in this group.

Assets classified as held for sale are presented in the separate statement of financial position separately and measured at the lower of their carrying amount and their fair value less the estimated direct costs to sell.

The assets within this classification group are not depreciated.

Investments in subsidiaries

Long-term investments, representing shares in subsidiaries, are presented in the separate financial statements at cost, which is the fair value of the consideration paid, including direct costs of acquisition of the investment.

These investments are not traded on stock exchanges.

The investments in subsidiaries held by the Bank are subject to impairment testing. If indications of impairment are found, the latter is recognized in the separate statement of comprehensive income.

Purchases and sales of investments are recognised on trade date.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Other assets (continued)

Investments in subsidiaries (continued)

Investments are derecognised when the rights originating from the investments have been transferred to third parties on the occurrence of the legal grounds to do so, and thus, the control on the business rewards of investments has been lost. Income from their sale is presented separately as part of other operating income / (expenses) in the separate statement of comprehensive income (in the profit or loss for the year).

Taxes

Current income taxes are determined by the Bank in accordance with the Bulgarian legislation. The income tax due is calculated on the basis of the taxable profit for the period determined in accordance with the rules established by the tax authorities on the grounds of which taxes are paid (reversed).

The tax effect relating to transactions and other events reported in the separate statement of comprehensive income is recognised also in the separate statement of comprehensive income and the tax effect relating to transactions and other events reported directly in equity is also recognised directly in equity.

Deferred income tax liabilities are recognised for all taxable temporary differences, except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that at the time of the transaction affects neither the accounting profit nor taxable profit or (taxable loss).

Deferred income tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised except where the deferred income tax asset arises from the initial recognition of an asset or liability in a transaction that at the time of the transaction affects neither the accounting profit nor taxable profit or (loss).

Deferred taxes are recognised as income or expense, and are included in the net profit for the period, except in cases, when these taxes arise from transactions or events, reported for the same or another period directly in equity. Deferred taxes are charged to or deducted directly from equity, when they relate to items, which have been charged to or deducted from equity in the same or in a different period.

Property, plant and equipment

Items of property, plant and equipment are presented on the separate financial statements at historical cost of acquisition, less any accumulated depreciation and impairment losses.

Initial recognition

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

Subsequent measurement

The approach chosen by the Bank for subsequent measurement of property, plant and equipment, is the cost model under IAS 16 - acquisition cost less any accumulated depreciation and any accumulated impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Other assets (continued)

Property, plant and equipment (continued)

Subsequent measurement (continued)

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised net in other operating income / expenses in profit or loss.

Depreciation method

The Bank applies the straight-line depreciation method for property, plant and equipment. The useful life per group of assets is as follows:

- buildings – 50 years
- bank equipment and computers – 5 years
- motor vehicles – 5 years
- fixtures and fittings – 6.7 years

The useful life by groups was not changed compared to 2018.

The useful life of the individual groups of assets is determined by the management considering: their physical wear and tear, features of the equipment, intentions for future use and expected obsolescence. The useful life of equipment is reviewed at each year-end and adjusted prospectively in case that any material deviations from future expectations concerning the terms of use are found.

Subsequent costs

Repair and maintenance expenses are recognised as current in the period in which they were incurred. Subsequent expenses relating to an item of property, plant and equipment that have the nature of replacement of certain components or improvements and restructuring are capitalised to the carrying amount of the relevant asset and its remaining useful life to the date of capitalisation is reassessed accordingly. At the same time, the unamortised portion of replaced components is derecognised from the assets' carrying amount and recognised as current expenses for the period of restructure.

Intangible assets

Intangible assets are presented on the separate financial statements at cost less accumulated amortisation and any accumulated impairment losses. They include software products and software licences.

The Bank applies the straight-line depreciation method for the intangible assets with a determined useful life of 5 years.

The carrying amount of the intangible assets is subject to review for impairment when events or changes in circumstances indicate that their carrying amount might exceed their recoverable amount. Impairment losses are recognised in the statement of comprehensive income.

Intangible assets are derecognised from the separate financial statement when permanently withdrawn from use (upon retirement), when no future economic benefits are expected from their use or on disposal. Any gains or losses on disposal of individual assets from the group of intangible assets are determined by comparing the sales proceeds and the carrying amount of the asset at the date of the sale.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Other assets (continued)

Investment property

The Bank's management uses this category upon lease of assets acquired from collateral foreclosure on loans. Investment property is measured initially at cost plus any transaction costs. Subsequent to initial recognition, investment property is recognised at fair value. Any gain or loss due to changes in the fair value of investment property is recognised in the profit or loss in the period in which it has occurred. The fair value of investment property is determined on the basis of a valuation made by an independent appraiser.

Investment property rental income is presented as other operating income, while operating expenses directly or indirectly relating to the generated rental income are presented as other operating expenses. Investment property is derecognised on disposal or upon withdrawal from use (retirement), when no future economic benefits are expected from its disposal. Any gains or losses on derecognition of investment property are recognised in the profit or loss in the period in which they have occurred.

Assets acquired from collateral foreclosure

Assets acquired from collateral foreclosure are measured at the lower of cost and net realisable value in compliance with the requirements of IAS 2 Inventories.

Cost of the assets acquired from collateral foreclosure is the sum of all direct costs incurred on the acquisition of the assets and other expenses incurred on bringing them to their current location and condition. The net realisable value is the estimated selling price in the ordinary course of business less estimated costs to complete the trade cycle and costs to sell.

The impairment of these assets is calculated in accordance with the Bank's accounting policy based on the expected realisation of the assets acquired from collateral foreclosure. The impairment of the assets acquired from collateral foreclosure is recognised in the statement of profit or loss. The Bank's management is of the opinion that the carrying amount of the assets acquired from collateral foreclosure is the best estimate of their net realisable value at the date of the statement of financial position. Further details are provided in Notes 25-27.

Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than investment property, inventory and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist, then the asset's recoverable amount is estimated. For intangible assets with indefinite useful life or not yet brought into use, the recoverable amount is estimated annually. An impairment loss is recognised always when the carrying amount of an asset or a cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using the pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Other assets (continued)

Impairment of non-financial assets (continued)

For impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

Impairment losses are recognised in profit or loss. Impairment losses recognised with respect to CGUs are allocated to reduce the carrying amount of the assets in the CGU on a pro rata basis.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised.

3.3. Liabilities

Pension and other payables to personnel under the social security and labour legislation

According to the Bulgarian legislation, the Bank is obliged to pay contributions to social security and health insurance funds. The employment relations of the employees with the Bank, in its capacity of an employer, are based on the provisions of the Labour Code.

Short-term employee benefits

Short-term employee benefits of the Bank in the form of salaries, bonuses and social payments and benefits are recognised as an expense in the separate statement of comprehensive income in the period in which the respective service has been rendered or the requirements for their receipt have been met, and as a current liability at their undiscounted amount. The Bank's obligations to make social security and health insurance contributions are recognised as a current expense and liability at their undiscounted amount together and in the period of accrual of the respective benefits they relate to.

At the end of each reporting period the Bank assesses and reports the expected costs of accumulating compensated absences as the amount that is expected to be paid as a result of the unused entitlement. The assessment includes the estimated costs of employee's remuneration and the statutory social security and health insurance contributions owed by the employer on these amounts.

Long-term retirement benefits

In accordance with the requirements of the Labour Code, the employer is obliged to pay to its personnel upon retirement an indemnity that depending on the length of service with the entity varies between two and six gross monthly salaries as of the date of employment termination. In their nature, these are defined benefit plans.

The calculation of the amount of these liabilities requires the involvement of qualified actuaries in order to determine their present value at the date of the separate financial statements, at which they are included in the separate statement of financial position, adjusted with the amount of the actuarial gains and losses, and respectively, the change in their value, including the recognised actuarial gains and losses – in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3. Liabilities (continued)

Pension and other payables to personnel under the social security and labour legislation (continued)

Long-term retirement benefits (continued)

Past service, costs are recognised immediately in the separate statement of comprehensive income in the period in which they were incurred.

At the end of each reporting period, the Bank assigns certified actuaries who issue a report with calculations regarding the long-term retirement benefit obligations. For the purpose, they apply the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting the future cash flows, which are expected to be paid within the maturity of this obligation, and by applying the interest rates of long-term government bonds denominated in Bulgarian leva.

Actuarial gains and losses arise from changes in the actuarial assumptions and experience adjustments. Actuarial gains and losses from changes in demographic and financial assumptions upon retirement for assured length of service and age are recognised in the separate statement of comprehensive income.

Termination benefits

In accordance with the provisions of the Labour Code, the employer is obliged, upon termination of an employment contract prior to retirement, to pay indemnities as follows:

- for non-observed preliminary notice: one gross monthly salary;
- due to closing down the enterprise or part of it, outlays, reduction of the volume of work and work stoppage for more than 15 days, etc.: one gross monthly salary;
- upon termination of the employment contract due to illness: two gross monthly salaries;
- for unused annual paid leave: for the respective years of the time recognised as service period.

The Bank recognises employee benefit obligations in the event of employment termination before the normal retirement date when it is demonstrably committed, based on an announced plan, to either terminating the employment of current employees without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits failing due more than 12 months are discounted to and presented in the separate statement of financial position at present value.

Provisions and contingent liabilities

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the liability. Provisions are measured on the basis of the best management's estimate at the end of reporting period of the expenses necessary to settle the particular obligation. The estimate is discounted if the obligation is long-term.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3. Liabilities (continued)

Provisions and contingent liabilities (continued)

Contingent liabilities are obligations arising from past events, the existence of which can be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not entirely within the control of the Bank, or it is not probable that an outflow of resources will be required to settle the obligation. They are not recognised in the separate statement of financial position but are subject to special disclosure.

Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer of the guarantee to make specified payments to reimburse the holder as a result of the failure of a third party - debtor to comply with commitments made that have been guaranteed. Financial guarantee contracts are initially measured at fair value, whereas it is accepted that the guarantee's fair value on the date of its issuance is the premium received at inception. No receivables for the future premiums are recognized. Commission fee income is deferred on a straight-line basis over the period, to which such fees refer. Subsequently, the Bank's liabilities under financial guarantee contracts are measured at the higher of the amount of the loss allowance determined in accordance with IFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the Bank's revenue recognition policies. The expected credit losses, related to the financial guarantees issued, are recognised in the statement of comprehensive income, under the heading Impairment of financial assets. The likelihood of an obligation for payment by the Bank under such contracts is estimated based on historical experience with similar instruments.

3.4 Capital

Share capital

The share capital is stated at the nominal value of shares issued and paid. Any proceeds from shares issued over their nominal value are reported as share premium.

Expenses directly relating to the issuance of new shares, except of such relating to business combinations are deducted from the capital net of any associated taxes. Dividends on ordinary shares are recognised in the period in which they were approved by the shareholders. Dividends for the period, which have been announced after the date of preparation of the financial statements, are disclosed as events after the date of the financial statements.

Dividends

An obligation for cash payables to the owners is recognised when the distribution has been approved by them and no longer depends on the Bank. The corresponding amount is written off directly from equity.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Income and expenses

IFRS 15 Revenue from contracts with customers

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers, regardless of the type if transaction or industry, requiring the Bank (1) to identify the contracts with customers, (2) to identify the performance obligations in the contracts, (3) to determine the transaction price, (4) to allocate the transaction price to the performance obligations, and (5) to recognise revenue when each performance obligation is satisfied.

The Bank has identified the following performance obligations under IFRS 15:

- Transaction-related services – revenue is recognised at a point in time because the customer simultaneously receives and consumes the benefits due to the short time period of performance of the service. The fees for these services are based on the Bank's tariff and represent a fixed amount per transaction corresponding to the customers' benefit transferred. Considering the above circumstances, the Bank applies the practical expedient under IFRS 15, paragraph B16, namely, to recognise revenue in an amount it has the right to withheld in accordance with the Tariff. Under IAS 18, the Bank used to recognise revenue by applying the accrual principle and thus, it recognised revenue in the same way.
- Issuance of guarantees and letters of credit – revenue is recognized over time because the customer simultaneously receives and consumes the benefits. The transfer of the benefits to the customer is consistent over time and thus, the Bank uses a straight-line method for measuring the progress of the contract, which in turn results in a straight-line amortisation of the fees over the contracted period. The fees for these services are fixed, calculated depending on the amount of the guarantee or the letter of credit. Under IAS 18, The Bank used to recognize revenue from the fixed fee over the term of the contract on a straight-line basis, which in substance is identical with the accounting policy under IFRS 15.
- Deposit maintenance – revenue is recognised at a point in time because the customer simultaneously receives and consumes the benefits. The fees for these services are based on the Bank's Tariff and represent a fixed monthly amount corresponding to the customers' benefit transferred. Considering the above circumstances, the Bank applies the practical expedient under IFRS 15, paragraph B16, namely, to recognise revenue in an amount it has the right to withheld in accordance with the Tariff. Under IAS 18, the Bank used to recognise revenue by applying the accrual principle and thus, it recognised revenue in the same way.
- Brokerage operations for which the Bank receives agent's commissions - revenue is recognised at a point in time upon the provision of the brokerage service as the Bank operates as a broker. Considering the above circumstances, the Bank recognizes revenue that is equal to the amount of the commission fee for the performance of the brokerage service. The commission fee is the net amount to be withheld by the Bank after paying the portion due to the third party to which / whom the Bank has mediated to perform the services of that third party.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Income and expenses (continued)

IFRS 15 Revenue from contracts with customers (continued)

Servicing of debenture issues fees are fees for the Bank to perform the function of a trustee bank on a bond issue of a public interest entity. The fee is charged and paid periodically, in accordance with a contract.

Income from funds trusted in custody consists of fees for managing funds provided by the Ministry of Finance in relation to a loan from Kreditanstalt für Wiederaufbau extended to the Ministry of Finance. These fees are recognized when due under a contract.

The Bank – except for certain operations provided to its employees – earns no income from retail banking services: the amount of deposits accepted as at 31 December 2019 is BGN 5,033 thousand and the number of accounts opened is 298. The Bank has not analysed in detail the potential effect of such services on revenue due to its limited exposure to retail customers and the absence of branch network.

Interest income and interest expenses

Interest income and interest expenses are recognised in the statement of comprehensive income on an accrual basis for all interest-bearing instruments using the effective yield method based on the actual price of acquisition or the applicable floating interest rate. Interest income and interest expenses include the amortisation of any discount or premium, or any other differences between the original carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Interest income includes interest income on debt securities measured at fair value through other comprehensive income and through profits and losses, interest on deposits with other banks, interest on loans and advances to customers, and fees and commissions on loans and advances to customers, which are an integral part of the effective yield of the financial instrument.

Interest expense is recognised on an accrual basis and comprises the interest accrued on deposits of customers and banks, as well as on loans received and other borrowings, fees and commissions on loans received, which form an integral part of the effective interest expense.

For exposures classified in Stages 1 and 2, the Bank recognizes interest income and other effective interest rate forming income accrued on their gross carrying amount for expected credit losses. For exposures classified in Stage 3, the Bank recognizes interest income and other effective interest rate forming income accrued on their amortised cost.

The Bank also holds investments and assets in countries with negative interest rate levels. The Bank discloses the interest paid on such assets as interest expense with additional disclosure in Note 6.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Income and expenses (continued)

Fees and commissions

Fee and commission income is recognized on a one-off or periodical basis over the life of the exposure, while ensuring comparability with the costs of providing the service, as well as consuming the benefits of the services provided by the customer.

Fee and commission expenses are recognised when the service, to which they relate, is provided or when the result thereof has been achieved.

Foreign currency transactions

In preparing the financial statements, transactions in currencies other than the Bank's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Foreign currency transactions are translated into BGN at the exchange rate of BNB prevailing at the date of the transaction. Receivables and liabilities denominated in foreign currency are revalued on a daily basis. At the end of the year, they are translated in BGN at the closing exchange rates of BNB, which for the main currencies as of the date of the separate financial statements are the following:

Foreign currency	31 December 2019	31 December 2018
USD	1.74099	1.70815
EUR	1.95583	1.95583

Since 1999 the Bulgarian Lev (BGN) has been fixed to the Euro (EUR), the official currency of the European Union, at ratio of BGN 1.95583/ EUR 1.0

Net gains or losses on changes in exchange rates, which have incurred from revaluation of receivables, liabilities, as well as from foreign currency transactions, are presented on the separate statement of comprehensive income in the period in which they have occurred.

4. FINANCIAL RISK MANAGEMENT

In the ordinary course of business, the Bank is exposed to a variety of risks that, if occur, could result in formation of losses and deterioration of the Bank's financial stability. These risks are identified, measured and monitored through various control mechanisms in order to be managed and to prevent undue risk concentration. The process of risk management is essential for the Bank's profitability and existence.

The risk management within Bulgarian Development Bank AD is a complex of methods and procedures used by the Bank for identifying, measuring and monitoring its risk exposures. The Bank manages the following main categories of risk:

- Credit risk;
- Liquidity risk;
- Market risk;
- Operational risk.

When managing the risks, Bulgarian Development Bank AD applies policies and procedures relevant to the nature and complexity of its activity, which are based on best practices in banking industry.

4.1. Credit risk

Credit risk is the risk of potential losses due to a failure of the Group's customers to discharge their contractual obligations in connection with receivables and financial instruments held by the Bank, incl. country (sovereign) risk, contractor's risk and settlement risk, and credit risk of concentration.

Credit risk is the main risk for the Bank and therefore, its management is fundamental for its activity. Credit risk management is performed in accordance with the law for BDB AD and the effective laws and regulations of the Republic of Bulgaria regulating credit activity, as well as the international regulations and best banking practices, and the requirements of IFRS.

In assessing and managing credit risks (including the counterparty risk) of its exposures, the Bank applies internal rating generation models. These internal rating models depend on the specifics of the object being rated. The so-developed rating models for credit risk assessment of corporate clients of the Bank are based on an analysis of historical data and the counterparty's and its relating parties' current financial position; their history and behaviour in servicing their liabilities to other contractors; future cash flow analyses; sources of servicing the existing and any potential future liabilities to the Bank, and other parameters specific to a particular transaction. Credit portfolio quality monitoring, control and assessment units are established and function within BDB. Credit portfolio current monitoring, reporting and management procedures and mechanisms are implemented, which require periodical, and if necessary, extraordinary, reports on the financial and credit status of each borrower and other liable persons. There is an „Early Warning Procedure for Credit Exposures", which includes an early warning system of signals and actions.

In managing its credit risk, the Bank applies an intra-bank system of limits that is subject to periodic review and updating.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

There is a specialized unit functioning within the Bank, which is in charge of the risk assessment both at the customer level and at the exposure level, where the solvency level is assessed and monitored throughout the entire loan term - from application to full repayment. The credit risk is partially reduced also by applying the secured credit line technique through accepting different types of collateral, where at any point in time the valuation of collateral shall not be older than 12 months.

The Bank forms impairment on exposures depending on the borrower's and / or group of related clients' risk profile based on conducted individual impairment tests.

The exposures in the Bank's corporate credit portfolio are classified mainly in three categories depending on the existence of indications of impairment – changes in the objective indicators on the basis of which the initial measurement and subsequent monitoring of exposure / customer are carried out, which would result in changes in cash flows from financial assets, including default in payment due by the borrower: Stage 1: „Standard" (with assigned internal credit ratings from 1 to 6, incl.; Stage 2 "Watch" or "Forborne" (with assigned internal credit ratings of 7) and Stage 3 „Problematic/Non-preforming" (with assigned internal credit ratings of 8, 9 or 10).

In the case of customers, for which there are currently no indications of increased risk, the Bank periodically (at least once a year) reviews the financial and legal status, including the collateral accepted, in order to establish the need for a change in the percentage of impairment for loss risk and / or change in the assessment of the degree of credit risk. Clients with a higher credit risk are subject to a review in every 6 months and those classified as „problematic/non-preforming", in every three months. In follow-up of the recommendations of the Basel Committee and their transposition into regulations within the European Union and in particular, Regulation 575/2013/EC and Directive 2013/36/EC, the commercial banks are required to implement in their internal regulations an in-house rating system that allows them to achieve comparability with the borrowers' official crediting rating assigned by recognized external credit rating institutions, which adopts the scale, used worldwide, of ten credit rating categories, including two categories for non-performing loans. The Bank has developed a detailed internal normative base, comprising Policy and rules for determining the impairment due to uncollectability of risk exposures, Methodology for credit risk analysis and assessment of Bulgarian Development Bank AD, and Credit activity manual of BDB, ensuring full compliance of the policy and procedures for determining internal credit ratings with the above EU regulations. The amount of the impairment is calculated as the difference between the current amount of the amortised cost of the customer's exposure to the Bank and its recoverable amount.

The Bank accrues impairment on a portfolio basis for its receivables on Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP).

Aiming at minimizing and reducing the credit risk, the Bank accepts collateral in accordance with its in-house rules. It is a common practice of the Bank to require collateral from the borrowers that is equal to at least 100 per cent of the agreed loan amount, and valuations from accredited independent valuers are required.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Based on a Guarantee letter from year 2003 and the subsequent annexes signed with the European Investment Fund (EIF), the Bank participates in the EU SME Guarantee Facility under conditions determined by the long-term EU Program on SMEs. EIF is committed to provide a direct guarantee covering 50 per cent of the remaining loss on the principal and interest of each loan, included in the sub-portfolio of the Bank, formed on the basis of the conditions of the agreement, but not exceeding EUR 2,520 thousand (BGN 4,929 thousand). The Bank has applied reduced requirements in accepting collaterals for the EIF-guaranteed portfolio of loans. As of 31 December 2019, the total exposure on EIF-guaranteed loans amounted to BGN 735 thousand (31 December 2018: BGN 5,286 thousand). This amount includes the utilised but not yet repaid portion of the loans, as well as the Bank's commitments on unutilised loans. The payment engagement of EIF to date amounts to BGN 3,563 thousand (31 December 2018: BGN 3,563 thousand), whereas the losses covered by EIF amount to BGN 364 thousand (31 December 2018: BGN 2,617 thousand).

Fund (EIF) under the COSME programme for small and medium-sized enterprises. The COSME programme is implemented with the support of EFSI (the European Fund for Strategic Investment), known as the "Juncker Plan". BDB is able to cover up to 60 per cent of the risk on loans extended to SMEs by commercial banks it will partner with. Half of this risk will be counter-guaranteed by EIF and the total amount of the counter-guarantee is EUR 10 million. By using the resource guaranteed by the COSME programme, the banks-partners to BDB will be able to extend investment loans and loans for working capital, bank guarantees and revolving loans. The maximum amount of loans extended is EUR 150,000. The term of repayment vary from 1 to 10 years.

As at 31 December 2019, there was no commitment on the counter-guarantee agreement.

Off-balance sheet commitments, primarily the unutilised portion of authorized loan facilities, letters of guarantee and letters of credit, which represent an irrevocable commitment of the Bank to make payment if a client is not able to fulfil its obligations to third parties represent another source of credit risk for the Bank and bear the same credit risk as the balance sheet loan exposures.

The Bank forms various sub-portfolios based on the type of contractors and credit risk carriers, as follows:

- Direct lending –portfolio of credit commitments with debtors-legal entities, other than bank financial institutions, and loans to individuals (loans to Bank's employees), as well as subjects from the public sector;
- Indirect lending or „on-lending" – portfolio of loans to financial (banking and non-banking) institutions, the purpose of which is to provide financing/to facilitate the access to financing for micro, small and medium-sized enterprises in the Republic of Bulgaria;
- Financing by the Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP) in compliance with CMD 18 of the CM;
- Assignments of receivables from Road Infrastructure Agency of construction companies, implementing infrastructure projects assigned by Road Infrastructure Agency

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Beyond the credit portfolio, the Bank's activity is exposed to credit risk also with respect to exposures related to other activities of the Bank:

- portfolio of financial instruments, other than loans, formed in connection with the Bank's free cash management, which comprises mainly government securities issued by the Republic of Bulgaria and other EU countries, classified as „ Financial assets at fair value through other comprehensive income ";
- to banks in connection with money market transactions, placed term deposits and available balances in Nostro accounts;
- exposure to receivables relating to the State budget.

The Bank applies a system of limits relating to credit risk and concentration risk with respect to the different sub-portfolios, and currently monitors the credit risk of concentration of financial assets on the basis of industry criteria, and also by individual counterparty and insurance companies ensuring coverage. Regarding the Bank's direct lending activities, the allocation by economic sectors is monitored, as also that to clients and groups of related parties, by observing internal limitations (limits) for concentration of the corporate credit portfolio by economic sectors.

Maximum exposure to credit risk

Exposure to credit risk attributable to financial assets recognised in the separate statement of financial position is as follows:

	2019		2018	
Financial asset	maximum	net	maximum	net
Receivables from banks	341,522	339,248	430,660	429,548
Loans and advances to customers	1,808,945	1,652,900	1,197,889	1,039,080
Receivables from the State budget	167,258	166,821	472,803	471,999
Financial assets at fair value through other comprehensive income	542,119	542,119	594,249	594,249
Financial assets at amortized cost	2,011	1,950	-	-
Other financial assets	166	166	12	12
	2,862,021	**2,703,204**	**2,695, 613**	**2,534, 888**

Cash in current accounts and balances with the Central Bank expose the Bank to a minimum credit risk and are not included in the above table.

Receivables from the State Budget comprise loans on the Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP) amounting to BGN 144,703 thousand (2018: BGN 471,999 thousand) and cession receivables from Road Infrastructure Agency at the amount of BGN 22,118 thousand (2018: BGN 0).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

The exposure to credit risk arising out of off-balance sheet commitments is as follows:

	2019		2018	
	maximum	net	maximum	net
Bank guarantees and letters of credit	159,065	140,094	56,073	37,536
Unutilised amount of authorized loans	321,120	321,120	348,377	348,377
Participation in the SIA investment program	1,168	1,168	1,410	1,410
	481,353	**462,382**	**405,860**	**387,323**
Maximum exposure to credit risk	**3,343,374**	**3,165,586**	**3,101,473**	**2,922,211**

In assessing the net exposure, highly liquid collateral (government securities and cash), as also the net present value of liquid collateral – real estate, have been taken into account.

Credit risk - concentration

The financial assets of the Bank (cash in current accounts and balances with the Central Bank, financial assets at fair value through other comprehensive income, loans and advances to customers, receivables from the State budget and other financial assets), classified by industry sectors (at gross amount before impairment), are presented in the table on the next page:

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Credit risk - concentration (continued)

	2019	%	2018	%
Sectors				
Government	749,341	24.07%	1,090,620	36.44%
Financial services	704,968	22.65%	850,817	28.42%
Industry, total	484,472	15.56%	*480,750*	*16.06%*
Industry – manufacture of tobacco products	*148,684*	4.78%	149,129	4.98%
Industry – energy generation and distribution	*85,777*	2.76%	*119,752*	*4.00%*
Industry – manufacture of plant and equipment	*81,286*	2.61%	67,611	2.26%
Industry – manufacture of foodstuffs	*46,853*	1.51%	*51,392*	*1.72%*
Industry – other industries	*121,872*	3.92%	*92,866*	*3.10%*
Trade	322,741	10.37%	32,165	1.07%
Tourist services	266,326	8.56%	108,148	3.61%
Transport	232,580	7.47%	*130,765*	*4.37%*
Construction	168,460	5.41%	162,402	5.43%
Real estate transactions	56,339	1.81%	49,552	1.66%
Agriculture	49,225	1.58%	29,159	0.97%
Collection and disposal of garbage	-	0.00%	4,190	0.14%
Other industries	78,188	2.50%	54,667	1.83%
	3,112,640	**100.00%**	**2,993,235**	**100.00%**

The largest credit exposure of the Bank to a group of related parties /other than bank institutions/ amounts to BGN 152,450 thousand (including statement of financial position debt of BGN 116,497 thousand and amount for utilization of BGN 35,953 thousand) at amortized cost (2018: BGN 150,129 thousand), which represents 23.40 per cent of Bank's equity/eligible capital ratio according to Regulation 575/2013/EU (2018: 23.22 per cent). The concentration of client's portfolio (other than bank institutions) is presented in the following table:

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Credit risk - concentration (continued)

	2019		2018	
	Net exposure*		**Net exposure***	
	(BGN'000)	***% of Equity/Eligible capital***	***(BGN'000)***	***% of Equity/Eligible capital***
The biggest total exposure to a customer group	147,715	20.09%	149,182	23,07%
Total amount of the ten biggest exposures	1,106,985	150.57%	706,117	109.19%
Total amount of the twenty biggest exposures	1,489,848	202.65%	1,003,205	155.13%

There is no exposure to a customer or a group of related customers as at 31 December 2019, exceeding 25 per cent of Bank's capital base.

*Net exposure – the amount of the exposure net of provisions and highly liquid collateral.

The structure of the financial assets of the Bank by risk classification groups is as follows (at gross amount prior to impairment):

As of 31 December 2019	Standard (Stage 1)	Watch (Stage 2)	Non-performing (Stage 3)	Total
Cash in hand and balances in current account with the Central Bank	250,619	-	-	250,619
Receivables from banks	341,522	-	-	341,522
Receivables from the State budget	167,258	-	-	167,258
Loans for commercial property and construction	570,586	118,202	74,711	763,499
Trade loans	521,157	79,411	115,909	716,477
Consumer loans	856	20	15	891
Residential mortgage loans to individuals	1,174	-	-	1,174
Loans to other financial institutions	81,961	-	22,330	104,291
Securities at amortized cost	2,011	-	-	2,011
Other loans and receivables	123,192	66,274	33,147	222,613
Financial assets at fair value through other comprehensive income	542,119	-	-	542,119
Other financial assets	166	-	-	166
Total financial assets	**2,602,621**	**263,907**	**246,112**	**3,112,640**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

As of 31 December 2018	Standard (Stage 1)	Watch (Stage 2)	Non-performing (Stage 3)	Total
Cash in hand and balances in current account with the Central Bank	297,622	-	-	297,622
Receivables from banks	430,660	-	-	430,660
Receivables from the State budget	472,803	-	-	472,803
Loans for commercial property and construction	247,402	77,079	70,011	394,494
Trade loans	220,607	104,773	116,642	442,022
Agricultural loans	-	-	2,040	2,040
Consumer loans	778	-	19	797
Residential mortgage loans to individuals	1,436	-	-	1,436
Loans to other financial institutions	69,281	-	44,661	113,942
Other loans and receivables	119,792	90,901	32,467	243,160
Financial assets at fair value through other comprehensive income	594,249	-	-	594,249
Other financial assets	12	-	-	12
Total financial assets	**2,454,642**	**272,753**	**265,840**	**2,993,235**

The table below presents the types of collaterals, received by the Bank in relation to loans granted, at fair value determined by accredited independent valuers and confirmed by a Bank's employee holding the necessary licence:

	2019		2018	
Type of collateral	**Fair value**	%	**Fair value**	**%**
Mortgages	728,736	61.04	514,012	52.19
Mortgages on ships	142,083	11.90	148,321	15.00
Pledge of plant, machinery, equipment, and inventories	266,320	22.31	273,290	28.05
Securities quoted on a stock market	20,536	1.72	20,536	2.08
Credit risk insurance	15,614	1.31	18,482	1.87
Bank guarantees	4,892	0.41	3,863	0.39
Restricted deposits	15,719	1.32	4,164	0.42
Total collateral	**1,193,900**	**100**	**982,668**	**100**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Credit exposures could have more than one collateral, i.e. it could be included in more than one position. The amount of the collateral could exceed 100 per cent, as more than one collateral could be provided to secure one loan.

At the request of the contractors, the Bank is able to re-negotiate the initial terms and conditions on the contract. Usually, these are the terms of loan utilization, loan amount, interest rates and/or repayment schedules from the point of view of the amount of a particular repayment instalment. Most of all, these are cases of changes in the initial parameters, purpose and scope, and respectively, the time schedule of projects. Upon renegotiation, the changes in preliminary terms and conditions are analysed in order to establish whether these changes represent a concession (discount) in favour of the debtor and the exposure should be accepted as restructured and therefore, to be reclassified to Stage 2 or Stage 3 pursuant to the Policy and Rules for Calculation of Expected Credit Losses and Exposures Impairment of BDB, as follows:

„Article 11. Indicators of impairment:

(1) Significant increase in credit risk, which results in recognition of a lifetime expected credit loss for the instrument (i.e. transition from a 12-month expected credit loss) and respectively, classification in Stage 2 (Watch) would be a consequence of the following circumstances:

1. significant changes in internal credit risk indicators as a result of a change in credit risk relative to the beginning of the life of the asset;

2. other changes in interest rates or the conditions of an existing financial instrument that would be materially different if the instrument was newly granted or issued at the date of the financial statements (for example, more stringent terms and conditions, increased collateral or warranty requirements) due to changes in the credit risk of the financial instrument compared to that of its initial recognition;

3. significant changes in the external market indicators of credit risk for a particular financial instrument or similar financial instruments with the same life expectancy. Changes in credit risk margins include, but are not limited to:

a) credit spread;

b) the credit default swap price for the borrower;

c) duration of the period or the extent to which the fair value of a financial asset is lower than its amortized cost; and

d) changes in the price of borrower's debt and equity instruments;

e) any other market information about the borrower.

4. actual or expected significant change in the financial instrument's external credit rating (or of the debtor);

5. actual or expected downgrade of the borrower's external credit rating or a downgrade in the scoring rating used to measure credit risk;

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

6. existing or expected adverse changes in business, financial or economic conditions, for which it is expected to result in a significant change in the borrower's ability to perform its obligations.

7. actual or expected significant change in the borrower's operating results, such as actual or expected decreasing revenue or margins, increase in operating risks, working capital shortage, asset quality deterioration, increased leverage, low liquidity, management problems or changes within the scope of business or organisational structure that results in a significant change in the borrower's ability to perform its obligations on the debt;

8. significant increases in credit risk for other financial instruments of the same borrower;

9. actual or expected significant adverse change in the borrower's regulatory, economic or technological environment, which has resulted in a significant change in the borrower's ability to perform its obligations;

10. significant changes in the value of the debt collateral or in the quality of guarantees and additional credit protection provided by a third party that are expected to reduce the economic incentive of the borrower to make scheduled contractual payments or to otherwise impact on the probability of default on the loan;

11. significant change in the quality of a guarantee provided by a shareholder (or by the owner of an entity) if the shareholder (owners) have an incentive and financial opportunity to prevent default through an increase in capital and / or cash;

12. significant changes, such as a reduction in financial support from a parent company or other subsidiary, or actual or expected significant change in the quality of credit protection that is expected to reduce the economic incentive for the borrower to make contractual payments.

13. expected changes in the loan documentation, including an expected breach of the contract, which may lead to the debtor being released from the obligation to comply with contractual commitments or amendments to the contract, interest rates, interest rate increases, requirements for additional collateral or guarantees, or other changes in the contractual framework of the instrument;

14. significant changes in the expected results and behaviour of the borrower, including changes in the creditworthiness of the borrowers within the group;

15. specific changes in the Bank's approach for managing the loan in relation to the financial instrument; for example on the basis of newly emerging indicators of a change in financial instrument's credit risk, it is expected that the Bank's credit risk management practice will become more active or focused on instrument management, including more prudent or stringent monitoring, or active intervention in the relationships with the borrower;

16. information on arrears, including cases of amounts past due by more than 30 days (if there is evidence that a significant number of defaulting debtors for more than 30 days have not reached the stage of significant deterioration, this threshold may be increased; however, extensive supporting data will be required in accordance with the provision of paragraph B5.5.19 of IFRS 9);

17. initiation of court proceedings; claiming of bank guarantees or other circumstances that are expected to result in significant costs for the borrower;

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

18. considerable delay in the provision by the borrower of financial and other necessary information;

19. significant obligations of the borrower towards third parties, incl. off balance sheet, which would result in difficulties or inability to properly service the Bank's credit exposure.

(2) Events related to a classification where a financial instrument is classified in Stage 3, i.e. it is considered to be an asset with deteriorated credit quality and which, in most cases, correspond to the definition of default on the instrument, include:

1. significant financial difficulties of the debtor;

2. past due or unpaid liabilities to the Bank for more than 90 days;

3. provision of a concession to the debtor in view of its financial difficulties, which would otherwise not have been provided by the Bank;

a) if, as a result of the re-negotiation and provision of a concession to the debtor resulting in changes of cash flows the asset is derecognised and a new one is created (initially recognised), the Bank estimates only the 12-month expected loss. Further analysis of the expected credit loss is carried out if an increased credit risk exists.

b) if, a result of the re-negotiation and provision of a concession to the debtor resulting in changes of cash flows the asset is derecognised and a new one is created (initially recognised), but as a consequence the latter is reported as an impaired asset acquired / occurred, the Bank recognises the cumulative changes in the expected credit losses over its entire life.

c) if, a result of the re-negotiation and provision of a concession to the debtor, the financial asset is not derecognised, the Bank analyses whether there is a significant increase in credit risk, comparing:

(aa) the risk of default assessed at the reporting date (based on changed contractual terms); and

(bb) the risk of default assessed at initial recognition (on the basis of the original unchanged contractual terms);

in order to establish whether it should recognise lifetime expected credit losses or 12-month expected credit losses;

4. high probability of insolvency of the debtor or other financial reorganization of the debtor;

5. other evidence of deterioration in the debtor's creditworthiness."

Regarding the loans extended under the Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP), it should be noted that according to the programme's parameters the amount of the loan approved is subject to regular updating in order to ensure expenditure control. The signature of annexes to the loan contracts, by means of which the financial parameters are updated, is a result of those controls.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

The table below presents data on the portfolio amount of the Bank's financial assets by type of instrument after the impairment made:

	Loans and receivables from non-financial institutions		Receivables from the State budget		Loans and receivables from financial institutions		Loans and receivables from individuals		Cash in hand and balances in current account with the Central Bank		Financial assets carried at fair value through other comprehensive income		Securities at amortized cost	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Impaired on an individual basis														
---standard (Stage 1)	1,296,924	656,220	22,118	-	101,007	98,971	2,030	2,214	-	-	538,541	514,691	2,011	-
---watch (Stage 2)	263,887	272,227	-	-	177	1,467	20	-	-	-		-	-	-
---non-performing (Stage 3)	212,165	261,872	-	-		-	15	19	-	-		-	-	-
Gross amount	**1,772,976**	**1,190,319**	**22,118**	-	**101,184**	**100,438**	**2,065**	**2,233**	-	-	538,541	514,691	**2,011**	-
Incl. renegotiated	1,136,890	890,545	-	-	50,613	48,290	255	370	-	-	-	-	-	-
Past due but not impaired	-													
---standard (Stage 1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
---watch (Stage 2)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
---non-performing (Stage 3)	20,485	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross amount	**20,485**		-	-	-	-	-	-	-	-	-	-	-	-
Incl. renegotiated	20,163		-	-	-	-	-	-	-	-	-	-	-	-
Within 30 days	*6,123*		-	-	-	-	-	-	-	-	-	-	-	-
From 30- 90 days	*1,550*		-	-	-	-	-	-	-	-	-	-	-	-
Over 90 days	*12,490*		-	-	-	-	-	-	-	-	-	-	-	-

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Impaired on a portfolio basis														
——standard	-	-	145,140	472,803	-	-	-	-	-	-	-	-	-	-
Gross amount	-	-	145,140	472,803	-	-	-	-	-	-	-	-	-	-
Incl. renegotiated	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Not past due and not impaired														
——Stage 1	-	874	-	-	240,337	330,222	-		250,619	297,622	-	76,275	-	-
——Stage 2	-	526	-	-	-	-	-	-	-	-	-	-	-	-
——Stage 3	13,419	3,949	-	-	-	-	-	-	-	-	-	-	-	-
Gross amount	**13,419**	**5,349**	-	-	240,337	330,222	-	-	250,619	297,622	-	76,275	-	-
Incl. renegotiated	61	5,337	-		-	48,290	-	-	-	-	-	-	-	-
Gross amount	**1,806,880**	**1,195,668**	**167,258**	**472,803**	**341,521**	**430,660**	**2,065**	**2,233**	**250,619**	**297,622**	**538,541**	**590,966**	**2,011**	-
Incl. renegotiated	*1,157,114*	*895,882*	-	-	*50,613*	*48,290*	*255*	*370*	-	-	-	-	-	-

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

The Bank classifies not past due and not impaired exposures to the above classes depending on their internal credit rating, as follows:

- high class – credit rating from 1 to 3 – Stage 1
- standard class – credit rating from 4 to 5 – Stage 1
- low class – credit rating from 6 to 7 – Stage 1 (rating 6) or Stage 2 (rating 7)
- non-performing – Stage 3 (rating 8, 9 and 10)

The Bank assesses the credit quality of provided contingent commitments by applying a methodology, which estimates whether events indicating with a high probability that outflow of Bank's resources might take place have occurred. These costs (losses) are determined on the basis of the Policy and Methodology for assessment of expected credit losses, and a Calculation Procedure of BDB based on a Conversion Factor (CCF) that is applied in the case of off-balance sheet exposures that are likely to turn into balance sheet exposures (payments on guarantees, utilisation of part of the allowed amount of the loan, etc.). At the date of the financial statements, the Bank identified commitments amounting to BGN 159,065 thousand (2018: BGN 56,073 thousand), which were provided by BGN 2,822thousand (2018: BGN 2,998 thousand) (Note 32).

Watch loans and receivables (Stage 2), presented at amortised cost, are as follows:

	2019	2018
Loans for commercial property and construction	118,202	77,079
Trade loans	79,411	104,773
Loans to banks	177	1,467
Consumer loans	20	-
Other loans and receivables	66,274	90,901
	264,084	274,220

When the initial terms of the agreement have been modified by the Bank by granting a concession (discounts) to a debtor experiencing difficulties in performing its financial obligations a loan is classified as "restructured" (Stage 2 or 3 pursuant to the Policy and Rules for Calculation of Expected Credit Losses and Exposures' Impairment of BDB).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

The restructured loans and receivables, presented at amortised cost, are as follows:

	2019	2018
Loans for commercial property and construction	**45,919**	**47,387**
incl. Standard (Stage 1)	*708*	*966*
Watch (Stage 2)	*4,437*	*9,412*
Non-performing (Stage 3)	*40,774*	*37,009*
Other loans and receivables	**36,361**	**67,315**
incl. Standard (Stage 1)	-	-
Watch (Stage 2)	*21,946*	*52,971*
Non-performing (Stage 3)	*14,415*	*14,344*
	82,280	**114,702**

Expected credit losses (ECL) measurement

For instruments measured at amortised cost, ECLs reduce the carrying amount in the statement of financial position.

For debt instruments measured at fair value through other comprehensive income, ECLs are part of the negative change in the fair value due to an increased credit risk. They continue to be presented at the fair value in the statement of financial position, and the accumulated adjustment for losses is recognized in the statement of comprehensive income. Upon subsequent derecognition of the instrument, the accumulated adjustment is recognized in the profit or loss for the period.

Probability of default (PD)

PD is the probability of a counterparty not complying with contract clauses related to debt repayment. For each individual exposure or a portfolio of collectively assessed exposures, the Bank maintains historical information on the migration of exposures between different stages.

The value of 12M PD is determined on the basis of observed deterioration rates and is calculated as a moving average over a period of at least 2 years. For exposures that are individually measured, the value of the 12m PD is determined depending on the assigned credit rating according to an internal model. Data on the changes in the borrowers' rating over a one-year horizon is aggregated into transaction matrices, and a 12-m PD is calculated for each rating scale depending on the number of default cases found. The Bank adjusts the values of 12m PD to reflect the current or expected economic conditions that may differ from those during the historical periods analysed.

Exposure at default (EAD)

EAD is potential exposure at the time of default. The level of exposure at default is determined individually for each loan depending the type of loan, taking into account both the amount of utilized amounts and the agreed undrawn amounts according to the expectation of future drawdowns.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Expected credit losses (ECL) measurement (continued)

Loss Given Default (LGD)

LGD is the ratio of the exposure loss due to default to the amount of exposure at default. The Bank calculates the potential loss that would have arisen if an exposure goes into default and the only source for collecting the receivable is the realization of the collateral. The loss is measured as a percentage of Exposure at Default (EAD).

The Bank has determined relative thresholds that are used also for the exposures for which the absolute thresholds are applied and for those, for which no such thresholds have been determined. They are based on matrixes covering the overall credit cycle (through-the-cycle, TTC) and the change in the probability of default on the respective exposures from the external aggregated data of Moody's (the Bank has developed preliminary a methodology for equalizing the internal credit ratings to those assigned by the rating agency).

Main groups of assets subject to impairment

The following tables present the movements in the main groups of assets subject to impairment between the different stages for the period 01 January – 31 December 2018 and 01 January – 31 December 2019:

Assets measured at amortised cost (except for Government and Receivables from Banks)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance as of 01.01.2018	**462,814**	**128,350**	**263,689**	**854,853**
Transfers:				
Transfer from Stage 1 to Stage 2	(35,079)	35,079	-	-
Transfer from Stage 1 to Stage 3	(1,670)	-	1,670	-
Transfer from Stage 2 to Stage 3	-	(8,037)	8,037	-
Transfer from Stage 2 to Stage 1	1,233	(1,233)	-	-
Newly occurred and newly acquired exposures	103,573	31,021	14,631	**149,225**
Paid or transferred	(113,927)	(21,355)	(103,711)	**(238,993)**
Increased	241,087	108,931	82,786	**432,804**
Balance as of 31.12.2018	**658,031**	**272,756**	**267,102**	**1,197,889**
Transfers:				
Transfer from Stage 1 to Stage 2	(3,627)	3,627	-	-
Transfer from Stage 1 to Stage 3	(2,675)	-	2,675	-
Transfer from Stage 2 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
Newly occurred and newly acquired exposures	642,797	63,071	11,944	**717,812**
Paid or transferred	(106,500)	(77,385)	(42,700)	**(226,585)**
Increased	112,911	1,838	7,091	**121,840**
Balance as of 31.12.2019	**1,300,937**	**263,907**	**246,112**	**1,810,956**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Expected credit losses (ECL) measurement (continued)

Main groups of assets subject to impairment (continued)

All assets measured at amortised cost – non-financial entities, including with state participation, individuals and non-banking financial institutions are included in the above table.

Assets measured at amortised cost - Government	Stage 1	Stage 2	Stage 3	Total
Balance as of 01.01.2018	**737,516**	-	-	**737,516**
Newly occurred and newly acquired exposures	8,179	-	-	**8,179**
Paid or transferred	(549,510)	-	-	**(549,510)**
Increased	276,618	-	-	**276,618**
Balance as of 31.12.2018	**472,803**	-	-	**472,803**
Newly occurred and newly acquired exposures	8,619	-	-	8,619
Paid or transferred	(417,350)	-	-	(417,350)
Increased	103,186	-	-	103,186
Balance as of 31.12.2019	**167,258**	-	-	**167,258**

The Bank presents under the heading Government assets measured at amortised cost relating mainly to the Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP) and the cessions acquired from Road Infrastructure Agency.

Assets measured at amortised cost - Banks and financial institutions	Stage 1	Stage 2	Stage 3	Total
Balance as of 01.01.2018	**198,379**	-	-	**198,379**
Newly occurred and newly acquired exposures	343,245	-	-	**343,245**
Paid or transferred	(113,513)	-	-	**(113,513)**
Increased	2,549	-	-	**2,549**
Balance as of 31.12.2018	**430,660**	-	-	**430,660**
Newly occurred and newly acquired exposures	222,891	-	-	**222,891**
Paid or transferred	(337,223)	-	-	**(337,223)**
Increased	25,193	-	-	**25,193**
Balance as of 31.12.2019	**341,522**	-	-	**341,522**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Expected credit losses (ECL) measurement (continued)

Main groups of assets subject to impairment (continued)

Loans to banks and financial institutions include both transactions on an interbank market and deposits of different maturity.

Assets measured at fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total
Balance as of 01.01.2018	**228,511**	-	-	**228,511**
Newly occurred and newly acquired exposures	315,141	-	-	315,141
Paid or transferred	(80,015)	-	-	(80,015)
Increased	127,329	-	-	127,329
Balance as of 31.12.2018	**590,966**	-	-	**590,966**
Newly occurred and newly acquired exposures	133,159	-	-	133,159
Paid or transferred	(194,041)	-	-	(194,041)
Increased	8,457	-	-	8,457
Balance as of 31.12.2019	**538,541**	-	-	**538,541**

Portfolio of securities consists mainly of bonds of the Republic of Bulgaria, other European sovereign issuers and bonds of large corporate clients.

Movement in the impairment of main groups of assets subject to impairment in 2018 and 2019

The amount of the expected credit loss is a function of the probability of default of the instrument, the realized loss and the amount of balance sheet and off-balance sheet exposure. The probability of default (PD) and the realized loss given default (LGD) are the parameters employed in determining the provisioning rate and those parameters are determined on the basis of an individual review of the early warning signs that are homogeneous in terms of their credit characteristics and their relation to international and domestic macroeconomic variables that could affect them.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Expected credit losses (ECL) measurement (continued)

Movement in the impairment of main groups of assets subject to impairment in 2018 and 2019 (continued)

Movement in impairment in 2018 and 2019:

Assets measured at amortised cost (except for Government)	Stage 1	Stage 2	Stage 3	Total
Balance of impairment as of 01.01.2018	**4,211**	**902**	**155,109**	**160,222**
Transfers:				
Transfer from Stage 1 to Stage 2	(915)	915	-	-
Transfer from Stage 1 to Stage 3	(406)	-	406	-
Transfer from Stage 2 to Stage 3	-	(2,048)	2,048	-
Transfer from Stage 2 to Stage 1	2	(2)	-	-
New exposures	2,519	185	-	**2,704**
Paid or transferred	(4,211)	(902)	(60,340)	**(65,453)**
Increase in impairment on existing exposures	3,610	3,106	54,620	**61,335**
Balance of impairment as of 31.12.2018	**4,810**	**2,156**	**151,843**	**158,809**
Transfers:				
Transfer from Stage 1 to Stage 2	(44)	44	-	-
Transfer from Stage 1 to Stage 3	(1,218)	-	1,218	-
Transfer from Stage 2 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
New exposures	23,705	2,170	9,991	**35,866**
Paid or transferred	(833)	91	(59,458)	**(60,199)**
Increase in impairment on existing exposures	550	297	20,782	**21,629**
Balance of impairment as of 31.12.2019	**26,970**	**4,758**	**124,376**	**156,105**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Expected credit losses (ECL) measurement (continued)

Movement in the impairment of main groups of assets subject to impairment in 2018 and 2019 (continued)

Assets measured at amortised cost - Government	Stage 1	Stage 2	Stage 3	Total
Balance of impairment as of 01.01.2018	1,432	-	-	1,432
Net movement in impairment on Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP)	(824)	-	-	(824)
Repayment of cessions Military Medical Academy (MMA)	196	-	-	196
Balance of impairment as of 31.12.2018	804	-	-	804
Net movement in impairment on Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP)	(557)	-	-	(557)
Cessions Road Infrastructure Agency	190			190
Balance of impairment as of 31.12.2019	436	-	-	436

Assets measured at amortised cost - Banks and financial institutions	Stage 1	Stage 2	Stage 3	Total
Balance of impairment as of 01.01.2018	3,594	-	-	3,594
Paid or transferred	(2,482)	-	-	(2,482)
Balance of impairment as of 31.12.2018	1,112	-	-	1,112
Increased	1,163	-	-	1,163
Balance of impairment as of 31.12.2019	2,275	-	-	2,275

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Expected credit losses (ECL) measurement (continued)

Movement in the impairment of main groups of assets subject to impairment in 2018 and 2019 (continued)

Assets measured at fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total
Balance of impairment as of 01.01.2018	**459**	-	-	**459**
New exposures	7,249	-	-	7,249
Paid or transferred	(4,926)	-	-	(4,926)
Other movements	(622)	-	-	(622)
Balance of impairment as of 31.12.2018	**2,160**	-	-	**2,160**
New exposures	195	-	-	195
Paid or transferred	(863)	-	-	(863)
Other movements	8	-	-	8
Balance of impairment as of 31.12.2019	**1,500**	-	-	**1,500**

Amount of the collateral as of 31.12.2019

The amount of the collateral on secured assets is presented in the following table:

Type of collateral	Carrying amount of the loan, BGN'000	Amount of the collateral, BGN'000
Mortgages	786,752	728,736
Pledge of plant, equipment and inventories	555,560	266,320
Restricted deposits	495,290	15,719
Mortgage on a ship	87,583	142,083
Insurances	36,253	15,614
Quoted securities	14,454	20,536
Bank guarantees	9,814	4,892
Total	**1,985,706**	**1,193,900**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Expected credit losses (ECL) measurement (continued)

Amount of the collateral as of 31.12.2018

The amount of the collateral on secured assets is presented in the following table:

Type of collateral	Carrying amount of the loan, BGN'000	Amount of the collateral, BGN'000
Mortgages	569,590	516,035
Pledge of plant, equipment and inventories	375,483	277,314
Restricted deposits	200,600	4,164
Mortgage on a ship	58,102	148,321
Insurances	27,343	18,482
Bank guarantees	22,631	3,863
Securities	14,718	20,536
Total	**1,268,467**	**988,715**

Country (sovereign) risk

The Bank has formed a portfolio of securities classified as financial assets at fair value through other comprehensive income, comprising only government securities issued by the Republic of Bulgaria. The Bank's exposure to sovereign is BGN 509,393 thousand as of 31 December 2019 and BGN 540,158 thousand as of 31 December 2018.

Standard & Poor's credit rating for Republic of Bulgaria stands at BBB- with stable outlook (1 December 2017). Fitch's credit rating for Republic of Bulgaria is BBB with stable outlook (23 March2019). Moody's credit rating for Republic of Bulgaria was last set at Baa2 with stable outlook (26 May 2017).

According to Fitch Ratings, BBB credit rating means that insolvency expectations are low, and the capacity to service financial liabilities is adequate, but a deterioration in economic conditions or business environment is likely to lessen this capacity. The definitions of Moody's and Standard&Poor's of the rating assigned to the sovereign are similar.

4.2. Market risk

Market risk is the risk of adverse movements in interest rates, exchange rates, liquidity position, and other factors affecting the price of securities and other financial assets. These movements affect the Bank's profitability and financial position.

Interest rate risk

Interest rate risk is the probability for potential change of the net interest income or the net interest margin and the market value of the equity due to changes in market interest rates.

The interest rate risk is considered in view of the overall activity of the Bank. Analyses of financial assets and liabilities grouped in time intervals depending on their sensitivity to changes in the interest rates are conducted on regular basis.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Interest rate risk (continued)

The approach for measuring interest rate risk with respect to the overall activity comprises primarily:

- Analysis of the interest rate sensitivity of income – measuring the interest rate sensitivity of the Bank's net income;
- Analysis of the interest rate sensitivity of economic capital (Duration GAP Analysis) – measuring the interest rate sensitivity of the Bank's economic value;
- Determination, application and reporting of limits for interest rate risk reflecting the volatility of the respective interest rate curve and the Bank's risk appetite;
- Stress tests for interest rate risk – presenting the potential movements in the annual interest income after applying a stress scenario involving changes in the interest rate curves by types of currencies.

Cash flow interest rate analysis is conducted by allocating the cash flows from assets and liabilities included in the interest rate imbalance analysis and forming the respective maturity gaps. In case of Bank's statement of financial position items classified as such and measured at fair value, the fair value risk analysis is limited to placing the relevant item with the applicable maturity structure within the interest rate imbalance analysis. The Bank maintain certain interest-free assets and liabilities in relation to its payment operations.

Besides the interest rate sensitivity analyses, for the interest risk management main sources related to the change in the net interest spread of the Bank are also identified. This helps decision making on the interest rates policies of the Bank, in particular, the development of specific products and providing sources of financing having relevant characteristics.

Assets and Liabilities Committee (ALCO) currently monitors the interest rate risk to which the Bank is exposed and develops measures for its coverage and maintenance within the Bank's permitted levels and limits.

The table on this and on the next page summarises the interest exposure and risk of the Bank. It includes information on the Bank's assets and liabilities at their carrying amount in accordance with interest-related clauses, set in the contracts, their maturity structure and sensitivity to movements in interest rates.

31 December 2019	*With floating interest rate*	*With fixed interest rate*	*Interest free*	*Total*
Financial assets				
Receivables from banks	21,368	305,124	12,756	339,248
Loans and advances to customers	1,597,661	55,239	-	1,652,900
Receivables from the State budget	144,893	21,928	-	166,821
Securities at amortized cost	-	1,950	-	1,950
Financial assets at fair value through other comprehensive income	-	538,541	3,578	542,119
Other financial assets	-	-	166	166
	1,763,922	**922,782**	**16,500**	**2,703,204**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

31 December 2019	*With floating interest rate*	*With fixed interest rate*	*Interest free*	*Total*
Financial liabilities				
Borrowings from international institutions	1,078,917	133,020	-	1,211,937
Deposits from customers other than credit institutions	452,052	646,780	35,217	1,134,049
Deposits from credit institutions	7,877	-	-	7,877
Other borrowings	11,236	5,883	-	17,119
	1,550,082	785,683	35,217	2,370,982
Total balance sheet interest exposure	213,840	137,099	(18,717)	332,222
Contingencies and commitments	287,132	33,988	201,483	522,603

31 December 2018	*With floating interest rate*	*With fixed interest rate*	*Interest free*	*Total*
Financial assets				
Receivables from banks	4,506	414,499	10,543	429,548
Loans and advances to customers	991,442	47,638	-	1,039,080
Receivables from the State budget	471,999	-	-	471,999
Financial assets at fair value through other comprehensive income	-	590,966	3,283	594,249
Other financial assets	-	-	12	12
Total financial assets	1,467,947	1,053,103	13,838	2,534,888
Financial liabilities				
Deposits from customers other than credit institutions	702,074	578,747	26,701	1,307,522
Borrowings from international institutions	727,017	177,765	-	904,782
Deposits from credit institutions	5,759	-	-	5,759
Other borrowings	11,236	6,070	-	17,306
Total financial liabilities	1,446,086	762,582	26,701	2,235,369
Total balance sheet interest exposure	21,861	290,521	(12,863)	299,519
Contingencies and commitments	328,077	20,300	98,733	447,110

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Interest rate sensitivity analysis

The table below includes the financial instruments of the Bank, presented at carrying amount, classified by the earlier of the date of interest rate change under the contract and the maturity date.

31 December 2019	*Up to 1 m.*	*1-3 m.*	*3-6 m.*	*6-12 m.*	*1-5 years*	*over 5 years*	*With fixed rate*	*Interest free*	*Total*
Financial assets									
Receivables from banks	21,233	135	-	-	-		305,124	12,756	339,248
Loans and advances to customers	92,679	1,504,982	-	-		-	55,239	-	1,652,900
Receivables from the State budget	144,893	-	-	-	-	-	21,928	-	166,821
Financial assets at fair value through other comprehensive income	42,495	11,107	5,166	21,046	238,654	220,073		3,578	542,119
Securities at amortized cost	-	-	-	-	-	-	1,950		1,950
Other financial assets	-	-	-	-	-	-		166	166
Total financial assets	301,300	1,516,224	5,166	21,046	238,654	220,073	384,241	16,500	2,703,204
Financial liabilities									
Borrowings from International institutions	98,324	118,538	862,055	-	-	-	133,020	-	1,211,937
Deposits from customers other than credit institutions	626,464	631	378,150	93,587	-	-	-	35,217	1,134,049
Deposits from credit institutions	7,877	-	-	-	-	-	-	-	7,877
Other borrowings	-	11,236		-	-	5,883	-	-	17,119
Total financial liabilities	732,665	130,405	1,240,205	93,587	-	5,883	133,020	35,217	2,370,982
Total exposure to interest rate sensitivity	(431,365)	1,385,819	(1,235,039)	(72,541)	238,654	214,190	251,221	(18,717)	332,222
Contingencies and commitments	118,937	148,144	20,051	-	-	-	33,988	201,483	522,603

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

31 December 2018	*Up to 1 m.*	*1-3 m.*	*3-6 m.*	*6-12 m.*	*1-5 years*	*over 5 years*	*With fixed rate*	*Interest free*	*Total*
Financial assets									
Receivables from banks	4,506	-	-	-	-	-	414,499	10,543	**429,548**
Loans and advances to customers	64,794	926,648	-	-		-	47,638	-	**1,039,080**
Receivables from the State budget	471,999	-	-	-	-	-	-	-	**471,999**
Financial assets at fair value through other comprehensive income	76,821	8,635	-	8,961	268,445	228,104		3,283	**594,249**
Other financial assets	-	-	-	-	-	-		12	**12**
Total financial assets	**618,120**	**935,283**	-	**8,961**	**268,445**	**228,104**	**462,137**	**13,838**	**2,534,888**
Financial liabilities									
Deposits from customers other than credit institutions	781,267	4,074	378,083	24,860	92,537	-	-	26,701	**1,307,522**
Borrowings from international institutions	101,397	251,770	373,850	-	-	-	177,765	-	**904,782**
Deposits from credit institutions	5,759	-	-	-	-	-	-	-	**5,759**
Other borrowings	-	11,236		-	-	6,070	-	-	**17,306**
Total financial liabilities	**888,423**	**267,080**	**751,933**	**24,860**	**92,537**	**6,070**	**177,765**	**26,701**	**2,235,369**
Total exposure to interest rate sensitivity	**(270,303)**	**668,203**	**(751,933)**	**(15,899)**	**175,908**	**222,034**	**284,372**	**(12,863)**	**299,519**
Contingencies and commitments	**54,295**	**43,477**	**7,789**	**79,578**	**142,938**	-	**20,300**	**98,733**	**447,110**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Sensitivity of the floating rate interest assets and liabilities

The table below represents the sensitivity of the Bank to possible changes in interest rates based on the structure of floating rate assets and liabilities as of 31 December, under the assumption that the influence of the other variables is ignored. The actual effect of changes in market interest rates could be different, as a significant portion of the loans and receivables from customers bear floating interest rates that are based on a variable portion determined by the Bank, which in turn is influenced by numerous factors.

	2019			2018		
Currency	*Increase/decrease in percentage points*	*Sensitivity of the financial result*	*Sensitivity of the equity*	*Increase/decrease in percentage points*	*Sensitivity of the financial result*	*Sensitivity of the equity*
BGN	0.50%	3,086	(2,730)	0.50%	819	(2,350)
EUR	0.50%	(286)	(7,353)	0.50%	(454)	(9,103)
USD	0.50%	(249)	(6)	0.50%	(237)	(32)
BGN	-0.50%	(3,086)	2,730	-0.50%	(819)	2,350
EUR	-0.50%	286	7,353	-0.50%	454	9,103
USD	-0.50%	249	6	-0.50%	237	32

The average interest rates by financial assets and financial liabilities are presented in the following table:

	31.12.2019	31.12.2018
Financial assets	2.66%	2.66%
Financial liabilities	0.62%	0.37%

Currency risk

The currency risk is the risk that the financial position and cash flows of the Bank might be affected adversely by changes in exchange rates due to open currency positions. In managing the foreign currency risk, the Bank follows the principle of maintaining minimum open currency positions within the specified limits. Foreign currency positions are not formed with speculative purposes, but arise out of foreign currency transactions in the ordinary course of business of the Bank.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Currency risk (continued)

The policy of the parent company (the "Bank") is that the main portion of the assets and liabilities, and respectively the bank transactions, shall be denominated in EUR or BGN. The Bank does not carry out significant transactions and does not hold significant open positions in currencies other than EUR and BGN. As the exchange rate of the Bulgarian lev is pegged to that of the Euro, there is no significant open currency risk for the Bank's cash flows and financial performance.

The currency risk is regarded with respect to the overall activity of the Bank. Analyses of the financial assets and liabilities by types of currency of denomination are conducted on a regular basis.

The approach of measuring the overall activity currency risk includes mainly:

- Foreign currency sensitivity analysis – measuring the Bank's income from foreign currency transactions;
- Determination, implementation and reporting of currency risk limits, reflecting the Bank's risk appetite;
- Stress tests for currency risk, which present the potential change of annual income after the implementation of stress scenarios for exchange rate changes.

The currency risk analysis is performed by allocating the Bank's assets and liabilities by types of currency of denomination, which facilitates the timely decision making regarding the Bank's foreign currency policy, and in particular, the formation of specific products and ensuring sources of financing with relevant characteristics.

The Asset and Liability Management Committee (ALCO) monitors currently the currency risk to which the Bank is exposed and develops measures for its management and maintenance within the limits acceptable to the Bank.

The following table summarises the Bank's exposure to currency risk. The table includes the Bank's financial instruments and the contingent liabilities and commitments, presented at carrying amount, classified by type of currency.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Currency risk (continued)

As of 31 December 2019	In USD	In EUR	In other foreign currency	In BGN	Total
Financial assets					
Cash in hand and balances in current account with the Central Bank	22	4,633	-	245,964	250,619
Receivables from banks	40,070	124,651	57	174,470	339,248
Loans and advances to customers	-	1,170,248	-	482,652	1,652,900
Receivables from the State budget	-	-	-	166,821	166,821
Financial assets at fair value through other comprehensive income	16,625	416,996	-	108,498	542,119
Securities held to maturity	-	-	-	1,950	1,950
Other financial assets	-	-	-	166	166
Total financial assets	**56,717**	**1,716,528**	**57**	**1,180,521**	**2,953,823**
Financial liabilities					
Borrowings from international institutions	-	1,211,937	-	-	1,211,937
Deposits from customers other than credit institutions	56,704	161,783	1	915,561	1,134,049
Deposits from credit institutions	-	1,375	-	6,502	7,877
Other borrowings	-	17,119	-	-	17,119
Total financial liabilities	**56,704**	**1,392,214**	**1**	**922,063**	**2,370,982**
Net balance sheet currency position	**13**	**324,314**	**56**	**258,458**	**582,841**
Contingencies and commitments	**1,509**	**146,231**	**-**	**374,863**	**522,603**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Currency risk (continued)

As of 31 December 2018	In USD	In EUR	In other foreign currency	In BGN	Total
Financial assets					
Cash in hand and balances in current account with the Central Bank	28	4,178	-	293,416	297,622
Receivables from banks	114,399	122,448	57	192,644	429,548
Loans and advances to customers	-	735,825	-	303,255	1,039,080
Receivables from the State budget	-	-	-	471,999	471,999
Financial assets at fair value through other comprehensive income	17,597	460,260	-	116,392	594,249
Other financial assets	-	-	-	12	12
Total financial assets	**132,024**	**1,322,711**	**57**	**1,377,718**	**2,832,510**
Financial liabilities					
Deposits from customers other than credit institutions	131,979	97,012	40	1,078,491	1,307,522
Borrowings from international institutions	-	904,782	-	-	904,782
Deposits from credit institutions	-	1,465	-	4,294	5,759
Other borrowings	-	17,306	-	-	17,306
Total financial liabilities	131,979	**1,020,565**	**40**	**1,082,785**	**2,235,369**
Net balance sheet currency position	**45**	**302,146**	**17**	**294,933**	**597,141**
Contingencies and commitments	**1,025**	**206,657**	-	**239,428**	**447,110**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Currency risk (continued)

The following table presents the Bank's sensitivity to possible changes in exchange rates based on the structure of the assets and liabilities at 31 December 2019.

	2019					
Currency		Change in exchange rates*		Effect on the pre-tax profit in case of change in exchange rates*		Effect on equity
	Exchange rate	Decrease (BPS)	Increase (BPS)	Decrease	Increase	
EUR	1.9552	-	-	-	-	-
USD	1.7410	+1,082	-1,396	-55	+71	-
JPY	0.0160	+8	-17	-	-	-
GBP	2.2988	-1,632	+1,564	-4	+4	-
Total effect				-59	+75	-

*Calculated based on 3-month change in exchange rate (historical period of 3 years) with reliability rate of 99%.

The open FX position and the market volatility of the respective foreign currencies as at 31 December 2019 would have an immaterial effect on the Bank's financial result assessed as equal to minus BGN 59 thousand if the hypothesis of unfavourable change in exchange rates occurs compared to the open positions of the Bank by separate currencies with the reported basis points (BPS: 1 b.p. = 0.0001 in decimal form).

	2018					
Currency		Change in exchange rates		Effect on the pre-tax profit in case of change in exchange rates		Effect on equity
	Exchange rate	Decrease (BPS)	Increase (BPS)	Decrease	Increase	
EUR	1.9558	-	-	-	-	-
USD	1.7082	+1,201	-1,337	-28	+31	-
JPY	0.0155	+17	-16	-	-	-
GBP	2.1864	-2,504	1,005	-2	+1	-
Total effect				-30	+32	-

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Price risk of shares quoted on the Stock Exchange

The Bank is exposed to price risk with respect to the shares it holds, classified as investments at fair value through other comprehensive income. Management of the Bank monitors and analyses all changes in the security market, and engages the advisory services of renowned local investment intermediaries. In addition, at this stage, the Bank has decided to greatly reduce the operations on the stock markets and the trade in the acquired shares, and currently monitors the financial and business indicators, reported by the respective issuer, as well as the development of its activities.

4.3. Liquidity risk

Liquidity risk is the risk that the Bank will not be able to meet its current and potential payment obligations as they fall due without suffering losses.

The Bank's business requires a stable cash flow both to replace existing deposits and loans received prior to their maturity, and to satisfy demands of customers for additional loans. Undrawn borrowing facility commitments and the level of all outstanding contingent obligations are taken into consideration in managing the Bank's liquidity risk.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, as well as the impact of the changes in interest rates and exchange rates on the pre-tax profit and equity, are important factors in assessing the Bank's liquidity. In order to manage this risk, the Bank maintains at all times highly liquid assets depending on the currency of its liabilities.

The overall liquidity control and monitoring are performed by Assets and Liabilities Committee (ALCO) and are based on maturity tables with scenarios for measuring the net cash flows by periods, including nominal, realistic and pessimistic scenario, reflecting to a different degree the negative assumptions relating to loss of confidence by the customers, deterioration of the credit portfolio quality, negative assumptions about the banking market and other assumptions that could have an impact on the Bank's liquid position and certain statutory coefficients and ratios. Additionally, varieties of correlations are monitored to indicate the liquid position by periods. Liquidity risk is also measured through application of three additional scenarios for the cash flows from operating activities and monitoring the liquidity buffers of the Bank and the additional sources of financing in case of market and idiosyncratic shocks, representing loss of confidence by the market in a particular bank or banking group, which is tantamount to downgrading of the institution with two degrees at least and combined shocks.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Liquidity risk (continued)

The table below presents the amounts in percentage of the liquidity coverage ratio (LCR) of the Bank:

	2019	2018
As of 31 December	532.88%	1,331.20%
Average for the period	896.16%	1,053.40%
Highest for the period	2,483.79%	1,785.50%
Lowest for the period	431.74%	424.26%

	2019	2018
Cash and cash balances with BNB	250,619	297,622
Balances in current accounts with other banks and international deposits of up to 7 days	204,114	319,679
Government securities	509,393	540,158
Liquid assets	**964,126**	**1,157,459**
Financial liabilities measured at amortised cost	2,370,982	2,235,369
Provisions	2,939	3,185
Employee retirement benefits	552	400
Liabilities	**2,374,473**	**2,238,954**
Liquidity assets ratio (LAR)	**40.60%**	**51.70%**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Liquidity risk (continued)

The table below provides an analysis of the financial assets and liabilities of the Bank at carrying amount, grouped by remaining maturity:

As of 31 December 2019	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Financial assets						
Cash in hand and balances in current account with the Central Bank	250,619	-	-	-	-	250,619
Receivables from banks	198,533	29,175	3,725	84,132	23,683	339,248
Loans and advances to customers	119,028	52,609	165,571	552,147	763,545	1,652,900
Receivables from the State budget	7,617	29,478	126,194	3,532	-	166,821
Securities held to maturity	-	-	11	-	1,939	1,950
Financial assets at fair value through other comprehensive income	46,744	13,664	27,384	236,152	218,175	542,119
Investments in subsidiaries	109,488	-	-	-	-	109,488
Property, plant and equipment, intangible assets	36,955	-	-	-	-	36,955
Assets acquired from collateral foreclosure	-	-	-	35,187	-	35,187
Investment property	7,633	-	-	-	-	7,633
Current tax receivables	-	-	664	-	-	664
Other assets	-	-	3,507	-	-	3,507
Total financial assets	**776,617**	**124,926**	**327,056**	**911,150**	**1,007,342**	**3,147,091**
Financial liabilities						
Borrowings from international institutions	676	21,015	99,038	541,548	549,660	1,211,937
Deposits from customers other than credit institutions	628,846	1,338	479,432	24,311	122	1,134,049
Deposits from credit institutions	7,877	-	-	-	-	7,877
Other borrowings	-	-	213	853	16,053	17,119
Provisions	2,939	-	-	-	-	2,939
Deferred tax liabilities	-	-	-	-	401	401
Other liabilities	2,985	60	270	435	-	3,750
Total financial liabilities	**643,323**	**22,413**	**578,953**	**567,147**	**566,236**	**2,378,072**
Gap in maturity thresholds of assets and liabilities	**133,294**	**102,513**	**(251,897)**	**344,003**	**441,106**	**769,019**
Contingencies and commitments	**46,028**	**9,749**	**154,085**	**196,538**	**101,926**	**508,326**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Liquidity risk (continued)

As of 31 December 2018	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Financial assets						
Cash in hand and balances in current account with the Central Bank	297,622	-	-	-	-	297,622
Receivables from banks	218,627	102,757	10,317	1,644	96,203	429,548
Loans and advances to customers	51,917	36,001	141,342	445,922	363,898	1,039,080
Receivables from the State budget	23,756	143,647	304,596	-	-	471,999
Financial assets at fair value through other comprehensive income	81,434	10,849	11,606	210,595	279,765	594,249
Assets held for sale	-	-	4,840	-	-	4,840
Current tax receivables	-	-	1,244	-	-	1,244
Other assets	-	-	712	-	-	712
Assets acquired from collateral foreclosure	-	-	-	27,128	-	27,128
Investment property	7,649	-	-	-	-	7,649
Investments in subsidiaries	105,625	-	-	-	-	105,625
Property, plant and equipment, intangible assets	32,818	-	-	-	-	32,818
Deferred tax assets	-	-	247	-	-	247
Total financial assets	**819,448**	**293,254**	**474,904**	**685,289**	**739,866**	**3,012,761**
Financial liabilities						
Deposits from credit institutions	5,759	-	-	-	-	5,759
Deposits from customers other than credit institutions	782,564	4,330	415,628	103,979	1,021	1,307,522
Provisions	3,185	-	-	-	-	3,185
Other liabilities	2,103	-	-	118	-	2,221
Borrowings from international institutions	1,837	21,992	597,177	-	283,776	904,782
Other borrowings	-	-	213	960	16,133	17,306
Total financial liabilities	**795,448**	**26,322**	**1,013,018**	**105,057**	**300,930**	**2,240,775**
Gap in maturity thresholds of assets and liabilities	**24,000**	**266,932**	**(538,114)**	**580,232**	**438,936**	**771,986**
Contingencies and commitments	**104,192**	**51,252**	**97,015**	**157,552**	**23,256**	**433,267**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Liquidity risk (continued)

The table below presents the gross undiscounted cash flows related to the Bank's liabilities as of 31 December:

As of 31 December 2019	Carrying amount	Gross flow	Less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years
Financial liabilities							
Borrowings from international institutions	1,211,937	1,292,310	676	20,405	99,422	563,028	608,779
Deposits from customers other than credit institutions	1,134,049	1,134,338	628,844	1,338	479,721	24,312	123
Deposits from credit institutions	7,877	7,877	7,877	-	-	-	-
Other borrowings	17,119	18,604	-	29	301	1,277	16,997
	2,370,982	2,453,129	637,397	21,772	579,444	588,617	625,899
Bank guarantee provisions	2,882	2,431	300	600	1,531	-	-
Unutilised loan commitments	321,120	348,377	54,295	43,477	87,367	142,938	20,300

As of 31 December 2018	Carrying amount	Gross flow	Less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years
Financial liabilities							
Deposits from customers other than credit institutions	1,307,522	1,308,132	782,566	4,332	415,776	104,436	1,022
Borrowings from international institutions	904,782	954,593	1,837	22,086	611,195	-	319,475
Deposits from credit institutions	5,759	5,759	5,759	-	-	-	-
Other borrowings	17,306	18,909	-	30	303	1,473	17,103
	2,235,369	2,287,393	790,162	26,448	1,027,274	105,909	337,600
Bank guarantee provisions	2,998	2,998	300	600	2,098	-	-
Unutilised loan commitments	348,377	348,377	54,295	43,477	87,367	142,938	20,300

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Liquidity risk (continued)

Considering the specific activity of the Bank, the funds attracted from the biggest 20 non-bank depositors at 31 December 2019 represent 92.28% of the total amount of payables to other customers (31 December 2018: 95.47%). The share of the biggest non-bank depositor of the total amount of payables to other customers is 33.50% (31 December 2018: 33.70%).

The financial assets of the Bank available for future financing and the financial assets pledged as collateral for financial liabilities are presented in the table below:

As of 31 December 2019

Financial assets	**Pledged as collateral***	**Available for collateral**	**Other****	**Total**
Cash in hand and balances in current account with the Central Bank	-	76,759	173,860	250,619
Receivables from banks	12,756	326,492	-	339,248
Loans and advances to customers	-	1,268,932	383,968	1,652,900
Receivables from the State budget	-	166,821	-	166,821
Financial assets at fair value through other comprehensive income	6,623	532,718	2,778	542,119
Securities at amortized cost	-	1,950	-	1,950
Other financial assets**	-	-	166	166
Total financial assets	**19,379**	**2,373,672**	**560,772**	**2,953,823**

As of 31 December 2018

Financial assets	**Pledged as collateral***	**Available for collateral**	**Other****	**Total**
Cash in hand and balances in current account with the Central Bank	-	125,479	172,143	**297,622**
Receivables from banks	10,543	419,005	-	**429,548**
Loans and advances to customers	-	656,605	382,475	**1,039,080**
Receivables from the State budget	-	471,999	-	**471,999**
Financial assets at fair value through other comprehensive income	6,633	584,894	2,722	**594,249**
Other financial assets**	-	-	12	**12**
Total financial assets	**17,176**	**2,257,982**	**557,352**	**2,832,510**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Liquidity risk (continued)

* At 31 December 2019, funds amounting to BGN 12,756 thousand (2018: BGN 10,543 thousand) were blocked on counter-guarantees of two corporate customers, maturing as follows:

Maturity interval	Receivables from banks pledged as collateral
On demand	-
From 91 to 180 days	3,137
From 181 to one year	542
Over one year	9,077
	12,756

At 31 December 2019, restricted securities on a legal requirement to provide for funds of the State budget amount to BGN 6,623 thousand (2018: BGN 6,633 thousand).

**Other represent financial assets not encumbered or restricted to be used as collateral, but the Bank would not take it into consideration as available to support a future financing in the normal course of its activity.

Review of the size, development and the credit quality of the unencumbered assets is done once a year.

Risk Management, together with other Bank divisions, monthly monitors and reports to ALCO on the ratios between the encumbered assets and the total carrying amount of the Bank's assets. In case of excess above the limits approved by the Management Board, ALCO reports back to the MB for undertaking corrective actions.

4.4. Operational risk

The main sources of operational risk within the Bank are its personnel, processes, systems and external events. The Bank designated the following as the major types of operational risk:

- Risk of loss due to inadequate or poorly working internal processes;
- Risk of loss due to inadequate, illegal and/or incorrect acts and omissions of personnel;
- Risk of loss due to inadequate or poorly working systems;
- Risk of loss due to external events, including legal risk.

Operational risk management is based on the principles of not taking unreasonable risks, strict compliance with the levels of competence and the applicable legislation. The Bank applies reliable methods for limiting the impact of operational risks, including by dividing the functions and responsibilities, introducing double-checking control, levels of competence, internal control, etc. Moreover, control procedures for reducing the operational risk are added to all internal rules and procedures of the Bank.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.4. Operational risk (continued)

In operational risk management all operational events, which occur in the activity of various units and processes of the Bank, are strictly monitored and registered, while the events of higher frequency, as well as those of significant importance, serve as bases for the operational risk analyses in different scenarios.

The operational risk is measurable and monitorable, and in the process of work an operational event register is kept, which is used as a basis for analysing and improving the work processes, and minimising the conditions that would potentially result in operational events and loss for the Bank.

For the purposes of measuring its operational risk, the Bank has decided to apply the "Basic Indicator method".

4.5. Capital management

The main objectives of the Bank's capital management is to maintain its level at amounts sufficient for activity developing and achieving the general objectives set at its foundation – to support the economic policy of the country and the development of small and medium-sized businesses.

In its activities the Bank should observe the regulatory requirements for capital, as well as to continue operating as a going concern.

The table below presents the main equity components following the regulatory requirements and ratios achieved by the Bank:

	2019	2018
OWN FUNDS	735,176	646,679
TIER I CAPITAL	735,176	646,679
COMMON EQUITY TIER I (CET1) CAPITAL	735,176	646,679
Share capital	601,774	601,774
Statutory reserves	63,882	63,882
Additional reserves	80,179	75,153
Accumulated other comprehensive income	12,128	6,047
Intangible assets	(4,656)	(285)
Investments in subsidiaries	(17,845)	(105,625)
Transitional adjustments to CET1 Capital	8,633	9,649
Components of or deductions from CET1 Capital - other	(8,377)	(3,916)
ADDITIONAL TIER I CAPITAL	-	-
TIER II CAPITAL	-	-

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.5. Capital management (continued)

Until 2018 the Bank treats its controlling interests in the share capital of its subsidiaries NGF EAD and MFI JOBS EAD as a deduction of the equity for regulatory purposes. As of 31 December 2019 with a decision of the Management Board of BNB №162/30.04.2020 (BNB-41615/30.04.2020) the Bank changes its policy and begins to report its participation in these companies as an exposure according to art. 48, para 4 of Regulation 575/2013 resulting in an increase in regulatory equity by BGN 91,643 thousand. The decision has no other effects on the Bank's IFRS financial statements for 2019.

	2019	2018
TOTAL RISK EXPOSURES	2,527,318	1,798,145
Credit risk - Standardised approach	2,410,855	1,581,280
Central governments or central banks	82,814	50,987
Regional governments or local authorities	1,965	-
Public sector entities	21,938	-
Multilateral development banks	939	939
Institutions	149,487	184,806
Corporates	1,385,646	827,069
Retail	9,102	5,209
Secured by mortgages on immovable property	380,034	265,587
Exposures in default	204,885	166,960
Items associated with particular high risk	2,934	2,934
Equity exposures	91,839	199
Other items	79,272	76,590
Currency and commodity risk	0	105,452
Operational risk - Basic indicator approach	116,463	111,413
CET 1 Capital Ratio	**29.09%**	**35.96%**
Total Capital Ratio	**29.09%**	**35.96%**
Capital conservation buffer	*63,183*	*44,954*
Institution-specific countercyclical capital buffer	*12,637*	*53,944*
Systemic risk buffer	*75,820*	-
Buffer of other institutions of systemic importance	*6,318*	*2248*
Regulatory required levels		
CET 1 Capital Ratio	*6.25%*	*4.50%*
Tier 1 Capital ratio	*7.75%*	*6.00%*
Total Capital ratio	*9.75%*	*8.00%*
Capital conservation buffer	*2.50%*	*2.50%*
Institution-specific countercyclical capital buffer	*0.50%*	*0.00%*
Systemic risk buffer	*3.00%*	*3.00%*
Buffer of other institutions of systemic importance	*0.25%*	*0.125%*

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.5. Capital management (continued)

By decision of BNB No93 of 15 March 2019, an additional requirement for Common Equity Capital was imposed on the BDB on the basis of Art. 103a, para. 2, item 5 of the Law on Credit Institutions, exceeding the requirements of Art. 92, para 1 of Regulation (EU) No 575/2013 of 1.75% to risk-weighted assets, or a minimum total capital adequacy of 9.75%. In 2019, the capital adequacy of the BDB did not fall below the levels set by the Art. 31, para 2 of the Risk Management and Control Policy – 23% total capital adequacy and 19.5% CET1 adequacy.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

5. FAIR VALUE DISCLOSURE

The table below presents the carrying amount and fair values of financial assets and liabilities, including their levels in the fair value hierarchy:

As of 31.12.2019		Carrying amount				Fair value			
	Note	Financial assets at amortized cost	Financial assets at fair value through other comprehensive income	Other	Total	Level 1	Level 2	Level 3	Total
Assets measured at fair value									
Debt instruments at fair value through other comprehensive income	22	-	538,541	-	538,541	537,570	-	-	537,570
Equity instruments at fair value through other comprehensive income	22	-	3,578	-	3,578	3,578	-	-	3,578
Assets acquired from collateral foreclosure	27	-	-	35,187	35,187	-	-	35,187	35,187
Investment property	25	-	-	7,633	7,633	-	-	7,633	7,633
		-	**542,119**	**42,820**	**584,939**	**541,148**	-	**42,820**	**583,968**
Assets not measured at fair value									
Cash in hand and balances in current account with the Central Bank	17	250,619	-	-	250,619	-	250,619	-	250,619
Loans to banks	18	98,910	-	-	98,910	-	105,913	-	105,913
Current accounts and term deposits of banks	18	240,338	-	-	240,338	-	240,338	-	240,338
Loans and advances to customers	19	1,652,900	-	-	1,652,900	-	1,698,965	-	1,698,965
Receivables from the State budget	20	166,821	-	-	166,821	-	181,607	-	181,607
Securities	21	1,950	-	-	1,950	-	1,987	-	1,987
		2,409,588	-	-	**2,411,538**	-	**2,479,429**	-	**2,479,429**
Liabilities not measured at fair value									
Borrowings from international institutions	30	-	-	1,211,937	1,211,937	-	1,274,018	-	1,274,018
Deposits from customers other than credit institutions	29	-	-	1,134,049	1,134,049	-	1,134,235	-	1,134,235
Deposits from credit institutions - Current accounts and term deposits of banks	28	-	-	7,877	7,877	-	7,877	-	7,877
Other borrowings	31	-	-	17,119	17,119	-	18,300	-	18,300
		-	-	**2,370,982**	**2,370,982**	-	**2,434,430**	-	**2,434,430**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

5. FAIR VALUE DISCLOSURE (CONTINUED)

The fair value of securities classified as financial assets at fair value through other comprehensive income with carrying amount of BGN 971 thousand at 31 December 2019 (2018: BGN 729 thousand) carried at cost is not disclosed as the Bank is of the opinion that their fair value cannot be measured reliably.

As of 31.12.2018		Carrying amount				Fair value			
	Note	Financial assets at amortized cost	Financial assets at fair value through other comprehensive income	Other	Total	Level 1	Level 2	Level 3	Total
Assets measured at fair value									
Debt instruments at fair value through other comprehensive income	21	-	590,966	-	590,966	590,237	-	-	590,237
Equity instruments at fair value through other comprehensive income	21	-	3,283	-	3,283	3,283	-	-	3,283
Assets acquired from collateral foreclosure	27	-	-	27,128	27,128	-	-	27,128	27,128
Investment property	25	-	-	7,649	7,649	-	-	7,649	7,649
		-	594,249	34,777	629,026	593,520	-	34,777	628,297
Assets not measured at fair value									
Cash in hand and balances in current account with the Central Bank	16	297,622	-	-	297,622	-	297,622	-	297,622
Loans to banks	17	99,326	-	-	99,326	-	104,972	-	104,972
Current accounts and term deposits of banks	17	330,222	-	-	330,222	-	330,222	-	330,222
Loans and advances to customers	18	1,039,080	-	-	1,039,080	-	1,069,236	-	1,069,236
Receivables from the State budget		471,999	-	-	471,999	-	497,667	-	497,667
Securities	20	-	-	-	-	-	-	-	-
		2,238,249	-	-	2,238,249	-	2,299,719	-	2,299,719
Liabilities not measured at fair value									
Borrowings from international institutions	30	-	-	904,782	904,782	-	936,612	-	936,612
Deposits from customers other than credit institutions	29	-	-	1,307,522	1,307,522	-	1,307,933	-	1,307,933
Deposits from credit institutions - Current accounts and term deposits of banks	28	-	-	5,759	5,759	-	5,759	-	5,759
Other borrowings	31	-	-	17,306	17,306	-	17,876	-	17,876
		-	-	2,235,369	2,235,369	-	2,268,180	-	2,268,180

All amounts are in thousand Bulgarian Levs, unless otherwise stated

5. FAIR VALUE DISCLOSURE (CONTINUED)

Fair value of assets and liabilities measured at fair value is presented in the following table by types of assets at the reporting date:

Financial Instrument	Fair value as of	Fair value as of	Fair value hierarchy	Valuation techniques	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	31.12.2019	31.12.2018				
Investment property	7,633	7,649	Level 3	Market analogues method Under the market analogues method an assessment is made by directly comparing the property under review with sold similar properties; the price is determined on the basis of such previous transactions. When applying this approach, it is necessary to use actually similar data of the comparable properties, the properties should be in the same location and the timing of the transaction and the date of preparation of the evaluation should be close enough.	1. Market realisation coefficient (0.8-0.95) 2. Location coefficient (0.81-1.0) 3. Coefficient of specific features (status) (0.8-1.1)	The higher (lower) fair value if: • Higher (lower) market realisation coefficient • Higher (lower) location coefficient • Higher (lower) coefficient of specific features (status)
Assets, acquired from collateral foreclosure	35,187	27,128		Income capitalisation method (revenue method) The revenue method, used for assessing the real estate value, consists of an analysis of the value of the real estate based on its ability to generate income through capitalisation of the net income derived from the property over a given period. For the determination of the evaluated property's amount, the permanently generated net annual income is used and its amount is calculated on the basis of the actual or possible permanently achieved rental income, which it turn is calculated on the basis of the average offered rent in the area (observable inputs), by taking into account the condition of the building fund and the residual term of use.	Offer market adequacy adjustment coefficient (from -10% to +5%)	The higher (lower) fair value if: • Higher (lower) offer market adequacy adjustment coefficient

The Bank discloses voluntary the fair values of the assets acquired from collateral foreclosure as of 31 December 2019 and 31 December 2018.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

5. FAIR VALUE DISCLOSURE (CONTINUED)

Fair values of financial assets and liabilities that are not measured at fair value, but a disclosure at fair value is required.

Financial instrument	Fair value as of 31.12.2019	Fair value as of 31.12.2018	Fair value hierarchy	Valuation techniques	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Loans to banks	105,913	104,972	Level 2	Discounted cash flows Future cash flows are discounted by EURIBOR for 12 months but nor less than 0, adjusted for yield curve of Bulgarian government securities on primary market according to Bloomberg publication.	N/A	N/A
Loans and advances to customers	1,698,965	1,069,236	Level 2	Discounted cash flows Future cash flows are measured using the officially published by BNB interest rates (unadjusted) of new loans for December 2019.	N/A	N/A
Receivables from the State budget	181,607	497,667	Level 2	Discounted cash flows Future cash flows are measured using the officially published by BNB yield of Bulgarian government securities (unadjusted) for December 2019.	N/A	N/A
Securities at amortized cost	-	-	Level 2	Discounted cash flows Future cash flows are measured using the officially published by BNB interest rates (unadjusted) of new loans to non-financial entities for December 2019.	N/A	N/A
Other borrowings	18,300	17,876	Level 2	Discounted cash flows Future cash flows are measured using the officially published by BNB yield of Bulgarian government securities (unadjusted) for December 2019.	N/A	N/A
Borrowings from international institutions	1,274,018	936,612	Level 2		N/A	N/A

For the balance sheet assets and liabilities not disclosed in the table the Bank's management is of the opinion that their fair value approximates their carrying amount.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

6. NET INTEREST INCOME

	2019	2018
Interest income		
Financial assets measured at amortised cost		
Loans and advances to customers	60,010	44,756
Receivables from the State budget	4,094	9,254
Loans to banks	1,538	1,707
Securities, measured at amortised cost	-	10
Deposits placed with other banks	1,950	1,872
Financial assets at fair value through other comprehensive income	5,024	4,677
Other liabilities (effect of negative interest)	239	1,004
	72,855	63,280
Incl. interest income on impaired loans and receivables	13,979	4,322
Interest expenses		
Borrowings from international institutions	(9,848)	(6,631)
Deposits from customers other than credit institutions	(617)	(648)
Other borrowings	(121)	(124)
Other assets (effect of negative interest)	(657)	(2,061)
Finance lease	(27)	(21)
Deposits from credit institutions	(152)	(4)
	(11,422)	(9,489)
Net interest income	61,433	53,791

The yield on the assets, as a ratio of net profit to the balance sheet figure, is 1.12% (2018: 0.83%).

7. NET FEE AND COMMISSION INCOME

	2019	2018
Fee and commission income under IFRS 15		
Transaction-related services	609	594
Issuance of guarantees and letters of credit	1,290	1,383
Account maintenance	76	69
Total fee and commission income from contract with customers	1,975	2,046
Other charges	18	16
Total fees and commissions income	1,993	2,062
Fee and commission expenses		
Agent's commissions	(24)	(2)
Servicing of accounts with other banks	(35)	(29)
Transfers and treasury operations in other banks	(3)	(4)
Total fee and commission expenses	(62)	(35)
Net fee and commission income	1,931	2,027

All amounts are in thousand Bulgarian Levs, unless otherwise stated

8. NET GAIN ON FOREIGN EXCHANGE DEALS

	2019	2018
Net gain on dealing in foreign currencies	427	386
Net gain/(loss)on foreign currency translation of assets and liabilities	-	(7)
	421	**379**

9. NET GAIN ON SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019	2018
Net gain on dealing in securities measured at fair value through OCI, incl. realised revaluation reserve	3,687	738
	3,687	**738**

10. OTHER OPERATING INCOME

	2019	2018
Dividends received	1,339	909
Income from rent of investment property	611	594
Refunded litigation expenses	415	839
Proceeds from disposal of assets held for sale	-	437
Proceeds from disposal of FTA (fixed tangible assets)	8	1
Other income	37	224
	2,410	**3,004**

11. OTHER OPERATING EXPENSES

	2019	2018
Expenses on assets held for sale	(353)	(280)
Litigation expenses	(188)	(28)
Loss on revaluation of investment property	(16)	-
Withholding tax	(723)	(286)
Direct operating expenses relating to investment property	(211)	(204)
Expenses on disposal of FTA	(7)	(1)
Other expenses	(1)	(658)
	(1,499)	**(1,457)**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

12. EXPENSES ON IMPAIRMENT LOSSES AND PROVISIONS

	2019	2018
(Expenses on)/Income from/reversed impairment losses on loans, net	(29,897)	(5,694)
(Expenses on)/Income from/reversed impairment losses on unutilised loans	71	472
(Expenses on)/Income from/reversed guarantee provisions, net	450	(1,624)
(Expenses on)/Income from/reversed impairment losses on assets acquired from collateral foreclosure	(68)	(232)
(Expenses on)/Income from/reversed impairment losses on assets at fair value through OCI, net	641	(1,703)
Impairment of securities at amortized cost, net	(61)	-
Impairment of subsidiaries	(137)	-
	(29,001)	**(8,781)**

13. EMPLOYEE BENEFITS

	2019	2018
Staff remuneration and social security	(12,494)	(10,245)
Remuneration to members of the Management and Supervisory Boards	(1,404)	(1,445)
	(13,898)	**(11,690)**

Staff remuneration and social security	2019	2018
Salaries	(10,823)	(8,920)
Social security	(1,423)	(1,132)
Social benefits	(144)	(108)
Amounts accrued on retirement benefits	(104)	(85)
	(12,494)	**(10,245)**

14. GENERAL AND ADMINISTRATIVE EXPENSES

	2019	2018
Contribution to the Bank Resolution Fund (BRF)	(5,389)	(6,913)
Advertising and entertainment expenses	(1,920)	(858)
Office and office equipment maintenance	(862)	(752)
Communications and IT services	(829)	(530)
Hired services	(713)	(285)
Audit services by the registered auditors	(611)	(158)
Taxes and government charges	(236)	(207)
Legal and consulting services	(230)	(271)
Business trips	(86)	(88)
Contribution to the Bulgarian Deposit Insurance Fund (BDIF)	(59)	(47)
Advisory services by the registered audit firms	(50)	(2)
Rents	(9)	(9)
	(10,994)	**(10,120)**

The amounts charges for the year for services provided by the registered audit firms of the Company include: independent financial audit: BGN 611 thousand (2018: BGN 158 thousand), including agreed-upon procedures for BGN 50 thousand (2018: BGN 6 thousand), tax advisory services: BGN 0 (2018: BGN 0), other services not related to audit: BGN 0 thousand (2018: BGN 2 thousand).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

15. TAXATION

	2019	2018
Current tax expense	2,036	1,396
Deferred tax (benefit)/expense due to temporary differences	(31)	60
Deferred tax (benefit)/expense due to changes in accounting policies	-	167
Total current tax expense	**2,005**	**1,623**

	2019	2018
Accounting profit	13,062	**26,753**
Income tax calculated at the effective tax rate (10% for 2019, 10% for 2018)	1,306	2,675
Expense on non-deductible expenses	994	38
Non-deductible income	(295)	(129)
Deferred tax (benefit)/expense due to changes in accounting policies	-	(961)
Total tax expense	**2,005**	**1,623**
Effective tax rate	**15.35%**	**6.07%**

In 2019, the Bank paid advance corporate income taxes of BGN 2,700 thousand (2018: BGN 2,640 thousand).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

15. TAXATION (CONTINUED)

Outstanding balances of deferred taxes relate to the following items of the separate statement of financial position and changes in the separate statement of comprehensive income:

	Assets		Liabilities		
	2019	2018	2019	2018	Changes in the statement of comprehensive income
Property and equipment	(17)	(15)	-	-	(2)
Other assets	(261)	(232)	-	-	(29)
Securities at fair value through other comprehensive income	-	-	680	-	680
	(278)	**(247)**	**680**	**-**	**649**

The changes in the temporary differences during the year are recognised in the separate statement of comprehensive income.

The probability that the individual differences might reverse in the future and the Bank's ability to generate sufficient taxable profit have also been taken into account on recognising deferred tax assets.

16. NET CHANGE IN THE FAIR VALUE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019	2018
Change in the fair value of financial assets at fair value through other comprehensive income		
Gains which have occurred during the year	6,809	1,781
10% tax	(681)	(673)
Other comprehensive income for the year, net of tax	**6,128**	**1,108**

17. CASH IN HAND AND BALANCES IN CURRENT ACCOUNT WITH THE CENTRAL BANK

	2019	2018
Cash in hand	289	335
Current accounts	250,330	297,287
Incl. Minimum statutory reserves	*173,860*	*172,143*
Total cash with the Central Bank	**250,330**	**297,287**
Total cash in hand and in accounts with the Central Bank	**250,619**	**297,622**

In 2019 the current account with the Central Bank bears interest rate of minus 0.60-0.70% on the excess over 105% of the minimum statutory reserves (2018: - 0.60 %).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

18. RECEIVABLES FROM BANKS

	2019	2018
Current accounts and demand deposits with local banks	146	111
Current accounts and demand deposits with foreign banks	33,843	14,938
Incl. Current accounts with an original maturity of less than 90 days	*21,232*	*4,506*
Term deposits with local banks (incl. repo deals)	157,745	244,030
Term deposits with foreign banks (incl. repo deals)	48,604	71,143
Incl. Term deposits with an original maturity of less than 90 days	*182,882*	*315,173*
Loans to local banks	101,007	98,971
Loans to foreign banks	177	1,467
Allowance for impairment and uncollectability of receivables from banks	(2,274)	(1,112)
	339,248	**429,548**

At 31 December 2019, special-purpose loans, denominated and BGN and EUR, with original maturity of up to 10 years and interest rate levels ranging from 1.40% to 4.50% (2018: 1.40% to 4.50%), were extended with the aim to develop small and medium-sized enterprises.

Funds amounting to BGN 12,756 thousand were blocked in current accounts with foreign banks to cover letters of credit (2018: BGN 10,543 thousand).

At 31 December 2019 loans were provided to local banks denominated in foreign currency with nominal amount of EUR 5,745 thousand and equivalent to BGN 11,236 thousand (31 December 2018: BGN 11,236 thousand), with an original maturity until 2027 and repayment of the loans in four instalments. These are special-purpose loans extended to banks for direct lending to customers with the aim to develop small and medium-sized enterprises (SMEs) in accordance with a loan financing by the Ministry of Finance with funds provided by KfW.

19. LOANS AND ADVANCES TO CUSTOMERS

	2019	2018
Loans (gross amount)	1,808,945	1,197,889
Allowance for impairment and uncollectability of loans	(156,045)	(158,809)
	1,652,900	**1,039,080**

	2019	2018
A. Analysis by customer type (gross amount)		
Corporate and sole traders	1,805,954	1,194,728
Municipalities	925	928
Individuals	2,066	2,233
	1,808,945	**1,197,889**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

19. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

	2019	2017
B. Analysis by industry sector (gross amount)		
Industry, total	460,465	435,435
Industry – manufacture of tobacco products	*148,684*	*149,129*
Industry – manufacture of plant and equipment	*81,286*	*67,611*
Industry – energy generation and distribution	*61,782*	*74,452*
Industry – manufacture of foodstuffs	*46,853*	*51,392*
Industry – other industries	*121,860*	*92,851*
Trade	322,741	32,165
Tourist services	266,326	108,148
Transport	232,580	130,765
Construction	168,460	162,402
Financial services	104,291	113,942
Government sector	72,690	77,659
Real estate transactions	56,339	49,552
Agriculture	49,225	29,159
Collection and disposal of garbage	-	4,190
Other industries	75,828	54,472
	1,808,945	**1,197,889**

The Bank finance mainly the activities of small and medium-sized enterprises, as well as investment projects to achieve return from 5 to 10 years.

C. Movement in the allowance for loan impairment and uncollectability

	2019			2018		
	Individually impaired	Collectively impaired	Total	Individually impaired	Collectively impaired	Total
At 1 January	**158,809**	-	**158,809**	**155,173**	-	**155,173**
Effect of IFRS 9	-	-	-	10,076	-	**10,076**
Impairment costs	48,682	-	48,682	29,170	-	**29,170**
Reversed impairment	(18,783)	-	(18,783)	(23,476)	-	**(23,476)**
Written-off against impairment	(32,663)	-	(32,663)	(12,134)	-	**(12,134)**
At 31 December	**156,045**	-	**156,045**	**158,809**	-	**158,809**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

20. RECEIVABLES FROM THE STATE BUDGET

	2019	2018
Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP)	145,140	472,803
Acquired receivables	22,118	-
Allowance for impairment and uncollectability of loans (collective impairment)	(437)	(804)
	166,821	**471,999**

By Decree No. 18 of 2 February 2015, the Council of Ministers of the Republic of Bulgaria approved Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP) (the Programme) on the terms and conditions for grants award under the Programme and for designating the bodies that will be in charge of its implementation.

The financing under the Programme goes through BDB. For the purpose, the Bank concludes trilateral agreements with regional governors (representatives of the State) and municipal mayors (authorized representatives of the owners' associations).

The Bank is of the opinion that the existing receivables bear a minimal credit risk in so far as the source of the payments is the budget of the Republic of Bulgaria. The resources attracted by international partners for the purpose of financing the Programme is covered by a State guarantee (see Note 30).

Funds utilised and not paid under the Program as of 31 December 2019 amounted to BGN 144,703 thousand (31 December 2018: BGN 471,999 thousand).

The acquired receivables are under assignment contracts. The debtors are secondary state budged authorizers. Their carrying amount as at 31.12.2019 is BGN 22,118 thousand (31.12.2018: BGN 0 thousand).

21. SECURITIES MEASURED AT AMORTIZED COST

The available securities, financial assets measured at amortized cost as of 31 December 2019 are as follows:

	Nominal value *original currency*	Amortized cost *BGN '000*	Impairment *BGN '000*	Fair value *BGN '000*
Bonds denominated in BGN	2,000	2,011	(61)	1,950
		2,011	**(61)**	**1,950**

22. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019	2018
Government securities	509,393	540,158
Corporate bonds	29,148	50,808
Total debt securities	**538,541**	**590,966**
Non-publicly traded companies' shares	2,778	2,722
Participation in investment program SIA (Note 35)	788	546
Public companies' shares	12	15
Total equity securities	**3,578**	**3,283**
Total financial assets measured at fair value through OCI	**542,119**	**594,249**

Movement in debt financial assets measured at fair value through other comprehensive income in the current and prior periods are as follows:

	2019	2018
As of 1 January	590,966	228,511
Additions (purchases)	219,630	482,874
Disposals (sale and/or maturity)	(278,183)	(121,527)
Net (decrease)/increase due to revaluation of financial assets measured at fair value through other comprehensive income	6,128	1,108
As of 31 December	**538,541**	**590,966**

Financial assets measured at fair value through other comprehensive income comprise mainly government securities with the issuer being the Republic of Bulgaria or other European countries, and corporate bonds.

The non-public companies' shares held by the Bank include shares of the European Investment Fund (EIF) amounting to BGN 2,594 thousand. The portion of the nominal value of the acquired shares of EIF, which has not been paid, is due after a decision is taken by the General Meeting of Shareholders of EIF.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

22. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

The remaining portion of the non-public companies' shares amounting to BGN 184 thousand represent shares of the company licensed as a payment system operator under the Bulgarian law – BORICA - Bankservice AD. Only banks can be shareholders of this company and they acquire shares following a specific procedure; the share price is determined using a formula specified in the company's Statute.

The revaluation reserve formed on financial assets measured at fair value through other comprehensive income is presented in Note 34.

	2019	2018
Revaluation reserve	12,035	4,568
Impairment	1,500	2,160
Tax	(1,352)	(673)
	12,183	6,055

In 2018 and 2019 there is no reported expenses for impairment of assets measured through other comprehensive income in current profit or loss for the year (Note 9).

23. INVESTMENTS IN SUBSIDIARIES

As of 31.12.2018 and 31.12.2019 the Bank has the following investments in subsidiaries:

National Guarantee Fund EAD

The Bank is a sole owner of the capital of National Guarantee Fund EAD, registered with the Commercial Register on 22 August 2008. The total registered share capital at 31 December 2019 consists of 800,000 shares of BGN 100 each (31 December 2018: 800,000 shares of BGN 100 per share). The registered capital at 31 December 2019 amounts to BGN 80,000 thousand (31 December 2018: BGN 80,000 thousand). The investment in the subsidiary at 31 December 2019 amounts to BGN 80,000 thousand (31 December 2018: BGN 80,000 thousand), measured at historical cost of acquisition.

Micro Financing Institution Jobs EAD

The Bank is a sole owner of the capital of Micro Financing Institution Jobs, registered on 14 January 2011. The total registered share capital at 31 December 2019 amounts to BGN 7,643 thousand, split into 76,430 shares of BGN 100 each. The investment in the subsidiary at 31 December 2019 amounts to BGN 7,643 thousand (31 December 2018: BGN 7,643 thousand), measured at historical cost of acquisition.

23. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Capital Investments Fund AD

Bulgarian Development Bank AD and National Guarantee Fund EAD are owners of the capital of the Capital Investments Fund AD incorporated on 24 August 2018. The company's capital amounts to BGN 65 000 thousand split into 650,000 shares of BGN 100 each. BDB subscribed 550,000 registered shares for the total amount of BGN 55 000 thousand, representing 84.62% of the capital. National Guarantee Fund EAD subscribed 100,000 shares for the total amount of BGN 10,000 thousand, representing 15.38% of the Fund's capital.

At 31 December 2019, the Bank paid BGN 13 750 thousand, representing 25% of the amount of the contribution into the registered capital, and National Guarantee Fund EAD paid BGN 2 500 thousand, representing 25% of the amount of the contribution into the registered capital. The carrying amount of the investment is BGN 13,750 thousand (2018: BGN 13,750 thousand).

BDB Leasing EAD

The Bank is the sole owner of the capital of BDB Leasing EAD, registered according to the Commercial Register on 12 March 2019. As at 31.12.2019 the total amount of the registered share capital is 20,000 shares of BGN 100 each. As at 31.12.2019 the amount of the paid-up capital is BGN 2,000 thousand. The carrying amount of the investment is BGN 2,000 thousand.

BDB Factoring EAD

The Bank is the sole owner of the capital of BDB Factoring EAD, registered according to the Commercial Register on 13 March 2019. As at 31.12.2019 the total amount of the registered share capital is 20,000 shares of BGN 100 each. As at 31.12.2019 the amount of the paid-up capital is BGN 2,000 thousand. The carrying amount of the investment is BGN 2,000 thousand.

Trade Centre Maritsa EOOD

By decision of the Bank's Management Board, as recorded in Protocol 29 of 18 May 2018, Trade Centre Maritsa EOOD became an ownership of Bulgarian Development Bank EAD. The carrying amount of the company's shares is BGN 4,095 thousand (31.12.2018: BGN 4,232 thousand).

At 31 December 2019, management conducted a review for impairment of the investments in subsidiaries and found that there were no indications of impairment except for Trade Centre Maritsa EOOD.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

24. PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS

	Land and buildings	Bank equipment and computers	Fixtures and fittings	Motor vehicles	Licences and software	Total
Cost						
As of 1 January 2018	32,553	1,972	563	291	1,198	36,577
Additions	-	23	106	775	105	1,009
Disposals	-	(18)	-	-	-	(18)
As of 31 December 2018	32,553	1,977	669	1,066	1,303	37,568
Additions	-	964	7	-	4,600	5,571
Disposals	-	(18)	-	(28)	(126)	(172)
As of 31 December 2019	32,553	2,923	676	1,038	5,777	42,967
Accumulated depreciation/amortization						
As of 1 January 2018	1,297	988	229	181	933	3,628
Charge for the year	576	266	72	136	88	1,138
Disposals	-	(16)	-	-	-	(16)
As of 31 December 2018	1,873	1,238	301	317	1,021	4,750
Charge for the year	576	350	76	199	227	1,428
Disposals	-	(18)	-	(22)	(126)	(166)
As of 31 December 2019	2,449	1,570	377	494	1,122	6,012
Net book value						
At 1 January 2018	31,256	984	334	110	265	32,949
At 31 December 2018	30,680	739	368	749	282	32,818
At 31 December 2019	30,104	1,353	299	544	4,655	36,955

The fully depreciated/amortized property, plant and equipment still in use at 31 December 2019 amount to BGN 1,087 thousand at cost (2018: BGN 853 thousand) and intangible assets amount to BGN 743 thousand (2018: BGN 837 thousand) respectively.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

25. INVESTMENT PROPERTY

	2019	2018
Carrying amount at the beginning of period	7,649	7,702
Sold	-	(53)
Loss on change in the fair value included in profit and loss for the period	(16)	-
	7,633	7,649

The Bank holds investment properties as a result of collateral acquired on problem loans. They are leased to third parties. Rental income generated for 2019 amounts to BGN 611 thousand (2018: BGN 594 thousand) (Note 11).

The Bank classifies its investment property in Level 3 of the fair value hierarchy. The fair value has been determined on the basis of the valuation calculated by independent certified appraisers using valuation techniques and key inputs for the valuation of the investment property disclosed in Note 5.

26. ASSETS HELD FOR SALE

As of 31.12.2019 properties (land, buildings and fixtures and fittings) amount to BGN 0 thousand (2018: BGN 4,840 thousand land, buildings and fixtures and fittings).

In 2019 the Bank acquired properties (land, buildings and fixtures and fittings) at the amount of BGN 33 thousand (2018: BGN 4,840 thousand land, buildings and fixtures and fittings).

The assets have not been used and it is not planned to be used in the Bank's activity. Management actively seeks buyers with the purpose to sell them by the end of 2020.

Movement in assets held for sale:	2019	2018
Carrying amount at the beginning of period	4,840	9,924
Acquired from collateral foreclosure	33	4,835
Reclassified to assets acquired from collateral foreclosure	(4,873)	(8,963)
Sold	-	(956)
	-	4,840

All amounts are in thousand Bulgarian Levs, unless otherwise stated

27. OTHER ASSETS AND ASSETS ACQUIRED FROM COLLATERAL FORECLOSURE

Movement in assets acquired from collateral foreclosure in 2019 and 2018:	2019	2018
Carrying amount at the beginning of period	27,128	15,875
Reclassified from held for sale	4,873	8,963
Additional capitalised costs	3,254	3,096
Sold	-	(575)
Impairment (Note 12)	(68)	(231)
Carrying amount at the period-end	35,187	27,128

Assets acquired from collateral foreclosure include assets classified as held for sale (acquired from collateral foreclosure), but not realised within the stipulated 12-month period and reclassified to assets acquired from collateral foreclosure. These assets are measured at the lower of cost and net realisable value.

Other assets	2019	2018
Prepayments and advances	3,205	155
Other receivables	165	12
VAT refundable	125	545
Other assets	12	-
	3,507	712

28. DEPOSITS FROM CREDIT INSTITUTIONS

	2019	2018
Deposits from local banks	6,513	4,323
Deposits from foreign banks	1,364	1,436
	7,877	5,759

All deposits from credit institutions are demand deposits. There are no interest payable on deposits from credit institutions as at 31 December 2019 (2018: BGN 0 thousand).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

29. DEPOSITS FROM CUSTOMERS OTHER THAN CREDIT INSTITUTIONS

	2019	2018
Companies and sole traders	1,036,512	1,209,268
Special-purpose deposits	92,501	93,088
Individuals	5,036	5,166
	1,134,049	**1,307,522**

	2019	2018
Term deposits	681,998	605,448
Demand deposits	452,051	702,074
	1,134,049	**1,307,522**

Interest payable on deposits from customers, other than credit institutions at 31 December 2019 amounts to BGN 595 thousand (2018: BGN 539 thousand).

The amount of the special-purpose deposits comprises the deposits of National Guarantee Fund EAD, a subsidiary of BDB, in connection with projects for establishing a Guarantee Fund to support rural areas of the country under the Rural Development Programme of the Republic of Bulgaria (2007-2013) at the Ministry of Agriculture and Food, and of the Operational Programme for Development of Fisheries Sector (2007-2013) at the Executive Agency Fisheries and Aquacultures (EAFA).

30. BORROWINGS FROM INTERNATIONAL INSTITUTIONS

	2019	2018
China Development Bank	741,321	215,180
Long-term framework loan agreement with the Council of Europe Development Bank	209,176	277,271
Long-term loans from the Kreditanstalt für Wiederaufbau	112,793	154,223
The Export – Import Bank of China	98,324	97,727
Long-term loans from the European Investment Bank	42,949	146,722
Long-term loans from the Nordic Investment bank	7,374	11,947
European Investment Fund	-	1,712
	1,211,937	**904,782**

The interest payables on the borrowings from international institutions as of 31 December 2019 amount to BGN 1,150 thousand (2018: BGN 755 thousand).

The effective interest rates on borrowings from international institutions as of 31 December 2019 range from 0% to 1.70% (31 December 2018: from 0% to 1.75%).

30. BORROWINGS FROM INTERNATIONAL INSTITUTIONS (CONTINUED)

Council of Europe Development Bank

On 18 November 2009, a new loan agreement was signed between Bulgarian Development Bank AD and the Council of Europe Development Bank for EUR 15,000 thousand. The purpose of the loan is to finance investment projects of micro-, small and medium-sized enterprises from the real sector with the aim to create new and to preserve already existing jobs. The loan is unsecured.

As of 31 December 2019, the loan was fully utilised and the outstanding principal under the facility amounted to EUR 937.5 thousand equivalent to BGN 1,834 thousand (31 December 2018: EUR 3,750 thousand equivalent to BGN 7,334 thousand). The interest rate is floating, based on the 3M EURIBOR plus a margin.

On 30 March 2011, fourth loan agreement was signed between Bulgarian Development Bank AD and the Council of Europe Development Bank for EUR 20,000 thousand. The purpose of the loan is to improve the access to financing of the Bulgarian small and medium-sized enterprises, to create new jobs, and to preserve already existing ones. The loan is unsecured.

As of 31 December 2019, the loan was fully utilised and the outstanding principal under the facility amounted to EUR 7,000 thousand equivalent to BGN 13,691 thousand (31 December 2018: EUR 9,000 thousand equivalent to BGN 17,602 thousand). The interest rate on the first tranche is floating, based on the 3M EURIBOR plus a margin, and on the second tranche it is fixed.

On 23 February 2016, Bulgarian Development Bank signed a Loan agreement with the Council of Europe Development Bank (CEDB) amounting to EUR 150,000 thousand. The funds are intended to finance energy efficiency and retrofitting measures under Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP). The loan has a special purpose and will be used for renovation of multi-family buildings. As of 31 December 2019 the loan was fully utilised.

The loan is secured by a State guarantee under the State Budget of the Republic of Bulgaria Act for 2016. A Guarantee Agreement was signed between the CEDB and the Republic of Bulgaria, represented by the Minister of Finance, which was ratified by the National Assembly. The Guarantee Agreement Ratification Act was promulgated in State Gazette on 3 May 2016.

The Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP) was approved by virtue of decision of the Council of Ministers of 27 January 2015.

As of 31 December 2019, the outstanding principal under the loan amounted to EUR 99,000 thousand, equivalent to BGN 193,627 thousand (as of 31.12.2018: EUR 129,000 thousand equivalent to BGN 252,302 thousand). The interest rate on the first tranche of the loan is floating, based on 3M EURIBOR plus a margin, and on the second tranche it is fixed.

Kreditanstalt für Wiederaufbau (KfW)

On 27 July 2010, Bulgarian Development Bank AD signed a direct loan agreement for EUR 25,000 thousand with the German Development Bank Kreditanstalt für Wiederaufbau (KfW). The purpose of the loan is direct lending to small and medium sized enterprises and/or for providing credit lines to commercial banks for special-purpose business financing. The loan is unsecured. At 31 December 2019 the loan was fully utilised.

30. BORROWINGS FROM INTERNATIONAL INSTITUTIONS (CONTINUED)

Kreditanstalt für Wiederaufbau (KfW) (continued)

As of 31 December 2019 the outstanding principal under the facility amounted to EUR 2,941 thousand equivalent to BGN 5,752 thousand (at 31 December 2018: the outstanding principal amounted to EUR 5,882 thousand equivalent to BGN 11,505 thousand). The interest rate is floating, based on the 6M EURIBOR plus a margin.

On 16 August 2016, Bulgarian Development Bank signed an Agreement with KfW for EUR 100,000 thousand. The funds are intended to finance energy efficiency and retrofitting measures, implemented by SMEs in Bulgaria under the Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP). The loan is secured by a State guarantee under the State Budget of the Republic of Bulgaria Act for 2016. A Guarantee Agreement was signed between KfW and the Republic of Bulgaria, represented by the Minister of Finance, which was ratified by the National Assembly. The Guarantee Agreement Ratification Act was promulgated in State Gazette on 30 December 2016. As of 31 December 2019 the loan was fully utilised.

As of 31 December 2019, the outstanding principal under the facility amounted to EUR 54,545 thousand equivalent to BGN 106,682 thousand (as of 31 December 2018 the outstanding principal under the facility amounted to EUR 72,727 thousand equivalent to BGN 142,242 thousand). The interest rate is floating, based on the 6M EURIBOR plus margin.

European Investment Bank

On 18 November 2016, BDB signed a contract with European Investment Bank for the amount of EUR 150,000 thousand for financing of projects of small and medium-sized enterprises. The funds are provided with the support of the EU and are backed by an EFSI (European Fund for Strategic Investment) guarantee, part of the Investment Plan for Europe – the Juncker Plan. The funds are intended to finance SMEs, including innovative projects, to support regions with high unemployment rates, as well as youth employment or start-up company projects. The loan can be allocated through partner banks, other financial intermediaries or directly. The loan is unsecured.

As of 31 December 2019, the outstanding principal under the loan amounted to EUR 21,955 thousand equivalent to BGN 42,941 thousand (as at 31 December 2018: EUR 75,000 thousand equivalent to BGN 146,687 thousand). The interest rate is floating, based on the 6M EURIBOR plus a margin.

Nordic Investment Bank

On 15 December 2010, a second credit line was signed between the Nordic Investment Bank and Bulgarian Development Bank AD for EUR 20,000 thousand. The purpose of the loan is financing of renewable energy projects or environmental projects; projects involving the Nordic Investment Bank member states, as well as indirect financing through commercial partner banks. The loan is unsecured. As of 31 December 2019, the loan was fully utilised.

As of 31 December 2019 the outstanding principal under the facility amounted to EUR 3,783 thousand equivalent to BGN 7,399 thousand (31 December 2018: EUR 6,136 thousand equivalent to BGN 12,001 thousand). The interest rate is floating, based on 6M EURIBOR plus a margin.

30. BORROWINGS FROM INTERNATIONAL INSTITUTIONS (CONTINUED)

Progress Program of the European Investment Fund

On 24 July 2015, a loan agreement was signed between Bulgarian Development Bank AD and the EIF under Progress Program for EUR 5,000 thousand. The purpose of the loan is to finance micro-leases and micro-loans for micro and small enterprises, as well as to finance micro-loans through financial institutions. This Program targets companies with up to 10 employees and assets up to EUR 2 million (BGN 3,912 thousand). Self-employed persons, start-ups, or persons experiencing difficulties in obtaining financing are also eligible as beneficiaries.

As of 31 December 2019 the loan is fully repaid (31.12.2018: EUR 871 thousand equivalent to BGN 1,704 thousand).

China Development Bank

On 12 May 2017, BDB signed a loan agreement with China Development Bank for the amount of EUR 80,000 thousand. The purpose of the loan is financing the general lending activity of BDB – investment and working capital loans. BDB could also use the funds to support strategic projects within the Belt & Road Initiative. The loan is unsecured. As of 31 December 2019 the loan was fully utilized.

As of 31 December 2019 the outstanding principal under the loan amounted to EUR 79,000 thousand equivalent to BGN 154,511 thousand (as of 31 December 2018: EUR 80,000 thousand equivalent to BGN 156,466 thousand). The interest rate is floating based on the 6M EURIBOR plus margin.

On 13 December 2018, BDB signed a new financing agreement with the China Development Bank amounting to EUR 300,000 thousand. The funds were granted as a first tranche under the framework agreement signed in July 2018 for EUR 1.5 billion. The funds may be used to finance projects within the Belt & Road initiative and/or projects in support of SMEs, energy, communications, transport, agriculture in Bulgaria or for other purposes agreed by BDB and CDB.

As of 31 December 2019 the outstanding principal under the loan amounted to EUR 300,000 thousand equivalent to BGN 586,749 thousand (as of 31 December 2018: EUR 30,000 thousand equivalent to BGN 58,675 thousand). The interest rate is floating based on the 6M EURIBOR plus a margin.

The Export – Import Bank of China

On 28 September 2017, BDB signed an agreement with the Export – Import Bank of China for the amount of EUR 50,000 thousand. This was the first loan agreement between BDB and the Export – import Bank of China, following the financial cooperation agreement, signed in 2014 between the two institutions and setting their interest in joint financing of key projects or areas. The funds can be used to finance the overall lending activity of BBD, a short-term and mid-term trade financing, trans-border economic and commercial transactions between China and Bulgaria. The loan is unsecured. As of 31 December 2019, the loan was fully utilised.

As of 31 December 2019 the outstanding principal under the loan amounted to EUR 50,000 thousand equivalent to BGN 97,792 thousand (31 December 2018: EUR 50,000 thousand equivalent to BGN 97,792 thousand). The interest rate is floating based on the 6M EURIBOR plus a margin.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

31. OTHER BORROWINGS

	2019	2018
Loan financing from the Ministry of Finance with funds from KfW	11,236	11,236
KfW funds provided by the Ministry of Finance for trust management	5,883	6,070
	17,119	**17,306**

There are no interest payables accrued on other borrowings as of 31 December 2019 and 2018.

Loan financing from the Ministry of Finance with funds from KfW

On 18 April 2007, the Bank concluded a loan agreement with the Government of the Republic of Bulgaria, represented by the Minister of Finance. This agreement is based on the Treaty between Bulgaria and Germany for financial collaboration from 2001 and an Agreement between the Republic of Bulgaria and Kreditanstalt für Wiederaufbau (KfW). By virtue of this agreement, the amount of EUR 4,929 thousand (BGN 9,640 thousand) is granted to the Bank designated as Project Promoter for the purpose of financing micro, small and medium-sized enterprises. The term of the agreement is 10 years as from the date of transfer of the funds, while the latter along with the due interest shall be repaid bullet at the end of the period.

On 28 April 2017 BDB and the Ministry of Finance signed Annex 1 to extend the term of the contract by 10 more years.

As of 31 December 2019 the outstanding principal and the capitalised interest amounted to EUR 5,745 thousand equivalent to BGN 11,236 thousand (as of 31 December 2018: EUR 5,745 thousand equivalent to BGN 11,236 thousand). The loan interest is capitalised quarterly and is based on 3M EURIBOR plus a margin.

As of 31 December 2019, the Bank has extended under this contract loans to commercial banks amounting to EUR 5,745 thousand (31 December 2018: EUR 5,745 thousand equivalent to BGN 11,236 thousand). This amount is included in the summarised table of the receivables from financial institutions, presented in Note 18.

KfW funds provided by the Ministry of Finance for trust management

The Bank has concluded an agreement with the Ministry of Finance (MF) for management of funds granted by Kreditanstalt fur Wiederaufbau (KfW) pursuant to an agreement between the Governments of Bulgaria and Germany. These funds are provided for financing of small and medium-sized enterprises. The Ministry of Finance bears the risk under the loans to partner-banks. The Bank selects the partner-banks and transfers the funds to those approved; gathers information and performs periodic reviews of the funds utilisation, monitors the timely interest and principal payments to the special account of the Ministry of Finance.

As of 31 December 2019 the outstanding principal of the funds under trust management with the Bank amounts to EUR 3,008 thousand equivalent to BGN 5,883 thousand (31 December 2018: EUR 3,104 thousand equivalent to BGN 6,070 thousand.

The Bank receives a management fee and accrues interest on the special account on a quarterly basis.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

32. PROVISIONS

	2019	2018
Bank guarantee provisions	2,822	2,998
Litigation provisions	117	187
	2,939	3,185

Bank guarantee provisions are amounts determined under the ECL model of IFRS 9. Out of them, BGN 146 thousand (2018: BGN 699 thousand) relates to bank guarantees on "Guarantee Fund for Micro Lending" project of MLSP (Ministry of labour and social policy), and BGN 2,676 thousand (2018: BGN 2,299 thousand) relates to individual guarantees issued.

Litigation provisions relating to future payments under lawsuits relating to labour disputes amount to BGN 117 thousand (2018: BGN 187 thousand).

The following table presents the movement in provisions by guarantees:

	2019	2018
Balance as of 1 January	**2,998**	**833**
Effect IFRS 9	-	92
Charged for the year	391	2 287
Utilised in the year	-	919
Reversed in the year	(567)	(1 133)
Balance as of 31 December	**2,822**	**2,998**

33. OTHER LIABILITIES

	2019	2018
Payables to personnel for salaries and social security	599	460
Retirement benefit liabilities	552	400
Charges on debenture loans and guarantees	162	48
Tax liabilities	495	318
Accruals for expenses	1,147	287
Payables to EIF	-	5
Finance lease liabilities	448	561
Other creditors	347	142
	3,750	2,221

Payables to personnel for salaries and social security contributions comprise accruals on compensated absences and social security contributions due thereon.

Employee retirement benefits are due by the Bank to employees reaching retirement age and are stated at their present value.

In accordance with the Labour Code each employee is entitled to indemnity on retirement amounting to two gross monthly salaries, and if he/she has worked for more than 10 years for the Bank – to six gross monthly salaries at the time of retirement. The Bank estimated the amount of these liabilities by using mathematical models and the services of a certified actuary. On the basis of the calculations made, the amount of BGN 552 thousand was included in the separate statement of financial position at 31 December 2019 (31 December 2018: BGN 400 thousand).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

33. OTHER LIABILITIES (CONTINUED)

	2019	2018
Present value of the liability at 1 January	**400**	**366**
Current service cost	95	101
Interest expense	5	6
Amounts paid in the period	-	(19)
Actuarial (gains)/losses from changes in demographic and financial assumptions and actual experience	52	(54)
Present value of the liability at 31 December	**552**	**400**

	Amounts on retirement for old age and length of service		Amounts on retirements due to illness		Total	
	2019	2018	2019	2018	2019	2018
Actuarial gain/(loss) at 1 January	(8)	(41)	-	-	(8)	(41)
Actuarial gain / (loss) recognized in other comprehensive income for the period	(48)	33	-	-	(48)	33
Actuarial gain/(loss) at 31 December	(56)	(8)	-	-	(56)	(8)

The following actuarial assumptions are used in calculating the present value of the liabilities as of 31 December 2019:

- mortality rate – in accordance with the table prepared on the basis of statistics issued by the National Statistical Institute for the total mortality rate of the population in Bulgaria for the period 2015 – 2017;
- staff turnover rate – from 0 per cent to 10 per cent depending of five age groups formed;
- rate of early retirement due to illness – from 0.027% to 0.3212% depending of five age groups formed;
- effective annual interest rate for discounting – 1% (2018: 1%);
- assumptions for the future level of working salaries in the Bank are based on the Bank's development plan for 2020 – 5% compared to the 2019 level and for 2021 and subsequent years – 5% compared to the previous year level.

The effect for 2019 of the increase and decrease by 1% of the salary growth and the interest rate on the total amount of current service costs and interest, and on the present value of the liability for payment of defined benefits upon retirement, are as follows:

All amounts are in thousand Bulgarian Levs, unless otherwise stated

33. OTHER LIABILITIES (CONTINUED)

	Increase by 1% of salary growth	Decrease by 1% of salary growth
Change in the interest and current service costs ("+"- increase, "–"- decrease)	21	(18)
Change in the present value of the liability as of 31 December 2019 ("+"- increase, "–"- decrease)	82	(68)

	Increase by 1% of interest rate	Decrease by 1% of interest rate
Change in the interest and current service costs ("+"- increase, "–"- decrease)	(12)	15
Change in the present value of the liability as of 31 December 2019 ("+"- increase, "–"- decrease)	(70)	87

	Increase by 1% of staff turnover rate	Decrease by 1% of staff turnover rate
Change in the interest and current service costs ("+"- increase, "–"- decrease)	(19)	24
Change in the present value of the liability as of 31 December 2019 ("+"- increase, "–"- decrease)	(73)	90

The effect for 2018 of the increase and decrease by 1 per cent of the salary growth and the interest rate on the total amount of current service costs and interest, and on the present value of the liability for payment of defined benefits upon retirement, are as follows:

	Increase by 1% of salary growth	Decrease by 1% of salary growth
Change in the interest and current service costs ("+"- increase, "–"- decrease)	17	(14)
Change in the present value of the liability as of 31 December 2018 ("+"- increase, "–"- decrease)	60	(49)

	Increase by 1% of interest rate	Decrease by 1% of interest rate
Change in the interest and current service costs ("+"- increase, "–"- decrease)	(9)	12
Change in the present value of the liability as of 31 December 2018 ("+"- increase, "–"- decrease)	(50)	62

	Increase by 1% of staff turnover rate	Decrease by 1% of staff turnover rate
Change in the interest and current service costs ("+"- increase, "–"- decrease)	(15)	19
Change in the present value of the liability as of 31 December 2018 ("+"- increase, "–"- decrease)	(53)	65

All amounts are in thousand Bulgarian Levs, unless otherwise stated

34. SHARE CAPITAL

	2019	2018
Share capital		
Ordinary shares issued paid in cash	587,964	587,964
Ordinary shares issued – in-kind contribution (land for the building of the bank)	12,200	12,200
Ordinary shares issued - in-kind contribution (the building of the bank)	1,610	1,610
	601,774	**601,774**

The capital of the Bank is composed by 6,017,735 ordinary registered voting shares with par value of BGN 100 each.

The Bulgarian Development Bank Act provides that not less than 51 per cent of shares forming the Bank's capital should be owned by the State; the shares of the State amounting to not less than 51 per cent of the registered share capital are non-transferable.

Also, a specific limit is established with regard to the remaining shareholders, other than the Bulgarian State through the Ministry of Finance. Shareholders may be: the Council of Europe Development Bank, the European Investment Bank, the European Investment Fund as well as other banks for development in EU member states. The Bank's shares may not be pledged and the rights thereon may not be subject to transfer deals.

In August 2017, by decision of the SB, the Bank's shares were transferred from the Ministry of Finance to the Ministry of Economy and as of 31 December 2019, 99.99% of the Bank's shares were held by the State through the Ministry of Economy (31 December 2018: 99.99% of the Bank's shares were held by the State through the Ministry of Economy).

35. RESERVES

In accordance with the general provisions of the Commercial Act, the Bank shall allocate to Reserve Fund at least 1/10 of its profit for the year until the reserves reach 10% of the share capital as stipulated in the Articles of Association. Pursuant to the Articles of Association of the Bank, the Bank shall set aside to the Reserve Fund at least ½ of its after-tax annual profit until the reserves reach 50% of its share capital.

The Reserve Fund may be used by the Bank only to cover its current or prior period losses, and not for distribution of dividends, without the authorisation of Bulgarian National Bank.

Moreover, the Credit Institutions Act stipulates that the banks in Bulgaria cannot distribute dividends before accumulating the minimum reserves (mainly the Reserve Fund) required by law or by their Articles of Association, or if the distribution of dividends will result in violation of the regulatory capital adequacy ratios. The requirement under the Bulgarian Development Bank Act is similar.

As of 31 December 2019, the Reserve Fund of the Bank amounted to BGN 68,908 thousand. (31 December 2018: BGN 63,882 thousand).

As of 31 December 2019, the Additional Reserves of the Bank amounted to BGN 75,097 thousand (31 December 2018: BGN 75,145 thousand) and were formed as result of distribution of profits of the Bank from previous periods, according to decisions of the General Meeting of Shareholders.

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35. RESERVES (CONTINUED)

In 2019, after a regular General Meeting of Shareholders of the Bank and in accordance with the provisions of art. 91, para 2 of the State Budget of the Republic of Bulgaria Act for 2019 a decision was passed to distribute dividends against the profit net of the contribution to the Reserve Fund at the amount of BGN 20,104 thousand (2018: no dividend was paid against the profit). The dividend was paid in November 2019.

The remaining balance from the profit of Bulgarian Development Bank AD for 2018, net of the contributions to the Reserve Fund, was taken to Additional Reserves.

In accordance with the Bulgarian Development Bank Act, each shareholder of the Bank is allowed to waive the right to a dividend and then the dividend amount is transferred to Additional Reserves.

All unrealised gains and losses on fair value revaluation of the financial assets measured at fair value through other comprehensive income held at the end of each reporting period are recognised in equity, in a special components thereof formed by the Bank and titled Reserve for financial assets measured at fair value through other comprehensive income. These gains and losses are transferred to current profits and losses upon sale/maturity of the respective securities and/or on permanent impairment. The Reserve for financial assets measured at fair value through other comprehensive income is presented net of taxes. As of 31 December 2019, the reserve is a positive value amounting to BGN 12,183 thousand (31 December 2018: BGN 6,055 thousand – positive value).

36. CONTINGENCIES AND COMMITMENTS

	2019	2018
Contingent liabilities		
Bank guarantees and letters of credit	159,065	56,073
Incl. with cash collateral	(16,149)	(15,539)
Guarantee provisions (Note 32)	(2,822)	(2,998)
Total contingent liabilities	**140,094**	**37,536**
Irrevocable commitments		
Unutilised amount of approved loans	321,120	348,377
Unpaid portion of shares of the Capital Investment Fund	41,250	41,250
Participation in the SIA investment program	1,168	1,410
Unclaimed portion of par value of EIF shares	4,694	4,694
Total irrevocable commitments	**368,232**	**395,731**
	508,326	**433,267**

On 17 July 2015, Bulgarian Development Bank AD signed a funds management contract with EIF for accession to the SIA (Social Impact Accelerator) investment program of EIF for investing in social venture funds, with the participation amounting to EUR 1 million over an engagement period of up to 5 years. In 2018, a Consent for extending the investment period of the SIA Fund by 1 year. The goal of the SIA program is to invest in small and medium-sized enterprises having considerable social impact. EIF is the manager of the program. The term of the program is 10 years.

As of 31 December 2019, eighteen equity contributions were made under the initiative amounting to EUR 403 thousand equivalent to BGN 788 thousand (2018: BGN 279 thousand equivalent to BGN 546 thousand) (Note 22).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

36. CONTINGENCIES AND COMMITMENTS (CONTINUED)

In 2015, the Bank launched a new program for indirect financing of micro, small and medium-sized businesses subject to a maximum of BGN 150,000 thousand. Under the program BDB will be able to assume part of the risk – up to 30 per cent of the amount of the individual sub-loans - on loans granted by partner banks to businesses. At 31 December 2019, the Bank has effective agreements with five partner banks and the so-formed portfolio of guarantees amounts to BGN 2,168 thousand (31 December 2018: five partner banks and portfolio of guarantees amounting to BGN 2,790 thousand).

Nature of instruments and credit risk

These commitments of contingent nature bear an off-balance sheet credit risk because only fees are recognised in the financial statements until the commitments are fulfilled or expire. The amounts reflected in the above table as guarantees represent the maximum accounting loss that would have been recognised at the end of the reporting period if counterparties failed to perform in full their contractual obligations. Many of the contingent liabilities and commitments will expire without being advanced fully or partially. Therefore, the amounts do not represent expected future cash flows. Collateral for issuance of common bank guarantees exceeds 100 per cent and represents primarily restricted deposits at the Bank, mortgages of real estate and insurance policies issued in favour of the Bank. When conditions for enforcement of an issued guarantee occur, the Bank judges the possibilities for recourse to the counterparty and eventual realisation of the provided securities.

The guarantees of the Bank, issued under the Micro-credits Guarantee Fund Project of MLSP are not secured. In case of activation of a component of a guarantee issued by the Bank, the payment thereon is not assessed as ultimate loss because the partner-bank is obliged to undertake all necessary measures for realising the received collateral of the non-performing loan and to reimburse the respective amount to BDB.

The non-paid portion of the nominal value of EIF shares held by the Bank shall become due for payment after a special decision for this purpose taken by European Investment Fund's General Meeting of Shareholders. By the issue date of this financial statement no such a decision has been taken.

37. CASH AND CASH EQUIVALENTS

	2019	2018
Cash in hand (Note 17)	289	335
Current accounts with the Central Bank (Note 17)	250,330	297,287
Receivables from banks with original maturity up to 3 months (Note 18)	204,114	319,679
	454,733	**617,301**

The following table summarises the movements in the liabilities arising from financing activity, including cash-flow and non-monetary changes, with a reconciliation between the opening and closing balances in the statement of financial position of the liabilities arising from financing activity for the year ended 31 December 2019.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

37. CASH AND CASH EQUIVALENTS (CONTINUED)

	1 January 2019	Cash inflows	Cash outflows	31 December 2019
Current borrowings from international institutions	904,782	528,073	(220,918)	1,211,937
Current liabilities on other borrowings	17,306	120	(307)	17,119
Total liabilities from financing activity	**922,088**	**528,193**	**(221,225)**	**1,229,056**

	1 January 2018	Cash inflows	Cash outflows	Effect of changes in exchange rates	31 December 2018
Current borrowings from international institutions	869,821	156,254	(121,259)	(34)	904,782
Current liabilities on other borrowings	17,492	16	(202)	-	17,306
Total liabilities from financing activity	**887,313**	**156,270**	**(121,461)**	**(34)**	**922,088**

*The interest accruals of BGN 6,631 thousand are included in the operating cash flows of the Bank.

38. TRANSACTIONS WITH RELATED PARTIES AND COMPANIES UNDER JOINT CONTROL WITH THE STATE

Entity/person	*Type of control*
Ministry of Economy	Majority shareholder of the capital of the Bank representing the State
Ministry of Finance	Under joint control with the State
National Guarantee Fund EAD	Subsidiary
Micro Financing Institution JOBS EAD	Subsidiary
Capital Investments Fund AD	Subsidiary
BDB Leasing EAD	Subsidiary
BDB Factoring EAD	Subsidiary
Trade center Maritsa EOOD	Subsidiary
Holding Bulgarian State Railways EAD	Company under joint control with the State
Bulgarian Institute for Standardization	Company under joint control with the State
South Stream Bulgaria AD	Company under joint control with the State
"I C J B" AD	Company under joint control with the State
Bulgarian Energy Holding EAD	Company under joint control with the State
Kinteks EAD	Company under joint control with the State
Energy Investment Company EAD	Company under joint control with the State
Water Supply and Sewerage EOOD Plovdiv	Company under joint control with the State
Water Supply and Sewerage EOOD Shumen	Company under joint control with the State
TPP Maritsa East 2 EAD	Company under joint control with the State
State Consolidation Company EAD	Company under joint control with the State
Eco Anthracite EAD	Company under joint control with the State
Saint Ekaterina University Multiprofile Hospital for Active Treatment	Company under joint control with the State
Montazhi EAD	Company under joint control with the State
Montazhi - Sofia EOOD	Company under joint control with the State
Road Infrastructure Agency	Under joint control with the State
Bulgarian Export Insurance Agency EAD	Company under joint control with the State

All amounts are in thousand Bulgarian Levs, unless otherwise stated

38. TRANSACTIONS WITH RELATED PARTIES AND COMPANIES UNDER JOINT CONTROL WITH THE STATE (CONTINUED)

The table above shows the companies with which the Bank had transactions during the reporting period. All related party transactions are at arm's length.

Related party balances in the statement of financial position:

Assets

Entity/person	*Type of balance*	2019	2018
Ministry of Finance	Financial assets at fair value through other comprehensive income	359,100	460,963
Micro Financing Institution JOBS EAD	Loans and advances to customers	4,808	6,104
BDB Leasing EAD	Loans and advances to customers	11,828	-
Companies under joint control with the State	Loans and advances to customers	103,982	90,673
Companies under joint control with the State	Financial assets at fair value through other comprehensive income	23,983	43,931
Total for the subsidiaries		**16,636**	**6,104**

Liabilities

Entity/person	*Type of balance*	2019	2018
Ministry of Finance	Other borrowings	17,119	17,306
National Guarantee Fund EAD	Liabilities to customers on deposits	120,376	118,828
Micro Financing Institution JOBS EAD	Liabilities to customers on deposits	973	649
BDB Leasing EAD	Liabilities to customers on deposits	1,207	-
BDB Factoring EAD	Liabilities to customers on deposits	1,902	-
Trade Centre Maritsa EOOD	Liabilities to customers on deposits	2	2
Capital Investments Fund AD	Liabilities to customers on deposits	16,248	16,250
Companies under joint control with the State	Liabilities to customers on deposits	675,239	911,985
Total for the subsidiaries		**140,708**	**135,729**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

38. TRANSACTIONS WITH RELATED PARTIES AND COMPANIES UNDER JOINT CONTROL WITH THE STATE (CONTINUED)

Related party transactions:

Entity/person	*Type of relation*	2019	2018
	Fee and commission income	60	62
Ministry of Finance	Interest income	3,353	2,971
	Interest expenses	(121)	(124)
	Fee and commission income	1	1
National Guarantee Fund EAD	Interest expenses	(84)	(141)
	Rental income	37	33
	Dividend income	1,256	771
	Fee and commission income	2	2
Micro Financing Institution JOBS EAD	Interest income	97	150
	Rental income	36	27
	Dividend income	47	121
BDB Leasing EAD	Interest expenses	12	-
Total income from transactions with subsidiaries		**1,488**	**1,105**
Total expenses for transactions with subsidiaries		**(84)**	**(141)**
Companies under joint control with the State	Interest income	5,929	4,883
	Fee and commission income	161	227
	Interest expenses	(216)	(25)
	Other operating income	(3)	-
	Other operating income	24	34

Commitments and contingencies with related parties:

Entity/person	*Type*	2019	2018
Micro Financing Institution JOBS EAD	Unutilised amount of a loan approved	20,100	20,300
BDB Leasing EAD	Unutilised amount of a loan approved	8,143	-
Capital Investments Fund AD	Commitment on unpaid subscribed capital	41,250	41,250
Companies under joint control with the State	Unutilised amount of a loan approved	43,677	41,708
Companies under joint control with the State	Bank guarantees issued	7,956	9,332
Total for the subsidiaries		69,493	61,552

All amounts are in thousand Bulgarian Levs, unless otherwise stated

38. TRANSACTIONS WITH RELATED PARTIES AND COMPANIES UNDER JOINT CONTROL WITH THE STATE (CONTINUED)

Relations with key management personnel:

Balances with key management personnel	**2019**	**2018**
Payables to customers on deposits	741	462
Remuneration payable	52	49
Loans and advances to customers	130	136

Transactions with key management personnel	**2019**	**2018**
Remuneration and social security contributions	(1,404)	(1,445)
Interest expenses	-	-
Interest income	3	4

39. EVENTS AFTER THE DATE OF THE FINANCIAL STATEMENTS

No adjusting events or significant non-adjusting events have occurred after the reporting date until the date of approval of the financial statements except for the following non-adjusting events:

COVID-19 and BDB capital increase

In the early 2020, due to the spread of new coronavirus (Covid-19) globally, difficulties in the business and economic activity of a number of enterprises and entire economic sectors emerged. On 11 March 2020, the World Health Organization also announced the presence of a coronavirus pandemic (Covid-19). The National Assembly of the Republic of Bulgaria declared a state of emergency in Bulgaria from 13 March 2020 for a period of one month, subsequently extended to 13 May 2020.

On 13 May 2020, the state of emergency expired and the Council of Ministers declared an emergency outbreak on 14 May 2020 to date.

Despite the drop-off of anti-epidemic measures and the resumption of company activity, many economic sectors remained affected by the effects of the coronavirus pandemic. The macroeconomic forecasts of the world institutions expect an overall decrease in Bulgaria's GDP of up to 7% on an annual basis and a recovery of pre-crisis levels of growth (stabilization) of the economy in the 2-3 quarter of 2021.

The transport, tourism, entertainment and leisure sectors remain affected, as well as companies entirely in export-oriented industries which, due to restrictions on free movement, were not able to send their deliveries on time in the first half of 2020.

In connection with the covid-19 epidemic, the Bulgarian government has taken a number of measures to support the economy. The measures with a direct effect on the Bank were as follows:

- By decision No215 of 27 March 2020, the Council of Ministers decided to increase the capital of BDB by BGN 700 million. The funds shall be used "to implement measures to support the economy in connection with the COVID-19 epidemic, including issuing portfolio guarantees to banks to allow them to provide more flexible business loan conditions for a certain period, under certain conditions and judgement on a case-by-case basis."

39. EVENTS AFTER THE DATE OF THE FINANCIAL STATEMENTS (CONTINUED)

COVID-19 and BDB capital increase (continued)

- By Decision No 257 of 14 April 2020, the Council of Ministers approved the interest-free loan guarantee program to protect people deprived of the opportunity to work due to the COVID-19 pandemic, with a budget of BGN 200 million proposed by the BDB. The program will be secured with the increase of the Bank's capital according to Decision No 215 of the Council of Ministers from 2020.
- By Decision No 310 of 7 May 2020, the Council of Ministers approved the Portfolio Guarantee Programme to support the liquidity of micro, small and medium-sized enterprises (SMEs) affected by the emergency state and the COVID-19 epidemic proposed by the BDB, with a budget of BGN 500 million. The programme will be secured with the Bank's capital increase according to Decision No 215 of the Council of Ministers of 2020.
- By Decree No 134 of 18 June 2020 the Council of Ministers approved changes in the budget of the Ministry of economy for 2020 and additional payments for financing the budget balance at the expense of the central budget. By Decision No 402 of 18 June 2020 of the Council of Ministers the Bulgarian State decided to increase its shareholding in the capital of Bulgarian Development Bank AD through a cash contribution at the total amount of BGN 140 000 000. Implementing these measures a General shareholders meeting was held on 06.07.2020 when a decision was taken to increase the Bank's capital through issue of 1 400 000 new registered dematerialized voting shares with nominal value of BGN 100 each at the total amount of BGN 140 000 000. In this way the capital of Bulgarian Development Bank AD was increased from BGN 1,301,773,500 to BGN 1,441,773,500.

The coronavirus pandemic did not have measurable influence on the Bank's financial position and result from operations in the first half of 2020. Given the structure of guarantee programs and their effective date at the end of June management expects their influence on the results from operations in the second half of 2020 as the specific dimensions will depend on the volume of loans guaranteed.

In addition, by decision of the BNB of 9 April 2020, the BNB approved the proposed by Association of Banks in Bulgaria procedure for deferral and settlement of due obligations to banks and their subsidiaries - financial institutions in connection with the state of emergency introduced on 13.03.2020 by the National Assembly in connection with the COVID-19 pandemic to which the Bank joined. It is a private moratorium, in accordance with EBA guidelines (EBA/GL/2020/02). The effect of this moratorium on the Bank's business in short term is yet to be calculated.

Changes in the Bank's Management Board

By Decision of the Supervisory Board of the BDB under Protocol No 10 of 06.04.2020 Mr. Jivko Ivanov Todorov was elected as a new member of the Management Board of the BDB. Mr. Jivko Todorov is authorized to represent and manage the Bank as Executive Director. The circumstances are recorded in the Commercial Register on 14.04.2020.

By Decision of the Supervisory Board of the BDB under Protocol No 12 of 08.04.2020, the authorization of the Chief Executive Director to represent the Bank was withdrawn and a decision was taken to dismiss Mr. Stoyan Todorov Mavrodiev as a member of the Management Board of the Bank. The circumstances are recorded in the Commercial Register on 22.04.2020.

39. EVENTS AFTER THE DATE OF THE FINANCIAL STATEMENTS (CONTINUED)

Changes in the Bank's Management Board (continued)

By Decision of the Supervisory Board under Protocol No 12 of 14.04.2020, Mr. Panayot Ivov Filipov was elected as a new member of the Management Board of the BDB. This circumstance was recorded in the Commercial Register on 24.04.2020. Mr Panayot Filipov is authorized to represent and manage the Bank as Executive Director. This circumstance was recorded in the Commercial Register on 30.04.2020.

By Decision of the Supervisory Board under Protocol No 18 of 24.04.2020, the authorization of the Executive Director to represent the Bank was withdrawn and a decision was taken to dismiss Mr. Rumen Dimitrov Mitrov as a member of the Management Board of the Bank. This circumstance was recorded in the Commercial Register on 30.04.2020.

Changes in the Ban's Supervisory Board

By Decision of the General shareholders meeting of the Bank on 20.08.2020 Mr. Luchezar Borisov was dismissed as a member of the Supervisory Board and replaced by Mr. Stamen Yanev. The replacement of Mr. Luchezar Borisov with Mr. Stamen Yanev in the Supervisory Board was recorded in the Commercial Register on 26.08.2020.

Change in the structure of the Bank

By decisions of the Management Board of 12.05.2020, 22.06.2020 and 21.08.2020 confirmed by the Supervisory Board on 14.05.2020, 29.06.2020 and 01.09.2020 the Bank made changes to its organizational structure as follows:

- Closed the departments General Secretary and Cabinet of Management Board;
- Transferred departments "Strategic development and planning", "Public relations" and "Concessions" previously subordinated to the head of Cabinet of the Management Board to executive director and department "Strategic development and planning" is transformed to a division and renamed to "Strategic development";
- "Classified information" Department is transformed to "Classified information" Division;
- "Secretariat" Department is separated from "Administration" Division and is directly subordinated to executive director;
- The position "Data protection officer", part of "Classified information" Division is separated and is directly subordinated to executive director;
- A new Division "Monitoring and financial instruments" was established.

For the purpose of function and control allocation among the executive directors of BDB the structure components of the Bank's organizational structure are grouped in sectors as follows:

Sector № 1

- "Risk" Division
- "Credit Administration" Division
- „Non-Performing Loans" Division
- „Legal" Division
- „Information Technologies" Division
- „Classified information" Division
- Data protection officer

Sector № 2

- „Corporate banking" Division
- „Treasury" Division
- „On-lending Programs" Division
- „Investment banking and project financing" Division
- „International Financial Institutions and EU Funds" Division
- „Monitoring and financial instruments " Division
- „Administrative" Division
- „Human Resources" Division
- „Security" Division
- „Public Concession" Department
- „Secretariat" Department

Sector № 3

- „Accounting" Division
- „Planning, Analysis and Regulations" Division
- „Operations and Client Services" Division
- „Compliance" Division
- „Strategic development" Division
- „Public relations" Department
- Chief economist

The allocation of responsibilities among the members of the Management Board of BDB is as follows:

Sector 1 – Mr. Panayot Filipov, Executive Director, member of Management Board
Sector 2 – Mr. Nikolay Dimitrov, Executive Director, member of Management Board
Sector 3 – Mr. Jivko Todorov, Executive Director, member of Management Board

Changes in the management bodies of subsidiaries

By decision of BDB Management Board the following changes in the management bodies of BDB subsidiaries have been made:

BDB Leasing EAD

By Decision under Protocol No 33 of 13.05.2020 of the Supervisory Board of BDB AD in its capacity of sole owner of BDB Leasing EAD Mr. Stoyan Todorov Mavrodiev, Mr. Rumen Dimitrov Mitrov and Mr. Nikolay Dimitrov Dimitrov are released as members of the Board of Directors of BDB Leasing EAD. Mr. Jivko Ivanov Todorov, Mrs. Antoniya Hristoforova Dobreva and Mr. Emil Valkanov Valkanov are elected as new members. At the same time the authorization of the procurator Emil Valkanov Valkano is withdrawn. Mr. Jivko Ivanov Todorov is elected as chairman of the Board of Directors, Mr. Emil Valkanov Valkanov is elected as vice chairman of the Board of Directors and Executive Director. Ivaylo Kirilov Popov was approved for authorization as a procurator of BDB Leasing EAD. The circumstances are recorded in the Commercial Register on 20.05.2020.

39. EVENTS AFTER THE DATE OF THE FINANCIAL STATEMENTS (CONTINUED)

Changes in the management bodies of subsidiaries (continued)

BDB Leasing EAD (continued)

By Decision under Protocol No 34 of 13.05.2020 the Supervisory Board of BDB AD in its capacity of sole owner of BDB Leasing EAD approved the authorization of Mr. Ivaylo Kirilov Popov as a procurator of BDB Leasing EAD. The circumstance is recorded in the Commercial Register.

BDB Factoring EAD

By Decision under Protocol No 39 of 13.05.2020 of the Supervisory Board of BDB AD in its capacity of sole owner of BDB Factoring EAD Mr. Stoyan Todorov Mavrodiev and Mr. Rumen Dimitrov Mitrov are released as members of the Board of Directors of BDB Factoring EAD. Mr. Panayot Ivov Filipov and Mr. Georgi Vanyushev Lilyanov are elected as new members. At the same time the authorization of the procurator Georgi Vanyushev Lilyanov is withdrawn. Mr. Panayot Filipov is elected as chairman of the Board of Directors, Mr. Georgi Vanyushev Lilyanov is elected as vice chairman of the Board of Directors and Executive Director of BDB factoring EAD. The circumstances are recorded in the Commercial Register on 20.05.2020.

By Decision under Protocol No 48 of 26.05.2020 of the Supervisory Board of BDB AD in its capacity of sole owner of BDB Factoring EAD Mr. Nikolay Dimitrov Dimitrov is released as a member of the Board of Directors of BDB Factoring EAD. Mr. Todor Hristov Gunchev is elected as a new member of the Board of Directors. The circumstances are declared for recording in the Commercial Register.

National Guarantee Fund EAD

By Decision under Protocol No 35 of 13.05.2020 of the Supervisory Board of BDB AD in its capacity of sole owner of National Guarantee Fund EAD Mr. Stoyan Todorov Mavrodiev, Mr. Angel Atanasov Djalazov and Anton Georgiev Georgiev are released as members of the Board of Directors of National Guarantee Fund EAD. Mr. Jivko Ivanov Todorov, Mr. Todor Lyudmilov Todorov and Mrs. Zaharina Damyanova Todorova are elected as new members. Mr. Jivko Todorov is elected as chairman of the Board of Directors, Mr. Todor Todorov is elected as vice chairman of the Board of Directors and Executive Director of the company. At the same time the authorization of the procurator Mr. Andon Georgiev Georgiev is withdrawn. The circumstances are recorded in the Commercial Register on 20.05.2020.

Micro Financing Institution JOBS EAD

By Decision under Protocol No 37 of 13.05.2020 of the Supervisory Board of BDB AD in its capacity of sole owner of Micro Financing Institution JOBS EAD Mr. Rumen Dimitrov Mitrov, Mr. Nikolay Dimitrov Dimitrov, Mr. Angel Atanasov Djalazov and Mrs. Hristina Atanasova Todorova are released as members of the Board of Directors of Micro Financing Institution JOBS EAD. Mr. Panayot Ivov Filipov, Mrs. Ivana Borisova Tzaneva and Mrs. Angelina Georgieva Angelova are elected as new members. The authorization of the procurator Hristina Todorova is withdrawn. The circumstances are recorded in the Commercial Register on 20.05.2020.

39. EVENTS AFTER THE DATE OF THE FINANCIAL STATEMENTS (CONTINUED)

Changes in the management bodies of subsidiaries (continued)

Micro Financing Institution JOBS EAD (continued)

By Decision under Protocol No 46 of 21.05.2020 the Supervisory Board of BDB AD in its capacity of sole owner of Micro Financing Institution JOBS EAD approved the election of Mrs. Ivana Borisova Tzaneva as Executive Director of the company. The circumstance is declared for recording in the Commercial Register.

By Decision under Protocol No 47 of 22.05.2020 of the Supervisory Board of BDB AD in its capacity of sole owner of Micro Financing Institution JOBS EAD Mr. Stamen Stamenov Yanev is elected as new member of the Board of Directors. The circumstance is declared for recording in the Commercial Register.

Capital Investments Fund AD

Mr. Stoyan Todorov Mavrodiev and Mr. Rumen Dimitrov Mitrov are released as members of the Board of Directors of Capital Investments Fund AD on extraordinary general meeting of the shareholders of Capital Investments Fund AD held on 13.05.2020. Mr. Tihomir Gochev Chemshirov and Mr. Tzvetomir Georgiev Tzanov are elected as new members of the Board of Directors. The changes are recorded in the Commercial Register on 20.05.2020.

By Decision under Protocol No 11 of 13.05.2020 of the Board of Directors of Capital Investments Fund AD Mr. Nikolay Dimitrov Dimitrov is elected as chairman of the Board of Directors and Mr. Tihomir Gochev Chemshirov is elected as vice chairman. At the same time Mr. Nikolay Dimitrov Dimitrov is elected as Executive Director of the company.