EUROBANK BULGARIA AD
SEPARATE FINANCIAL STATEMENTS
31 DECEMBER 2019

CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the shareholders of
Eurobank Bulgaria AD

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of Eurobank Bulgaria AD (the Bank) as set out on pages 44 to 169, which comprise the separate statement of financial position as at 31 December 2019, and the separate income statement, separate statement of comprehensive income, separate statement of changes in shareholders' equity and 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 give a true and fair view of the unconsolidated financial position of the Bank as at 31 December 2019, and of its unconsolidated financial performance and its unconsolidated 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 Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the separate financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the requirements of the IFAA and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the 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.

Expected credit losses ("ECL") related to loans and advances to customers

As at 31 December 2019, the separate financial statements include:

- Gross loans and advances to customers of BGN 7,422,527 thousand (31 December 2018: BGN 5,608,184 thousand) and ECL allowance of BGN 310,786 thousand (31 December 2018 ECL allowance: BGN 336,995 thousand), as presented in note 18 to the separate financial statements;
- Impairment charge for credit losses recognized in the separate income statement of BGN 66,067 thousand (2018: BGN 63,799 thousand), as presented in note 12 to the separate financial statements;

Also refer to the following notes to the separate financial statements:

- 2.2.15 Impairment of financial assets
- 3.1 Impairment losses on loans and advances
- 5.2.1 Credit risk
- 5.2 Financial risk factors, Operational targets for Non-performing exposures (NPEs)

Key Audit Matter	How this key audit matter was addressed in our audit
As described in the notes to the separate financial statements, the expected credit losses have been determined in accordance with the Bank's accounting policies based on the requirements of IFRS 9 Financial Instruments ("IFRS 9"). As required by IFRS 9, the Bank estimates the expected credit losses considering a stage allocation of the loan exposures. We consider expected credit losses related to loans and advances to customers to be a key audit matter due to the magnitude of the related balances as well as due to the complex accounting requirements of IFRS 9 including assumptions made to assess and measure the ECL (e.g. macro-economic inputs, ECL risk modelling) which require significant judgement to determine the expected credit losses. The Management Board is required to make judgements as to whether there is any significant increase in credit risk since initial recognition or any objective evidence of impairment, based on the assessment of the borrower's debt service and probability of default, and as to the future cash flows expected from the borrower (in case of stage 3 allocated exposures often based on	Our audit procedures performed where applicable with the assistance of our financial risk management specialists, included among others: — Evaluating the appropriateness of the accounting policies and impairment methodology based on the requirements of the relevant accounting standard, our business understanding and industry practice. As part of the above, we challenged the Management Board on whether the level of the methodology's sophistication is appropriate based on an assessment of the entity-level and portfolio-level factors; — Making relevant inquiries of the Bank's risk management, internal audit and information technology (IT) personnel in order to obtain an understanding of the ECL calculation process, IT applications used therein, key data sources and assumptions used in the ECL model. Also, assessing and testing the Bank's IT control environment for data security, access and program change, assisted by our own Information Risk Management specialists;

the estimation of the fair value of the related collateral).

For stage 1 and stage 2 the expected credit losses are determined based on statistical models using the Bank's historical data and also forward-looking macroeconomic factors (e.g. gross domestic product growth), taking into account similar credit risk characteristics. The Management Board's key assumptions in this area are the probability of borrower's default and the assessment of the amount non-recoverable from the borrower in the event of a default ("loss given default").

Furthermore, as disclosed in the note 5.2 to the separate financial statements the Management Board is committed to achieve the Operational targets to reduce the volume of its Non-performing Exposures to BGN 388 million by 2022. Based on the Management Board's estimate the implementation of NPE reduction program resulted in an increase in the ECL at both 31 December 2018 and 31 December 2019 and related to additional losses expected on sales of such NPEs, as the Operational targets to reduce NPEs are planned to be achieved mainly through NPEs portfolio sales.

Given the limited number of observable sales transactions of non-performing loans in Bulgaria in previous periods estimation of such losses required significant degree of judgement from management.

- Assessing and testing the design, implementation and operating effectiveness of selected key controls over the approval, recording and monitoring of loans, including, but not limited to, the controls relating to the identification of default, appropriateness of the classification of exposures into performing and impaired, calculation of days past due stage allocation and calculation of the ECL;
- For a sample of loans and advances to customers selected based on specific items testing, critically assessing, by reference to the underlying documentation (updated financial indicators, repayment pattern, default events, forborne status) and through inquiry with the loan officers and credit risk management personnel, the existence of any triggers for classification to Stage 2 or Stage 3 as at 31 December 2019;
- For those loans where triggers for classification in Stage 3 were identified, challenging key assumptions applied in the Management Board's estimates of future cash flows used in the impairment calculation and collateral values;
- For non-performing exposures whose recovery is expected from sales evaluating the reasonableness of the Management Board's assumptions by reference to prices used by the Bank in similar market transactions;
- Obtaining the relevant macroeconomic forecasts of the Bank and critically assessing the Bank's assessment of the forward-looking information used in the calculation of the ECL. Independently assessing the information by means of corroborating inquiries of the Management Board and comparing factors used by the Bank to the publicly available information;
- For a sample of wholesale exposures from all stages, challenging key assumptions applied in the Bank's

	estimates of the future cash flows used in the impairment calculation: recovery period and collateral values, based on historical bank experience and industry practice, and, where relevant, with the assistance from our own valuation specialists; — Recalculating the probability of default and loss given default for a selection of the Bank's portfolios, including testing the completeness and accuracy of underlying historical data used in the Bank's process of calculating the above parameters; — Recalculating the expected credit losses as of 31 December 2019 based on the Bank's ECL model for a selection of the Bank's portfolios; — Assessment of the adequacy of the related financial statements disclosures in respect of the ECL against financial reporting framework requirements.

Acqusition and subsequent merger with Pireus Bank Bulgaria AD

Refer to the following notes to the separate financial statements:

- 2.2.1 Shares in subsidiary undertakings
- 38 Acquisition of Piraeus Bank Bulgaria A.D. by Eurobank Bulgaria A.D

Key Audit Matter	How this key audit matter was addressed in our audit
As disclosed in note 38 in November 2018, the Bank announced that it had concluded an agreement with Piraeus Bank S.A. for the acquisition of 99.98% of voting rights of Piraeus Bank Bulgaria AD ("PBB"), a subsidiary of Piraeus Bank S.A. On 13 June 2019, the acquisition was concluded, following the receipt of the relevant regulatory approvals. The final consideration for the acquisition amounted to BGN 150,956 thousand of which BGN 107,571 thousand has been settled in cash, BGN 4,354 thousand additional amount payable to the seller based on the finalized pre-closing audit of Net Asset	Our audit procedures performed, where applicable with the assistance of our valuation specialists, included among others: — Challenging the valuations prepared by the Bank and the methodology used to identify the assets and liabilities acquired, in particular: - assessing the competence, capabilities and objectivity of the external expert appointed by the Management Board for determination of the fair value of the loan portfolio acquired;

Value (NAV) of PBB and BGN 39,031 thousand net present value of deferred consideration, payable within a four year period. In September 2019, the General meeting of the shareholders of Eurobank Bulgaria AD approved the merger of the Bank with PBB. The merger was completed on 12 November 2019, following the receipt of the relevant regulatory approvals. As a result of the acquisition the Bank recognised a gain on a bargain purchase in profit or loss at the amount of BGN 78,690 thousand. The bargain purchase arose as the transactions represented the last major milestone towards the conclusion of Piraeus Bank S.A.'s Restructuring Plan commitments, as agreed with the European Commission. The accounting of this acquisition is complex due to the significant judgements and estimates that are required to determine the values of the consideration transferred and the identification and measurement of the fair value of the assets acquired and liabilities assumed. Due to the size and complexity of the above transaction, we considered this to be a key audit matter.	- critically reviewing the methodologies applied and key assumptions used by the external expert in valuing the loan portfolio, which included: • benchmarking of the discount rates used by the external expert to the interest rate statistics for new loans published by the Bulgarian National Bank ("BNB"); • evaluating the appropriateness of the discount rates applied by performing a benchmarking analysis of the stage 1, stage 2 and stage 3 fair value results to the impairment allowance coverage levels of a peer group (Tier 1 banks on the Bulgarian market, as defined by BNB); • evaluating the reasonableness of the assumptions with reference to selling prices achieved by the Bank in market transactions for portfolios with similar characteristics. - challenging the Bank's determination of the fair value of the remaining assets and liabilities having regard to the completeness of assets and liabilities identified and the reasonableness of underlying assumptions used in the valuation; - testing on a sample basis the existence of acquired assets and liabilities, including obtaining evidence of legal title to land and buildings; - checking the mathematical accuracy of the calculation performed in determination of the fair value of the assets and liabilities and recalculation of the resulting gain on bargain purchase.

	— Making relevant inquiries of the Bank's Management, internal audit and information technology (IT) personnel in order to obtain an understanding of the process of IT migration of PBB data and IT applications used therein. Assessing and testing the Bank's IT controls over the reconciliation of data transferred from PBB general ledger to the Bank's general ledger; — Testing the completeness of data transferred from PBB and accuracy of the accounting entries by checking the appropriateness of the mapping performed and reconciling the information before and after the IT migration; — Evaluating the adequacy of the related financial statements disclosures, including disclosures of key assumptions and judgements against financial reporting framework requirements.

Information Other than the Separate Financial Statements and Auditors' Report Thereon

Management is responsible for the other information. The other information comprises the separate annual activity report, the corporate governance statement and the non-financial declaration, prepared by 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 and to the extent explicitly specified in our report.

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.

Additional Matters to be Reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, in relation to the separate annual activity report, the corporate governance statement and the non-financial declaration, we have also performed the procedures added to those required under ISAs in accordance with the New and enhanced auditor's reports and auditor's communication Guidelines of the professional organisation of certified public accountants and registered auditors in Bulgaria, the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming an opinion about whether the other information includes the disclosures and reporting provided for in the applicable in Bulgaria Chapter Seven of the Accountancy Act and Art. 100(m), paragraph 8, where applicable, of the Public Offering of Securities Act.

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

Based on the procedures performed, our opinion is that:

a) The information included in the separate annual activity report for the financial year for which the separate financial statements have been prepared is consistent with those separate financial statements.

b) The separate annual activity report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

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

d) The non-financial declaration referring to the financial year for which the separate financial statements have been prepared is provided and prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

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

Management is responsible for the preparation and presentation of the separate financial statements that give a true and fair view in accordance with IFRS, as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of 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.

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.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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 and severally responsible for performing our audit and for our audit opinion as per the requirements of the Independent Financial Audit Act, applicable in Bulgaria. When accepting and performing the joint audit engagement, in relation to which we are reporting, we are also directed by the Guidelines for performing joint audit, issued on 13 June 2017 by the Institute of Certified Public Accountants in Bulgaria and by the Commission for Public Oversight of Statutory Auditors in Bulgaria.

Report on Other Legal and Regulatory Requirements

Additional reporting in relation to Ordinance No 38/2007 and No 58/2018 issued by the Financial Supervision Commission

Statement in relation to art. 33 of Ordinance No 38/2007 of the Financial Supervision Commission (FSC) on the requirements of the activity of the investment intermediaries and art. 11 of Ordinance No 58/2018 of FSC on the requirements for protection of financial instruments and deposits of clients, for management of products and for granting or receiving remunerations, commissions, or other monetary or non-monetary benefits

Based on the audit procedures performed and the knowledge and understanding of the Bank's activity, in the course and context of our audit of the separate financial statements as a whole, we identified that the designed and implemented organization for safeguarding of customers' assets complies with the requirements of art. 28 – 31 of Ordinance No 38 and art. 3 – 10 of Ordinance No 58 of the FSC in relation to the activities of the Bank in its capacity 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.

— KPMG Audit OOD and Baker Tilly Klitou and Partners OOD were appointed as a statutory auditors of the separate financial statements of Eurobank Bulgaria AD for the year ended 31 December 2019 by the extraordinary general meeting of shareholders held on 27 December 2019 for a period of one year. The audit engagement was accepted by a Joint Audit Engagement Letter dated 30 December 2019.

— The audit of the separate financial statements of the Bank for the year ended 31 December 2019 represents a second total uninterrupted statutory audit engagement for that entity carried out by KPMG Audit OOD and a second total uninterrupted statutory audit engagement for that entity carried out by Baker Tilly Klitou and Partners OOD.

— We hereby confirm that the audit opinion expressed by us is consistent with the additional report, provided to the Bank's audit committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.

— We hereby confirm that we have not provided the prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act.

— We hereby confirm that in conducting the audit we have remained independent of the Bank.

— For the period to which our statutory audit refers, KPMG Audit OOD has provided to the Bank, in addition to the audit, the following services which have not been disclosed in the Bank's separate annual activity report or separate financial statements:

  - Audit of the special purpose financial information of Eurobank Bulgaria AD prepared as of and for the year ended 31 December 2019 in accordance with the accounting instructions of Eurobank Ergasias SA Group to the components subject to consolidation;

— For the period to which our statutory joint audit refers, a company from the Baker Tilly network provided permitted non-audit advisory services related to property portfolios of companies that are owned by the Bank's parent company- Eurobank Ergasias SA. These services have not been disclosed in the Bank's separate annual activity report or separate financial statements.

Sofia, 24 March 2020

For KPMG Audit OOD:

Ivan Andonov

Authorised representative

Ondrej Fikrle

Engagement partner

Sevdalina Dimova

Registered auditor, responsible for the audit

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Spyridon Gkroutis

Authorised representative

Galina Lokmadjieva

Registered auditor, responsible for the audit

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(All amounts are shown in BGN thousands unless otherwise stated)

SEPARATE ANNUAL ACTIVITY REPORT

The management presents the separate annual Activity report as of 31 December 2019.

BUSINESS DESCRIPTION

Eurobank Bulgaria AD (the Bank or Postbank) was incorporated and is domiciled in Bulgaria. The Bank is a joint stock company limited by shares and was set up in accordance with Bulgarian regulations. The Bank is a licenced credit institution and an investment intermediary providing retail, corporate and investment banking services in Bulgaria. Its Head Office is located in Sofia. The address of its registered office is as follows: 260 Okolovrasten pat Str, 1766 Sofia, Bulgaria.

The activities of the Bank are governed by the applicable legislation regulating the credit institutions and the investment intermediaries. Its principal regulators are Bulgarian National Bank (BNB) and the Financial Supervision Commission (FSC).

BUSINESS OVERVIEW

Macroeconomic Environment

The world economy left behind one of the worst years since the end of the financial crisis. Geopolitical tension, weak trade and investments added to a wave of natural disasters in various parts of the world and lowered the GDP growth rate from 3.7% in 2018 down to an estimated 2.9% in 2019. Fortunately, a more severe slowdown was avoided and by the end of the year there were already indications that the GDP prospects have been improving. The worst fears of a trade war between US and China have largely been avoided with the signing of “Phase one” deal between the two countries which helped deescalate the tension. The accommodative monetary policy and fiscal easing in some countries were also vital contributors for GDP support.

Prominent downside risks include the rising geopolitical tension in various parts of the world, further worsening of relations between United States and its trading partners and sharper-than-expected slowdown in the leading economies.

Furthermore, a major challenge for the international community is the recent coronavirus (Covid-19) outbreak, whose expansion worldwide is expected to cause a transitory negative impact in the global economy. The effects of the Covid-19 on the economic activity depend heavily on the range of its possible world expansion and the timing of its curbing. Countries worldwide, and Bulgaria among them, have already taken measures to contain the virus’ expansion (e.g. travel restrictions, quarantine measures), strengthen the health systems’ ability to deal with the outbreak and cushion the shock on both economic supply and demand via fiscal measures. In addition, certain Central Banks, including the US Fed, ECB, the Bank of England and many others have implemented measures of monetary accommodation. Conditional on the above, the baseline scenario is that the expansion of the virus globally and EU-wide will be contained and gradually slowed down (as is already the case in China) until the end of the first half of 2020. In such a case, the outbreak is expected to have a notable negative economic impact mainly on the first and, to a lesser extent on the second quarter of 2020. The European economies are expected to rebound in the second half of 2020. In the adverse scenario, however, a negative impact on certain industries of the global economy cannot be ruled out, such as a) lower tourism revenues, b) reductions in the demand for the manufacturing sector’s product, as a result of the slowdown in key markets and c) disruptions in the manufacturing sector’s supply chains. Continuation of the slowdown in economic activity could affect the non-performing exposures of the Bank and might put some pressure on the revenue side resulting from lower fees, commission and interest income. The Bank is continuously monitoring the developments on the Covid-19 front and has increased its level of readiness, so as to accommodate decisions, initiatives and policies to protect its capital and liquidity standing as well as the fulfilment, to the maximum possible degree, of its strategic and business plan for the quarters ahead.

(All amounts are shown in BGN thousands unless otherwise stated)

BUSINESS OVERVIEW (continued)

In the medium term the high debt levels of some countries pose a risk once the environment of low interest rates comes to an end.

In the beginning of 2019, the EU economy was performing relatively well but started losing momentum as the year progressed. In the last quarter of the year some of the biggest European economies such as France and Italy even were contracting on a quarterly basis, while the German economy rose by the modest 0.2%. Nevertheless, there are signs that the downturn is nearing its bottom and the prospects for the next year look mildly optimistic. The growth in the Eurozone in the next 2 years is projected to remain at the same level as in 2019 – 1.2%, while for the EU as a whole it will be slightly higher - 1.4%. The European economy is in a good position to overcome the challenges in the next years helped by the increase of the real income, the supportive fiscal and monetary policies and solid construction sector. In January 2020 UK finally left the European Union and although many issues remain unresolved at least there is clarity about the trading relations until the end of the current year.

The past year also showed a shift towards a more relaxed monetary policy. In the United States the rates were cut three times in the second half of 2019 while in the Eurozone, the ECB announced a new stimulus measures in September 2019. These included 10 bps cut to the deposit rate to -0.5% and a new open-ended quantitative easing program of €20m per month. In addition, ECB will continue to reinvest the principal payments from all maturing securities. Thus for the foreseeable future the monetary policy will remain supportive, however, this is unlikely to be enough to propel the growth to the desired levels in the absence of a stronger fiscal stimulus which in the current environment seems highly unlikely.

The Bulgarian economy continues with its steady growth and for a fifth consecutive year the real growth rate is in excess of 3%. GDP grew by 3.4% in 2019 according to the preliminary data by NSI, an improvement, compared to the 3.1% in 2018.

The economy continues to be driven mainly by the consumption – in 2019 it was up by 5.7% in real terms. The data about the investments showed that they grew modestly by 2.2% which was rather unexpected since the construction sector is booming and some large infrastructure project have commenced. The contribution of the external sector was negative – exports increased by 1.9% in real terms, while imports grew by 2.4%.

The trade deficit shrank by more than 50% in 2019 to 3.37 billion leva due to the lower import of oil reported by the national statistics. According to the data, Bulgaria cut its import of mineral oils by almost 2.9 billion leva, but this number is expected to be revised as there is a delay in the reporting of the imports due to a change of the methodology. The imports from third countries was down by almost 12% with imports from Russia accounting for four-fifths of the decrease. As a result, Russia was replaced by Turkey as the biggest importer in Bulgaria outside the EU countries. In the same time, the trade with the countries from the block was developing well – both the imports and the exports rose by 2.8%. Exports to countries outside the EU was affected by the decline in the export of mineral oils and ores, but this was compensated by the higher export of foods – 60% increase YoY to 2.1 billion leva. In total, Bulgaria exported 3.3% more in terms of volume in 2019 to 57.9 billion leva and imported 2.5% less to 61.3 billion leva.

Foreign direct investments rose by 17% YoY to €630m according to the preliminary data by BNB. The equity investments couldn't overcome the significant outflow caused by the sale of SG Expressbank to DSK in the beginning of the year and finished with an outflow of €400m. Reinvested profit was €81m, only a quarter of the level in 2018, but still a decent achievement, given the large dividends paid by the local subsidiaries of foreign multinationals in the second quarter of the year. The foreign debt received by the Bulgarian companies was €950m. The biggest net inflow of investments in 2019 came from Netherlands (€404m), followed by UK (€174m) and Luxembourg (€142m).

(All amounts are shown in BGN thousands unless otherwise stated)

BUSINESS OVERVIEW (continued)

For several years, the inflation was kept under control, but in 2019 a new 7-year record has been reached. The consumer price index rose to 3.8% in December on the back of the higher food prices and the service sector. Food prices jumped by 7% YoY as the African swine fever caused a 16% spike of the prices of meat, while the prices of fruits and vegetables were up by 11.3% and 6.6% respectively. Significant increases were also observed in the prices of entertainment (6.4%) and restaurants & hotels (5.4%) where the cause is largely attributed to the rising salary levels in the country. Only in communications, the prices were lower than in the previous year – by 3.1%.

The National Statistical Institute data shows that at the end of 2019 the unemployment rate has reached 4.1%, a new record low in the recent history of Bulgaria. Compared to the end of 2018, the number of unemployed fell by a tenth to fewer than 139 thousand people. Other records were also breached – the employment ratio in the age group 15-64 years is already at 70%, a 2.3 percentage points increase, compared with the previous year. The number of employed rose by 74 thousand to 3.22 million, reversing to some extent the negative trend from the last years. The unemployment rate is falling for every age group and although the youth unemployment (15-25 years of age) remains the highest, it is down to 9.1%, much better than the average for the EU countries. The number of the long-term (more

than 2 years) unemployed is also down by less than 4 thousand people. The only negative development that can be seen in the data is that the number of unemployed with basic or no education is increasing and they are now almost 45% of all registered unemployed. The northwestern part of the country still has the highest unemployment rate of 10.8%, while in the southwest (which includes Sofia) the unemployment rate is a mere 2.4%.

The average salaries continued to grow by double digit in most of the sectors of the economy. Overall, the increase was by 12% to 1,349 leva. The highest paid sector remains ITC with an average salary of 3,250 leva (11% YoY increase), while the finance sector is second with 2,307 leva (13% YoY increase).

For a first time in the last four years, the budget finished on a deficit – it was 1.15 billion leva (0.97% of GDP). It came from a deficit of 1.04 billion leva from the national budget and a deficit of 110 million leva from the European funds. The single most important factor for the deficit was the deal for acquiring new fighter planes for the Bulgarian Air Force. The price of around 2.1 billion leva was paid in one installment in August and not over several years as initially planned. Nevertheless, the budget was running on a surplus by December until the Government approved additional spending including almost 500 million leva for the construction of Hemus motorway.

The budget revenues exceeded the forecast by 0.4% and reached 26 billion leva. The tax revenues rose by 8.7% (1.9 billion leva) with more than half of the increase coming from the VAT (1 billion leva, 10.2% YoY). Another 350 million leva came from the personal income taxes (9.6% YoY) and some 230 million leva from the corporate taxes. Within the year, the Government spent 26.9 billion leva, around 1 billion leva less than budgeted. In contrast to previous years, when the biggest saving came from the capital expenditures, this year more than a third of the saving came from the current spending and only a quarter – from the capital expenditures.

Despite the budget deficit, the state debt decreased by €170m to €12.04bn. In 2019 the Government issued securities for 967 million leva and made payments on maturing debt of 920 million leva. As a share of GDP the debt is 19.9% as of December 2019. The government plans to balance the budget in 2020 and new debt will be issued only to cover the maturing one.
In November 2019 the rating agency S&P raised the credit rating of the country by one notch to BBB both in local and foreign currency. The positive perspective was kept. The other two major agencies – Moody’s and FITCH confirmed the rating of the country (at Baa2 and BBB respectively both for local and foreign currency), but raised the perspective from neutral to positive.

(All amounts are shown in BGN thousands unless otherwise stated)

BUSINESS OVERVIEW (continued)

Banking system

In many ways 2019 was a very good year for the Bulgarian banks. In terms of financial results the year was a repeat of the previous one, but in terms of new lending and deposit gathering several records have been broken.

With the economy booming, driven by the private consumption and the rising nominal and real income of the households, it is understandable that the demand for new loans remains high both in the retail and the wholesale segments. Total loans increased by 8.8% to 66.3 billion leva. In nominal terms the net increase was almost 5.4 billion leva which is the highest in the last 10 years and a tenth more than in 2018. Around 60% of the new lending was to businesses – loans to companies rose by 3.3 billion leva (8.4% YoY) to 42.1 billion leva. Lending to households was close to the level from the previous year – 2.1 billion leva increase (9.6% YoY) to 24.2 billion leva. Almost three-quarters of the new retail loans were taken for purchasing of residential real estate – a trend nurtured by the ongoing construction boom, the rising disposable income and the low interest rates.

Over the last year, the rate of the new mortgage loans in leva have fallen by another 0.25% to 3% - the lowest level seen in the recent history of the country. Similarly, the average lending rates of loans to companies fell below the 3% threshold, while only in the consumer lending segment the rates have kept their levels almost unchanged.

The deposit market broke several records last year. In nominal terms new deposits for almost 7.3 billion leva entered the banking system – by far the highest level in history. Both the deposits of nonfinancial companies and households grew by record rates – by 2.87 billion (11.4% YoY) and 4.2 billion (7.9% YoY) respectively. Total deposits reached 91.85 billion leva and the loans-to-deposits ratio remained unchanged at 72% keeping the pressure on the banks how to utilize the excess liquidity. The average rates declined by another 5 bps to 0.09% by the end of the year, while for the short-term deposits of companies in leva and euro they are already below 0.

The banks managed to squeeze some more savings from their interest expenses – they decreased by 11 million leva (3.8% YoY) to 286 million leva. BNB raised the charge on the excess reserves of the banks, mirroring the decision by ECB to reduce the interest rate on the deposit facility, and the banks didn’t have many options but to try to transfer part of the burden to the biggest depositors. The banks paid 53 million leva to BNB (up from 50.7 million in 2018) and managed to collect 17.8 million leva from the clients (up from 10.2 million leva in 2018) in the form of negative rates. Interest income fell by a quarter of a point (8 million leva) to 3.03 billion leva, however, the interest income on the loans contracted by 1.7% (46.5 million leva) as the competition continued to erode the margins. Net fees and commission income rose by close to 4% (41 million leva) to 1.1 billion leva, but this positive effect was neutralized by the decrease in other non-core sources of income in the absence of one-off effects booked by some banks in 2018. Nevertheless, total income for the last year was practically at the same level as in 2018 – 4.23 billion leva.

Total expenses were up by 4.2% (81 million leva) to 2 billion leva, but half of the increase is coming from higher provisioning costs to be used in the forthcoming restructurings of some banks. The cost-to-income ratio went up 1.8% pp. for the year, but is still at the respectable level of 47.2%. Impairment charges on loans were by 10% lower (47 million leva) than for the previous year. Net profit remained virtually unchanged – 1.68 billion leva. The profitability ratios declined to some extent, but remained solid – return on equity was 11.9% (around 0.8 pp decrease vs. 2018), while the return on assets was 1.5% (0.2 pp decrease vs. 2018).

The banking system did another significant step in putting the past behind and reduce the stock of nonperforming exposures. In terms of volume the NPEs contracted by 10% (670 million leva) to 6.1 billion. The NPE ratio improved by almost 2 pp. and fell below 10% for the first time post crisis – 9.23%

BUSINESS OVERVIEW (continued)

Banking system (continued)

at the end of the year. However, there is still much more to be done since there are further 3.5 billion leva NPEs overdue more than 180 days, but potential future losses are manageable given the solid coverage ratio of almost 60%.
Given the rising capital requirements, it was important for the banks to maintain their capital buffers. Despite the fact that some banks paid significant dividends to their shareholders, the capital adequacy ratio stood at 20.2% at the end of the year, while the CET 1 ratio improved by 5 bps to 19.04%.

Major Changes in The Regulatory Environment

In March 2019, BNB announced that it will increase the level of the countercyclical capital buffer rate, applicable to credit risk exposures in Bulgaria to 1.0% in effect from 1 April 2020. In December 2019, the Governing Council of BNB took another decision to increase the level of the countercyclical capital buffer applicable to credit risk exposures in Bulgaria to 1.5% in effect from 1 January 2021. BNB noted that the credit-to-GDP ratio corresponds to zero value of the reference indicators for the countercyclical buffer, but in the same time it wants to continue introducing measures to mitigate systemic risks and imbalances in the banking sector.
In May 2019 the Governing Council adopted a decision to apply from 1 January 2020 the Guidelines on disclosure of non-performing and forborne exposures (EBA/GL/2018/10) issued by the European Banking Authority on 17 December 2018.

On 19 March 2020 BNB announced that the increase of the countercyclical capital buffer levels planned for 2020 and 2021 are revoked in order to preserve the resilience and flexibility of the banking system and reduce the negative effects resulting from the restrictions in view of the Covid 19 pandemic.

In May 2019 the Governing Council adopted a decision to apply from 30 June 2019 of the Guidelines on management of non-performing and forborne exposures (EBA/GL/2018/06) issued by the European Banking Authority on 31 October 2018.
In 2019 the Bulgarian Parliament adopted changes in the Law on Credit Institutions, Law on the Bulgarian National Bank and the Law on the Recovery and Resolution of Credit Institutions and Investment Firms which will come into force from the day of enforcement of the ECB decision on close cooperation under Article 7 of Council Regulation (EU) No 1024/2013 of 15 October 2013.

Eurobank Bulgaria performance and key indicators

The past year was full of events and records for Eurobank Bulgaria. The Bank acquired the shares of Piraeus Bank Bulgaria (‘PBB’) on 12 June 2019 and in a record 5 months’ period by November managed also to complete the legal and the operational merger. Piraeus Bank Bulgaria complemented the already strong organic performance of Eurobank Bulgaria and by the end of the year the Bank became the third biggest in the country in terms of lending portfolio and deposits, with a market share of more than 10%. Net profit for the year was 213.7 million leva, an increase of more than 35%, compared to 2018, which helped improve the return on equity by more than 3 pp. to 15.78%, calculated as a ratio of the net profit over the average shareholder’s equity for the last twelve months. Return on assets increased by 0.3 pp to 2.3%, the highest among the peer banks.
Eurobank Bulgaria enjoyed a significant surge of its deposit base both from the merger as well as from new and existing clients. Total deposits from clients jumped by 39% to 9.44 billion leva, corresponding to a market share of 10.3% at the end of the year. The breakdown of the deposit base between retail and corporate clients remained unchanged. Retail deposits were 6.99 billion leva, while corporate deposits were 2.45 billion leva. The liquidity buffers expanded in line with the liquid funds remaining at almost

BUSINESS OVERVIEW (continued)

Eurobank Bulgaria performance and key indicators (continued)

40% of the client deposit base. The net loans to deposits ratio stood at the comfortable 75%, ensuring that the bank has plenty of resources to be employed in the form of new lending or other interest earning assets. Eurobank Bulgaria continues to be exclusively funded by deposits which constitute more than 99% of all attracted funds. Average rates declined by another 4 bps throughout the year to just 0.08%.
Gross loans grew by a third for a year, reaching 7.42 billion leva, or 11.2% of the market. In nominal terms, the net increase was more than 1.8 billion leva, of which around 30% were organic growth and the rest - acquired portfolio from Piraeus Bank Bulgaria. Corporate loans were the biggest beneficiary – their volume expanded by a half to 3.53 billion leva. Consumer loans rose by 30% to 1.03 billion leva, while the mortgage loans by 20% to just short of 2.1 billion leva. Compared with the other segments, the loans to small businesses rose modestly by 8.6% (60 million leva) to 760 million leva, but almost entirely due to organic growth.
Interest income rose by 8% (24 million leva) to 347 million leva with the vast majority of the increase coming from the lending to clients and the placements with banks. Despite the massive increase in the deposit volume, the Bank managed to realize some more savings from the interest expenses which declined by 6% to 10.9 million leva. In nominal terms the saving equaled just 0.6 million leva, while the increase in the net interest income is 25 million leva reaching 336.5 million for the full year. Net interest margin continued its decline to a level of 3.7% as of year end as a result of the strong market pressure.
In a low interest rates' environment, the remaining sources of income are gaining importance. The net fees and commission income rose by 13% YoY (11.1 million leva) with more than half of the increase coming from sale of services and accounts maintenance. Total operating income reached 515.7 million leva, where around two-thirds of the 116 million leva yearly increase is due to the one-off bargain gain from PBB acquisition.
The acquisition and subsequent merger with PBB is also the main reason for the 54 million (38% YoY) increase of the expenses. Practically all expense items are higher, but the biggest contributors are restructuring and staff costs which made up over 90% of the increase. The cost-to-income ratio rose by 2.4 pp. to 38.5% almost unrivaled among the peer institutions. Expected credit losses in nominal terms were only slightly higher (2.7 million leva or 4% YoY), while the corresponding cost-of-risk ratio, measured as a ratio of the impairment losses charge over the average net loans, improved from 1.3% to 1.1%.
The nonperforming exposures (NPE) ratio contracted by 4 pp to 8% at the end of the year, almost 1 pp better than the market. The NPE coverage ratio is 1.2 pp lower than 2018, because of the 132 million leva written off loans in 2019 and the recognition of the acquired PBB NPEs at fair value, i.e. with nil ECL coverage. The total capital adequacy and the CET1 ratios declined to 16.82% as Postbank's capital base had to cover for the substantially increased risk-weighted assets after the merger.

Events after the balance sheet date

On 20.03.2020 a demerger of Eurobank Ergasias S.A. was approved through sector's hive down and establishment of a new company-credit institution under the corporate name Eurobank S.A, which has been registered on the same day in the General Commercial Registry.

As result of the Demerger:
a) Eurobank Ergasias S.A. became the shareholder of the new company Eurobank S.A. by acquiring all its issued shares, and
b) Eurobank S.A. substituted Eurobank Ergasias S.A., by way of universal succession, to all the transferred assets and liabilities, as set out in the transformation balance sheet of the hived down sector.
Following the completion of the Demerger, Eurobank Ergasias S.A. will cease to be a credit institution and maintains activities and assets and liabilities that are not related to main banking activities.

(All amounts are shown in BGN thousands unless otherwise stated)

BUSINESS OVERVIEW (continued)

Events after the balance sheet date (continued)

ERB Leasing Bulgaria merger wthin the Bank took place on 04 February 2020 after the receipt of the respective regulatory approvals. The leasing business of the company will continue within the operations of the Bank.
In light of the recent coronavirus outbreak coupled with increased economic uncertainty, the Bank monitors closely the developments in the Bulgarian and global macroeconomic environment taking proactive measures to prepare for various scenarios and ensure that the Bank remains resilient.

RISK MANAGEMENT

The Bank considers risk taking as an integral part of its activities for achieving its strategic and business objectives. Risk taking is core to the financial business, and the operational risks are inevitable consequences. Therefore, timely and effective risk management is a key priority of the Bank's management.

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of a combination of risks. The risk management policies reflect the Bank's objectives. It is therefore not intended that large risk positions are maintained to increase short-term profitability. The Bank's intent is to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

A consistent and effective framework for risk identification, assessment, monitoring and control has been fully documented by the Bank's Risk Management unit, forming the basis for consistent definition of strategies, policies and procedures across all risk taking units within the Bank. The Bank's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

The Supervisory Board of the Bank (SB) has delegated to the Risk Committee the role of approving all strategic risk management decisions. The Risk Committee is in charge of monitoring the quantitative and qualitative aspects of all credit, market, liquidity and operational risks. It is currently complemented by the Risk function. In addition, Internal Audit is responsible for the independent review of risk management and the control environment.

The Bank's risk management function is capturing all material risk sources across all portfolios and operations. Management is responsible for developing and maintaining processes and systems to ensure effective and efficient operations, adequate control of risks, prudent conduct of business, accurate disclosures both internally and externally, and compliance with internal and external rules.

The Bank's risk measurement, monitoring, and control functions have clearly defined responsibilities that are sufficiently independent from position/risk taking functions. The Bank's internal control systems are designed to provide adequate segregation of duties, in order to prevent conflicts of interest with respect to the distinct functions of undertaking, approving, monitoring and controlling risks.

The Risk Management Unit has an active participation in the development and pricing of new products, the design of new procedures, in issues relating to business decision-making and to adopting the proper risk management and control mechanisms. The Bank ensures that proper identification of risks inherent in new products and activities is undertaken and that these are subject to adequate procedures and controls before being introduced or undertaken.

The Bank manages with higher priority the following major types of banking risks arising from its activities – credit risk, market risk, liquidity risk and operational risk.

(All amounts are shown in BGN thousands unless otherwise stated)

RISK MANAGEMENT (continued)

Credit Risk

Credit risk is the risk related to the inability or unwillingness of a customer or a counterparty to fully meet the commitments made to the Bank in relation to lending, trading, settlement, hedging or other transactions within the agreed time period or schedule.

Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments, and counterparty risk in over-the-counter derivative transactions.

The Bank uses rating systems and slotting methodology to assess the creditworthiness of its corporate borrowers. The rating systems aggregate quantitative and qualitative information on individual obligors to perform the assessment of their creditworthiness and determine the credit rating for the obligor. The Bank assesses the credit quality of the wholesale loans on a case-by-case basis using the borrower's credit rating and based on a profound analysis of a set of qualitative and quantitative factors. The classification of retail clients is based on the full delinquency analysis by groups. The grouping is based on the common characteristics of the respective products, the similar risks they bear and the type of collateral that secures them.

Exposures to credit risk are managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing the lending limits where appropriate. The exposure to any borrower is restricted by limits covering on- and/or off- balance sheet. Off-balance sheet facilities to customers include foreign exchange and interest rate derivatives, letters of credit, letters of guarantee and other financial instruments.

In compliance with its risk strategy, the Bank targets to maintain a low level of credit risk concentration by industries and at a customer level.

The Bank makes assessment of the risk exposure, evolving from the loan portfolio by classifying and provisioning loans in compliance with the requirements of the IFRS framework and Impairment Policy applied on a monthly basis. The impairment provisions reflect the probability that management will not be able to enforce its rights and repossess collateral on defaulted loans.

Market risk

The Bank is exposed to market risk, which is the risk of potential financial loss due to adverse changes in market variables such as interest rates, equity prices or foreign exchange rates. The fair value or future cash flows of a financial instrument may fluctuate because of changes in market variables and thus may influence the Bank's profitability.

The corporate governance with respect to market risk control and supervision is defined in the Bank's Market and Counterparty Risk Policy. It is further supported by procedures which set out the detailed standards and requirements necessary to implement the Policy. The Policy and procedures apply to the control of market risks, arising on all of the Bank's assets, liabilities and off-balance sheet positions, therefore covering both Treasury and non-Treasury activities that run market risk.

The market risk control and supervision framework set by the Bank aims to protect the Bank against unforeseen market losses and contribute to earnings stability through the independent identification, assessment and understanding of the market risks inherent in the business as well as to develop objective, transparent and consistent market risk information as a basis for sound decision making.

The Market Risk Control function helps to align the Bank's organizational structure and management processes with best international banking practice and set standards for controlling market risks and to link business strategy and operations with the objectives for risk control and supervision.

(All amounts are shown in BGN thousands unless otherwise stated)

RISK MANAGEMENT (continued)

Market risk (continued)

The Bank's market risk appetite is expressed in terms of nominal limits set on the exposures to market risks as well as through characteristics such as different types of allowed markets, products, countries, counterparties and currencies. Currently market risk measurement is done using notional exposure data and notional level limits, supported by regular stress testing. The Bank is not using VaR-based limits.

Upon senior management decision in the future the Bank may introduce additional value-at-risk analysis.

The market risk measurement system measures risk arising from exposure to the following specific market risk factors:

a) Interest Rate Risk

Banking is related to maintenance of positions sensitive to the fluctuations in the prevailing levels of market interest rates, which influences the Bank's financial position and cash flow dynamics. Interest rate risk is the probability for potential change of the net interest margin which may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements arise. Interest rate risk may include re-pricing risk, yield curve risk, basis risk, spread risk, option risk, volatility risk. The Management reviews the interest rate gaps, the interest rate mismatch and the necessary re-pricing on a monthly basis.

b) Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The major part of the Bank's FX position is against EUR, while the BGN/EUR currency rate remains pegged at 1.95583 as part of the Currency Board Arrangements. The management sets limits on the open positions in individual currencies as well as on the aggregate open positions for both overnight and intra-day positions, and these limits are monitored on a daily basis.

c) Equity price risk

Equity price risk is the risk of decrease of the fair values as a result of changes in the levels of equity indices and the value of individual stocks. It may include outright risk, volatility risk, spread risk and dividend risk.

Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

The Bank has a limited appetite for liquidity risk and accepts the potentially increased costs of maintaining sufficient liquidity buffers to ensure a sound liquidity position.

The Bank maintains appropriate liquidity policies which have to ensure prudent liquidity management practices are in place. Within its liquidity risk management framework, the Bank observes various liquidity ratios and indicators. The main aspects to be considered in liquidity control are liquidity ratios, the availability of sufficient and high quality liquid assets and buffers, maturity mismatch profile, diversity and stability of the deposit base, loans to deposits ratio, stress test results and other.

The Bank also makes assessment of its liquidity position under stress scenarios, developed to analyse the adequacy of the Bank's liquidity to withstand crisis situations (e.g. significant deposit outflows, tightening of credit lines, etc.).

(All amounts are shown in BGN thousands unless otherwise stated)

RISK MANAGEMENT (continued)

Liquidity risk (continued)

The Management Board (MB) of the Bank assigns the Assets and Liabilities Committee (ALCO) as the primary responsible body to advise on the strategic management of assets and liabilities with aim to manage the interest rate and liquidity risks of the Bank. On a strategic level ALCO manages the Bank's assets and liabilities to ensure regular and timely meeting of current and future obligations.

Within its authority is to take all the necessary decisions regarding the interest rate policy, the liquidity and assets and liabilities management and to set the target parameters of potential external funding. The operational management of the Bank's liquidity and the execution of ALCO decisions regarding liquidity are assigned to the Head of Capital Markets Division.

Market Risk Department is responsible to regularly produce and distribute the internally adopted liquidity gap reports with embedded liquidity ratios and is the unit that exercises an independent liquidity risk control function, escalating any breaches of limits to the respective management bodies.

IMPORTANT EVENTS DURING THE FINANCIAL YEAR

Postbank, legally named Eurobank Bulgaria AD, is the fourth largest bank in Bulgaria with a broad branch network throughout the country and a significant client base of citizens, companies and institutions. The Bank has a nearly 30-year presence among the leaders in the banking market in Bulgaria. It has been a leading factor in innovation and trends in the banking sector in the country in the recent years and has been awarded many times for its innovations. The financial institution holds a strategic place in retail and corporate banking in Bulgaria.
On 13 June 2019 the acquisition of Piraeus Bank Bulgaria A.D. by Eurobank Bulgaria A.D. was completed with the acquisition of 99.9819% of PBB shares all of which with voting rights, after the respective regulatory approvals were obtained as follows - the Governing Council of the Bulgarian National Bank on 28 March 2019, the Commission for Protection of Competition on 9 May 2019 and HFSF on 12 June 2019. This is a key event in the Eurobank Bulgaria strategy to expand and further strengthen its position in the Bulgarian banking sector.

In November 2019, Postbank successfully completed the merger of Piraeus Bank Bulgaria, which is another step in consolidating its position as a systemic bank, expanding its client base and developing its team. The operational merge was done for the record time of five months. As a result of the merge, Postbank acquired a market share of more than 10% in terms of assets, loans and deposits. The united bank has an even wider branch network of more than 200 branches across the country and continues to offer innovative products and services, high quality of client services and flexible financial solutions for individual and business customers.

For the successful completion of the merger with Piraeus Bank Bulgaria, winning the shareholders' trust and the proven ability to lead a team, Petia Dimitrova, Postbank's CEO and Chairperson of the Management Board of Postbank, was honored with the special *Banker of the Year 2019* Award in the 27th edition of *Bank of the Year* awards, organized by the *Bank of the Year* Association. While the Bank was honored with the *Transaction of the Year* Award.

As a leading employer, which evaluates its success through the satisfaction of its employees, Postbank has always strived to develop the skills of its team members and to provide an environment for unlocking their potential. Due to its active policy in this direction, in early February 2020 Postbank received two golden awards, from the annual Employer branding awards organized by b2b Media, for its 2019 overall project aimed at the development and

IMPORTANT EVENTS DURING THE FINANCIAL YEAR (continued)

motivation of the company's employees, as well as for its innovative approach to talent management. The focus of the Bank in this direction are activities for optimization of the working environment, continuing professional development and training, involvement of employees in corporate social responsibility projects with high added value for the society.

The Bank also received a prize for Leadership in the Banking Sector, Technology Development and Human Resources from the 5th annual Company of the Year Awards, organized by Bulgaria Business Review Group. They distinguish the best companies in different industries by publicizing their achievements and focusing public attention on their innovative and successful management models.

The Bank is one of the leaders in the market of credit and debit cards, mortgage and consumer lending, savings products, as well as in terms of products for corporate clients - from small companies to large international companies with presence in the country. The financial institution has one of the most well-developed branch networks and modern alternative banking channels, paying special attention to the quality of customer service.

In June 2019, the Bulgarian Credit Rating Agency (BACR) confirmed the long-term credit rating BBB-, a stable outlook.

In 2019, in order to meet the expectations of modern consumers, the Bank expanded its Momento's innovative consumer lending brand and opened five new centers. The modern sites, in accordance with the brand concept, are situated again at the top locations in some of the most visited shopping areas in Burgas, Varna, Plovdiv and Sofia. These locations work every day with extended working hours. The innovative brand received the *Favorite Brand Award for Bulgarians* in the *Financial Institutions* category on the 11th edition of the ranking, based solely on consumer attitudes.

In 2019, Postbank opened three pilot new generation digital offices, launching a process of complete transformation of its even wider branch network. The new offices concept is consistent with the Bank’s intention to provide excellent consumer experience as it combines self-service areas in which the customers can carry out various operations quickly and easily, and a more open, comfortable and modern interior.

At the end of 2019, Postbank received a prestigious international award for providing an *Excellence in Customer Centricity or Customer experience*. The Bank is among the winners in the 12 categories of the contest *The Retail Banking: Europe 2019 Awards*, organized by Europe's leading retail banking magazine Retail Banker International. Other contestants and winners include the names of some of Europe's largest, most stable and well-established banks - Santander, Dankse Bank, Nordea, BBVA, Raiffeisen bank, OTP. Postbank's recognition is for its high results and optimization of work thanks to the innovative way of verifying payment documents with a digital signature. As a modern bank, operating with respect for environmental protection and its clients, the financial institution is among the first on the Bulgarian market, which introduces the signing of digital signature documents throughout its branch network.

For second year in a row, Postbank has been recognized as the *Best in retail banking* in Bulgaria. The award is from the prestigious World Finance Banking Awards 2019, organized by World Finance Magazine, an authoritative publication that monitors and analyzes the financial industry, international business and economy. The recognition is for Postbank's innovative and sustainable retail banking model, its advanced products and services, its extensive branch network across the country, alternative channels of communication and the numerous opportunities for professional financial advice from its experts.

IMPORTANT EVENTS DURING THE FINANCIAL YEAR (continued)

The world leader in payment services Western Union honors Postbank with the Special Award for Sustainable Business Growth 2018. The Bank was honored for the development of payment services in the country among all financial institutions with which Western Union partners in Bulgaria. The award is given for the professional approach, knowledge, hard work and overall contribution of Postbank to business development in Bulgaria, according to Western Union Regional Business Team Bulgaria.

For the eighth consecutive year, Postbank has been named the top trustee in Bulgaria by Global Custodian Magazine, the world's most prestigious trust services magazine, known for its annual surveys, which are considered a benchmark for the sector. The Bank again has the highest numerical ratings in all categories.

It was the fifth time Postbank received high honors from European Bank for Reconstruction and Development (EBRD) - Award for Most Active Bank in Bulgaria in Trade Financing 2018 (Most Active Issuing Bank and Trade Finance for 2018). The prize was presented at an official ceremony held in Sarajevo, Bosnia and Herzegovina. The Bank achieved a total volume of transactions under the program, amounting to over EUR 17 million. With the help of the EBRD's Trade Finance Program, the institution actively supports foreign trade activities of Bulgarian companies by providing them a full range of products that minimize the risks as well as provide opportunities to develop foreign markets. Postbank traditionally reports excellent results in the factoring services and for a consecutive year it is a leader in the factoring market in Bulgaria - with over 45% market share of the total volume of factoring business and 60% share of export factoring.

Postbank was also the only financial institution - a finalist from Bulgaria, in the 12th edition of the International Business Best Practices and Excellence Competition - European Business Awards, created to highlight best practices and promote innovation and entrepreneurship spirit among the business community in Europe.

In 2019, the financial institution, which has traditionally been a leading partner of the business in the country, supported the unique *Dare to Scale* pilot growth program - the first of its kind in Bulgaria aimed at businesses with a potential for extensive growth. Ten native companies were selected in the project of the Bulgarian office of the global network Endeavor. Selected entrepreneurs underwent training and interactive sessions led by successful practitioners and leaders from the Endeavor network, including the well-known serial entrepreneur Vasil Terziev, Chairman of the Board of Endeavor Bulgaria and co-founder of Telerik, Telerik Academy; Svetozar Georgiev, the Incobator Campus X; Rumyana Ivanova, Head of the Small Business Banking Division at Postbank, as well as many others. The training covered the main areas that every successful company needs - organization management, marketing, sales, financial planning and raising capital.

The *Dare to Scale* growth program will continue in the upcoming years to encourage the growth of even more new local businesses.

By participating in the *Dare to Scale* program, Postbank is actively contributing to the development of both promising scale-up companies and the business environment in our country. This is another expression of its strong intent to foster bold ideas, support innovation

IMPORTANT EVENTS DURING THE FINANCIAL YEAR (continued)

and competitiveness for businesses and the economy. *Endeavor's Dare to Scale program*, with Postbank being a main parner, is the winner of the CESAwards Bulgaria 2019 prestigious *Best Accelerator Program* category.
During the year, Postbank continued to organize a series of specialized conferences in support of business in the country, entitled "Postbank Meets the Business". More than 300 entrepreneurs and representatives of small and medium-sized enterprises participated in the event, which took place in 2019 in Sofia. In an open discussion the Bank representatives consulted the participants in the meeting on the processes of corporate funding and advised them on the successful implementation of investment projects.
In 2019, the financial institution was the major partner of a series of business breakfasts, part of the Imoti.net Annual Awards project. During the meetings with representatives of the real estate business, the Bank experts discussed the market trends and being leaders in the lending sector, presented their analysis of the market, the profile of consumers and the most current conditions for mortgage loans by Postbank.
For the fifth consecutive year in 2019, the Bank supported the national contest of the 24 Chasa Daily – The Big Small, because it attaches great importance to the development of small businesses.
Postbank supported the initiative of the CAUSE Foundation, Entrepreneurship Exchange 2019, as part of its focused efforts to develop the entrepreneurial ecosystem in our country. A record number of participants from all over the country - 40, participated in this edition of the event, which is establishing itself as a working platform for a meeting between entrepreneurs and potential investors.

Through its partnership with Eurobank Private Bank Luxembourg and its 100% specialized and highly customized private banking services, Postbank continues to develop its modern Private Banking Center. The Bank's clients can benefit from a range of investment services in trust management, asset management and business consulting.

NEW PRODUCTS

Postbank introduced more innovative products and services in 2019, focusing on offering convenience and added value benefits to customers.

EVA Postbank is the first mobile banking application in Bulgaria with a live chat feature, created specifically for the acquisition of Piraeus Bank Bulgaria, for the benefit of both Piraeus Bank clients and current Postbank clients in the process of acquisition. The modern interactive application, with no analogue on the market, is part of Postbank's strategy to improve and upgrade the digital solutions it offers. It is crucial for the Bank to provide convenient ways of servicing its customers, tailored to their dynamic daily lives and their needs at all times, wherever they are. EVA Postbank is a virtual advisor which can assist with answers to the most common questions about the use of products and services provided by the Bank, questions regarding the merger of the two banks, location of the nearest offices and ATMs and many others. For more information and further advice, EVA Postbank directs customers to contact an expert from the Bank via the live chat feature.

(All amounts are shown in BGN thousands unless otherwise stated)

NEW PRODUCTS (continued)

In 2019, Postbank launched an innovative mobile service on the market that saves time and costs for consumers and employers. This is a special place, which is located upon request in the business centers and malls, and provides an easy opportunity for free expert consultation on various financial products and current offers. Among the strongest advantages of the service, besides saving time and the convenience of the Bank to "visit" in your office, is the possibility for the client to receive an individually flexible solution for his needs.
After an in-depth study of consumer attitudes, in May 2019 the Bank entered into a new strategic partnership with ClaimCompass, a Bulgarian technology company that professionally protects passengers' rights in the event of problems with their flights.

The Bank credit cardholders may benefit the innovative service, which is the only one offered in the market. They are also offered an exclusive opportunity - to request a follow-up flight and in case of a problem, ClaimCompass contacts the customer and informs them of the next steps to file a claim and receive compensation.

Postbank offers targeted consumer credit for business training worldwide, with no analogue on the market in our country. It can finance fees under various programs such as Master of Business Administration, Executive Master of Business Administration, Advanced Management and more. The new product was created in response to the growing interest in financing trainings that pave the way for career growth and development registered by the Bank in recent years.

In 2019, Postbank continued to offer its modern and convenient Mobile Bankers service. The service is a free professional consultation, with experts providing solutions tailored to the client's specific needs and assisting in completing the necessary documents and entering a bank branch. Mobile bankers answer all questions related to consumer and mortgage loans, overdrafts and credit cards, at a convenient and pre-ordered time and in a place preferred by the customer.

Postbank has continued its partnership with Booking.com, the world's leading provider of accommodation, with all Postbank Mastercard and Visa credit card holders receiving an additional 3% discount on each booking through the Bank's Booking.com website in Bulgaria or abroad.

The Bank continued to offer its clients the More Today lending program, with which the customers can increase their income by up to 50%. It includes a wide range of credit products, allowing customers to quickly and easily consolidate their credit card, consumer or mortgage loans up to 100,000 BGN. In addition to better personal finance management, the program allows users to save time by paying one higher payment to one bank on a specific date.

Postbank has shown growing interest in home loans. The increase in property purchases has contributed to an increase in home loan applications compared to the same period last year. Demand for larger properties continues - mainly for three-bedroom homes with an area of more than 90 square meters. The greatest interest is in monolithic homes, new construction in big cities. There was also an increase in the sale price of the properties, an increase of 7.53% in the average price per square meter of financed residential real estate in Sofia according to Postbank data. This trend, as well as the interest in buying larger-sized residential properties, lead to an increase in the average size of the requested mortgage loan, which according to the financial institution has increased by 10% compared to the same period in 2018.

(All amounts are shown in BGN thousands unless otherwise stated)

SUSTAINABLE DEVELOPMENT

In addition to its core business, Postbank continued to focus on the needs of the local community, supporting programs and initiatives in conjunction with established institutions and organizations. The Bank strives to educate both its employees and consumers and the public in a responsible attitude to everything that surrounds us. It aims not only to create competitive advantages by incorporating increasing added value into the products it offers, but also to reduce its negative impact on the environment by using every opportunity to contribute to nature conservation.

In 2019, the Bank implemented a number of socially significant projects in the fields of education, environmental protection, sports and corporate donation. Postbank is an active member and works in support of KRIB, AmCham, HBCB, Association of Banks in Bulgaria, Borika AD, Endeavor Bulgaria Association, Bulgarian Business Leaders Forum, Bulgarian Donation Forum, Atanas Burov Foundation, the Bulgarian Network of the UN Global Compact, the Bulgarian Advertisers Association and the Bulgarian Fintech Association.

The education of children and young people in Bulgaria has always been part of the developed and supported by Postbank Corporate Social Responsibility projects. That is why the Bank continues to develop its joint project with SoftUni in support of Bulgarian education, which started in 2018. It includes various activities for the preparation of young people for the professions of the future and realization in Bulgaria. Through a strategic partnership, the two organizations aim to encourage students to develop their potential as IT and digital leaders, prepared for the rapidly changing environment and emerging banking trends. Postbank provided 10 scholarships for training at SoftUni. They were for the winners of the first issue of the game BRAIN GAMES, which took place in July and August on the financial institution's Facebook page in two directions - programming and design. BRAIN GAMES is a game for "smart" and "creative" personalities.

More than 400 students and students from all over Bulgaria with 36 projects participated in the contested SoftUniada 2019 race, organized by the Software University for the fourth consecutive year. Postbank participated with its representatives in the evaluation of competitive bids. The special prize of the Bank was awarded to Kiril Vasilev from Plovdiv, who competes in the category "Software projects" for young people over 16. He won with his development for the application program "Plovdiv 2019 - Volunteers", created especially for the initiative "Plovdiv - European Capital of Culture 2019”, which brings together over 360 projects with nearly 500 events.

A team of three young programmers won the Postbank Grand Prix from the one-of-a-kind SoftUni Fest competition organized by Software University (SoftUni). They were working on an assignment for a software solution for monitoring the physical activity of the user, which can be integrated with some of the well-known mobile applications.

For a third consecutive year, Postbank executives took part in European Money Week. The joint initiative of the European Banking Federation, part of which is the Association of Banks in Bulgaria and other national banking associations, aims to improve the level of financial education of students in primary and secondary schools in Europe. More than 25 open lessons in more than 10 cities in the country were organized by Postbank employees as part of the initiative. They presented to students between 3rd and 12th grade interesting points in the history of money and focused on ways to save, various banking products and the most common cybercrimes.

(All amounts are shown in BGN thousands unless otherwise stated)

SUSTAINABLE DEVELOPMENT (continued)

Postbank supported the Gallery of Success conference, organized by the Business Club of the American University in Bulgaria - an organization that brings together students of different nationalities who want to broaden their horizons and improve their professional skills.

Postbank also joined this year in the socially responsible initiative of the UN Global Compact Network Bulgaria called Proud of my Parents' Work. The campaign aims to help children in their future career guidance, teaching them that work and education are leading values, and qualities and skills are at the heart of successful personal fulfillment. A total of 120 children between the ages 7 to 12 visited the headquarters of the Bank.
In 2019, the financial institution once again supported the National Trade and Banking High School in Sofia, committing itself to become a mentor to one of the training banks. The young bankers at Postbank Next participated in the XX Fair on Integrative Practical Training. The team won the prestigious Corporate Governance Award in a competition between 56 NTBG training companies - 20 banks, 30 companies and 6 insurance companies.

Within its traditional internship program, which is already year-round, Postbank once again enabled talented students and young people with the motivation to prove their skills and start their professional careers in one of the biggest and leading innovations banks in the market. The internship program has been part of Postbank's Corporate Social Responsibility Policy in support of young people for over 12 years. To promote its internship program, in 2019 the Bank also created a series of videos about the personal success story of people from the team who started working at the Bank as interns and reached management positions, as well as stories of current interns in the financial institution.
Postbank also joined the largest career event for qualified people - Career Show 2019.

For another year, Postbank supported the conference of Bulgaria ON AIR and Bloomberg TV Bulgaria - Education and Business. The international forum brings together representatives of leading companies that work every day for young people’s development.

For a consecutive year, Postbank, as a member of the Association of Banks in Bulgaria (ABB), has been involved in a European campaign to combat financial mules.

In 2019, Postbank joined a charity initiative to donate medical equipment to support the treatment of premature infants, valued at over BGN 50,000, to six hospitals in the country. The Children's Day donation campaign was organized by ABB and Premature Children Foundation with the participation of ABB members.

In June, Postbank was once again a major partner of the charity relay run Postbank Business Run, organized annually by the Begach Club. It featured a record number of participants - 306 teams from 119 companies from different sectors competing in support of two causes. Funds raised - over than BGN 11,000 will be donated as 12 scholarships as a part of “Continue Program” of the National Foster Care Association and the BCause Foundation supporting students in foster care to continue their successful performance in school and to the Water Way Foundation project to provide water rehabilitation for children with disabilities. Once again in 2019 the largest regional business competition Business Run was held, with Postbank again among the partners, this time in Varna and Plovdiv.

(All amounts are shown in BGN thousands unless otherwise stated)

SUSTAINABLE DEVELOPMENT (continued)

A team from Postbank joined the Run2gether Bulgaria Charity Run for the second consecutive year in Sofia.

Representatives of the Bank joined as volunteering judges the Republican Championship of Road Safety and Applied Cycling for Children. It was attended by 10 teams from Sofia, Berkovitsa, Silistra, Chelopech, Etropole and Parvomay. The financial institution awarded the winners of the race.

Postbank is the only bank in Bulgaria which has a Green Board and an Environmental Office Unit within its organizational structure that works to protect the environment, both in terms of limiting the resources used by the Bank and in terms of its financing activities. In addition, members of the board organize various outdoor initiatives involving other employees.

Postbank Volunteers planted 500 trees as part of the company's Green Together environmental program and its sustainable environmental policy. More than 70 employees participated in the action to create the New Forest of Sofia.

In July 2019, volunteers from Postbank completely transformed a trail in Zlatni Mostove (Golden Bridges) area on Vitosha Mountain jointly with the team of the Nature Park and Vanja and Evgeniya Džaferović, who appreciated the cause and actively participated in it. The Outdoor Green Stories initiative is part of the company's sustainable environmental policy, which shows how, with a concerted effort, we can change the environment around us for the better.

With a cycling tour ended the final of the initiative of the UN Global Compact Network Bulgaria "Turning the Wheels for More Air", which is carried out with the support of Postbank.

The cycle of the events focused public attention on important issues such as damage from air pollution and good environmental practices.

Postbank won first place in the Eco Employer category of the Career Show 2019 Awards, in which a jury evaluated the best practices of companies. The Bank was honored for its overall corporate social responsibility with a focus on the environment.

The employees of Postbank are also regular donors to the National Center for Transfusion Hematology and participate in blood donation events organized and held at the Head Office of the company.

Throughout the year, the Bank continued its long-standing support and work with disadvantaged groups and the promotion of their active role in society. Support was provided to disadvantaged children in the town of Kazanlak, the elderly in the city of Ruse, the national Easter campaign for everyone - Give a Gift to Grandparents, as well as many other smaller initiatives throughout the year.

(All amounts are shown in BGN thousands unless otherwise stated)

AWARDS:

- Prestigious International Award for Delivering Excellent Customer Experience in Banking in the Excellence in Customer Centricity / Customer experience category of the European Business Competition - The Retail Banking: Europe 2019 Awards, organized by the leading retail banking magazine Retail Banker International
- Award for the eighth consecutive year for Best Bank in the provision of custodian services by Global Custodian Magazine - the prestigious global edition of Capital Markets, Asset Management and Investment
- Postbank received high honors for the fifth time from the European Bank for Reconstruction and Development (EBRD) - the award for “Most Active Bank in Bulgaria in Trade Financing for 2018”
- For second year in a row, Postbank grabbed the Best Retail Banking in Bulgaria Award from the prestigious World Finance Banking Awards 2019 organized by World Finance Magazine
- Endeavor's Dare to Scale Growth Program, with Postbank's main partner, is the winner in the prestigious Best Accelerator Program category of the 2019 CESAwards Bulgaria, organized by the Association of Bulgarian Leaders and Entrepreneurs (ABLE)
- Special Award for Sustainable Business Growth 2018 by the world leader in international money transfer Western Union
- Deal of the Year Award from the 27th edition of the Bank of the Year Contest
- Special Award for Contribution to the Bulgarian Economy from the Economic Magazine, which honors top companies from different sectors on the occasion of its 30th anniversary
- Petia Dimitrova, Postbank's CEO and Chairperson of the Management Board of Postbank, was honored with the Special Banker of the Year 2019 Award for the successful completion of the merge with Piraeus Bank Bulgaria, the gained shareholders’ confidence and the proven ability to lead a team
- Dimitar Shoumarov, Executive Director and Chief Financial Officer of Postbank, wins the Atanas Burov Award 2019 for bank management
- Employer of the Year Award for the second consecutive year at the prestigious Employer Branding Awards in Bulgaria, organized by b2b Media
- Two first prizes in the Innovation in Talent Management category and the Employer branding project category at the authoritative Employer Branding Awards organized by b2b Media in January 2020.
- Bronze in the Services category for the EVA Chatbot - Small Innovation with a Big Bet campaign, which promotes the first EVA Postbank bank chat, at the Effie Awards 2019
- First prize in the Innovative Company of the Year category of the fifth edition of the b2b Media Annual Awards 2019 for overall digital transformation strategy
- Award for "Leadership in the Banking Sector, Technology Development and Human Resources" from the 5th Annual Company of the Year Awards, organized by the Bulgaria Business Review Group
- Postbank Momento's innovative brand received the Favorite Brand Award of Bulgarians in the Financial Institutions category from the 11th edition of the Consumer Rankings
- Awarded by 2019 BAPRA Bright Awards for the Digital & Successful Together Employer Branding Campaign
- EVA - Our Best Employee, New Service Award from the prestigious BAPRA Bright Awards 2019
- Award in the category "Internal Communication Department of the Year" from the PR Prize 2019 for the project "Digital & Successful Together"

(All amounts are shown in BGN thousands unless otherwise stated)

AWARDS (continued)

- Award in the category "Employer Branding Communication Campaign" from the PR Prize 2019 for the Digital & Successful Together project
- First prize in the category "Business Educational Orientation Project" from the fifth edition of the b2b Media Annual Awards 2019 competition for the strategic long-term cooperation with SoftUni launched in 2018
- Eco Employer Award from the Career Show 2019 Awards
- Second place in the "Company Website" category of the annual "Site of the Year 2019" competition
- Business Environment Sustainability Award in Bulgaria for the partnership of Endeavor Bulgaria's unique Dare to Scale project at the Annual Golden Hearth Awards by Business Lady magazine and Bulgaria Business Review

SHARE CAPITAL STRUCTURE

As at 31 December, 2019 the total authorized number of ordinary shares of Eurobank Bulgaria AD was 560,323,302 with a nominal value of BGN 1 per share. Eurobank Ergasias S.A. owns directly 56.14%, another 43.85% of the share capital is owned by ERB New Europe Holding B.V. and 0.01% by minority shareholders.

As part of the acquisiton transaction of Piraeus Bank the Bank has acquired its own shares during the year in the amount of 457 shares.

MANAGEMENT BOARD

As at 31 of December, 2019 the Management Board consisted of the following members:

- Petia Dimitrova – Chief Executive Officer and Chairperson of the Management Board;
- Dimitar Shoumarov – Executive Director, Chief Financial Officer and Member of the Management Board;
- Asen Yagodin – Executive Director and Member of the Management Board;
- Iordan Souvandjiev – Compliance Officer and Member of the Management Board.

Mr. Ioannis Serafeimidis was released as an Executive Director and Member of the Management Board on 21.03.2019.

1. Shares and bonds of the company that are acquired, owned and transferred by the members of the Management Board during the year

No member of the Management Board has owned or transferred shares or bonds of the Bank.

2. The Management Board members' rights to acquire shares and bonds of the company

No member of the Management Board holds special rights of acquisition of shares or bonds of the Bank.

3. The Management Board member's ownership in other commercial enterprises, as:

3.1. Partners with unlimited liability

No member of the Management Board has been a partner with unlimited liability in other commercial enterprise.

(All amounts are shown in BGN thousands unless otherwise stated)

MANAGEMENT BOARD (continued)

3.2. Partners/shareholders holding more than 25 per cent of the capital of another company

No member of the Management Board holds more than 25 per cent of the capital of another company.

3.3. Participants in the management of other companies or cooperatives as procurators, managers or board members

- **Petia Dimitrova**

Association of Banks in Bulgaria, Bulgaria – Member of the Management Board;

International Banking Institute OOD, Bulgaria – Member of the Management Board;

Endeavor Bulgaria, Association, Bulgaria – Member of the Management Board;

Borica AD, Bulgaria – Member of the Board of Directors;

Foundation Atanas Burov, Bulgaria – Member of the Management Board.

Confederation of the Employers and Industrialists in Bulgaria, Bulgaria – Associate member of the Management Board (effective as of 18.09.2019);

Piraeus Bank Bulgaria AD, Bulgaria – Executive Director and member of the Board of Directors (effective as of 20.06.2019 until 12.11.2019).

- **Dimitar Shoumarov**

Chief Financial Officers Club, Bulgaria – Member of the Management Board.
ERB Property Services Sofia EAD, Bulgaria – Member of the Board of Directors;

Piraeus Bank Bulgaria AD, Bulgaria – Executive Director and member of the Board of Directors (effective as of 20.06.2019 until 12.11.2019).

- **Asen Yagodin**

Bulgarian Stock Exchange – Sofia AD, Bulgaria – Chairman and Member of the Board of Directors;
Bulstrad Life Vienna Insurance Group JSC, Bulgaria – Independent Member of the Supervisory Board;
ERB Property Services Sofia EAD, Bulgaria – Member of the Board of Directors;
Sports Club DFS-Lokomotiv Sofia, Bulgaria – Member of the Board of Directors;
Piraeus Bank Bulgaria AD, Bulgaria – Member of the Board of Directors (effective as of 20.06.2019 until 12.11.2019).

- **Ioannis Serafeimidis**

ERB Property Services Sofia EAD, Bulgaria – Member of the Board of Directors (until 21.02.2019);

- **Iordan Souvandjiev**

IMO Property Investments Sofia EAD, Bulgaria – Deputy Chairman and Member of the Board of Directors and Executive Director (until 20.05.2019).

4. The Contracts under Article 240b of the Commerce Act

The Bank has not entered into contracts specified in Article 240b, paragraph 1 of the Commerce Act during 2019.

(All amounts are shown in BGN thousands unless otherwise stated)

SUPERVISORY BOARD

As at 31 December 2019, the Supervisory Board consisted of the following members:

- Georgios Provopoulos – Chairman and Member of the Supervisory Board;
- Theodoros Karakasis – Deputy Chairman and Member of the Supervisory Board;
- Stavros Ioannou – Member of the Supervisory Board;
- Michalakis Louis – Member of the Supervisory Board;
- Anastasios Nikolaou – Member of the Supervisory Board;
- John David Butts – Member of the Supervisory Board.

Ms. Christina Theofilidi was released as a Member of the Supervisory Board on 06.02.2019.

1. Shares and bonds of the company that are acquired, owned and transferred by the members of the Supervisory Board during the year

No member of the Supervisory Board has owned or transferred shares or bonds of the Bank.

2. The Supervisory Board member's rights to acquire shares and bonds of the company

No member of the Supervisory Board holds special rights of acquisition of shares or bonds of the Bank.

3. The Supervisory Board member's ownership in other commercial enterprises, as:

3.1. Partners with unlimited liability

No member of the Supervisory Board has been a partner with unlimited liability in other commercial enterprise.

3.2. Partners/shareholders holding more than 25 per cent of the capital of another company

Mr. John David Butts has been a partner or a shareholder holding more than 25 per cent of the capital of another company. No member of the Supervisory Board has been a partner or a shareholder holding more than 25 per cent of the capital of another company.

- **<u>John David Butts</u>**

J David Butts EOOD, Bulgaria – Sole Owner (terminated through liquidation on 31.12.2019);
Lex RX Bulgaria EOOD, Bulgaria – Sole Owner;
Ubad - Toro OOD, Bulgaria – Partner;
Lexrx Capital OOD, Bulgaria – Partner.

3.3. Participants in the management of other companies or cooperatives as procurators, managers or board members

- **<u>Georgios Provopoulos</u>**

Eurobank Private Bank Luxembourg S.A. – Vice Chairman of the Board of Directors;
Ellaktor SA, Chairman of the Board of Directors.

(All amounts are shown in BGN thousands unless otherwise stated)

SUPERVISORY BOARD (continued)

- **Theodoros Karakasis**

ERB Property Services d.o.o. Beograd, Serbia – Chairman of the Supervisory Board;
Eurobank A.D. Beograd, Serbia – Vice Chairman of the Board of Directors (Management Board);
Bulgarian Retail Services A.D., Bulgaria – Chairman of the Board of Directors (until 29.11.2019);
Greek-Serbian Chamber of Commerce – Deputy Chairman of the Board of Directors.

- **Stavros Ioannou**

Eurobank Ergasias S.A., Greece – Deputy Chief Executive Officer, Group Chief Operating Officer & International Activities;
BE – Business Exchanges S.A of Business Exchanges Networks and Accounting and Tax Services, Greece – Chairman of the Board of Directors;
Eurobank Property Services S.A., Greece – Member of the Board of Directors (until 01.04.2019);
Eurobank A.D. Beograd, Serbia – Member of the Board of Directors;
Eurobank Cyprus Ltd, Cyprus – Member of the Board of Directors
Grivalia Properties R.E.I.C, Member of the Board of Directors (until 17.05.2019);
Grivalia Management Company S.A., Greece - Member of the Board of Directors (since 27.09.2019)

- **Michalakis Louis**

Eurobank Ergasias S.A., Greece - Head of International Activities General Division, Member of the Executive Board (*not an official management/supervisory body, respectively it is not a directorship position*);
Eurobank Private Bank Luxembourg S.A., Luxembourg – Member of the Board of Directors;
Eurobank a.d. Beograd, Serbia - Chairman of the Board of Directors;
Eurobank Cyprus Ltd, Cyprus - Chief Executive Officer;
NEU Property Holdings Limited, Cyprus – Chairman of the Board of Directors;
NEU 03 Property Holdings Limited, Cyprus – Chairman of the Board of Directors;
ERB New Europe Funding III Limited, Cyprus – Chairman of the Board of Directors;
Naltirox Investments Limited, Cyprus – Executive Director.

- **Anastasios Nikolaou**

Eurobank A.D. Beograd, Serbia – Member of Management Board.

- **John David Butts**

Lexrx Capital OOD, Bulgaria – Manager;

4. The Contracts under Article 240b of the Commerce Act

The Bank has not entered into contracts specified in Article 240b, paragraph 1 of the Commercial Act during 2019.

In 2019 the members of the Management and Supervisory boards have received remuneration amounting to BGN 2,464 thousand.

BANK STRUCTURE

Eurobank Bulgaria AD has one subsidiary as at 31 December 2019 - ERB Leasing Bulgaria EAD.
The Bank employs 3,383 people (2018: 2,643).

(All amounts are shown in BGN thousands unless otherwise stated)

OBJECTIVES FOR 2020

After the successful completion of the acquisition and integration of Piraeus Bank Bulgaria in a record time, in 2020 Eurobank Bulgaria will return to organic growth and focus on increasing its income and on maintaining its double digit return on equity.

The Bank will expand its lending portfolio in line with the market while keeping its position as the third biggest lender. No major changes are expected in the credit policy and risk appetite and no segment will be prioritized. The capital adequacy ratio will be strengthened by the retention of the net profit for the year in order to stay ahead of the increasing regulatory requirements. The bank will continue to follow strictly its strategy for further reduction of the nonperforming exposure and improving the coverage ratio.

The new lending will be covered by a reciprocal increase of client deposits thus keeping the liquidity buffers intact. The market pressure on the lending rates will be offset by the increase of the volumes resulting in higher interest income. The enlarged clientele after the merger with Piraeus Bank Bulgaria will present more opportunities for cross selling and help expand the fees and commission income. With the integration completed, in 2020 costs will streamlined and the cost-income ratio will return to its normal level.

Innovation will remain key to the Bank's strategy as a way to stand out from the competition and withstand the pressure of the new market entrants. Therefore, the bank will continue to invest significant amounts in digitalization and branch network transformation in order to provide an impeccable customer service. The long-term strategy of the Bank remains unchanged - to be the Bank of first choice, while meeting the constantly evolving expectations of the customers thus creating value for them and the shareholders.

MANAGEMENT RESPONSIBILITIES

The Directors are required by Bulgarian law to prepare financial statements each financial year that give a true and fair view of the financial position of the company and its financial results as at year end. The management has prepared the enclosed financial statements in accordance with IFRS as adopted by the European Union.

The Directors confirm that suitable accounting policies have been used.

The Directors also confirm that the legislation applicable for banks in Bulgaria has been followed and that the financial statements have been prepared on a going concern basis.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets and for taking reasonable steps for the prevention and detection of potential fraud and other irregularities.

Petia Dimitrova
Chairperson of the Management Board and Chief Executive Officer

Dimitar Shoumarov
Member of the Management Board, Executive Director and Chief Financial Officer

24 March 2020
Sofia, Bulgaria

(All amounts are shown in BGN thousands unless otherwise stated)

CORPORATE GOVERNANCE STATEMENT 2019

1. Corporate Governance Code and Practices.

In compliance with the Bulgarian legislation, and based on the international best practices on corporate governance, Eurobank Bulgaria AD ("the Bank") observes the National Corporate Governance Code ("Code"), which describes the basic corporate governance principles and practices.

2. Compliance with the National Corporate Governance Code

The Bank observes and complies in entirety with the Code. The Bank's Articles of Association ("AoA") and all adopted internal rules and manuals are in a full compliance with the Code and the applicable legislation. Presently there have not been any ascertained cases of non-compliance with the Code.

2.1. Internal Corporate Governance Code

The Bank has developed and adopted its Internal Governance Control Manual ("IGCM") and strictly applies its guidelines. The IGCM of the Bank covers the content and is in full compliance with the framework set by the Code.

2.2. Ethics Code

In the scope of ethics the Bank has adopted and currently applies a document named Code of Professional Conduct, containing rules in addition to the requirements of the legal framework which aim at setting minimum common internal rules and principles of professional and ethical conduct to be followed by the Staff of the Bank during the performance of their duties.

2.3. Conflict of interest

Procedures for preventing and detecting conflicts of interest in the Bank are incorporated in Internal Rules for Managing Conflict of interest. In accordance with these procedures, Executive Directors and other members of Management have a duty to inform the Supervisory Board / Management Board respectively of any personal interests they may derive from Bank's transactions that fall under their field of responsibility or any other conflict between their and the Bank's interests that may occur, in carrying out their duties.

2.4. Remuneration

The adopted Remuneration Policy of the Bank forms an integral part of the Bank's corporate governance practice and is developed in accordance with its operational model, business strategy, short and long-term interests of the Bank and incorporates measures to avoid conflict of interest. Also, the Remuneration Policy is consistent with and promotes sound and effective risk management and does not encourage excessive risk-taking on behalf of the Bank. Accordingly, the operating standards and mechanisms which have been adopted ensure that the levels of remuneration are directly linked to results and desired behavior.

The 2019 Boards and key management remuneration disclosures are included in Annual Disclosures according to the requirements of Regulation (EU) 575/2013 (art. 431-455).

3. Composition and operation of General Meeting of the Shareholders, the Supervisory Board, the Management Board and their Committees.

3.1. General Meeting of the Shareholders

The General Meeting of the Shareholders ("GMS") comprises all shareholders with a right to a vote. They participate in the General Meeting personally or by a proxy, authorized by a written power of attorney. The shareholders and their proxies shall have in the General Meeting as many votes as they have shares in the capital of the Bank. The members of the Supervisory Board and the Managing Board may attend the General Meeting but without right to vote unless they are shareholders. The members of the Internal Audit Division and the Bank's auditors elected to audit and certify the Bank's annual financial statements may attend the General Meeting but without right to vote.

(All amounts are shown in BGN thousands unless otherwise stated)

3. Composition and operation of General Meeting of the Shareholders, the Supervisory Board, the Management Board and their Committees (continued)

3.2. Supervisory Board and Supervisory Board Committees

The Supervisory Board ("SB ") is a permanent collective body which exercises overall control over the business and financial activities of the Bank and also ensures the conformity of the Bank's activity with the applicable law, the Statute and the resolutions of the General Meeting of the Shareholders ("GMS") in the best interest of the Bank's shareholders, customers and employees. The SB may consist of 3 (three) to 7 (seven) members, elected by the GMS, for a term of three (3) years. The composition of the SB consists of 6 (six) members as at 31 December 2019, as one of the members Christina Theofilidi was released by the SB on 06.02.2019. The SB adopts its Terms of Reference "ToR" and appoints a Chairperson and a Deputy Chairperson from among its members.

The members of the SB are obliged to perform their functions with duty of care and in the best interest of the Bank and its shareholders and to place the interest of the Bank and its clients above their own interest when performing their duties.

As at 31 of December, 2019 the members of the Supervisory Board are:

- Georgios Provopoulos - Chairman of the Supervisory Board;
- Theodoros Karakasis - Deputy Chairman of the Supervisory Board;
- Stavros Ioannou - Member of the Supervisory Board;
- Michalakis Louis - Member of the Supervisory Board;
- Anastasios Nikolaou - Member of the Supervisory Board;
- John David Butts - Member of the Supervisory Board.

The Chairman, the Deputy Chairman and one of the Members are independent members.

The following Committees have been established to assist the Supervisory Board in discharging its responsibilities:

3.2.1. <u>Risk Committee</u>

The SB has delegated to the Risk Committee ("RC") the role of approving all strategic risk management decisions (e.g. risk appetite, capital allocation, balance sheet profile and risk management structure). The RC is in charge of monitoring the quantitative and qualitative aspects of all market, credit, liquidity and operational risks.

The members of the RC are appointed by the SB. Currently, the Risk Committee consists of 4 (four) members.

The RC meets at least quarterly. The RC meeting is effective when 2/3 of its members are present. The Chairman must be one of the participating members, or in his absence he should appoint his replacement from the other Risk Committee members. In 2019 the RC held 4 (four) regular meetings and 5 (five) extraordinary meetings.

3.2.2. <u>Audit Committee</u>

The Audit Committee ("AC") is appointed by the General Meeting of Shareholders following a proposal by the SB and its purpose is to assist the SB in discharging its oversight responsibilities primarily relating to:

3. Composition and operation of General Meeting of the Shareholders, the Supervisory Board, the Management Board and their Committees (continued)

3.2. Supervisory Board and Supervisory Board Committees (continued)

3.2.2. Audit Committee (continued)

- The review of the adequacy of the Internal Control and Risk Management systems and the compliance with rules and regulations monitoring process;
- The review of the financial reporting process and satisfaction as to the integrity of the Bank's Financial Statements;
- The External Auditors' selection, performance and independence;
- The effectiveness and performance of the Internal Audit function;
- The effectiveness and performance of the Compliance function.

In doing so, it is the responsibility of the Audit Committee to provide for open communication channels between the SB, Management, Internal Audit and External Audit.

The Audit Committee consists of three members who are appointed for a term of three years with the option to renew their appointment 5 (five) more times. In 2019 the Audit Committee members' term of office was renewed until June 2020.

The AC members possess the necessary skills and experience to carry out its duties.

The AC meets at least 4 (four) times per year or more frequently, as circumstances require, and reports on its activities and submits the minutes of its meetings to the Supervisory Board on a quarterly basis. During 2019, the Audit Committee held 4 (four) regular and 6 (six) extraordinary meetings.

3.2.3. Remuneration Committee

The Remuneration Committee ("RemCo") is a SB Committee which provides specialized and independent advice for matters relating to:

- remuneration policy and its implementation and for the incentives created while managing risks, capital and liquidity;
- safeguard the proper exercise of its duties and responsibilities, the efficient alignment of the personnel's remuneration with the risks the Bank undertakes and manages the required alignment between the Eurobank Ergasias S.A. and the Bank;
- approve or propose for approval all remunerations of the key management personnel.

The Committee consists of 3 (three) to 5 (five) members. The members are appointed biennially by the Supervisory Board. In 2019, the Remuneration Committee consisted of four members. Meetings are held as required, but not less than twice a year.

3.2.4. Nomination Committee

The Nomination Committee ("NomCo") has the responsibility to consider and make recommendations to the SB on matters related to the adequacy, efficiency and effectiveness of the Management Board, and to the appointment of key management personnel as per the provisions of Art. 73c, para 1 of the Credit Institutions Act and Art.12 of Ordinance № 20 of April 28, 2009, on the Issuance of Approvals to the Members of the Management Board (Board of Directors) of a Credit Institution and Requirements for Performing their Duties (issued by Bulgarian National Bank). The Committee shall meet not less than once a year at such times as the Committee deems appropriate and more frequently if required.

The Committee currently consists of 2 (two) members.

(All amounts are shown in BGN thousands unless otherwise stated)

3. Composition and operation of General Meeting of the Shareholders, the Supervisory Board, the Management Board and their Committees (continued)

3.3. Management Board and Management Board Committees

The Bank is managed by the Management Board ("MB") in accordance with the law, the Statute of the Bank, the Terms of Reference ("ToR") of the MB and other internal rules. The MB is a permanent collective body for management and representation of the Bank exercising its powers under the control of the SB and the General Meeting of Shareholders. The MB may consist of 3 (three) to 9 (nine) members, elected by the SB, for a term of three (3) years. The composition of the MB as at 31 of December is consisted of 4 (four) members Mr. Ioannis Serafeimidis was released by the MB on 21 of March, 2019. Three of the MB members are appointed as Executive Directors. The MB assigns, with the approval of the SB, the responsibilities for the management and the representation of the Bank to Executive Directors elected amongst Board's members. The authorization of the Executive Directors to represent the Bank can be withdrawn at any time by the MB, with the approval of the SB.

As at 31 of December, 2019 the members of the Management Board are:

- Petia Dimitrova - Chief Executive Officer and Chairperson of the Management Board;
- Dimitar Shoumarov - Executive Director, Chief Financial Officer and Member of the Management Board;
- Asen Yagodin - Executive Director and Member of the Management Board;
- Iordan Souvandjiev - Head of Compliance Division and Member of the Management Board.

Management Committees are set to assist the MB. Such committees are:

3.3.1. Assets and Liabilities Committee

The Assets and Liabilities Committee ("ALCO") has primary responsibility to advise the MB on the strategic management of the Bank's assets and liabilities with the aim to effectively manage the interest rate and liquidity risks of the Bank.

The Committee consists of key management personnel both from Eurobank Bulgaria AD and Eurobank Ergasias, including executive directors and key management functions representing all Retail and Wholesale business units.

ALCO has the following authority:

- To advise the MB on the strategic management of the assets and liabilities;
- To take all necessary decisions regarding the interest rate gap and liquidity management;
- To set the target parameters of potential external funding;
- To review/monitor/establish business initiatives and/or investments that affect the bank's market and liquidity risk profile.

3.3.2. Regional Credit Committee

The MB has delegated to the Regional Credit Committee the functions to deal with customers with ratings below a certain level according to internal credit rating system and following the approval levels according to the Eurobank Bulgaira's Corporate Credit Policy Manual.

The Committee consists of senior management personnel from Eurobank Ergasias S.A., including an Independent member.

(All amounts are shown in BGN thousands unless otherwise stated)

3. Composition and operation of General Meeting of the Shareholders, the Supervisory Board, the Management Board and their Committees (continued)

3.3. Management Board and Management Board Committees (continued)

3.3.3. Country Credit Committee

The MB has delegated to the Country Credit Committee the functions to deal with customers with ratings below a certain level according to internal credit rating system and following the approval levels according to the Eurobank Bulgaria's Corporate Credit Policy Manual.

The Committee consists of senior management personnel from Eurobank Bulgaria AD (including the CEO) and senior management from Credit Sector function of Eurobank Ergasias S.A.

3.3.4. Special Handling Committee I

The MB has delegated to the Special Handling Committee I the functions to deal with customers above a certain level according to internal credit rating system and following the approval levels according to the Eurobank Bulgaria's Corporate Credit Policy Manual.

The Committee consists of senior management personnel from Eurobank Ergasias S.A., including an Independent member.

3.3.5. Special Handling Committee II

The MB has delegated to the Special Handling Committee II the functions to deal with customers above a certain level according to internal credit rating system and following the approval levels according to the Eurobank Bulgaira's Corporate Credit Policy Manual.

The Committee consists of senior management personnel from Eurobank Bulgaria AD (including the Chief Executive Officer) and senior management Credit sector function from Eurobank Ergasias S.A.

3.3.6. Troubled Assets Committee

The MB has delegated to the Troubled Assets Committee the supervision and control of the management of the troubled assets.

The Committee consists of senior management personnel from Eurobank Bulgaria AD, including the Chief Financial Officer and Executive Director, and other key management personnel in the area of TAG, Risk and Strategic Planning.

The main duties and responsibilities of TAC are the following:

- To monitor the management of loans in arrears and NPLs;
- To determine and implement the strategy regarding management of troubled assets and monitor the effective implementation of this strategy.

3.3.7. Loans and Products Committee

The Loans and Products Committee is responsible for the approval of new products, both in the retail and the wholesale areas.

The Loans and Products Committee consists of key management personnel including the Chief Executive Officer of the Bank.

3.3.8. Operational Risk Committee

The Operational Risk Committee ("ORC") has the responsibility to provide oversight of actual operational risk exposure and management and the processes implemented to assess, monitor and mitigate operational risk. The Operational Risk Committee consists of key management personnel in the areas of Risk, Operations, IT, Finance, TAG, Retail and Corporate. There is also a non-voting member from Internal Audit Division.

(All amounts are shown in BGN thousands unless otherwise stated)

3. Composition and operation of General Meeting of the Shareholders, the Supervisory Board, the Management Board and their Committees (continued)

3.3. Management Board and Management Board Committees (continued)

3.3.9. Country Procurement Committee

The Country Procurement Committee ("CPrC") is a management committee subordinated to the MB. The main responsibilities are related to evaluating the cost, necessity and business justification of procurement capital expenditures and operating expenses.

The Committee consists of senior management personnel including the Chief Executive Officer, Chief Financial Officer and Executive Director and Chief Operating Officer.

3.3.10. Related Employees Committee

The Related Employees Committee ("REC") is responsible for monitoring proper implementation of the Bank's Relatives Employment Policy and for deciding about cases which deviate from the Policy.

The Related Employees Committee consists of senior management personnel including the Chief Executive Officer and other key management functions in the areas of HR, legal and others.

3.3.11. Environmental and Social Steering Committee

Environmental and Social Steering Committee ("ESSC") is a MB Committee which provides all strategic decisions within the scope of the Environmental Policy of the Bank.

The Committee consists of key management personnel in the areas of Operations, Legal, Risk, Corporate Communications and Marketing, Retail and Wholesale.

3.4. CEO Management Committees

The CEO is empowered to establish committees to assist him/her as required, assigning their responsibilities and appointing the members, the chairman and the secretary.

3.4.1. Executive Committee

The Executive Committee ("ExCo") has the responsibility for the day-to-day management of the Bank, considers all issues pertaining to the current activities of the Bank and adopt decisions on them as to manage the implementation of the Bank's strategy, plan, direct and control the Bank's activities to ensure high level of performance and customer satisfaction, establish adequate systems of internal control and ensure they are properly maintained, consider the monthly financial reports before their submission to the MB.

The Committee consists of senior management personnel including Chief Executive Officer and other Executive Directors and all other key management functions covering all areas of the Bank's activities.

3.4.2. Ethics Committee

The Ethics Committee ("EC") mainly deals with staff cases of fraud and/or gross negligence and meets when there are issues to be considered.

The Ethics Committee consists of senior management personnel including the Chief Executive Officer, Head of HR and one Executive Director.

3.5. Main issues the SB dealt with during 2019

In discharging its responsibilities for 2019 the main issues the Board dealt with are related to:

a) Corporate governance:

- approval of acquiring of the 99.98% of the shares of Piraeus Bank Bulgaria AD and consequently 100% of the shares of Piraeus Insurance Brokerage EOOD; acquiring of 100% of the shares of ERB Leasing Bulgaria EAD; acquiring of 100% if the shares of Bulgarian Retail Services AD;

(All amounts are shown in BGN thousands unless otherwise stated)

3. Composition and operation of General Meeting of the Shareholders, the Supervisory Board, the Management Board and their Committees (continued)

3.5. Main issues the SB dealt with during 2019 (continued)

a) Corporate governance (continued)

- spin-off of part of the assets of ERB Leasing Bulgaria EAD into the receiving company ERB Property Services Sofia EAD;
- approval of the merger of Piraeus Bank Bulgaria AD into the Bank and the merger of Piraeus Brokerage EOOD and Bulgarian Retail Services AD into ERB Leasing Bulgaria EAD;
- initializing a procedure for registration of ERB Property Services Sofia EAD as a financial Institution;
- preparation and convocation and holding of regular and irregular GMS;
- approval of some Board Committees' compositions;
- regular update on MB and SB Committees' meetings;
- other decisions as per Bank's Statutes.

b) Capital Adequacy:

- review of the 2018 Internal Capital and Liquidity Adequacy Assessment Process (ICAAP and ILAAP) – Pillar 2 Report. Capital Adequacy report was reviewed every quarter.

c) Business monitoring:

- approval of the 2018 annual financial statements;
- review of business developments and liquidity.

d) Risk Management and Internal Control:

- review of annual reports on evaluation of Internal Control Systems and Compliance Polices;
- review and approval of the 2018 Pillar 3 Report;
- review on the Risk and Capital Strategy and Risk Appetite Framework;
- review of Audit Committee meeting minutes and Key Audit Issues.

4. Board Diversity Policy

The Diversity Policy ("the Policy") sets out the approach to diversity on the MB and SB of the Bank and it is in accordance with international best practices and the EU and Bulgarian banking law provisions.

The Bank sees increasing diversity at Boards level as an important element in maintaining a competitive advantage. The diversity in the Boards includes and makes good use of differences in the skills, background, nationality, gender, age and other qualities of members. These differences are considered in determining the optimum composition of the Board and when possible should be balanced appropriately. All Bank's Boards appointments are made on merit, in the context of the skills and experience of the members in order to function effectively.

The NomCo is responsible to review and assess, on an annual basis, the structure, size, composition and performance of the members of the Boards and recommends the appointment of new members. In reviewing Board composition, the committee considers the benefits of all aspects of diversity including, but not limited to, those described above, in order to maintain an appropriate range and balance of skills, experience and background.

(All amounts are shown in BGN thousands unless otherwise stated)

5. Board Nomination Policy and Board Induction Policy

In compliance with the requirements of the newly adopted Ordinance No.20 of BNB which promulgates European Banking Authority Guidelines EBA/GL/2017/12, on 20th of August, 2019 the Management Board and the Supervisory Board of Eurobank Bulgaria adopted Board Nomination Policy and Board Induction Policy.

5.1. The Eurobank Bulgaria AD Board Nomination Policy sets out the guidelines and formal process for the identification, selection and nomination and assessment of candidates for members and members for the Eurobank Bulgaria AD Management Board and Supervisory Board, as well as and Key Fuinction Holders selection and appointment. The Boards, supported by the Nomination Committee nominate candidates who meet the fit and proper requirements. The fitness and propriety of nominees is assessed against the following criteria: reputation along with honesty, integrity and trust, knowledge, skills, experience and other general suitability requirements, conflicts of interest and independence of mind; time commitment and collective suitability.

5.2. The Induction Program for the Members of the Management Board and the Supervisory Board which aimes to induct and train the newly appointed members, as well as current members of the Boards. Depending on the person's background it is evaluated which actions of the program shall be undertaken.

The objectives of the program are to: communicate Eurobank Bulgaria AD vision and strategy, to communicate practical procedural duties so as to reduce the time taken for an individual to become productive in its duties, to integrate an individual as a welcome member of the Board, to ensure retention of individuals for future periods, to become familiar with Eurobank Bulgaria AD organizational structure and to give new Members an understanding of Eurobank Bulgaria AD business and the markets in which it operates, create a connection with the Bank's employees and to provide an understanding of its main relationships with the regulators Bulgarian National Bank and Financial Supervision Commission.

6. System of Internal Controls and Risk Management Main Features

The Bank aims to adopt best practices regarding corporate governance, taking into account all relevant guidelines and regulatory requirements, as set by the Basel Committee on Banking Supervision, the European Banking Authority, the Bulgarian National Bank as well as any decisions of the competent authorities supervising the Bank.

As part of its overall system of internal controls the Bank has established a number of dedicated control functions whose main responsibility is to act as independent control mechanisms thus reinforcing the control structure of the Bank.

6.1. Principles of Internal Controls System:

The Bank has established a System of Internal Controls that is based on international good practices and COSO terminology and is designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- efficient and effective operations,
- reliability and completeness of financial and management information,
- compliance with applicable laws and regulations.

The key principles underlying the system of internal controls are described below:

- **Control Environment:** The control environment is the foundation for all components of Internal Control System, providing discipline and structure and influencing the control consciousness of employees. Integrity and high ethical values stem from management's philosophy and operating style and appropriate recruitment and training policies ensure the competence of the Bank's people. The Bank's organization structure is suitable for its size and complexity with clearly defined responsibilities and reporting lines and clearly specified delegation of authority;

6. System of Internal Controls and Risk Management Main Features (continued)

6.1. Principles of Internal Controls System (continued)

- **Risk Management:** The Bank acknowledges that taking risks is an integral part of its business. It therefore sets mechanisms to identify those risks and assess their potential impact on the achievement of the Bank's objectives. Because economic, industry, regulatory and operating conditions will continue to change, risk management mechanisms in place shall be set (and evolve) in a manner that enables to identify and deal with the special and new risks associated with changes;
- **Control Activities:** Internal control activities are documented in the policies and detailed procedures that are designed to ensure that operations are carried out safely and all transactions are recorded accurately in compliance with Management's directives and regulations. They occur throughout the organization and business processes, at all levels and in all functions. One of the prime organizational measures to ensure control effectiveness in the Bank is segregation of duties. Functions that shall be separated include those of approval (limits, limit excesses, specific transactions), dealing, administration (administrative input, settlement, confirmation checks, transaction approval check, documentation check, file keeping, custody) and controlling (reconciliation, limit monitoring, excess approval check, risk management, compliance checks, physical counts);
- **Information and Communication:** Information must be identified, captured and communicated in a form and timeframe that enables people to carry out their responsibilities. The Bank has set effective communication channels to ensure that information is communicated down, across and up within the organization. Mechanisms are also in place to obtain appropriate external information as well as to communicate effectively with outside parties including regulators, shareholders and customers;
- **Monitoring:** The Bank has established mechanisms for the ongoing monitoring of activities as part of the normal course of operations. These include regular management and supervisory activities and other actions personnel take in performing their duties that assess the performance of internal control systems. There are also independent evaluations of the internal control system by the Internal Audit function, the scope and frequency of which depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies are reported upstream, with serious matters reported to the Management Board, the Audit Committee and the Supervisory Board.

6.2. Internal Audit

The Internal Audit function of Eurobank Bulgaria AD is an independent, objective assurance activity designed to add value and improve the Bank's operations. The Internal Audit Division (IAD) helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Management is responsible for establishing a system of internal controls that is adequate for the size and the complexity of the organisation. IAD is responsible for reporting on the adequacy and effectiveness of the system of internal controls.

In order to safeguard its independence IAD reports to the Audit Committee (AC) of the Bank and is independent of the Bank units with operational responsibilities and for administrative purposes reports to the CEO. The Supervisory Board has delegated the responsibility for monitoring the activity of the IAD to the Audit Committee.

6. System of Internal Controls and Risk Management Main Features (continued)

6.2. Internal Audit (continued)

IAD follows a risk-based methodology which examines the existence and adequacy of controls and assesses specific control objectives. IAD's work normally includes but is not restricted to the following:

- To provide reasonable assurance, in the form of an independent opinion, as to the adequacy and effectiveness of the internal control framework of the Bank. In order to form an opinion, IAD carries out audits based on an audit plan approved by the Audit Committee. The required frequency of audits depends on the level of risk in each business unit,
- To provide proactive support to the Management of the Bank in the promotion of internal controls and risk management through recommending best practices in internal control;
- To assist Management in the prevention of fraud and unethical practices;
- To follow-up aiming to ascertain that appropriate action is taken on reported audit findings within agreed deadlines.

6.3. Compliance

The mission of Compliance Division is to promote within the Bank an organizational culture that encourages ethical conduct and a commitment to compliance with laws and regulations as well as global governance standards. The Compliance division has been established under the approval of the Supervisory Board and the Audit Committee of the Bank. It is a unit with permanent function, independent of the Bank's business activities.

In order to safeguard its independence, the Head of Compliance Division reports to the Audit Committee, to the Eurobank Group Compliance Sector and for administrative purposes to the CEO. The Head of Compliance attends all Audit Committee meetings and submits quarterly reports summarizing the Division's activity and highlighting the main compliance issues. These reports include all matters falling under the scope of the Compliance Division, which the Head of Compliance believes should be reported to the Audit Committee or matters specifically requested by the latter.

Compliance Division duties and responsibilities indicatively include:

- development of Bank's methodology for regulatory risk assessment at a Bank level and assurance its proper implementation;
- handling issues related to combating financial crime, in accordance with applicable laws and regulations as well as existing sanctions. The Division is responsible for the development of the necessary policies and procedures related to anti money laundering and combating financing of terrorism, as well as for monitoring adherence to them. Moreover, it is responsible for the provision of relevant training and guidance to the staff, as well as, for the cooperation with the relevant Authorities;
- providing timely and accurate responses to requests arising from Regulatory and other Authorities as well as, co-operating with them in order to facilitate their work;
- setting up internal documents related to staff business and internal conduct like code of conduct, external business activities, conflict of interest and anti-bribery, and monitoring staff adherence to such internal rules;
- monitoring compliance with legislative and regulatory provisions relating to the financial markets;
- monitoring compliance of the Bank with Consumer and Personal data protection regulations;
- cooperating with other Bank's subsidiaries in the country on handling issues within the scope of Compliance universe;
- informing Management and providing advice regarding the impact of any new laws and regulations falling under the Section's scope of responsibilities.

6. System of Internal Controls and Risk Management Main Features (continued)

6.4. Risk management

The Bank's risk governance framework comprises a number of different constituents. In particular, the Supervisory Board has set up a Risk Committee overseeing all risk management functions. It is currently complemented, by the Risk function.

The Supervisory Board has delegated to the Risk Committee the role of approving all strategic risk management decisions (e.g. local risk appetite, capital allocation, balance-sheet profile and risk management structure). The Risk Committee is in charge of monitoring the quantitative and qualitative aspects of all credit, market, liquidity and operational risks.

The Risk Committee is empowered to:

- Review and analyze the Bank's risk profile, identify and assess significant risks;
- Develop adequate policies and procedures in order to identify, assess, monitor and control significant risks;
- Inform the SB about significant problems or developments that could have an impact on the Bank's risk profile;
- Monitor the implementation of policies related to the management of significant risks;
- Approve adequate methodologies and models for risk assessment and exposure limitation.

The RC updates the SB on the adequacy of the risk management structure and reports key risks. Any significant matters of concern are escalated either to the SB or to the Eurobank Ergasias S.A.'s Group Risk Committee.

Acknowledging the fact that Risk is embedded in every business activity undertaken, the organisational governance stems from the Supervisory Board through the Risk Committee, Management Board and Senior Management.

A robust risk management framework provides the cornerstone for implementing the Bank's risk strategy and achieving business goals. The Bank's approach is to provide direction on: understanding the material risks to achieving Bank's strategy; establishing risk appetite; and communicating the risk management framework. The process is then broken down into five steps. Each of these steps is broken down further, to establish end-to-end activities within the risk management process and the infrastructure needed to support it.

Steps	Activity
Identify	• Establish the policies and processes for identifying and understanding business risks.
Assess	• Establish and implement measurement and reporting standards and methodologies.
Control	• Establish key control processes and practices, including limit structures, impairment allowance criteria and reporting requirements; • Monitor the operation of the controls and adherence to risk direction and limits; • Provide early warning of control or appetite breaches.
Report	• Interpret and report on risk exposures, concentrations and risk-taking outcomes. • Communicate with external parties.
Manage and Challenge	• Review and challenge all aspects of the Group's risk profile; • Assess new risk-return opportunities; • Advise on optimising the Group's risk profile; • Review and challenge risk management practices.

6. System of Internal Controls and Risk Management Main Features (continued)

6.4. Risk management (continued)

The above processes are embedded in each of the risk types, supported by the appropriate infrastructure and staffing and are described in detail in the following sections.

Principle 1: The Management Board and Supervisory Board are responsible for approving and periodically reviewing the Risk strategy and Bank's risk policies.

Principle 2: Senior Management is responsible for implementation of the risk strategy approved by the Management Board and for developing policies and procedures for identifying, measuring, monitoring and controlling risks. Such policies and procedures address the risks in all Bank's activities, at both individual and portfolio level.

Principle 3: The Bank has sound processes and procedures for approving new loans and transactions, as well as amendments, renewal and re-financing of existing ones.

Principle 4: All exposures are monitored carefully and appropriate measures are taken to control and mitigate the risks.

Principle 5: The Bank has in place systems, processes and procedures for monitoring the performance of individual exposures, including computation and adequacy of provisions and reserves.

Principle 6: Information systems and analytical techniques are used to assist management in assessing and monitoring all significant risks as well as portfolio composition. The Bank uses internal models for credit risk assessment. For Retail portfolio application and behavioral scorecards are in place. For Corporate customer the Bank is using rating systems depending on the economic activity of the customers. The risk models and rating systems are consistent with the nature, size and complexity of the Bank's activities.

Principle 7: The Bank takes into account potential future changes in the macroeconomic environment when assessing individual loans and loan portfolios. The Bank is assessing its loan exposures and portfolios under stressful macroeconomic conditions.

Principle 8: The Bank has implemented process for independent, ongoing risk review and communicates risk figures to the Senior Management, Management Board and Risk Committee.

Principle 9: The Bank promotes an open risk culture to support trust and confidence.

Principle 10: The management and all employees feel committed to the Bank's risk policy principles and make their day-to-day decisions according to these guidelines.

Principle 11: The Bank's risk management is organized in a way to prevent conflicts of interests among employees and organizational units.

7. Information under Article 10, paragraph 1, letter "c", "d", "e", "f" and "g" of the Directive 2004/25/EC of the European Parliament and the Council of 21 April 2004 on the proposals for takeover.

7.1. c) The Bank has not been involved in any significant direct and indirect shareholdings (including indirect shareholdings through pyramid structures and cross-shareholdings) within the meaning of Article 85 of Directive 2001/34 /EC.

7.2. d) The Bank has not registered any holders of any securities with special control rights.

7.3. e) No restrictions have been implemented or exercised on the rights to vote, such as restrictions on the rights to vote of holders of a certain percentage or number of votes, deadlines for exercising the rights aloud or systems through which through the co-operation with the company the financial rights attached to the securities are separated of the possession of the securities. All of the Bank's capital shares[1] are ordinary with a nominal value of BGN 1.00 (one) each, giving voting right, dividend right and liquidation quota proportionate to the nominal value of shares.

[1] Information regarding the Share Capital Structure is included in the relevant section of the separate Annual Activity Report.

(All amounts are shown in BGN thousands unless otherwise stated)

7. Information under Article 10, paragraph 1, letter "c", "d", "e", “f" and “g" of the Directive 2004/25/EC of the European Parliament and the Council of 21 April 2004 on the proposals for takeover (continued)

7.4. f) The main AoA, namely Statute of the Bank regulates the appointment and replacement of Boards members. It incorporates the main provisions and principals of the applicable commercial law. The document is publicly available on the account of the Bank in the Commercial Registry to the Registry Agency at the Ministry of Justice. The responsibilities that rest with the MB and SB members are given in Statute of the Bank and detailed in the ToR of the relevant Board. It also contains provisions governing the fundamental powers and manner of interaction between the Boards in the decision making process.

7.5. g) The provisions providing the competences of buy-back of shares are implemented in Art.11of the Bank’s Statute.

7.6. No information for takeover bids has been received by the Bank as of the date of issuance of these Separate Financial statements.

(All amounts are shown in BGN thousands unless otherwise stated)

NON-FINANCIAL DECLARATION 2019

BUSINESS MODEL

Detailed information regarding Postbank's business model, objectives, structure and products is presented in the Corporate Governance Statement and the Separate Annual Activity Report.

ENVIRONMENTAL POLICY STATEMENT

Postbank values sustainable business development much higher than short-term profitability and other commercial gains. We believe that our duty towards our shared natural environment is a crucial ingredient of our commitment to the wellbeing of our stakeholders and the society we operate in. Therefore, we strive to mitigate the adverse environmental impact of our activities and to make use of every opportunity to induce possible ecological changes.

As a major Bulgarian bank and a part of powerful international financial group, we recognize our numerous opportunities to influence public agenda. At the same time, we understand that this unique position we enjoy makes it all the more imperative for us to abide by the principles of good corporate citizenship and to set a positive example for all of our colleagues, partners, fellow citizens and clients to follow.

Our parent Eurobank Group boasts remarkable achievements in the field of environmental protection and we are determined to transpose and enrich its best practices on Bulgarian soil. In this respect, we are committed to set appropriate objectives and targets, to continuously monitor, assess and improve our own environmental performance and to comply with all relevant local, national and international legislation.

As a socially responsible institution, we have pledged to employ all leverage that we have to work for the preservation of the planet that our children will inherit. To this end, we are not only determined to pursue a policy of environmental responsibility in our everyday operation through our dedicated employees, but also to gradually extend it to our suppliers, clients and society in order to promote beneficial environmental practices and sustainable economic growth.

1. Postbank environmental management overview

Today's world is facing the phenomena of pollution and climate change. There is hardly any individual or organization who would doubt the importance of managing the consequences of the changes pollution and climate change create in the environment, and of coming up with the proper means to curb them.

There are two main types of environmental aspects of the activity of an organization – direct and indirect, and they lead to the manifestation of two corresponding types of impacts. The direct impacts on environment originate from the operation of a company (operational footprint), while the indirect stem from the products and services the company offers.
Banks do not directly impact the environment to a large extent since their consumption of energy and other resources is minor on the background of other industries. They, however, could contribute significantly to the effort to save the environment through selective lending practices as well as though the implementation of environmental risk management in their loan portfolios. Apart from that, banks could serve as a good example to society taking care of internal resources.
Postbank is committed to actively manage both the direct and the indirect environmental impacts from its activity. It has its own Green Board and an Environmental Office unit in its organizational structure, which are working to preserve the environment both through limiting the resources consumed by the Bank and through its financing activities. Moreover, the Board members organize different outdoor initiatives involving the other employees as well. The Bank invested in its own internal programme Green Together, which was developed with its own funds and was implemented through the voluntary work of its employees.

(All amounts are shown in BGN thousands unless otherwise stated)

ENVIRONMENTAL POLICY STATEMENT (continued)

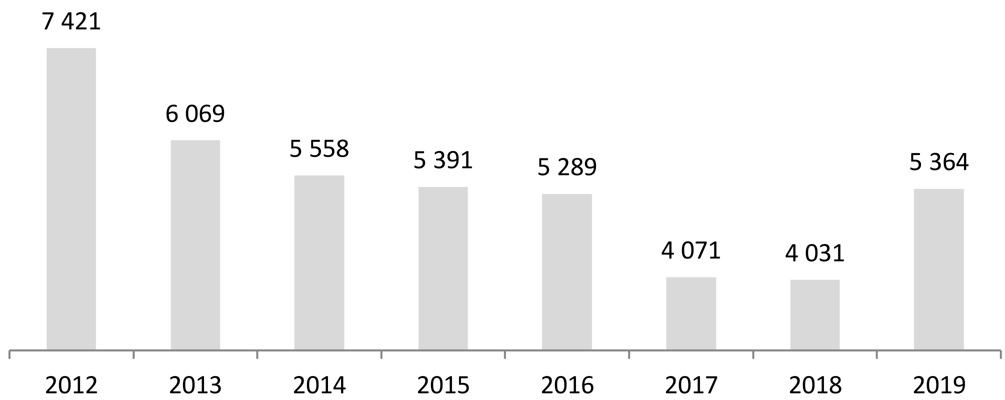
2. Resource consumption management at Postbank

In line with its policy and decisiveness to act, Postbank has identified the following direct aspect of its operations related to the internal consumption of electricity and its respective CO2 emissions, water, and paper

A number of initiatives targeting resource use optimization were pursued through the years, and kept place in 2019. The outcome of these is presented in Fig. 1, 2, and 3 below through three selected environmental indicators.

The analysis of the information shows that in 2019 there were increases in the internal resource consumption. This could be attributed to the fact that, first, Postbank acquired another major bank in Bulgaria – Piraeus Bank - thus expanding its presences in the country, and, secondly, there was business increase which naturally lead to increase in internal resource consumption such as paper. Despite those facts, the efforts to contain internal resource consumption are deemed efficient since they did not allow for uncontrolled expansion of usage and kept it at reasonable levels.

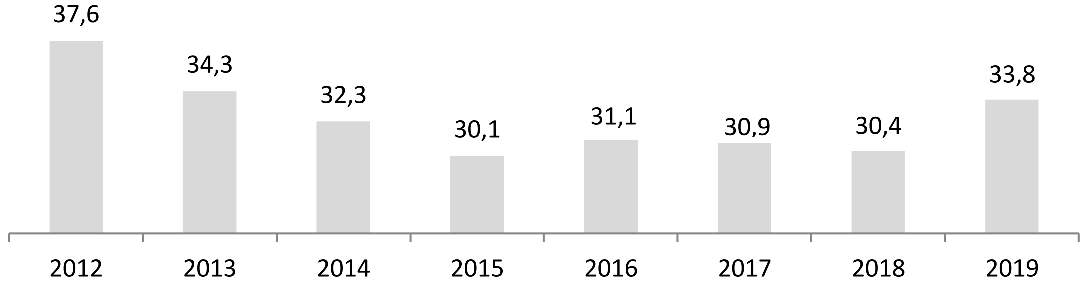
Fig 1. Postbank CO2 Footprint from Electricity Consumption, 2012-2019



Source: Environmental Office calculations based on Premises Department data

Despite the innovative project aiming at the gradual implementation of digital signatures of all transactions done by customers at the financial centres of the Bank launched back in 2018, and continued in 2019, paper consumption has seen increase in 2019 of approximately 10% YoY. This is to be attributed, a pointed out above, to the increase in business volumes across the outlets of the Bank. The data on paper consumption are presented on Fig 2.

Fig. 2 Paper Consumption in Postbank, sheets of paper in millions , 2012-2019



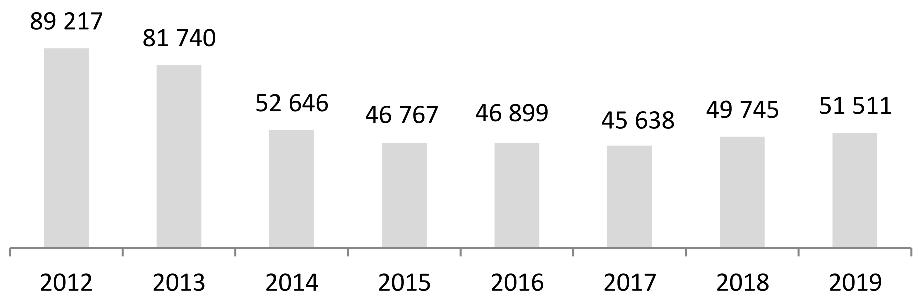
Source: Environmental Office calculations based on Facilities Department data

(All amounts are shown in BGN thousands unless otherwise stated)

ENVIRONMENTAL POLICY STATEMENT (continued)

Water consumption for office needs has shown a certain increase in 2019 YoY. Checks of the premises for leakages have led to the improvement of a number of problematic water taps, however, acquiring Piraeus Bank and its offices naturally caused increase in consumption. Data are presented on Fig. 3 below which shows approximately 3% increase in water consumption YoY.

Fig. 3 Water Consumption in Postbank, m3, 2012-2019



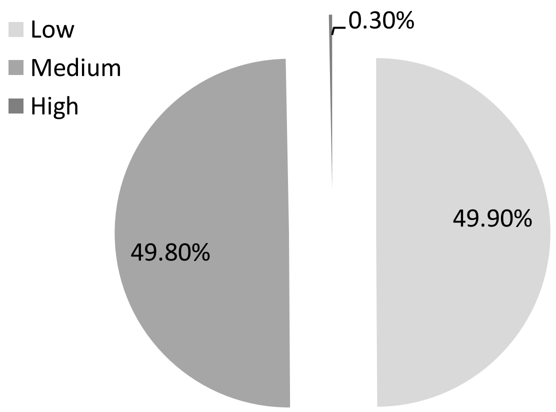
Source: Environmental Office calculations based on Premises Department data

In 2019, the Bank continued the implementation of its internal initiative – Green Heroes, initiated back in 2017, as part of its overall policy for sustainable development and environmentally-friendly behaviour, and as a socially responsible institution. It is aimed at encouraging socially responsible behaviour in its employees. They can apply through the campaign for funding from the Bank to implement various local projects, which they chose themselves, and which show that simple actions could achieve sustainable changes. Such project was planting of trees in the New Forest of Sofia which is scheduled to continue in 2020.

Apart from the direct aspects and its impact on society, Postbank is continuously investigating the indirect environmental aspects from its operations. These are related primarily to its corporate and small and medium enterprises lending portfolio. In this area, robust Environmental and Social Risk Management Procedure is implemented to ensure that lending is provided considering for the risks for the environment. The Bank encourages green businesses indirectly though the implementation of this procedure. It prescribes the particular methodology which is followed to ensure that environmental and social risks are evaluated and monitored in the lending process, as well as the roles and responsibilities of all parties involved in the process.

The outcome of the analysis of the credit portfolio of the Bank, presented on Fig 4, reveals that more than half of the deals have low environmental risk, while those with high risk forming less than 1% of the total portfolio.

Fig. 4. Distribution of Levels of Environmental Risk in the Loan Portfolio of the Bank



Source: Environmental Office calculations based on CBD and SBB Divisions data

(All amounts are shown in BGN thousands unless otherwise stated)

ENVIRONMENTAL POLICY STATEMENT (continued)

Postbank affirms the continuation of pursuing the following goals for 2020 in the area of environmental management:

- Engage staff in a variety of activities to expand their awareness on environmental and social issues;
- Enhance of e-learning in various aspects of the application of the environmental policy of the Bank;
- Enrich further the existing intranet training materials for the staff on environmental issues important for bankers.

Environmental objectives and targets are defined so as to contribute to reaching the goals as set out for the respective year.

3. Fines, sanctions or cases brought through dispute resolution mechanisms

In 2019 Postbank had no fines, sanctions or cases in the area of environmental management.

SOCIAL MATTERS AND MATTERS RELATED TO THE EMPLOYEES

1. Number of employees, gender distribution by areas of occupancy

Sustainable Postbank policy is to treat all the employees equally, irrespective of gender, nationality, age or other traits. The Bank aims to build and develop relationships of mutual trust and respect.

The distribution of employees by gender and age group is presented in the table below.

Fig. 5 Employee distribution based on gender and age group in 2019

< 25 years		25-34 years		35-44 years		45-54 years		> 55 years	
Women	Men	Women	Men	Women	Men	Women	Men	Women	Men
85.16%	14.84%	82.29%	17.71%	78.56%	21.44%	79.61%	20.39%	76.95%	23.05%

Postbank gives equal opportunities to its employees and values their talent and innovative ideas. Everyone receives remuneration depending on the contribution and the level of responsibility that are determined by the occupied position and the labor market.

Staff distribution by positions and gender is presented in the table below.

Fig. 6 Distributions by areas of occupancy and gender for 2019

	Specialist positions	**Expert positions**	**Managerial positions**
Female	94.57%	78.42%	59.48%
Male	5.43%	21.58%	40.52%

SOCIAL MATTERS AND MATTERS RELATED TO THE EMPLOYEES (continued)

2. Development of the Human Capital

Human capital is a key factor in any organization's success. Postbank's management shares the belief that taking care of its employees, their development and motivation is essential for the achievement of both short-term and strategic goals of the organization.

Dynamic environment and intense competition on the banking market impose ambitious and multidimensional requirements to the management of human resources. They are related from one side to the capability to select the right people for appropriate positions, to be ensured effective trainings in order quickly to develop all the necessary professional skills, and from the other - to develop and motivate talents within the organization.

The Bank also received a prize for Leadership in the Banking Sector, Technology Development and Human Resources from the 5th annual Company of the Year Awards, organized by Bulgaria Business Review Group. They distinguish the best companies in different industries by publicizing their achievements and focusing public attention on their innovative and successful management models.The Human Resources (HR) Division contributes to the Bank's success, by creating and sustaining an environment which encourages employees' achievements and efforts in raising their level of professional qualification.

Via the internal e-bulletin, *Our Bank*, distributed weekly by mail, the important new information, relevant to staff members is instantly communicated to all employees. This information often includes key corporate news, information about launching of new products and services, special moments from internal events and photos of different out-of-the-office activities of Postbank team members.

In addition to its core business, Postbank continued to focus on the needs of the local community, supporting programs and initiatives in conjunction with established institutions and organizations. The Bank strives to educate both its employees and consumers and the public in a responsible attitude to everything that surrounds us. It aims not only to create competitive advantages by incorporating increasing added value into the products it offers, but also to reduce its negative impact on the environment by using every opportunity to contribute to nature conservation.

3. Trade Unions, Compensations and Social Benefits

Postbank is aware of the social impact of its position as a major employer and is determined to provide its staff with various compensations and social benefits. In this context, the Bank has implemented and strives to extend a consistent policy of providing support human additional benefits to its workforce and of applying strict health and safety standards at the workplace. The Bank provides various forms of support for ad hoc cases. All employees of the Bank are provided with an additional health insurance in a private fund fully covered by the employer. The additional insurance provides for medical treatment costs and can be extended to employees' family members at preferential terms upon choice. The Bank provides its staff with an additional life insurance, covering the expenses upon occurrence of an insurance event. Moreover, the opportunity to use the Banks' products and services at preferential terms is a significant benefit for Postbank's employees. These include housing and consumer loans, credit cards, overdrafts, online banking.

Postbank continues with its internal donation platform for supporting colleagues in need, called TOGETHER. This is a fund raising charity program of the Bank planned as one of its main long-term projects which aims to upgrade the ongoing efforts to develop loyalty and employee care. The idea of the platform is to create solidarity among colleagues and to be a working mechanism for financially helping employees with serious health problems.
There are no trade unions in the Bank.

SOCIAL MATTERS AND MATTERS RELATED TO THE EMPLOYEES (continued)

4. Performance Management Policy and Procedure

The Bank's commitment to employees' personal and professional development is one of its major values. In this respect, every year each employee' personal performance is evaluated during the annual performance appraisal process, which supports their further purposeful skill development.

Performance management procedures guarantee transparency and equity. Every employee is assessed regardless of their position, having in mind employees' responsibilities and tasks. Moreover, the system assesses not only task performance, but also the way they have been fulfilled, which improves the communication between the evaluators and the evaluated, and encourages employees' personal and professional development.

The system guides employees to the business spheres where their skills and potential will be of the highest value and, at the same time, encourages them to achieve their professional goals.

5. Health and Safety at Work

The success and productivity of a business relies on the efficiency of its employees. This is why ensuring healthy and safe working environment for each employee is the basis for health management at the Bank. Postbank not only strictly adheres to all safety standards prescribed by the labour legislation, but also undertakes additional actions to protect its employees' health. These initiatives are the result of the Bank management's belief that the creation of a safe and healthy work environment is a prerequisite for better employee motivation and conditionality and greater competitiveness.

Postbank works in close cooperation with a labour medicine service to ensure the safety and health of its staff during work. A joint assessment is made of the risks for the staff's health and safety, including assessment upon changes of labour conditions at the workplace and upon introduction of new technologies. All Postbank's employees are represented on the Health and Safety Committee – a centralized committee based in Sofia and is responsible for the Bank's head office and branches.

6. Human Rights matters

Postbank opposes to any form of discrimination, inequality or human rights violation as it recognizes and promotes individuality. All the Bank's policies, procedures and human resource management practices are governed by respect for human rights. This ensures that there is no place for discrimination, while diversity is recognized and promoted. Postbank fosters business ethics and excellence, transparency, human rights and accountability. Mutual respect and dignity are core priorities and essential elements in Bank's Code of Conduct. In its selection of suppliers, the Bank aims at ensuring complete respect of human rights in those companies.

In 2019, the Bank implemented a number of socially significant projects in the fields of education, environmental protection, sports and corporate donation. Postbank is an active member and works in support of KRIB, AmCham, HBCB, Association of Banks in Bulgaria, Borika AD, Endeavor Bulgaria Association, Bulgarian Business Leaders Forum, Bulgarian Donation Forum, Atanas Burov Foundation, the Bulgarian Network of the UN Global Compact, the Bulgarian Advertisers Association and the Bulgarian Fintech Association.

Postbank won first place in the Eco Employer category of the Career Show 2019 Awards, in which a jury evaluated the best practices of companies. The Bank was honored for its overall corporate social responsibility with a focus on the environment.

The employees of Postbank are also regular donors to the National Center for Transfusion Hematology and participate in blood donation events organized and held at the Head Office of the Bank.

SOCIAL MATTERS AND MATTERS RELATED TO THE EMPLOYEES (continued)

Throughout the year, the Bank continued its long-standing support and work with disadvantaged groups and the promotion of their active role in society. Support was provided to disadvantaged children in the town of Kazanlak, the elderly in the city of Ruse, the national Easter campaign for everyone - Give a Gift to Grandparents, as well as many other smaller initiatives throughout the year.

MATTERS RELATED TO ANTI-CORRUPTION AND BRIBERY

Eurobank Bulgaria AD has adopted a policy of zero tolerance against bribery. The internal policies and procedures in place aim to establish a robust internal system and controlling environment that minimize corruption risk and to set out a clear approach of action in certain risky situations.
The Bank's anti-bribery instruction expressly prohibits the direct or indirect participation in any corruption-related activities. The prohibition applies to all employees and persons acting in the name and on behalf of the Bank. It is the duty of all employees to be vigilant and to report any cases or attempts of such deeds, as well as suspicions of such.

UN GLOBAL COMPACT NETWORK BULGARIA

Eurobank Bulgaria AD has adopted a policy of zero tolerance against bribery. The internal policies and procedures in place aim to establish a robust internal system and controlling environment that minimize corruption risk and to set out a clear approach of action in certain risky situations.

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Postbank is an active member of the Bulgarian UN Global Compact Network as part of its purposeful support for initiatives for the benefit of society and the protection of the environment. Its participation in the organization's activity is another proof of the company's readiness to pursue a sustainable corporate policy that respects the ten universal principles for social responsibility and environmental protection of the Global Compact, namely:

<u>Human Rights:</u>
Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights within their sphere of influence; and
Principle 2: make sure that they are not complicit in human rights abuses.

<u>Labour Standards:</u>
Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle 4: the elimination of all forms of forced and compulsory labour;
Principle 5: the effective abolition of child labour; and
Principle 6: eliminate discrimination in respect of employment and occupation.

<u>Environment:</u>
Principle 7: Businesses should support a precautionary approach to environmental challenges;
Principle 8: undertake initiatives to promote greater environmental responsibility;
Principle 9: encourage the development and diffusion of environmentally friendly technologies.

<u>Anti-Corruption:</u>
Principle 10: Businesses should work against all forms of corruption, including extortion and bribery

(All amounts are shown in BGN thousands unless otherwise stated)

Separate income statement

	Notes	Year ended 31 December	
		2019	2018
Interest and similar income		347,375	323,053
Interest and similar charges		(10,897)	(11,540)
Net interest income	6	336,478	311,513
Fee and commission income		111,947	99,219
Fee and commission expense		(17,935)	(16,321)
Net fee and commission income	7	94,012	82,898
Bargain gain	38	78,690	-
Other operating income, net	8	1,001	1,032
Dividend income		56	31
Net trading income	9	289	118
Gains less losses from trading securities	17	259	(264)
Gains less losses from investment securities	19b	4,970	4,742
Repossesed assets impairment		(475)	(497)
Other operating expenses	10	(198,633)	(144,207)
Deposit Insurance Fund expense		(19,501)	(16,358)
Impairment charge for credit losses	12	(66,067)	(63,799)
Profit before income tax		231,079	175,209
Income tax expense	13	(17,380)	(17,782)
Profit for the year		213,699	157,427

The separate financial statements were authorized by the management on 24 March 2020.

Petia Dimitrova
Chairperson of the Management Board and Chief Executive Officer

Dimitar Shoumarov
Member of the Management Board, Executive Director and Chief Financial Officer

Initialled for identification purposes in reference to the auditor's report:

For KPMG Audit OOD:

Sevdalina Dimova
Registered Auditor responsible for the audit

Ivan Andonov
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Ondrej Fikrle
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For Baker Tilly Klitou and Partners OOD:

Galina Lokmadjieva
Registered Auditor responsible for the audit

Spyridon Gkrouits
Authorised representative
For Baker Tilly Klitou and Partners OOD

ЕВРОБАНК БЪЛГАРИЯ АД София

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 045 КПМГ ОДИТ ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 129 БЕЙКЪР ТИЛИ КЛИТУ И ПАРТНЬОРИ ООД

The following notes set out on pages 50 to 169 form an integral part of these separate financial statements
Translation from the original Bulgarian version, in case of divergence the Bulgarian original shall prevail

(All amounts are shown in BGN thousands unless otherwise stated)

Separate statement of comprehensive income	Notes	Year ended 31 December			
			2019		2018
Profit for the year			213,699		157,427
Items that are or may be reclassified subsequently to profit and loss:	14		*(1,972)*		*(8,649)*
Debt securities at FVOCI					
-net changes in Fair Value, net of tax		1,680		(5,824)	
-reclassified to profit or loss, net of tax		(3,652)		(2,825)	
Items that will not be reclassified to profit or loss:			*729*		*73*
Change in FV of property, plant and equipment. net of tax		903		(36)	
Remeasurements of retirement benefit obligations, net of tax		(174)		109	
Other comprehensive income for the year	14		(1,243)		(8,576)
Total comprehensive income for the year			212,456		148,851

The separate financial statements were authorized by the management on 24 March 2020.

Petia Dimitrova	Dimitar Shoumarov
Chairperson of the Management Board and Chief Executive Officer	Member of the Management Board, Executive Director and Chief Financial Officer

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For KPMG Audit OOD:	For Baker Tilly Klitou and Partners OOD:
Sevdalina Dimova Registered Auditor responsible for the audit	Galina Lokmadjieva Registered Auditor responsible for the audit
Ivan Andonov Authorised representative For KPMG Audit OOD	Spyridon Gkroutis Authorised representative For Baker Tilly Klitou and Partners OOD
Ondrej Fikrle Engagement partner For KPMG Audit OOD	

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 045 КПМГ ОДИТ ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 129 БЕЙКЪР ТИЛИ КЛИТУ И ПАРТНЬОРИ ООД

(All amounts are shown in BGN thousands unless otherwise stated)

Separate statement of financial position	Notes	As at 31 December	
		2019	2018
Assets			
Cash and balances with the Central Bank	15	1,454,306	871,393
Loans and advances to banks	16	1,702,796	1,417,922
Trading assets	17	8,805	8,071
Derivative financial instruments	25	1,502	2,400
Loans and advances to customers	18	7,111,741	5,271,189
Investment securities	19a	579,275	409,407
Shares in subsidiary undertakings	37	6,763	4,868
Current income tax recoverable		1,398	374
Deferred tax assets	28	16,050	-
Property, plant and equipment, including right of use assets	21	200,987	125,088
Investment property	20	1,488	406
Intangible assets	22	61,850	58,536
Other assets	23	36,739	27,545
Total assets		11,183,700	8,197,199
Liabilities			
Deposits from banks	24	15,036	28,079
Derivative financial instruments	25	8,353	5,938
Due to customers	26	9,438,085	6,814,255
Other borrowed funds	27	38,924	22,973
Deferred tax liabilities	28	-	2,001
Provisions for other liabilities and charges	29	26,583	6,817
Retirement benefit obligations	30	8,062	5,429
Other liabilities	31	175,363	61,047
Total liabilities		9,710,406	6,946,539
Shareholders' equity			
Share capital		560,323	560,323
Statutory reserves		282,521	282,521
Retained earnings and other reserves		630,450	407,816
Total shareholders' equity	32	1,473,294	1,250,660
Total shareholders' equity and liabilities		11,183,700	8,197,199

The separate financial statements were authorized by the management on 24 March 2020.

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ОДИТОРСКО ДРУЖЕСТВО София Рег. № 129 БЕЙКЪР ТИЛИ КЛИТУ И ПАРТНЬОРИ ООД

The following notes set out on pages 50 to 169 form an integral part of these separate financial statements
Translation from the original Bulgarian version, in case of divergence the Bulgarian original shall prevail

(All amounts are shown in BGN thousands unless otherwise stated)

Separate statement of changes in shareholders' equity	Share capital	Property revaluation reserve	Fair value reserve	Statutory Reserves	Retained earnings and other reserves	Total
Balance at 01 January 2018	560,323	1,059	31,052	282,521	361,632	1,236,587
Impact of adopting IFRS 9 at 1 January 2018, net of tax	-	-	-	-	(77,021)	(77,021)
Reclassification, net of tax	-	-	(131)	-	131	-
Balance at 01 January 2018	560,323	1,059	30,921	282,521	284,742	1,159,566
Profit for the year	-	-	-	-	157,427	157,427
Other comprehensive income						
Change in fair value reserve on financial assets at FVOCI	-	-	(8,649)	-	-	(8,649)
Revaluation of property, plant and equipment	-	(36)	-	-	-	(36)
Remeasurements of retirement benefit obligations, net of tax	-	-	-	-	109	109
Total comprehensive income for 2018	-	(36)	(8,649)	-	157,536	148,851
Acquisition of subsidiary	-	-	-	-	917	917
Transactions with owners of the Bank						
Contributions and distributions:						
Dividend paid	-	-	-	-	(58,674)	(58,674)
Total transactions with owners of the Bank	-	-	-	-	(58,674)	(58,674)
Balance at 31 December 2018	560,323	1,023	22,272	282,521	384,521	1,250,660
Balance at 01 January 2019	560,323	1,023	22,272	282,521	384,521	1,250,660
Profit for the year	-	-	-	-	213,699	213,699
Other comprehensive income						
Change in fair value reserve on financial assets at FVOCI	-	-	(1,972)	-	-	(1,972)
Revaluation of property, plant and equipment	-	903	-	-	-	903
Remeasurements of retirement benefit obligations, net of tax	-	-	-	-	(174)	(174)
Total comprehensive income for 2019	-	903	(1,972)	-	213,525	212,456
Changes in post acquisition reserves of Piraeus Bank Bulgaria	-	-	-	-	10,178	10,178
Transfer to retained earnings	-	(72)	-	-	72	-
Balance at 31 December 2019	560,323	1,854	20,300	282,521	608,296	1,473,294

The separate financial statements were authorized by the management on 24 March 2020.

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ОДИТОРСКО ДРУЖЕСТВО София Рег. № 129 БЕЙКЪР ТИЛИ КЛИТУ И ПАРТНЬОРИ ООД

The following notes set out on pages 50 to 169 form an integral part of these separate financial statements
Translation from the original Bulgarian version. In case of divergence the Bulgarian original shall prevail

(All amounts are shown in BGN thousands unless otherwise stated)

Separate statement of cash flows

	Year ended 31 December	
	2019	**2018**
Cash flows from operating activities		
Interest received	356,819	319,271
Interest paid	(9,116)	(10,899)
Dividends received	56	31
Fees and commission received	111,683	99,514
Fees and commission paid	(15,575)	(14,605)
Amounts paid to and on behalf of employees	(91,943)	(74,343)
Net trading and other income received	413	3,130
Other operating expenses paid	(87,034)	(74,626)
Tax paid	(18,691)	(9,925)
Cash from operating activities before changes in operating assets and liabilities	**246,612**	**237,548**
Changes in operating assets and liabilities		
Net (increase) in reserve with the Central Bank	(112,595)	(33,919)
Net (increase)/ decrease in trading securities	(734)	6,117
Net (increase) in loans and advances to customers	(615,736)	(630,696)
Net (increase) in other assets	(1,122)	(3,052)
Net increase/ (decrease) in derivatives instruments	2,793	(2,301)
Net (decrease)/ increase in due to other banks	(13,043)	19,054
Net increase in amounts due to customers	625,111	733,368
Net (decrease)/ increase in other liabilities	(4,732)	1,185
Net cash flows from operating activities	**126,554**	**327,304**

(Continued on the next page)

(All amounts are shown in BGN thousands unless otherwise stated)

Separate statement of cash flows (continued)

	Year ended 31 December	
	2019	2018
Cash flows from investing activities		
Payment for acquisition of Piraeus Bank, net of cash acquired (Note 38)	774,446	-
Net proceeds from purchase/ sale of shares in subsidiaries (Note 37)	(1,141)	(15,505)
Purchase of property, plant and equipment and intangible assets (Notes 21,22)	(20.830)	(35,641)
Purchase of investment securities	(157,271)	-
Proceeds on disposal of property and equipment	456	581
Proceeds from sale of investment securities	51,727	39,728
Net cash flow from investing activities	**647,387**	**(10,837)**
Cash flows from/ (used in) financing activities		
Dividend paid	-	(58,674)
Long-term debt repaid	(6,548)	(7,441)
Payment of lease liability	(12,068)	-
Net cash used in financing activities	**(18,616)**	**(66,115)**
Effect of exchange rate changes on cash and cash equivalents	(357)	(1,181)
Net change in cash and cash equivalents	**754,968**	**249,171**
Cash and cash equivalents at beginning of year	**1,985,058**	**1,735,887**
Cash and cash equivalents at end of year (Note 33)	**2,740,026**	**1,985,058**

The separate financial statements were authorised by the management on 24 March 2020.

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ОДИТОРСКО ДРУЖЕСТВО София Рег. № 129 БЕЙКЪР ТИЛИ КЛИТУ И ПАРТНЬОРИ ООД

The following notes set out on pages 50 to 169 form an integral part of these separate financial statements
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(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements

1.General information

Eurobank Bulgaria AD (the Bank), UIC 000694749, was incorporated and is domiciled in Bulgaria. The Bank is a joint stock company limited by shares and was set up in accordance with Bulgarian regulations. The Bank operates under a full banking licence issued by the Bulgarian National Bank.

Eurobank Bulgaria AD provides retail, corporate banking and investment banking services in Bulgaria. Its Head Office is located in Sofia and it has 200 network locations and 13 business centers (2018: 178 network locations and 10 business centers). The registered office address is: 260 Okolovrasten pat, 1766 Sofia, Bulgaria. The Bank employs 3,383 people (2018: 2,643).
Eurobank Bulgaria AD is a subsidiary of Eurobank Group, Greece (the Group). The parent company is incorporated and is domiciled in Greece.

Position of Eurobank Group, Greece

The Group operates in an environment of positive growth rates both in Greece (Group's main market) and the other countries, in which it has a substantial presence. Specifically, Greece's 2019 real GDP growth was at 1.9% according to the Hellenic Statistical Authority (ELSTAT) data (2018: 1.9%), while it was estimated at 2.4% in 2020, according to the European Commission's 2020 winter forecasts. The unemployment rate in December 2019 was at 16.3% (December 2018: 18.5%) based on ELSTAT data. On the fiscal front, according to the 2020 Budget, the primary surplus of Greece for 2019 is estimated at 3.7% of GDP, while the respective forecast for 2020 was estimated at 3.6% of GDP. However, the recent coronavirus outbreak is very possible to slash the above forecasts for 2020. In the context of the Enhanced Surveillance (ES), the first four consecutive quarterly reviews were successfully completed by December 2019, while the conclusion of the fifth review is expected by mid-March 2020. The capital controls imposed in July 2015 were fully abolished from 1 September 2019 onwards. On the back of this environment, the Greek state in 2019 managed to normalize and achieve continuous market access with the issuance of four bonds of various maturities. In January 2020, the Greek government issued a 15-year bond of € 2.5 billion at a yield of 1.9%. The yield of the 10-year benchmark bond was at 1.46% on 31 December 2019, compared to 4.40% on 31 December 2018. Additionally, according to the ECB's decision notified to the Bank on 6 March 2020, it has been concluded that the reasons to impose sovereign limits on the Greek banks' (including Eurobank) exposure towards the Hellenic Republic have ceased to exist and therefore its previous decision on those limits shall be repealed.

Regarding the outlook for the next 12 months, the major macroeconomic risks and uncertainties in Greece are associated with (i) the implementation of the reforms and privatizations' agenda in order to meet the ES targets and milestones, (ii) the implementation of the Public Investments Program according to the respective 2020 Budget targets, (iii) the attraction of new investments in the country and (iv) the geopolitical and macroeconomic conditions in the near or in broader region, including the impact of a persistent low/negative rates' environment and the external shocks from a slowdown in the regional and/ or global economy. A major challenge for the international community is the recent coronavirus outbreak whose economic effect is mainly related with the disruption of trade and global supply chains and the risks that it might create for the world growth for 2020. In case of a global slowdown in economic activity, an adverse impact on certain industries of the Greek economy, such as tourism, manufacturing sector and shipping cannot be ruled out. Materialization of those risks would have potentially adverse effects on the fiscal planning of the Greek sovereign and on the liquidity, solvency and profitability of the Greek banking sector, as well as on the realization of their NPE's reduction plans. The Group monitors closely the developments in the Greek and regional macroeconomic environment taking into account its direct and indirect exposure to sovereign risk.

The merger with Grivalia completed in May 2019 has further enhanced Eurobank's capital with the total CAD and the CET1 ratios amounting to 19.2% and 16.7% respectively as at 31 December 2019. The net profit attributable to shareholders amounted to € 127 million (€ 257 million net profit from continuing operations before € 66 million restructuring costs after tax and € 62 million goodwill impairment) for the year ended 31 December 2019. Furthermore, the Bank has eliminated the use of Emergency Liquidity Assistance program (ELA) as of end January 2019. As at 31 December 2019, the Group deposits have increased by € 5.7 billion (out of which € 1.1 billion is associated with the acquisition of Piraeus Bank Bulgaria) to € 44.8 billion

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

1. General information (continued)

Position of Eurobank Group, Greece (continued)

(2018: € 39.1 billion), improving the Group's (net) loans to deposits (L/D) ratio to 83.2% as at 31 December 2019 (2018: 92.6%). In the context

of the internal liquidity stress test framework, which is part of the 2019 ILAAP (Internal Liquidity Adequacy Assessment Process), the results of the short and medium term liquidity stress tests indicate that the Bank has adequate liquidity buffer to withstand to all of the stress test scenario effects.

In 2019, the Group, after completing in September the sale of 95% of the mezzanine and junior notes of a securitization of a residential mortgage loan portfolio with a gross book value of ca. € 2 billion (project Pillar comprising primarily NPEs) and executing its organic NPE reduction strategy, managed to decrease its NPEs at amortised cost by € 3.7 billion to € 13.0 billion, driving the NPE ratio to 29% (2018: 37%).

The Greek government in order to support the reduction of non-performing loans (NPL) of banks designed an asset protection scheme ('APS'), approved by European Commission in October 2019, to assist them in securitizing and moving non-performing loans off their balance sheets. In December 2019 the Bank, following the enactment of the 'APS' law and its decision to opt-in for all the senior notes of the Cairo transaction, has entered into binding agreements for: a) the sale of 20% of the mezzanine and the minimum required percentage (as per 'APS') of junior notes of a securitization of a mixed assets portfolio with a gross book value of ca. € 7.5 billion (project Cairo comprising primarily NPEs) and b) the sale of a majority stake in Financial Planning Services S.A. (FPS), the licensed 100%-owned loan servicer of Eurobank (project Europe). The above projects are a key component of the Group's frontloaded NPE reduction plan for the achievement of the targeted NPE ratio of ca. 16% in the first quarter of 2020 and a single digit ratio by 2021.

In response to the coronavirus outbreak, on 12 March 2020, the ECB announced a number of temporary capital and operational relief measures to ensure that its directly supervised banks can continue to fulfil their role in funding the real economy. Banks will be allowed to use capital and liquidity buffers and cover Pillar 2 requirements with other than CET 1 instruments. On the same date the EBA decided to postpone the EU-wide stress test exercise to 2021 to allow banks to focus on and ensure continuity of their core operations, including support for their customers. The ECB stated that it supports the above EBA decision and will extend the postponement to all banks (including Eurobank) subject to the 2020 stress test. In addition, the EBA stated that there is flexibility in the implementation of the EBA Guidelines on management of non-performing and forborne exposures and called for a close dialogue between supervisors and banks, also on their non-performing exposure strategies, on a case by case basis.

Related party transactions - Eurobank Ergasias S.A. shareholding structure

In May 2019, following the increase of the share capital of the Eurobank Ergasias in the context of the merger with absorption of Grivalia Properties REIC, the percentage of the its ordinary shares with voting rights held by the Hellenic Financial Stability Fund (HFSF) decreased from 2.38% to 1.40%. The HFSF is still considered to have significant influence over Eurobank Ergasias pursuant to the provisions of the Law 3864/2010, as in force, and the Relationship Framework Agreement (RFA) Eurobank Ergasias has entered into with the HFSF. In particular, among others rights according to Law 3864/2010, as in force, and the RFA, HFSF exercises its voting rights in the Eurobank Ergasias General Assembly only for decisions concerning the amendment of Eurobank Ergasias Articles of Association, including the increase or decrease of the Eurobank Ergasias capital or the granting of a corresponding authorization to the Eurobank Ergasias's Board, decisions concerning the mergers, divisions, conversions, revivals, extension of duration or dissolution of the Eurobank Ergasias, the transfer of assets (including the sale of subsidiaries), or any other issue requiring approval by an increased majority as provided for in Company Law 4548/2018. Further to this, the RFA signed on 4 December 2015 replacing the previous one, signed on 26 August 2014, regulates, among others, (a) Eurobank Ergasias's corporate governance, (b) the Restructuring Plan and its monitoring, (c) the monitoring of the implementation of Eurobank Ergasias's Non-Performing Loans (NPLs) management framework and of Eurobank Ergasias's performance on NPLs resolution, (d) the Material Obligations and the switch to full

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)
2. Basis of preparation and principal accounting policies
Related party transactions - Eurobank Ergasias S.A. shareholding structure (continued)

voting rights, (e) the monitoring of Eurobank Ergasias's actual risk profile against the approved Risk and Capital Strategy, (f) the HFSF's prior written consent for Eurobank Ergasias's Group Risk and Capital Strategy and for Eurobank Ergasias's Group Strategy, Policy and Governance regarding the management of its arrears and non-performing loans and any amendment, extension, revision or deviation thereof, and (g) the duties, rights and obligations of HFSF's Representative in Eurobank Ergasias's Board.
A number of banking transactions are entered into with related parties in the normal course of business and are conducted on an arm's length basis. These include loans, deposits and guarantees. In addition, as part of its normal course of business in investment banking activities, the Group at times may hold positions in debt and equity instruments of related parties.
Following the completion of the merger of Eurobank with Grivalia Properties REIC, Fairfax group has increased its percentage holding in Eurobank Ergasias share capital, which as at 31 December 2019 stands at 31.27%.
1 As per Eurobank's Restructuring Plan approved by the European Commission on 26 November 2015, the end of the restructuring period was the 31st December 2018.
The principal accounting policies applied in the preparation of these separate financial statements are set out below:

2.1 Basis of preparation

Eurobank Bulgaria AD prepares separate financial statements. The Bank has one subsidiary as at 31 December 2019 - ERB Leasing Bulgaria EAD. The Bank is using the exemption as per the Bulgarian Accountancy act, art.38 (10) and in compliance with IFRS10, para 4 not to prepare consolidated financial statements.
The separate financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by IASB, as endorsed by the European Union (EU), and with those IFRSs and IFRS Interpretation Committee's (IC) interpretations, issued and effective or issued and early adopted as at the time of preparing these separate financial statements.

The separate financial statements have been prepared under historical cost convention as modified by:

- the revaluation of financial assets/financial assets measured at fair value through other comprehensive income (FVOCI) and of financial assets and financial liabilities (including derivative instruments) at fair-value-through-profit-or-loss;
- land and buildings for own use - measured at fair value through other comprehensive income;
- investment property - measured at fair-value-through-profit-or-loss;
- repossessed collaterals – measured at the lower of cost and net realizable value;
- retirement benefit obligations – measured at present value of the retirement benefit obligation;
- assets acquired and liabilities assumed at merger – measured at fair value.

Use of judgments and estimates

The preparation of the separate financial statements in conformity with IFRS requires the use of estimates and judgements, described in section 3. Critical accounting estimates and judgments in applying accounting policies that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the separate financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

2.1 Basis of preparation (continued)

2.1.1 New and amended standards and interpretations

The following new and amended standards and interpretations, as issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IC) and endorsed by the European Union (EU), apply from 1 January 2019:

IFRS 9, Amendments–Prepayment Features with Negative Compensation
The amendments in IFRS 9 requirements allow the measurement of a financial asset at amortised cost, or at fair value through other comprehensive income (FVOCI), depending on the business model, even in the case of prepayment options which could result in the party that triggers the early termination, receiving compensation from the other party (negative compensation). Therefore, these financial assets can now be measured at amortised cost or at FVOCI, regardless of the event or circumstance that caused the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination. Applying IFRS 9 before the amendments would probably result in these financial assets failing the "Solely Payments of Principal and Interest" criterion and thus being measured at FVTPL.
The amendments also confirm the modification accounting of financial liabilities under IFRS 9. Specifically, when a financial liability measured at amortised cost is modified without this to result in derecognition, a gain or loss, calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate, should be recognized in profit or loss.
The adoption of the amendments had no impact on the Bank's separate financial statements.

IFRIC 23, Uncertainty over Income Tax Treatments
The interpretation clarifies the application of the recognition and measurement requirements in IAS 12 'Income Taxes' when there is uncertainty over income tax treatments. In such a circumstance, recognition and measurement of current or deferred tax asset or liability according to IAS 12 is based on taxable profit (tax loss), tax bases, unused tax losses and tax credits and tax rates as determined by applying IFRIC 23.
According to the interpretation, each uncertain tax treatment is considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty. The entity also assumes that the taxation authority that will examine these amounts it has a right to examine and has full knowledge of all related information when making those examinations.
If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, it will determine taxable profits, tax bases, tax losses, tax credits and tax rates consistently with that treatment. If it concludes that it is not probable that the uncertain tax treatment will be accepted, the effect of the uncertainty in its income tax accounting should be reflected in the period in which that determination is made, using the method that best predicts the resolution of the uncertainty (i.e. the single most likely amount, or the expected value method which follows a probability weighted approach).
Judgments and estimates made for the recognition and measurement of the effect of uncertain tax treatments should be reassessed whenever circumstances change or new information that affects those judgments arise (e.g. actions by the tax authority, evidence that it has taken a particular position in connection with a similar item or the expiry of its right to examine a particular tax treatment).
The adoption of the interpretation had no impact on the Bank's separate financial statements.

IFRS 16, Leases
IFRS 16, which supersedes IAS 17 'Leases' and related interpretations, introduces a single, on-balance sheet lease accounting model for lessees, under which the classification of leases for a lessee, as either operating leases or finance leases, is eliminated and all leases are treated similarly to finance leases under IAS 17.
The definition of a lease under IFRS 16 mainly relates to the concept of control. The new standard distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

2.1 Basis of preparation (continued)

2.1.1 New and amended standards and interpretations (continued)

IFRS 16, Leases (continued)

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

IFRS 16 provides for the recognition of a 'right-of-use-asset' and a 'lease liability' upon lease commencement in case that there is a contract, or part of a contract, that conveys to the lessee the right to use an asset for a period of time in exchange for a consideration.

The right-of-use-asset is, initially, measured at cost, consisting of the amount of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee and, subsequently, at cost less accumulated depreciation and impairment. The lease liability is initially recognized at an amount equal to the present value of the lease payments during the lease term that are not yet paid.

Consequently, the typical straight line operating lease expense of operating leases under IAS 17 is replaced by the depreciation charge of the 'right-of-use-asset' and the interest expense on the 'lease liability'. The recognition of assets and liabilities by lessees, as described above, is not required for certain short-term leases and leases of low value assets. The accounting treatment for lessors is not substantially affected by the requirements of IFRS 16.

Adoption of IFRS 16

The Bank implemented the requirements of IFRS 16 on 1 January 2019. The Bank has chosen the modified retrospective application of IFRS 16 and therefore comparative information was not restated.

Upon transition, the Bank adopted the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, existing contracts previously classified as service contracts such as ATMs and other services were not classified as leases under IFRS 16, while the definition set out in IFRS 16 is applied to all lease contracts entered into or modified on or after 1 January 2019.

In accordance with IFRS 16, at the commencement date of the lease, the Bank as a lessee recognises right-of-use assets (RoA) and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments.

The Bank applied this initial measurement principle to all leases, except for those with a lease term of 12 months or less, and leases of low value (i.e. less than BGN 10,000) - making use of the relevant short-term leases and leases of low-value assets exemptions. The Bank also adopted the practical expedient not to separate non-lease components from lease components.

In applying the modified retrospective transition approach, the Bank used the following main estimates and judgments:

- In determining the lease term for the leases in which the Bank is the lessee, including those leases having an indefinite life, all relevant facts and circumstances, such as future housing needs and expected use, were considered and judgment was exercised. Furthermore, options to extend or terminate the lease that are reasonably certain to exercise were considered. These estimates will be revisited on a regular basis over the lease term.
- The present value of the lease liabilities was measured by using the incremental borrowing rate on the transition date, since the interest rate implicit in the leases was not readily determinable. For the Bank the incremental borrowing rate is equal to the Bank's Deposits cost of funds for the respective currency. The discount rate used to determine the lease liabilities will be recalculated on a regular basis, using updated input.
- Applicable taxes, Value Added Tax and stamp duties were excluded from the scope of IFRS 16 calculations.

The quantitative impact of applying IFRS 16 as at 1 January 2019 is disclosed in note 2.3.1

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

2.1 Basis of preparation (continued)

2.1.1 New and amended standards and interpretations (continued)

IAS 28, Amendment – Long-Term Interests in Associates and Joint Ventures

The amendment clarifies that IFRS 9 'Financial Instruments' including its impairment requirements, applies to long-term interests in associates or joint ventures that form part of the entity's net investment in the associate or joint venture but are not accounted for using equity accounting.
According to the amendment, an entity should not take into account any adjustments to the carrying amount of long-term interests (net investment in the associate or joint venture), resulting from the application of IAS 28 'Investments in Associates and Joint Ventures' when applying IFRS 9.
The adoption of the amendment had no impact on the Bank's separate financial statements.

IAS 19, Amendment –Plan Amendment, Curtailment or Settlement

The amendment clarifies that when a change to a defined benefit plan i.e. an amendment, curtailment or settlement takes place and a remeasurement of the net defined benefit liability or asset is required, the updated actuarial assumptions from the remeasurement should be used to determine current service cost and net interest for the remainder of the reporting period after that event. Additionally, the amendment includes clarifications about the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.
The adoption of the amendment had no impact on the Bank's separate financial statements.

Annual Improvements to IFRSs 2015-2017 Cycle

The improvements introduce key changes to several standards as set out below:
The amendments to IFRS 3 'Business Combinations' and IFRS 11 'Joint Arrangements' clarified how an entity accounts for increasing its interest in a joint operation that meets the definition of a business. Specifically, when an entity obtains control of a business that is a joint operation, then the transaction constitutes a business combination achieved in stages and the acquiring party re-measures the entire previously held interest in the assets and liabilities of the joint operation at fair value. Conversely, if a party that participates in, but does not have joint control of, a joint operation obtains joint control of the joint operation, then the previously held interest is not re-measured.
The improvement to IAS 12 'Income Taxes' clarified that all income tax consequences of dividends, including payments on financial instruments classified as equity, should be recognized in profit or loss, other comprehensive income or equity, according to where the originating transaction or event that generated distributable profits giving rise to the dividend, was recognized.
IAS 23 'Borrowing costs' amendment clarified that any borrowing originally performed to develop a qualifying asset should be treated as part of the funds that the entity borrowed generally, when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.
The adoption of the amendments had no impact on the Bank's separate financial statements.

New standards, amendments to standards and interpretations not yet adopted by the Bank

A number of new standards, amendments to existing standards and interpretations are effective after 2019, as they have not yet been endorsed by the European Union or have not been early applied by the Bank. Those that may be relevant to the Bank are set out below:

Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7 (effective 1 January 2020)

In September 2019, the IASB issued amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures' to address the implications for certain hedge accounting requirements related to the uncertainties arising from the market-wide reform of several interest rate benchmarks (referred to as 'IBOR reform'). As a result of the IBOR reform, there may be uncertainties about: a) the interest rate benchmark designated as a hedged risk and/or b) the timing or amount of the benchmark-based cash flows of the hedged item or the hedging instrument, during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an 'RFR').

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

2.1 Basis of preparation (continued)

2.1.1 New and amended standards and interpretations (continued)

Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7 (effective 1 January 2020) (continued)

The amendments modify certain hedge accounting requirements under IAS 39 or IFRS 9 to provide temporary reliefs from the potential effect of uncertainty, during that period. These reliefs are related mainly to the highly probable requirement for the cash flows hedges, the compliance with the identifiable nature of the risk component and the application of prospective and retrospective effectiveness tests.

The IASB addresses the IBOR reform and its potential effects on financial reporting in two phases. These amendments conclude phase one that focuses on issues affecting financial reporting in the period before the interest rate benchmark reform, while the second phase focuses on potential issues that might affect financial reporting once the existing rate is replaced with an RFR.

As described in note 2.2.3, the Bank elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39. Therefore, the amendments to IAS 39 and IFRS 7 will be applicable for the Bank.

The Group has set up an IBOR transition program to implement the transition to alternative interest rates that focuses on key areas of impact on customers' contracts, systems and processes, financial reporting, valuation, capital and liquidity planning and communication.

The Bank is currently assessing the amendments in order to define the extent to which the reliefs provided will be applied in its hedging relationships.

Amendments to the Conceptual Framework for Financial Reporting, including amendments to references to the Conceptual Framework in IFRS Standards (effective 1 January 2020)

In March 2018, the IASB issued its revised "Conceptual Framework for Financial Reporting" (Conceptual Framework). The revised Conceptual Framework is not a standard nor overrides any requirements of individual standards. This replaces the previous version of the Conceptual Framework issued in 2010. Revisions performed by IASB introduced guidance on measurement, presentation and disclosure on derecognition concepts. In addition, the revision includes updated definitions of an asset/liability and of recognition criteria, as well as clarifications on important areas.

Alongside the revised Conceptual Framework, the IASB has published an accompanying document "Amendments to References to the Conceptual Framework in IFRS Standards" which contains consequential amendments to affected standards so that they refer to the new Framework.

The adoption of the amended Framework is not expected to impact the Bank's separate financial statements.

Amendments to IFRS 3 Business Combinations (effective 1 January 2020, not yet endorsed by EU)

The IASB issued amendments to the definition of a business in IFRS 3 "Business Combinations" to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, and add guidance to help entities assess whether an acquired process is substantive. In addition, with the introduction of the amendments the definitions of a business and of outputs are narrowed, while an optional fair value concentration test is introduced.

The adoption of the amendments is not expected to impact the Bank's separate financial statements.

Amendments to IAS 1 and IAS 8: Definition of Material (effective 1 January 2020)

The amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" aim to align the definition of 'material' across the standards and to clarify certain aspects of the definition. According to the new definition an information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both.

The adoption of the amendments is not expected to impact the Bank's separate financial statements.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

2.1 Basis of preparation (continued)

2.1.1 New and amended standards and interpretations (continued)

IAS 1, Amendments, Classification of Liabilities as Current or Non-Current (effective 1 January 2022, not yet endorsed by EU)

The amendments affect only the presentation of liabilities in the statement of financial position and provide clarifications over the definition of the right to defer the settlement of a liability, while they make clear that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. In addition, it is clarified that the assessment for liabilities classification made at the end of the reporting period is not affected by the expectations about whether an entity will exercise its right to defer settlement of a liability. The Board also clarified that when classifying liabilities as current or non-current, a entity can ignore only those conversion options that are recognised as equity.

The adoption of the amendments is not expected to impact the Bank's separate financial statements.

IFRS 17, Insurance Contracts (effective 1 January 2021, not yet endorsed by EU)

IFRS 17, which supersedes IFRS 4 'Insurance Contracts' provides a comprehensive and consistent accounting model for insurance contracts. It applies to insurance contracts issued, all reinsurance contracts and to investment contracts with discretionary participating features provided that the entity also issues insurance contracts. Financial guarantee contracts are allowed to be within the scope of IFRS 17 if the entity has previously asserted that it regarded them as insurance contracts.

According to IFRS 17 general model, groups of insurance contracts which are managed together and are subject to similar risks, are measured based on building blocks of discounted, probability-weighted estimates of future cash flows, a risk adjustment and a contractual service margin ('CSM') representing the unearned profit of the contracts. Under the model, estimates are remeasured in each reporting period. A simplified measurement approach may be used if it is expected that doing so a reasonable approximation of the general model is produced or if the contracts are of short duration.

Revenue is allocated to periods in proportion to the value of expected coverage and other services that the insurer provides during the period, claims are presented when incurred and any investment components i.e amounts repaid to policyholders even if the insured event does not occur, are not included in revenue and claims. Insurance services results are presented separately from the insurance finance income or expense.

In June 2019, the IASB issued exposure draft *Amendments to IFRS 17,* including a deferral of the effective date by one year, so that entities would be required to apply IFRS 17 for annual periods beginning on or after 1 January 2022.
IFRS 17 is not relevant to the Bank's activities.

The policies set out below have been consistently applied to the years 2019 and 2018.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

2.2 Principal accounting policy

2.2.1 Shares in subsidiary undertakings

Investments in subsidiaries, including investments acquired through common control transactions, are accounted at cost less any impairment losses. Cost is the fair value of the consideration given being the amount of cash or shares issued, or if that cannot be determined reliably, the consideration paid together with any directly attributable costs.

Business combinations

The Bank accounts for business combinations using the acquisition method when control is transferred to the Bank. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Merger

Mergers that involve the combination of the Bank with one or more of its related parties are accounted in accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” with reference to the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework and comply with the IFRS general principles.

In such transactions, the Bank incorporates the acquired assets and liabilities of the merged subsidiary at their carrying amounts as of the date of the legal merger without any fair value adjustments. Any difference between the carrying amount of the investment in the merged subsidiary before the legal merger, and the carrying amount of net assets acquired is recognized in the Bank’s equity.

Transactions eliminated on merger

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity- accounted investees are eliminated against the investment to the extent of the Bank interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2.2.2 Foreign currencies transactions

The Bank’s presentation currency is the Bulgarian Lev (BGN) being the functional currency of the primary economic environment in which the Bank operates (‘the functional currency’). Except otherwise indicated, financial information presented in Bulgarian Leva has been rounded to the nearest thousand.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the Central Bank’s exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.2 Foreign currencies transactions (continued)

Transactions and balances (continued)

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing at each reporting date and exchange differences are recognized in the income statement.

Non-monetary assets and liabilities are translated into the functional currency at the exchange rates prevailing at initial recognition, except for non-monetary items denominated in foreign currencies that are measured at fair value which are translated at the rate of exchange at the date the fair value is determined. The exchange differences relating to these items are treated as part of the change in fair value and are recognized in the income statement or recorded directly in equity depending on the classification of the non-monetary item.

At 31 December 2019, monetary assets and liabilities are translated at the reference Central Bank exchange rate – BGN 1 for EUR 0.5113 (2018: BGN 1 for EUR 0.5113) and BGN 1 for USD 0.574386 (2018: BGN 1 for USD 0.585429).

2.2.3 Derivative financial instruments

Derivatives are financial instruments:

a) whose value is changed in response to changes in a specified interest rate, financial instrument price, foreign exchange rate, index of prices and rates, credit rates or credit index or other variable;
b) that require no initial net investment or an initial net investment is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors;
c) that are settled at a future date.

Derivative financial instruments including foreign exchange contracts, forward currency agreements, FX swaps, interest rate swaps and cross currency interest rate swaps, options and futures are initially recognized in the financial reports on the value/settlement date on which a derivative contract becomes effective.

Forward currency agreements, interest rate swaps (incl. cross currency interest rate swaps), options and futures are subsequently re-measured at their fair value at the end of each reporting month. They are carried as assets when fair value is positive and as liabilities when fair value is negative. Usually the net investment is zero (i.e. the initial net fair value of the receivables and payables is zero). Their fair values are determined based on quoted market prices, including recent market transactions, or by using other valuation techniques, as appropriate. The changes in the fair value of these derivatives are included in the income statement. The principles for the fair value measurement of financial instruments, including derivative financial instruments, are described in note 2.2.14 Fair value measurement of financial assets.

With respect to the treatment of FX swaps, they are subsequently not revalued – the contractual commitments for exchange of notionals at maturity is accounted as off-balance asset and liability respectively and the implied interest differential is accrued (amortized) on the income statement as interest income/expense.

Financial assets that contain embedded derivatives are recognised in the balance sheet in their entirety in the appropriate classification category, following instruments' assessment of their contractual cash flows and their business model as described in note 2.2.10. In addition, certain derivatives, embedded in financial liabilities, are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in the income statement.

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.3 Derivative financial instruments and hedging (continued)

Hedge accounting

For hedge accounting purposes, the Bank forms a hedging relationship between a hedging instrument and a related item or group of items to be hedged. A hedging instrument is a designated derivative or a designated non-derivative financial asset or financial liability whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a designated hedged item.
Specifically, the Bank designates certain derivatives as: hedges of the exposure to changes in fair value of recognized assets or liabilities or unrecognized firm commitments (fair value hedge).
In order to implement hedge accounting, specified criteria should be met. Accordingly, at the inception of the hedge accounting relationship, the Bank documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions, together with the method that will be used to assess the effectiveness of the hedging relationship. The Bank also documents its assessment, both at inception of the hedge and on an ongoing basis, an assessment of whether the derivatives that are used in the hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items and whether the actual results of each hedge are within a range of 80-125%. If a relationship does not meet the abovementioned hedge effectiveness criteria, the Bank discontinues hedge accounting prospectively. Similarly, if the hedging derivative expires or is sold, terminated or exercised, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. In addition, the Bank uses other derivatives, not designated in a qualifying hedge relationship, to manage its exposure primarily to interest rate and foreign currency risks. Non qualifying hedges are derivatives entered into as economic hedges of assets and liabilities for which hedge accounting was not applied. The said derivative instruments are classified along with those held for trading purposes.
The method of recognizing the resulting fair value gain or loss depends on whether the derivatives are designated and qualify as hedging instruments, and if so, the nature of the item being hedged.
Furthermore, the Bank may designate groups of items as hedged items, by aggregating recognized assets or liabilities or unrecognized but highly probable transactions of similar risk characteristics that share the exposure for which they are hedged. Although the overall risk exposures may be different for the individual items in the group, the specific risk being hedged will be inherent in each of the items in the group.

(i) Fair value hedge

The Bank applies fair value hedging to hedge exposures primarily to changes in the fair value attributable to interest rate risk and currency risk.
The interest rate and currency risk with respect to the applicable benchmark rate may be hedged using interest rate swaps and cross currency swaps.
The Bank uses the dollar-offset method in order to assess the effectiveness of fair value hedges. This is a quantitative method that involves the comparison of the change in the fair value of the hedging instrument with the change in the fair value of the hedged item attributable to the hedged risk. Even if a hedge is not expected to be highly effective in a particular period, hedge accounting is not precluded if effectiveness is expected to remain sufficiently high over the life of the hedge.
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with the changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk. The Bank discontinues hedge accounting in case the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the qualifying criteria for hedge accounting, or designation is revoked. In such cases, any adjustment to the carrying amount of the hedged item, for which the effective interest method is applied, is amortized to profit or loss over the period to maturity. Hedge ineffectiveness may arise in case of potential differences in the critical terms between the hedged item and the hedging instrument such as maturity, interest rate reset frequency and discount curves.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.3 Derivative financial instruments and hedging (continued)

Hedge accounting (continued)

(ii) Derivatives that are not designated as hedging instruments

Changes in the fair value of derivative financial instruments that are not designated as a hedging instrument or do not qualify for hedge accounting are recognized in the income statement.
The fair values of derivative instruments held for trading and hedging purposes are disclosed in note 25.

2.2.4 Income Statement

(i) Interest income and expense

Interest income and expense is recognized in the income statement for all interest bearing financial instruments on an accrual basis, using the effective interest rate (EIR) method. 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, when appropriate, a shorter period to the gross carrying amount of the financial asset or to the amortized cost of a financial liability. When calculating the EIR for financial instruments other than purchased or originated credit-impaired (POCI), the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider expected credit losses. For POCI financial assets, the credit-adjusted EIR is used, which is the interest rate that upon the original recognition of the POCI financial asset discounts the estimated future cash flows (including expected credit losses) to the fair value of the POCI asset.
The amortized cost of a financial asset or liability is the amount at which it is measured upon initial recognition minus principal repayments, plus or minus cumulative amortization using the EIR (as described above) and for financial assets only adjusted for the expected credit loss allowance, while the gross carrying amount of a financial asset is its amortized cost before adjusting for ECL allowance.
The EIR calculation includes all fees and points paid or received that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.
The Bank calculates interest income and expense by applying the EIR to the gross carrying amount of non-impaired financial assets (exposures in Stage 1 and 2) or to the amortized cost of financial liabilities respectively.
For financial assets that have become credit-impaired subsequent to initial recognition (exposures in Stage 3), the Bank calculates interest income by applying the effective interest rate to the amortized cost of the financial asset (i.e. gross carrying amount adjusted for the expected credit loss allowance). If the asset is no longer credit-impaired, then the EIR is applied again to the gross carrying amount.

(i) Interest income and expense (continued)

For financial assets that were credit-impaired on initial recognition (POCI) interest income is calculated by applying the credit-adjusted EIR (calculated as described above) to the POCI financial asset's amortized cost. For such assets even if the credit risk improves, interest income does not revert to gross basis calculation.
Interest income for all debt instruments is recognised in the income statement and are presented in the income statement line of net interest income.

(ii) Fees and commissions

Fee and commission received or paid that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.4 Income Statement (continued)

(ii) Fees and commissions (continued)

Other fee and commission income such as account servicing and asset management fees (including performance based fees) is recognised as the related services are being provided to the customer, to the extent that it is highly probable that a significant reversal of the revenue amount recognized will not occur. Transaction-based fees such as foreign exchange transactions, imports-exports, remittances, bank charges and brokerage activities are recognised at the point in time when the transaction takes place. Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

In the case of a contract with a customer that results in the recognition of a financial instrument in the Bank's financial statements which may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15, the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and subsequently applies IFRS 15 to the residual part.

2.2.5 Net trading income

Net trading income comprises gains and losses related to derivative financial instruments (Hedging and Non-Hedging). All changes in fair value of financial assets at fair value at profit and loss are recognized as part of the net trading income in the income statement.

2.2.6 Gains less losses from investment securities

Gains less losses from investment securities relate to results deriving from realized gains and losses of securities measured at FVTPL, results deriving from early liquidation of fair value hedging derivative financial instruments (termination fees and reversal of accruals since the last coupon date) associated with OCI bonds, realized gains and losses on sale of securities (bonds) at FVOCI.

2.2.7 Property, plant and equipment (PPE)

Property, plant and equipment are initially recognized at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and comprises purchase price, including import duties and non-refundable purchase taxes and any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The cost is the cash or cash equivalent paid or the fair value of other consideration given to acquire the assets.
Subsequent expenditure is recognized in the asset's carrying amount only when it is probable that future economic benefits will flow to the Bank and the cost of the asset can be measured reliably. All other repair and maintenance costs are recognized in the income statement as incurred.

After initial recognition the Bank measures the land and building at fair value. All other PPE classes are recognised at historical cost less accumulated depreciation and impairment losses.

The fair value of land and buildings is determined from market-based evidence by appraisal that is undertaken by professionally qualified valuers. The main valuation methods include:

- market prices analogues (where assets are compared to those similar of nature offered on the market)
- present value of future income for rent generating assets (DCF)
- method of reduced cost (taking into account the price that the asset would cost at present if acquired or built and reduced on the basis of economic and physical depreciation factors).

Revaluation of property is performed on an annual basis.

At the date of revaluation, the net amount of the asset is restated to its revalued amount by adjusting its accumulated depreciation, in cases where the accumulated depreciation balance is less than the upward revaluation effect, the gross carrying amount is adjusted with the difference.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.7 Property, plant and equipment (PPE) (continued)

If an asset's carrying amount is increased as a result of a revaluation, the increase, net of tax, is recognised in other comprehensive income and accumulated as Property revaluation reserve in shareholder's equity. However the increase shall be recognised in the income statement to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement.

If an asset's carrying amount is decreased as a result of revaluation, the decrease is recognised firstly in other comprehensive income by reducing the revaluation surplus and subsequently in the income statement if credit balances in revaluation surplus are not sufficient.

With the exception of the land, the Bank depreciates all PPE. The depreciation charge is calculated using the straight-line method to write down the cost of PPE to their residual values over their estimated useful lives, as follows:

- Buildings – up to 50 years
- Leasehold improvements – the useful life of the lease
- Computer hardware - 4-10 years
- Other furniture and equipment - 3-20 years
- Motor vehicles- 5 years

The carrying amount of an item of property, plant and equipment is derecognised:

(a) on disposal
(b) when no future economic benefits are expected from its use or disposal.

The gain or loss from derecognition of an item of PPE is included in the income statement when the item is derecognised. The gain or loss from derecognition of an item of PPE is determined as the difference between the net disposal proceeds and the carrying amount of the asset.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. PPE are assessed for indications of impairment at each reporting date. When events or changes in circumstances indicate that the carrying amount may not be recoverable, an impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

2.2.8 Intangible assets

Costs that are directly associated with identifiable non-monetary asset without physical substance controlled by the Bank and which will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Expenditure which enhances or extends the performance of intangible assets beyond their original specifications is recognised as a capital improvement and added to the original costs of the asset. Costs associated with maintaining intangible assets are recognised as an expense as incurred.

Costs incurred in internal development of intangible assets when meet the recognition criterion is recognized as intangible asset. The cost of development activities is capitalised when it is probable that the Bank will obtain economic benefits from the use of the asset and the cost can be reliably measured.

The costs recognised (Note 22) include the employment costs of those directly involved in creating the asset, and may include some other costs (costs of materials and services used or consumed in generating the asset, legal fees, registration fees, etc).

Intangible assets are amortized using the straight-line method over their useful lives, as follows:

- Computer software- 5-15 years
- Licenses - 5-15 years
- Other intangible assets- 5-15 years

Intangible assets include software, licenses, internally developed and other intangible assets that are separable or arise from contractual or other legal rights.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.8 Intangible assets (continued)

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An intangible asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

2.2.9 Investment property

Investment property is defined as property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for: (a) use in the production of supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of business.

Investment property is carried at fair value, representing market value determined annually by external valuators. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Bank uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the income statement as part of other income/expense.

2.2.10 Financial assets

Financial assets - Classification and measurement

The Bank classifies financial assets based on the business model for managing those assets and their contractual cash flow characteristics. Accordingly, financial assets are classified into one of the following measurement categories: amortized cost, fair value through other comprehensive income or fair value through profit and loss.

Purchases and sales of financial assets are recognized on settlement date, which is the date the Bank commits to purchase or sell the assets. Loans originated by the Bank are recognized when cash is advanced to the borrowers. Receivables from customers are initially measured at the transaction price.

Financial Assets measured at Amortized Cost ("AC")

The Bank classifies and measures a financial asset at AC only if both of the following conditions are met:
(a) The financial asset is held within a business model whose objective is to collect contractual cash flows (hold-to-collect business model) 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 (SPPI).
These financial assets are recognized initially at fair value plus direct and incremental transaction costs, and are subsequently measured at amortized cost, using the effective interest rate (EIR) method.
Interest income, realized gains and losses on derecognition, and changes in credit impairment losses from assets classified at AC, are included in the income statement.

Financial Assets measured at Fair Value through Other Comprehensive Income ("FVOCI")

The Bank classifies and measures a financial asset at FVOCI only if both of the following conditions are met:
(a) The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (hold-to-collect-and-sell business model) and
(b) The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.10 Financial assets (continued)

Financial Assets measured at Fair Value through Other Comprehensive Income ("FVOCI") (continued)

Financial assets that meet these criteria are debt instruments and are measured initially at fair value, plus direct and incremental transaction costs.
Subsequent to initial recognition, FVOCI debt instruments are re-measured at fair value through OCI, except for interest income, related foreign exchange gains or losses and credit impairment losses, which are recognized in the income statement. Cumulative gains and losses previously recognized in OCI are transferred from OCI to the income statement when the debt instrument is derecognised.

Equity Instruments designated at FVOCI

The Bank may make an irrevocable election to designate an equity instrument at FVOCI. This designation, if elected, is made at initial recognition and on an instrument by instrument basis. Gains and losses on these instruments, including when derecognized, are recorded in OCI and are not subsequently reclassified to the income statement. Dividends received are recorded in the income statement. The Bank has no equity instruments designated at FVOCI.

Financial Assets measured at Fair Value through Profit and Loss ("FVTPL")

The Bank classifies and measures all other financial assets that are not classified at AC or FVOCI, at FVTPL. Accordingly, this measurement category includes debt instruments such as loans and debt securities that are held within the hold–to-collect (HTC) or hold-to-collect-and-sell models (HTCS), but fail the SPPI assessment, equities that are not designated at FVOCI, financial assets held for trading and derivative financial instruments.

Furthermore, a financial asset that meets the above conditions to be classified at AC or FVOCI, may be irrevocably designated by the Bank at FVTPL at initial recognition, if doing so eliminates, or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets measured at FVTPL are initially recorded at fair value and any unrealized gains or losses arising due to changes in fair value are included in the income statement.

Business model and contractual characteristics assessment

The business model assessment determines how the Bank manages a group of assets to generate cash flows. That is, whether the Bank's objective is solely to collect contractual cash flows from the asset, to realize cash flows from the sale of assets, or both to collect contractual cash flows and cash flows from the sale of assets. In addition, the business model is determined after aggregating the financial assets into groups (business lines) which managed similarly rather than at an individual instrument's level.

The business model is determined by the Bank's key management personnel consistently with the operating model, considering how financial assets are managed in order to generate cash flows, the objectives and how performance of each portfolio is monitored and reported and any available information on past sales and on future sales' strategy, where applicable.

Accordingly, in making the above assessment, the Bank will consider a number of factors including the risks associated with the performance of the business model and how those risks are evaluated and managed, the related personnel compensation, and the frequency, volume and reasons of past sales, as well as expectations about future sales activity.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.10 Financial assets (continued)

Types of business models

The Bank's business models fall into three categories, which are indicative of the key strategies used to generate returns.
The hold-to-collect (HTC) business model has the objective to hold the financial assets in order to collect contractual cash flows. Sales within this model are monitored and may be performed for reasons which are not inconsistent with this business model. More specifically, sales of financial assets due to credit deterioration, as well as, sales close to the maturity are considered consistent with the objective of hold-to-collect contractual cash flows regardless of value and frequency. Sales for other reasons may be consistent with the HTC model such as liquidity needs in any stress case scenario or sales made to manage high concentration level of credit risk. Such sales are monitored and assessed depending on frequency and value to conclude whether they are consistent with the HTC model.

Financial assets classified within this business model include cash and cash equivalents, bonds, due from banks and loans and advances to customers which are measured at amortized cost, subject to meeting the SPPI assessment criteria.

The hold-to-collect-and-sell business model (HTC&S) has the objective both to collect contractual cash flows and sell the assets. Activities such as liquidity management, interest yield and duration are consistent with this business model, while sales of assets are integral to achieving the objectives of this business model. Debt instruments classified within this business model include investment securities which are measured at FVOCI, subject to meeting the SPPI assessment criteria.

Other business models include financial assets which are managed and evaluated on a fair value basis as well as portfolios that are held for trading. This is a residual category for financial assets not meeting the criteria of the business models of HTC or HTC&S, while the collection of contractual cash flows may be incidental to achieving the business models' objective.
The Bank's business models are reassessed at least annually or earlier, if there is a sales' assessment trigger or if there are any changes in the Bank's strategy and main activities, as evidenced by the Bank's business plan, budget and Non-performing exposures (NPE) strategy.

Cash flow characteristics assessment

For a financial instrument to be measured at AC or FVOCI, its contractual terms must give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.
In assessing whether the contractual cash flows are SPPI, the Bank will consider whether the contractual terms of the instrument are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin. On the initial recognition of a financial asset, an assessment is performed of whether the asset contains a contractual term that could change the amount or timing of contractual cash flows in a way that it would not be consistent with the above condition. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is considered to have failed the SPPI assessment and will be measured at FVTPL.

For the purpose of the SPPI assessment, the Bank considers the existence of various features, including among others, contractually linked terms, prepayment terms, deferred interest-free payments, extension and equity conversion options and terms that introduce leverage including index linked payments.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.10 Financial assets (continued)

Cash flow characteristics assessment (continued)

In case of special lending arrangements such as non-recourse loans, the Bank in its assessment of the SPPI criterion considers various factors such as the nature of the borrower and its business, the pricing of the loans, whether it participates in the economic performance of the underlying asset and the extent to which the collateral represents all or a substantial portion of the borrower's assets.

In certain cases when the time value of money element is modified in that the financial asset's interest rate is periodically reset but the reset frequency does not match the tenor of the interest rate or when a financial asset's interest rate is periodically reset to an average of particular short-term and long-term interest rates, a quantitative assessment is performed ("Benchmark Test") in order to determine whether the contractual cash flows are SPPI.

In particular, the Bank assesses the contractual cash flows of the "real instrument" (RI), whose interest rate is reset with a frequency that does not match the tenor of the interest rate, and those of the "benchmark instrument" (BI), which are identical in all respects except that the tenor of the interest rate matches exactly the interest period. If the undiscounted cash flows of the former are significantly different from the benchmark cash flows due to the modified time value of money element, the financial asset does not meet the SPPI criterion, and therefore, cannot be measured at amortized cost or at fair value through other comprehensive income. In its assessment, the Bank considers both the effect of the modified time value of money element in each reporting period and cumulatively over the life of the instrument. This is done, as far as the lifetime of the instrument is concerned, by comparing the cumulative projected undiscounted cash flows of the RI and the BI.

In addition, for the purposes of the SPPI assessment, if a contractual feature could have an effect that is de-minimis or not genuine, it does not affect the classification of the financial asset. A contractual feature does not affect the classification of the financial assets if it could have only a de-minimis effect on the contractual cash flows of the financial asset. Moreover, a contractual feature is considered as not genuine by the Bank, if it affects the instrument's contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur.

The Bank performs the SPPI assessment for its lending exposures on a product basis for the retail and part of the wholesale portfolio where contracts are of standardized form, whereas for the remaining wholesale portfolio the assessment is performed on an individual basis.

The SPPI assessment of debt securities is performed centrally by the Group using an automated solution, at origination and acquisition dates, respectively, by taking into consideration features that introduce variability in the contractual cash flows of a financial instrument which may not result in solely payments of principal and interest.

Derecognition of Financial asset

The Bank derecognizes a financial asset when its contractual cash flows expire, or the rights to receive those cash flows are transferred in an outright sale in which substantially all risks and rewards of ownership have been transferred. In addition, a financial asset is derecognized even if rights to receive cash flows are retained but at the same time the Bank assumes an obligation to pay the received cash flows without a material delay (pass through agreement) or when substantially all the risks and rewards are neither transferred nor retained but the Bank has transferred control of the asset. The control is considered to be transferred if, and only if, the transferee has the practical ability to sell the asset in its entirety to unrelated third party. On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI for financial

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.10 Financial assets (continued)

Derecognition of Financial asset (continued)

assets at FVOCI, is recognized in income statement. The Bank may modify the contractual terms of a financial asset either as a concession granted to a client facing or that is about to face financial difficulties or due to other commercial reasons such as changes in market conditions, competition or customer retention.

In cases where the contractual cash flows of a financial asset have been modified and the modification is considered substantial enough, the original financial asset is then derecognized. The Bank records the modified asset as a 'new' financial asset at fair value and the difference with the net carrying amount of the existing one is recorded in the income statement as de-recognition gain or loss.

Modifications that may result in de-recognition include:

- change in borrower;
- change in the currency that the lending exposure is denominated;
- debt consolidation features where two or more consumer unsecured lending contracts are consolidated into a single new secured lending agreement;
- the removal or addition of conversion features and/or profit sharing mechanisms and similar terms which are relevant to the SPPI assessment;
- any other changes that cause the terms under the modified contract to differ substantially from those under the old contract (e.g. a new term due to which the loan cannot be considered a basic lending arrangement).

2.2.11 Reclassifications of financial assets

The Bank reclassifies a financial asset only when it changes its business model for managing financial assets. Generally, a change in the business model is expected to be rare and occurs when the Bank either begins or ceases to perform an activity that is significant to its operations; for example, when a business line is acquired, disposed of or terminated. In the rare event when there is a change to the existing business models, the updated assessment is approved by the Bank's competent Committees and the amendment is reflected appropriately in the Bank's budget and business plan.
Changes in intention related to particular financial assets (even in circumstances of significant changes in market conditions), the temporary disappearance of a particular market for financial assets or a transfer of financial assets between parts of the Bank with different business models, are not considered by the Bank changes in business model.
The reclassification is applied prospectively from the reclassification date, therefore previously recognized gains, losses (including impairment losses) or interest are not restated.

2.2.12 Financial liabilities

Classification and measurement

The Bank may classify its financial liabilities in the following categories: financial liabilities measured at amortized cost and financial liabilities at fair-value-through-profit-or-loss.
Financial liabilities at fair-value-through-profit-or-loss comprise two sub categories: financial liabilities held for trading and financial liabilities designated at fair-value-through-profit-or-loss upon initial recognition.
Financial liabilities held for trading are those liabilities that the Bank incurs principally for the purpose of repurchasing in the near term for short term profit.

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.12 Financial liabilities (continued)

Classification and measurement (continued)

The Bank may, at initial recognition, irrevocably designate financial liabilities at fair-value-through-profit-or-loss when one of the following criteria is met:

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis; or
- the financial liability contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

Financial liabilities at FVTPL are initially recognized at fair value. Changes in fair value are recognized in the income statement, except for changes in fair value attributable to changes in the Bank's own credit risk, which are recognised in OCI and are not subsequently reclassified to the income statement upon derecognition of the liabilities. However, if such treatment creates or enlarges an accounting mismatch in the income statement, all gains or losses of this financial liability, including the effects of changes in the credit risk, are recognized in the income statement.
As of the end of 2019 the Bank classifies all its financial liabilities at amortized cost.

De-recognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability of the Bank is replaced by another from the same counterparty on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as an extinguishment of the original liability and the recognition of a new liability and any difference arising is recognized in the income statement.

The Bank considers the terms to be substantially different, if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.
If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

2.2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when and only when there is a legally enforceable right to set off the recognised amounts and there is an intention either to settle on a net basis, or realize the asset and settle the liability simultaneously.

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.14 Fair value measurement of financial instruments

Fair value of financial instruments 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 under current market conditions in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted price in an active market, then the Bank uses other valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The Bank has elected to use mid-market pricing as a practical expedient for fair value measurements within a bid-ask spread.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received unless the Bank determines that the fair value at initial recognition differs from the transaction price. In this case, if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. Level 1 input) or based on a valuation technique that uses only data from observable markets, a day one gain or loss is recognized in the income statement. On the other hand, if the fair value is evidenced by a valuation technique that uses unobservable inputs, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price (day one gain or loss). Subsequently the deferred gain or loss is amortized on an appropriate basis over the life of the instrument or released earlier if a quoted price in an active market or observable market data become available or the financial instrument is closed out.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement as a whole Note 5.3).

For assets and liabilities that are measured at fair value on a recurring basis, the Bank recognizes transfers into and out of the fair value hierarchy levels annually for the year in which a financial instrument's transfer was effected.

2.2.15 Impairment of financial assets

Impairment of financial assets

The Bank recognizes allowance for expected credit losses (ECL) that reflect changes in credit quality since initial recognition to financial assets that are measured at AC and FVOCI, including loans, lease receivables, debt securities, financial guarantee contracts, and loan commitments. No ECL are recognized on equity investments.

ECLs are a probability-weighted average estimate of credit losses that reflects the time value of money. Upon initial recognition of the financial instruments in scope of the impairment policy, the Bank records a loss allowance equal to 12-month ECL, being the ECL that result from default events that are possible within the next twelve months. Subsequently, for those financial instruments that have experienced a significant increase in credit risk (SICR) since initial recognition, a loss allowance equal to lifetime ECL is recognized, arising from default events that are possible over the expected life of the instrument. If upon initial recognition, the financial asset meets the definition of purchased or originated credit impaired (POCI), the loss allowance is based on the change in the ECL over the life of the asset.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECL. For all other financial assets subject to impairment, the general three-stage approach applies.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.15 Impairment of financial assets (continued)

Accordingly, ECLs are recognized using a three-stage approach based on the extent of credit deterioration since origination:

• Stage 1 – Under IFRS 9, if the credit risk on a lending exposure has not increased significantly at the reporting date in comparison to its origination date, the Bank should measure the loss allowance for that lending exposure at an amount equal to 12-month expected credit losses. The 12-month ECL represents a portion of lifetime ECL that results from default events on a financial instrument that are possible within the next 12 months after the reporting date and is equal to the expected cash shortfalls over the life of the lending exposure or group of lending exposures, due to loss events that could occur in the next 12 months from the reporting date. The lifetime cash shortfalls that will result if a default occurs in the next 12 months after the reporting date (or a shorter period if the expected life of a lending exposure is less than 12 months) is weighted by the probability of a default occurring (PD) in those next 12 months after the reporting date (or earlier, given a shorter tenor).

For lending exposures with a remaining maturity of less than one year, the 12M PD is applied. For debt securities with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used. Not credit-impaired financial assets that are either newly originated or purchased, as well as, assets recognized following a substantial modification accounted for as a de-recognition, are classified initially in Stage 1.

• Stage 2 – The Bank should recognize changes in 12-month ECL through the allowance and move lending exposures to lifetime ECL measurement, providing that there is a significant increase in credit risk of the exposure. The lifetime ECL are the expected credit losses that result from all possible default events over the expected life of a lending exposure (i.e. Stage 2, Stage 3) and POCI. Impairment losses are measured at lifetime ECLs if an instrument's credit risk at origination date has increased significantly since its recognition. If the credit risk of a lending exposure has not increased significantly on a subsequent period, then the Bank reverses the measurement of the impairment allowances from lifetime ECL to 12-month ECL.

• Stage 3 – Financial instruments that are considered to be credit impaired are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

• Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. ECL are only recognized or released to the extent that there is a subsequent change in the assets' lifetime expected credit losses. POCI exposures are not subject to stage allocation as these exposures are credit impaired at the date of initial recognition by the Bank and are always measured on the basis of lifetime expected credit losses. Apart from purchased assets, POCI assets may also include financial instruments that are considered new assets, following a substantial modification accounted for as a de-recognition. Any subsequent favorable change to their expected cash flows are recognized as impairment gain in the income statement even if the resulting expected cash flows exceed the estimated cash flows at initial recognition.

Definition of default

To determine the risk of default, the Bank applies a default definition for accounting purposes, which is consistent with the European Banking Authority (EBA) definition for non-performing exposure (refer to note 5.2.1.2). The accounting definition of default is consistent with the one used for internal credit risk management reporting purposes.

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.15 Impairment of financial assets (continued)

Definition of default (continued)

A financial asset becomes credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that exposure have occurred:

- The borrower faces a significant difficulty in meeting his financial obligations.
- There has been a breach of contract, such as a default or past due event.
- The Bank, for economic or contractual reasons relating to the borrower's financial difficulty, has granted to the borrower a concession(s) that the Bank would not otherwise consider.
- There is a probability that the borrower will enter bankruptcy or other financial re-organization.
- For POCI asset, a purchase at a deep discount that reflects incurred credit losses is considered a detrimental event. The Bank assesses the deep discount criterion following a principle -based approach with the aim to incorporate all reasonable and supportable information which reflects market conditions that exist at the time of the assessment.

Sovereign debt securities

For sovereign debt securities, the Bank determines the risk of default using an internal credit rating scale and considers them as credit impaired if the internal credit rating of the issuer/counterparty at the reporting date is equivalent to "C" (Moody's rating scale). Debt instruments with external rating equivalent to "C" are always considered impaired and carry the equivalent internal rating that presents default.

Significant increase in credit risk (SICR) and stage allocation

Determining whether a loss allowance should be based on 12-month expected credit losses or lifetime expected credit losses depends on whether there has been a significant increase in credit risk (SICR) of the financial assets, issued loan commitments and financial guarantee contracts, since initial recognition.

At each reporting date, the Bank performs an assessment as to whether the risk of a default occurring over the remaining expected lifetime of the exposure has increased significantly from the expected risk of a default estimated at origination for that point in time.
The assessment for SICR is performed using both qualitative and quantitative criteria based on reasonable and supportable information that is available without undue cost or effort including forward looking information and macroeconomic scenarios as well as historical experience. Furthermore, regardless of the outcome of the SICR assessment based on the above indicators, the credit risk of a financial asset is deemed to have increased significantly when contractual payments are more than 30 days past due.
As a primary criterion for SICR assessment, the Bank compares the residual lifetime probability of default (PD) at each reporting date to the residual lifetime PD for the same point in time which was expected at the origination.

The Bank may also consider as a SICR indicator when the residual lifetime PD at each reporting date exceeds certain predetermined values. The criterion may be applied in order to capture cases where the relative PD comparison does not result to the identification of SICR although the absolute value of PD is at levels which are considered high based on the Bank's risk appetite framework.

For a financial asset's risk, a threshold may be applied, normally reflected through the asset's forecasted PD, below which it is considered that no significant increase in credit risk compared to the asset's expected PD at origination date has taken place. In such a case the asset is classified at Stage 1 irrespectively of whether other criteria would trigger its classification at Stage 2. This criterion primarily applies to debt securities.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.15 Impairment of financial assets (continued)

Significant increase in credit risk (SICR) and stage allocation (continued)

Internal credit risk rating (on a borrower basis) is also used as a basis for the identification of SICR with regards to lending exposures of the Wholesale portfolio. Specifically, the Bank takes into consideration the changes of internal ratings by a certain number of notches. In addition, a watchlist status is also considered by the Bank as a trigger for SICR identification. Internal credit risk ratings models include borrower specific information as well as, forward-looking information including macroeconomic variables.
Assessment of SICR for debt securities is performed on an individual basis based on the number of notches downgrade in the internal credit rating scale since the origination date.

Forbearance measures as monitored by the Bank are considered as a SICR indicator and thus the exposures are allocated into Stage 2 upon forbearance, unless they are considered credit-impaired in which case they are classified as stage 3. Furthermore, regardless of the outcome of the SICR assessment based on the above indicators, the credit risk of a financial asset is deemed to have increased significantly when contractual payments are more than 30 days past due.

Furthermore, Management may apply temporary collective adjustments when determining whether credit risk has increased significantly since initial recognition on exposures that share the same credit risk characteristics to reflect macro-economic or other factors which are not adequately addressed by the current credit risk models. These factors may depend on information such as the type of the exposure, counterparty's specific information and the characteristics of the financial instrument, while their application requires the application of significant judgment.

The Bank uses the below criteria in combination, where appropriate, for the purposes of identifying a significant increase in credit risk:

i. *Residual lifetime PD comparison*

The Bank considers a significant increase in credit risk (SICR) on a lending exposure when the "Current residual lifetime probability of default" at each reporting date (Current Residual Lifetime PD) is higher than the residual lifetime probability of default at same maturity point on the PD curve expected at the origination by a certain threshold (Residual Lifetime PD threshold).
In cases where the contractual cash flows on a lending exposure have been modified and the original lending exposure has been derecognized, the Bank uses the date of the substantial modification as the origination date of the new modified lending exposure for the purposes of the residual lifetime PD comparison. On the other hand, in cases where the modification is not substantial enough the comparison is performed between the risk of a default occurring at initial recognition (based on the original unmodified contractual terms) and the risk of a default occurring at the reporting date (based on the modified contractual terms).

ii. *Forbearance*

Concessions granted within the last 24 months to lending exposures as a result of financial difficulty of the borrower that otherwise would not have been considered by the Bank, are identified as associated with significant increase in credit risk SICR and thus allocated into Stage 2.

iii. *Backstop indicators*

The Bank applies the backstop criterion 30 days past due for the identification of SICR. In particular, lending exposures overdue for more than 30 days and below 90 days, are considered as associated with Significant Increase in Credit Risk and are classified into Stage 2.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.15 Impairment of financial assets (continued)

Transfers from Stage 2 to Stage 1

A lending exposure, which is classified to Stage 2 due to Significant Increase in Credit Risk (SICR), is reclassified to Stage 1, as long as it does not meet anymore any of the aforementioned Stage 2 criteria. Where forbearance measures have been applied in the past and the exposure has been categorized as Performing Forborne (PF) Exposure (either due to the application of forbearance measures to Performing exposures or a result of curing from Non – Performing Forborne status) , the following conditions should be met in order to qualify for a transfer back to Stage 1:

- The facility is considered to be performing, including where it has been reclassified from the non – performing category after an analysis of the financial condition of the borrower showed that it no longer met the conditions to be considered as non - performing;
- A minimum of two years' probation period has passed from the date the forborne exposure was considered to be performing;
- Regular payments of more than an insignificant aggregate amount of principal or interest have been made during at least half of the probation period (i.e. one year);

Transfers from Stage 3 to Stage 2

A financial asset is transferred from Stage 3 to Stage 2, when the criteria based on which the financial asset was characterized as credit impaired, are no longer valid. Specifically the following criteria should be met:

- The exposure meets the exit criteria applied by the Bank for the discontinuation of the default classification;
- The situation of the debtor has improved to the extent that full repayment, according to the original or when applicable the modificed conditions, is likely to be made;
- The debtor does not have any material amount more than 90 days past due.

Where forbearance measures have been applied to Non – Performing Exposures, those exposures shall be considered to have ceased being Non – Performing and as such they shall be transferred back to Stage 2 where all of the following have been met:

- The application of forbearance measures does not lead to the recognition of impairment;
- One year has passed since the forbearance measures were applied;
- There is not, following the forbearance measures, any material past due amount or concern regarding the full repayment of the exposure according to the post – forbearance conditions. The absence of concerns is determined after an analysis of the debtor's financial situation by the Bank (usually in the context of an impairment test). Concerns are demonstrated as no longer existing where the borrower has paid, via its regular payments in accordance with the post – forbearance conditions, a total equal to the amount that was previously past - due (if any) or that has been written – off (where there are no past due amounts) under the forbearance measures or the borrower has otherwise demonstrated its ability to comply with the post-forbearance conditions.

Criteria for grouping of exposures based on shared credit risk characteristics

The Bank segments its lending exposures on the basis of shared credit risk characteristics for the purposes of both assessing significant increase in credit risk and measuring loan loss allowance on a collective basis. The different segments aim to group lending exposures into homogenous pools in terms of estimated PDs and rates of recovery in the event of default.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.15 Impairment of financial assets (continued)

The shared credit risk characteristics used for the segmentation of lending exposures include the following:

- Instrument type (e.g. lending exposures, debt instruments etc.);
- Portfolio type (e.g. retail, wholesale etc.);
- Observed credit history (i.e. characteristics based on the debt service behavior of borrowers recorded in the Bank's books);
- Asset class (e.g. mortgages, consumer loans, SBBs, large corporate, SMEs etc.);
- Product type (e.g. revolving credit facilities, personal loans, debt consolidation etc.);
- Credit risk rating (i.e. segmentation per rating band);
- Date of initial recognition (i.e. segmentation per vintage);
- Remaining term to maturity (i.e. segmentation based on remaining tenor).

Lending exposures are allocated into groups based on shared credit risk characteristics upon initial recognition. On subsequent periods, the Bank re-evaluates the grouping of its exposures at least on an annual basis, in order to ensure that the groups remain homogeneous in terms of their response to the identified shared credit risk characteristics, and the exposures are re-segmented in the case where relevant new information becomes available in respect to the credit risk associated with the particular exposures or when there is a change on management's perception compared to the initial recognition.

Measurement of Expected Credit Losses

The measurement of ECL is an unbiased probability-weighted average estimate of credit losses that reflects the time value of money, determined by evaluating a range of possible outcomes. A credit loss is the difference between the cash flows that are due to the Bank in accordance with the contractual terms of the instrument and the cash flows that the Bank expects to receive (i.e. cash shortfalls) discounted at the original effective interest rate (EIR) of the same instrument, or the credit-adjusted EIR in case of purchased or originated credit impaired assets (POCI). In measuring ECL, information about past events, current conditions and reasonable and supportable forecasts of future conditions are considered.

Measurement of Expected Credit Losses (continued)

The Bank estimates expected cash shortfalls, which reflect the cash flows expected from all possible sources, including collateral and other credit enhancements that are part of the contractual terms and are not recognized separately. In case of a collateralized financial instrument, the estimated expected cash flows related to the collateral reflect the amount and timing of cash flows that are expected from liquidation less the discounted costs of obtaining and selling the collateral, irrespective of whether liquidation is probable.
ECL are calculated over the maximum contractual period over which the Bank is exposed to credit risk, which is determined based on the substantive terms of the instrument, or in case of revolving credit facilities, by taking into consideration factors such as the Bank's expected credit risk management actions to mitigate credit risk and past practice.

Receivables from customers arising from the Bank's activities other than lending, are presented under Other Assets and are typically short term. Therefore, considering that usually there is no significant financing component, the loss allowance for such financial assets is measured at an amount equal to the lifetime expected credit losses under the simplified approach.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.15 Impairment of financial assets (continued)

ECL Key Inputs

The ECL calculations are based on the term structures of the probability of default (PD), the loss given default (LGD), the exposure at default (EAD) and other input parameters such as the credit conversion factor (CCF) and the prepayment rate. Generally, the Bank derives these parameters from internally developed statistical models and observed point-in-time and historical data, leveraging the existing infrastructure development for the regulatory framework and risk management practices.

The PD represents the likelihood of default assessed on the prevailing economic conditions at the reporting date, adjusted to take into account estimates of future economic conditions that are likely to impact the risk of default, over a given time horizon.

The Bank uses Point in Time (PiT) PDs in order to remove any bias towards historical data thus aiming to reflect management's view of the future as at the reporting date, incorporating relevant forward looking information including macroeconomic scenarios.

Two types of PD are used for calculating ECL:

- 12-month PD, which is the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial asset if this is less than 12 months). It is used to calculate 12-month ECL for Stage 1 exposures.
- Lifetime PD, which is the estimated probability of a default occurring over the remaining life of the financial asset. It is used to calculate lifetime ECLs for Stage 2, Stage 3 and POCI exposures.

For sovereign debt securities, PDs are obtained by an international rating agency using risk methodologies that maximize the use of objective non-judgemental variables and market data. The Bank assigns internal credit ratings to each issuer/counterparty based on these PDs. In case of counterparties for which no information is available, the group assigns internal credit ratings derived from internal models. For corporate debt securities that are part of the Bank's loan portfolio, the loan impairment policies and rules apply.

The Exposure at default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest and expected drawdowns on committed facilities. The EAD includes both on and off balance sheet exposures. The on balance sheet exposure corresponds to the total amount that has been withdrawn and is due to be paid, which includes the outstanding principal, accrued interest and any past due amounts. The off balance sheet exposure represents the credit that is available to be withdrawn, in excess of the on balance sheet exposure.

Furthermore, the CCF factor is used to convert the amount of a credit facility and other off-balance sheet amounts to an EAD amount. It is a modelled assumption which represents a proportion of any undrawn exposure that is expected to be drawn prior to a default event occurring.
In addition, the prepayment rate is an estimate of early prepayments on loan exposure in excess of the contractual repayment according to the repayment schedule and is expressed as a percentage applied to the EAD at each period, reducing the latter amount accordingly.

LGD represents the Bank's expectation of the extent of loss on a defaulted exposure and it is the difference between the contractual cash flows due and those that the Bank expects to receive including any amounts from collateral liquidation. LGD varies by type of counterparty, type and seniority of claim, availability of collateral or other credit support, and is usually expressed as a percentage of EAD. The Bank distinguishes its loan portfolios into two broad categories i.e. secured and unsecured. For secured exposures, the Bank

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.15 Impairment of financial assets (continued)

estimates the LGD component using cure rates that reflect cash recoveries, estimated proceeds from collateral liquidation, estimates for timing realization, realization costs, etc. for unsecured exposures, the Bank considers at a minimum the cure rates, recovery rates and time to recovery. Where the LGD's component values are dependent on macro – economic data, such types of dependencies are reflected by incorporating forward looking information, such as forecasted price indices into the respective models. The estimation of the aforementioned component values within LGD reflects available historical data which cover a reasonable period, i.e. a full economic cycle.

For debt securities, the LGD is typically based on historical data derived mainly from rating agencies' studies but may also be determined considering the existing and expected liabilities structure of the obligor and macroeconomic environment.

Furthermore, the seniority of the debt security, any potential collateral by the obligor or any other type of coverage is taken into account for the calculation.

Forward-looking information

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk consider information about reasonable and supportable forecasts of future events and macroeconomic conditions. The estimation and application of forward-looking information requires significant judgment.
The Bank uses, at a minimum, three macroeconomic scenarios (i.e. base, adverse and optimistic) to achieve the objective of measuring ECL in a way that reflects an unbiased and probability weighted outcome. The base scenario represents the most likely scenario.

The scenarios are reflected in the risk parameters, and, namely 12-month PD, Lifetime PD and LGD, hence 3 sets of each of these parameters are used, in line with the scenarios developed.
Each scenario is assigned with weight, which represent the probability of occurrence for each of these scenarios. These weights are applied on the 3 sets of calculations of the parameters in order to produce a single scenario weighted risk parameter value which is subsequently used in both SICR assessment and ECL measurement.

Modified Financial Assets

The Bank may, in the normal course of its operating activities, modify the contractual terms of a lending arrangement either as a concession granted to a client facing or that is about to face financial difficulties or due to other commercial reasons such as changes in market conditions, competition within the Banking industry, customer retention, etc.

Upon modification of the contractual terms of a lending arrangement, an assessment of whether the modification of contractual terms is substantial should follow in order to conclude on whether the modification qualifies for derecognition of the original loan and the recognition of a new one based on the revised contractual terms.
In general, a lending exposure is derecognised when, and only when, either the contractual cash flows of the lending exposure expire or the exposure is transferred and the transfer qualifies for derecognition.

The decision of whether a modification of the contractual terms of a lending arrangement is considered substantial enough to trigger derecognition accounting requires the exercise of judgement. In that context, the Bank assesses modifications based on their significance on both the variability of cash flows and the risk profile of the lending exposure by using qualitative criteria that indicate whether an expiration of the

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

Modified Financial Assets (continued)

contractual rights to those cash flows has occurred. Also other factors such as the driver of the modification are taken into account to the extent to which the latter affect the variability of the expected cash flows and the risk profile of the lending exposure, subject to modification.

In cases where the modification of the contractual cash flows is not considered substantial (following the de-recognition assessment performed using the de-recognition triggers provided above), the modification does not result in de-recognition. The Bank recalculates the gross carrying amount of the financial asset and recognizes the difference as a modification gain or loss, which is reflected in the income statement. When a modification includes debt forgiveness, the portion of the asset subject to forgiveness is de-recognized first and then the calculation of the modification gain/loss is performed.

The Bank has established a structured framework for both the SPPI and de-recognition assessment of its financial assets that takes place to ensure appropriate classification and measurement. The Bank indicatively considers the qualitative criteria listed in its accounting policy as indicators that represent a substantial modification of contractual terms that could lead to a derecognition, including change in the currency that the lending exposure is denominated, change in borrower, changes in interest rates that are considered significant, debt consolidation, etc. In particular, the Bank has introduced several levels of defense by performing reviews both the assessments and their results by senior management with appropriate knowledge for both lending exposures and debt securities.

Presentation of allowance for credit loss

For debt instruments measured at amortized cost, credit impairment losses are recognized as a loss allowance in the income statement reducing the gross carrying amount of the debt instruments in the balance sheet. For debt instruments measured at FVOCI, credit impairment losses are recognized in other comprehensive income and the accumulated amount does not reduce the carrying amount of the debt instruments in the balance sheet. For off-balance sheet financial instruments arising from lending activities, allowance for credit losses is presented in Other Liabilities, while the respective ECL is recognised within impairment losses.

Write-off of financial assets

Where the Bank has no reasonable expectations of recovering a debt instrument either in its entirety or a portion of it, the gross carrying amount of that instrument is reduced directly, partially or in full, against the impairment allowance. The amount that is written-off is considered as derecognized. Subsequent recoveries of amounts previously written off decrease the amount of the impairment losses in the income statement. Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

2.2.16 Sale and repurchase agreements and securities lending

(i) Sale and repurchase agreements

Securities sold subject to repurchase agreement ('repos') are retained in the financial statements as trading securities while the counterparty liability is included in deposits due to other banks, or deposits due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price in case of repos and the purchase and resale price in case of reverse repos is recognised as interest and accrued over the life of repo or reverse repo agreements using the effective interest rate method.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.16 Sale and repurchase agreements and securities lending (continued)

(ii) Securities lending

Securities lent to counterparties are retained in the financial statements. Securities borrowed are not recognized in the financial statements, unless these are sold to third parties, in which case the obligation to return them is recorded at fair value as a trading liability.

2.2.17 Leases

Policy applicable after 1 January 2019

(i) Accounting for leases as lessee

When the Bank becomes the lessee in a lease arrangement, it recognizes a lease liability and a corresponding right-of-use (RoU) asset at the commencement of the lease term when the Bank acquires control of the physical use of the asset.
Lease liabilities are presented within Other liabilities and RoU assets within Property, plant and equipment. Lease liabilities are measured based on the present value of the future lease payments over the lease term, discounted using an incremental borrowing rate. The interest expense on lease liabilities is presented within Net interest income.
The RoU asset is initially recorded at an amount equal to the lease liability and is adjusted for rent prepayments, initial direct costs, or lease incentives received. Subsequently, the RoU asset is depreciated over the shorter of the lease term or the useful life of the underlying asset, with the depreciation presented within Operating expenses.
When a lease contains extension or termination options that the Bank considers reasonably certain to be exercised, the expected future lease payments or costs of early termination are included within the lease payments used to calculate the lease liability.

(ii) Accounting for leases as lessor

At inception date of the lease, the Bank, acting as a lessor, classifies each of its leases as either an operating lease or a finance lease based on certain criteria.

Finance leases

At commencement date, the Bank derecognizes the carrying amount of the underlying assets held under finance lease, recognizes a receivable at an amount equal to the net investment in the lease and recognizes, in profit or loss, any profit or loss from the derecognition of the asset and the recognition of the net investment.

The net investment in the lease is calculated as the present value of the future lease payments in the same way as for the lessee.

After commencement date, the Bank recognizes finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the lessor’s net investment in the lease. The Bank also recognizes income from variable payments that are not included in the net investment in the lease. After lease commencement, the net investment in a lease is not remeasured unless the lease is modified or the lease term is revised.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.17 Leases (continued)

Policy applicable after 1 January 2019 (continued)

Operating leases

The Bank continues to recognize the underlying asset and does not recognize a net investment in the lease on the balance sheet or initial profit (if any) on the income statement.
The Bank recognizes lease payments from the lessees as income on a straight-line basis. Also it recognizes costs, including depreciation, incurred in earning the lease income as an expense. The Bank adds initial direct costs incurred in obtaining an operating lease to the carrying amount of the underlying asset and recognizes those costs as an expense over the lease term on the same basis as the lease income.

Subleases

The Bank, acting as a lessee, may enter into arrangements to sublease a leased asset to a third party while the original lease contract is in effect. The Bank acts as both the lessee and lessor of the same underlying asset. The sublease is a separate lease agreement, in which the intermediate lessor classifies the sublease as a finance lease or an operating lease as follows:

- if the head lease is a short-term lease, the sublease is classified as an operating lease; or
- otherwise, the sublease is classified by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset.

Policy applicable before 1 January 2019

Operating leases

(i) Accounting for the Bank as a lessee

Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases under which the leased asset is not recognized on balance sheet. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

(ii) Accounting for the Bank as a lessor

Assets leased out under operating leases are included in property, plant and equipment or investment property, as appropriate, in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognized on a straight-line basis over the lease term.

2.2.18 Income tax

Taxation has been provided for in the financial statements in accordance with Bulgarian legislation currently in force.
Income tax expense comprises current and deferred tax. It is recognized in the income statement except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.
Current tax is calculated on the basis of the taxable profit for the year, using the tax rates enacted at the balance sheet date. Income tax payable on profits, based on the applicable tax law is recognized as an expense in the period in which profits arise. The Bank shall offset current tax assets and current tax liabilities if, and only if it has a legally enforceable right to set off the recognized amounts; and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.18 Income tax (continued)

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled. The principal temporary differences arise from depreciation of property, plant and equipment, provisions for court cases and provisions for untaken annual leaves, as well as those arisen as a result of the difference between the value of the financial assets of the merging company at the date of the merger and the value at which the same financial assets were recognized by the receiving (parent) company. Deferred tax assets are recognized where it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

The Bank shall offset deferred tax assets and deferred tax liabilities if, and only if it has a legally enforceable right to set off current tax assets against current tax liabilities; and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

2.2.19 Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Social, pension and health funds

The Bank is obliged by the current Bulgarian legislation to make fixed contribution on behalf of the employees to a social fund operated by the Government. All those payments/liabilities are recognised as an expense in the period to which those relate.

(iii) Retirement benefit obligations

In accordance with article 222, Para. 3 of the Bulgarian Labour Code, in the event of termination of a labour contract after the employee has reached the lawfully required retirement age, regardless of the reason for the termination, the employee is entitled to compensation as follows: 2 gross monthly salaries in all cases and 6 gross monthly salaries if the employee has been engaged with the Bank for at least 10 years.

Provision has been made for the actuarial value of the lump sum payable on retirement using the projected unit credit method. Under this method the cost of providing retirement indemnities is charged to the income statement so as to spread the cost over the period of service of the employees, in accordance with the actuarial valuations which are performed every year.

The obligation is calculated as the present value of the estimated future cash outflows using interest rates of Bulgarian government bonds at the end of the reporting period. The currency and term to maturity of the bonds used are consistent with the currency and estimated term of the retirement benefit obligations. Actuarial gains and losses that arise in calculating the Bank's obligation are recognised directly in other comprehensive income in the period in which they occur and are not reclassified to the income statement in subsequent periods.

Past service costs and interest expense are recognised immediately in the income statement.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.20 Repossessed collaterals

Land and buildings repossessed through an auction process to recover impaired loans are, except where otherwise stated, included in 'Other Assets'. Assets acquired from an auction process are held temporarily for liquidation and are valued at the lower of cost and net realizable value, which is the estimated selling price, in the ordinary course of business, less costs necessary to make the sale.
In cases where the Bank makes use of repossessed properties as part of its operations, they may be reclassified to own occupied or investment properties, as appropriate.
Any gains or losses on liquidation are included in the income statement.

2.2.21 Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Borrowings include deposits from banks, due to customers, other borrowed funds.

2.2.22 Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and reliable estimates of the amount of the obligation can be made.
The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at each reporting date, taking into account the risks and uncertainties surrounding the amount of such expenditure.
Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If, subsequently, it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

2.2.23 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than 90 days to maturity from the date of acquisition including: cash and non-restricted balances with central banks, amounts due from other banks and short-term government securities. Investments are treated or qualify as cash equivalents only when they have a short maturity of 90 days or less from the date of acquisition. Cash and cash equivalents are measured at amortized cost.

2.2.24 Financial guarantees and other related commitments

Financial guarantees

Financial guarantee contracts are contracts that require 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. Such financial guarantees are granted to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, such guarantees are measured at the higher of the amount of the impairment loss allowance, and the amount initially recognised less any cumulative amortization of the fee earned, where appropriate.

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.24 Financial guarantees and other related commitments (continued)

Commitments to extend credit

Commitments represent off-balance sheet items where the Bank commits, over the duration of the agreement, to provide a loan with pre-specified terms to the customer. Such contractual commitments represent commitments to extend credit and standby letters and they are part of the normal lending activities of the Bank, for which an impairment allowance is recognised under IFRS 9.

Impairment allowance for off-balance sheet exposures (financial guarantees and commitments) is included within Other Liabilities.

Furthermore, commitments to extend credit represent off-balance sheet items where the Bank commits, over the duration of the agreement, to provide a loan with pre-specified terms to the customer. The Bank recognizes a provision in accordance with IAS 37 only when the commitment contract can be considered to be onerous.

2.3 Impact of significant changes in applying accounting policies

2.3.1 IFRS 16 "Lease" – Impact of adoption

The Bank implemented the requirements of IFRS 16 on 1 January 2019, as further analyzed in note 2.1.1. The impact of the transitioning to the new standard is discussed below.

On 1 January 2019, the Bank recognized right-of-use assets of BGN 44,684 thousand and lease liabilities of an equivalent amount arising from leases of properties and vehicles, with no impact on shareholders' equity. The capital impact arising primarily from the increase in risk-weighted assets was a reduction of approximately 16 bps on the Bank's common equity Tier I ratio by applying regulatory transitional arrangements (approximately -9 bps on the Bank's CET1 ratio, on a fully loaded basis).

With regard to subsequent measurement, the Bank, acting as a lessee, applies the cost model for the measurement of right-of-use asset. Accordingly, the right-of-use asset is measured at cost less any accumulated depreciation and accumulated impairment losses as determined in accordance with IAS 36, and is adjusted for the remeasurement of the lease liability.

On the other hand, interest expense is recognized on the lease liabilities, while their carrying amount is reduced to reflect the lease payments made. In case of any reassessments or lease modifications specified, the carrying amount of the lease liabilities is remeasured to reflect revised lease payments. For the period ended 31 December 2019, the depreciation charge for right-of-use assets was BGN 10,685 thousand and the interest expense recognised on lease liabilities was BGN 49 thousand.

The following table presents the reconciliation between the operating lease commitments, as disclosed under IAS 17 in the financial statements for the year ended 31 December 2018 and the lease liabilities recognised under IFRS 16 on 1 January 2019:

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

2.3 Impact of significant changes in applying accounting policies (continued)

2.3.1 IFRS 16 "Lease" – Impact of adoption (continued)

Non-cancellable operating lease rentals payable under IAS 17	**7,087**
Future contractual lease payments (in excess of non-cancelalble term)	44,945
Total future contractual operating lease payments	**52,032**
Recognition exemption for short term leases and leases of low value	(617)
Exclusion of Stamp Duty and VAT	(6,671)
Undiscounted lease liabilities as at 31 December 2018	**44,744**
Discounting effect of the lease liability using the incremental borrowing rate as at 1 January 2019	(60)
Total lease liabilities recognised as at 1 January 2019 under IFRS 16	**44,684**

There was no impact from the adoption of IFRS 16 for the leases in which the Bank is a lessor.

2.3.2. IFRS 9 'Financial Instruments' – Impact of adoption

The Bank adopted IFRS 9 in the first quarter of 2018, whereas the Standard's requirements were applied retrospectively by adjusting the Bank's balance sheet on the date of transition on 1 January 2018. The effect on the carrying amounts of financial assets and liabilities at the date of transition to IFRS 9 was recognized as an adjustment to opening reserves and retained earnings as further discussed below.

The impact of transitioning to IFRS 9, before tax, amounted to BGN 85,579 thousand as depicted in the table below and it was mainly attributed to the impact on the lending portfolio which amounted to BGN 84,926 thousand. The transition to IFRS 9 resulted in a decrease of the shareholders' equity by BGN 77,021 thousand, which was recognised as an opening balance adjustment at 1 January 2018.

i) Impact attributed to:	**IFRS 9 impact gross effect**	**Tax effect**	**IFRS 9 impact net of tax**
Impairment			
Loans and advances to customers	84,926	(8,493)	76,433
Other financial assets	653	(65)	588
Total IFRS 9 impact	**85,579**	**(8,558)**	**77,021**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

2.3 Impact of significant changes in applying accounting policies (continued)

2.3.2. IFRS 9 'Financial Instruments' – Impact of adoption (continued)

The table below presents the impact of transition to IFRS 9 to Fair value reserve and Retained earnings:

	IFRS 9 impact
Fair value reserve	
Closing balance under IAS 39	31,052
of which AFS reserves	*31,052*
Remeasurement under IFRS 9 measurement categories	(824)
Remeasurement under IFRS 9 ECL impairment for FVOCI portfolio	678
Tax	15
Opening balance under IFRS 9	**30,921**
Retained earnings	
Closing balance under IAS 39	361,632
Remeasurement under IFRS 9 ECL impairment including FVOCI portfolio	(85,433)
Tax	8,543
Opening balance under IFRS 9	**284,742**

ii) Regulatory capital

The Bank's estimated capital impact from the initial application of IFRS 9 as shown in the table below:

	31 December 2017 IAS 39	**01 January 2018 IFRS 9 Full impact**	**01 January 2018 IFRS 9 Transitional arrangements**
Common Equity tier 1 Capital	996,240	919,219	992,389
Risk Weighted Assets	4,576,754	4,510,453	4,573,439
Common Equity tier 1 (CET 1) ratio	**21.77%**	**20.38%**	**21.70%**

The Bank has elected to apply the phase-in approach as per EU legislation (Regulation EU 2017/2395) for mitigating the impact of IFRS 9 transition on the regulatory capital. The transition period is for five years, with the proportion of the impact to be included being 5% in 2018 and 15%, 30%, 50% and 75% in the subsequent four years. The full impact is expected as of 1 January 2023. As a consequence, CET1 ratio has been reduced approximately by 7 basis points on the first year of IFRS 9 adoption, corresponding to a reduction of BGN 3,972 thousand in regulatory capital by applying regulatory transitional arrangements.

3.Critical accounting estimates and judgments in applying accounting policies

In the process of applying the Bank's accounting policies, the Management makes various judgments, estimates and assumptions that may affect the reported amounts of assets and liabilities, revenues and expenses recognized in the financial statements within the next financial year and the accompanying disclosures. Estimates and judgments are continually evaluated and are based on current conditions, historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The most significant areas in which the Bank makes judgments, estimates and assumptions in applying its accounting policies are set out below:

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

3.Critical accounting estimates and judgments in applying accounting policies (continued)

3.1 Impairment losses on loans and advances

ECL measurement

The ECL measurement requires management to apply significant judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in significant changes to the timing and amount of allowance for credit loss to be recognized.
The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include:

Determination of a significant increase of credit risk

IFRS 9 does not include a definition of what constitutes a significant increase in credit risk (SICR). An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering primarily the change in the risk of default occurring over the remaining life of the financial instrument. The Bank assesses whether a SICR has occurred since initial recognition based on qualitative and quantitative reasonable and supportable forward-looking information that includes significant management judgment. More stringent criteria could significantly increase the number of instruments migrating to Stage 2.

For all lending exposures the primary criterion is the percentage change in the current residual cumulative lifetime PD compared to origination residual cumulative lifetime PD above specified thresholds. These thresholds are set and vary per portfolio, product type as well as per origination PD level. In general, thresholds for lower origination PDs are higher than those assessed for higher origination PDs.

As of 31 December 2019, the range of lifetime PD thresholds based on the above segmentation, that triggers allocation to Stage 2 for Bulgarian lending exposures are set out below:

Portfolio	Range of SICR thresholds
Consumer	10% - 70%
Mortgage	20% - 30%
SBB	0% - 80%
Wholesale	100% - 2000%

Determination of scenarios, scenario weights and macroeconomic factors

To achieve the objective of measuring ECL, the Bank evaluates a range of possible outcomes in line with the requirements of IFRS 9 through the application of a minimum three macroeconomic scenarios i.e. baseline, adverse and optimistic, in a way that reflects an unbiased and probability weighted outcome. Each of the scenarios is based on management's assumptions around future economic conditions in the form of macroeconomic, market and other factors. As of 31 December 2019, the probability weights for the above mentioned scenarios applied by the Bank in the ECL measurement calculations are 40% for the baseline scenario and 30% for the adverse and optimistic scenarios. The Bank ensures that impairment estimates and macroeconomic forecasts applicable for business and regulatory purposes are fully consistent.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

3. Critical accounting estimates and judgments in applying accounting policies (continued)

3.1 Impairment losses on loans and advances (continued)

Determination of scenarios, scenario weights and macroeconomic factors (continued)

In terms of macroeconomic assumptions, the Bank assesses a number of indicators in projecting the risk parameters. Regarding the macroeconomic indicators used in the ECL measurement of Bulgarian lending portfolios for the year ended 31 December 2019, the arithmetic averages of the scenarios' probability-weighted annual forecasts from 2020 to 2024, are set in the following table:

	Unit	**Arithmetic Average (2020 - 2024) Probability weighted annual forecast**
Gross Domestic Product	YOY % 2010 prices	3.03%
Domestic Demand	YOY % 2010 prices	2.74%
Number of Employed	YOY %	(1.10%)
Unemployment Rate	%	5.12%
Long term interest rate	%	3.07%
Retail Sales	YOY %	3.80%
Average Monthly Wage	YOY %	5.63%
Total Disposable Income Per Person	YOY %	4.62%
House Price Index	YOY % 2015=100	5.21%
Interest Rate Spread (companies)	%	4.36%
Central Bank Policy Rate	%	1.34%
Imports (goods and services)	YOY %	2.92%

Changes in the scenarios and weights, the corresponding set of macroeconomic variables and the assumptions made around those variables for the forecast horizon would have a significant effect on the ECL amount.

Development of ECL models, including the various formulas, choice of inputs and interdependencies

For the purposes of ECL measurement the Bank performs the necessary model parameterization based on observed point-in-time data on a granularity of monthly intervals. The ECL calculations are based on input parameters, i.e. EAD, PDs, LGDs, CCFs, etc. incorporating management's view of the future. The Bank also determines the links between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs.
Furthermore, the PDs incorporate relevant forward looking information including macroeconomic scenarios. The forecasting risk parameters models incorporate a number of explanatory variables, such as GDP, unemployment etc. which are used as independent variables for optimum predictive capability.
The models are based on linear and logistic regressions and run under the different macroeconomic scenarios and relevant changes and shocks in the macro environment reflected accordingly.

Segmentation of financial assets when their ECL is assessed on a collective basis

The Bank segments its exposures on the basis of shared credit risk characteristics upon initial recognition for the purposes of both assessing significant increase in credit risk and measuring loan loss allowance on a collective basis. The different segments aim to capture differences in PDs and in the rates of recovery in the event of default. On subsequent periods, the Bank re-evaluates the grouping of its exposures at least on an annual basis, in order to ensure that the groups remain homogeneous in terms of their response to the identified shared credit risk characteristics. Re-segmentation reflects management's perception in respect to the change of credit risk associated with the particular exposures compared to initial recognition.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

3. Critical accounting estimates and judgments in applying accounting policies (continued)

3.1 Impairment losses on loans and advances (continued)

Modeling and Management overlays / adjustments

A number of sophisticated models have been developed or modified to calculate ECL, while temporary management adjustments may be required to capture new developments and information available, which are not yet reflected in the ECL calculation through the risk models. Internal counterparty rating changes, new or revised models and data may significantly affect ECL.

Sensitivity analysis on lending portfolios

The tables below depict the effect in the Bank's ECL measurement upon potential, reasonably combined changes of forecasts in all macroeconomic indicators used for ECL estimation over the next 5 years (2020-2024), compared to the actual probability weighted macroeconomic scenarios:

Sensitivity Scenario

Indicator	Unit	Scenario	2020	2021	2022	2023	2024
Gross Domestic Product	YOY % 2010 prices	Optimal	8.04%	7.21%	7.49%	7.41%	7.40%
		Adverse	-1.62%	-1.97%	-1.95%	-2.13%	-2.11%
Domestic Demand	YOY % 2010 prices	Optimal	3.22%	4.62%	4.62%	4.59%	4.47%
		Adverse	0.39%	1.58%	1.41%	1.23%	1.10%
Number of Employees	YOY %	Optimal	0.46%	0.46%	0.59%	0.53%	0.63%
		Adverse	-2.98%	-3.04%	-2.95%	-3.00%	-2.87%
Unemployment Rate	%	Optimal	2.95%	3.26%	3.44%	3.76%	4.01%
		Adverse	6.24%	6.64%	6.83%	7.15%	7.40%
Long term interest rate	%	Optimal	1.35%	2.87%	3.34%	4.59%	5.01%
		Adverse	0.63%	2.14%	2.64%	3.87%	4.28%
Retail Sales	YOY %	Optimal	4.68%	6.04%	5.79%	5.71%	5.47%
		Adverse	1.39%	2.58%	2.21%	2.04%	1.81%
Average Monthly Wage	YOY %	Optimal	12.30%	6.16%	6.45%	5.63%	5.76%
		Adverse	9.20%	3.01%	3.13%	2.19%	2.31%
Total Disposable Income Per Person	YOY %	Optimal	9.46%	9.98%	10.23%	10.01%	10.05%
		Adverse	-1.61%	-1.35%	-1.31%	-1.63%	-1.57%
House Price Index	YOY % 2015=100	Optimal	11.50%	10.27%	10.82%	10.80%	10.32%
		Adverse	-1.70%	-1.34%	-1.45%	-1.57%	-1.35%
Interest Rate Spread (companies)	%	Optimal	3.44%	3.70%	4.00%	4.16%	4.16%
		Adverse	4.34%	4.62%	4.94%	5.12%	5.11%
Central Bank Policy Rate	%	Optimal	0.41%	0.91%	1.43%	1.90%	2.90%
		Adverse	0.07%	0.56%	1.06%	1.56%	2.56%
Imports (goods and services)	YOY %	Optimal	5.74%	7.49%	7.38%	7.30%	6.78%
		Adverse	-2.45%	-0.84%	-1.05%	-1.18%	-1.72%

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

3. Critical accounting estimates and judgments in applying accounting policies (continued)

3.1 Impairment losses on loans and advances (continued)

Sensitivity analysis on lending portfolios (continued)

	As at 31 December 2019 Impact			
	in € million		% of allowance	
Lending portfolio	**Positive Change**	**Adverse Change**	**Positive Change**	**Adverse Change**
Wholesale Lending	(3,6)	8,2	(2,92%)	6,72%
Retail Lending	(1,3)	1,6	(0,82%)	0,99%
Total	**(4,9)**	**9,8**	**(1,74%)**	**3,5%**

It is noted that sensitivity analysis when performed on certain key parameters can provide meaningful information only for portfolios where the risk parameters have a significant impact on the overall credit risk of a lending portfolio, particularly where such sensitivities are also used for internal credit risk management purposes. Otherwise, a sensitivity on certain combinations of some risk parameters may not produce meaningful results as in reality there are interdependencies between the various economic inputs rendering any changes in the parameters correlated changes in other factors.
The Bank updates and reviews the reasonability and performs back-testing of the main assumptions used in its methodology assessment for SICR and ECL measurement, at least on an annual basis or earlier, based on facts and circumstances. In this context, experienced and dedicated staff within the Bank's Risk Management function monitors the risk parameters applied for the estimation of ECL. Furthermore, as part of the well-defined governance framework, any revisions to the methodology used are approved by the Bank competent committees and ultimately the Risk Committee (RC).

3.2. Fair value of financial instruments

The fair value of financial instruments 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 under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

The fair value of financial instruments that are not quoted in an active market are determined by using other valuation techniques that include the use of valuation models. In addition, for financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using other valuation techniques.

The valuation models used include present value methods and other models based mainly on observable inputs and to a lesser extent to non-observable inputs, in order to maintain the reliability of the fair value measurement.
Valuation models are used mainly to value over-the-counter derivatives and securities measured at fair value. Where valuation techniques are used to determine the fair values of financial instruments that are not quoted in an active market, they are validated and periodically reviewed by qualified personnel independent of the personnel that created them. All models are certified before they are used, and are calibrated to ensure that outputs reflect actual data and comparative market prices.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

3. Critical accounting estimates and judgments in applying accounting policies (continued)

3.2. Fair value of financial instruments (continued)

The main assumptions and estimates, considered by management when applying a valuation model include:
- the likelihood and expected timing of future cash flows;
- the selection of the appropriate discount rate, which is based on an assessment of what a market participant would regard as an appropriate spread of the rate over the risk-free rate; and
- judgment to determine what model to use in order to calculate fair value.

To the extent practicable, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates to reflect uncertainties in fair values resulting from the lack of market data inputs. Inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available. However, in most cases there will be some historical data on which to base a fair value measurement and consequently even when unobservable inputs are used, fair values will use some market observable inputs.

Information in respect of the fair valuation of the Bank's financial assets and liabilities is provided in note 5.3.

3.3 Classification of financial instruments

The Bank applies significant judgment in assessing the classification of its financial instruments and especially, in the below areas:

Business model assessment

Judgment is exercised in order to determine the appropriate level at which to assess the business model. The Bank's business models are determined at a key management personnel level for loan portfolio and centrally by the Group for debt securities. In assessing the business model of financial instruments, these are aggregated into groups (business lines) based on their characteristics, and the way they are managed in order to achieve the Bank's business objectives. In general the assessment is performed at the business unit level both for loans and debt securities.
In assessing the business model for financial instruments, the Bank performs a past sales evaluation of the financial instruments and assesses their expected evolution in the future. Judgment is exercised in determining the effect of sales to a "hold to collect" business model depending on their objective and thei acceptable level and frequency.

Contractual cash flow characteristics test (SPPI test)

The Bank performs the SPPI assessment of loans and debt securities by considering all the features which might potentially lead to SPPI failure. Judgment is applied by the responsible Business Divisions when considering whether certain contractual features significantly affect future cash flows. Accordingly, for non-recourse loans, the Bank assesses jointly criteria such as the adequacy of equity, LTV (Loan-to-Value) and DSCR (Debt-Service-Coverage-Ratio) ratios as well as the existence of corporate and personal guarantees. Furthermore, in order to assess whether any variability in the cash flows is introduced by the modified time value of money element, the Bank performs a quantitative assessment (as described in note 2.2.10). Moreover, the Bank evaluates certain cases on whether the existence of performance-related terms exposes the Bank to asset risk rather to the borrower's credit risk.
The Bank has established a robust framework to perform the necessary assessments in accordance with Bank's policies in order to ensure appropriate classification of financial instruments, including reviews by experienced staff for both lending exposures and debt securities.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

3. Critical accounting estimates and judgments in applying accounting policies (continued)

3.4 Retirement benefit obligations

The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions, such as the discount rate and future salary increases. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Bank determines the appropriate discount rate used to calculate the present value of the estimated retirement obligations, at the end of each year. In determining the appropriate discount rate, interest rates of Bulgarian government bonds at the end of the reporting period are used. The currency and term to maturity of the bonds used are consistent with the currency and estimated term to maturity of the retirement benefit obligations. The salary rate increase assumption is based on future inflation estimates reflecting also the Bank's reward structure and expected market conditions. The assumed rate of salary increase is determined by reviewing the Bank's salary increases each year. Other assumptions for pension obligations, such as the inflation rate, are based in part on current market conditions.

For information in respect of the sensitivity analysis of the Bank’s retirement benefit obligations to reasonably possible, at the time of preparation of these financial statements, changes in the abovementioned key actuarial assumptions, refer to note 30.

3.5 Provisions and contingent liabilities

The Bank recognizes provisions when it has a present legal or constructive obligation, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of its amount.

A provision is not recognized and a contingent liability is disclosed when it is not probable that an outflow of resources will be required to settle the obligation, when the amount of the obligation cannot be measured reliably or in case that the obligation is considered possible and is subject to the occurrence or non -occurrence of one or more uncertain future events.

Considering the subjectivity and uncertainty inherent in the determination of the probability and amount of the abovementioned outflows, the Bank takes into account a number of factors such as legal advice, the stage of the matter and historical evidence from similar cases. Further information in relation to the Bank’s provisions and contingent liabilities is provided in note 35.

3.6 Fair value of land and buildings, repossessed collateral and investment properties

Fair value of land and buildings

The Bank determines the fair value of land and building from market-based evidence by appraisal that is undertaken by professionally qualified valuators.

The main valuation methods used to determine the fair value were:

- market prices analogues (where assets are compared to those similar of nature offered on the market)
- present value of future income for rent generating assets (DCF)
- method of reduced cost (taking into account the price that the asset would cost at present if acquired or built and reduced on the basis of economic and physical depreciation factors).

Fair value of repossessed collaterals

Repossessed collateral are stated at the lower cost and net realizable value, which is the estimated selling price, in the ordinary course of business, less costs necessary to make the sale. The fair value is determined annually by external appraiser companies.

The fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. In the absence of such information, the fair value estimation of the external appraiser companies is based on the cost of the asset with adjustments to reflect any changes in economic conditions and the management’s best estimate regarding the future trend of properties market.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

3. Critical accounting estimates and judgments in applying accounting policies (continued)

3.6 Fair value of land and buildings, repossessed collateral and investment properties (continued)

Fair value of repossessed collaterals (continued)

The fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. In the absence of such information, the fair value estimation of the external appraiser companies is based on the cost of the asset with adjustments to reflect any changes in economic conditions and the management's best estimate regarding the future trend of properties market.

Fair value of investment properties

Investment property is carried at fair value, as determined by external, independent, certified valuators on an annual basis.

The main factors underlying the determination of fair value are related with rental income from current leases and assumptions about rental income from future leases in the light of current market conditions, future vacancy rates and periods, discount rates or rates of return, the terminal values as well as the level of future maintenance and other operating costs.

Additionally, where the fair value is determined based on market prices of comparable transactions those prices are subject to appropriate adjustments, in order to reflect current economic conditions and management's best estimate regarding the future trend of properties market based on advice received from its independent external valuers.Further information in respect of the fair valuation of the Bank's investment properties is included in note 20.

3.7 Fair value of loans and advances of customers acquired

Following IFRS 3 Business Combination requirement, loans and advances to customers acquired through the acquisition of Piraeus Bank Bulgaria (Note 38) should be measured at fair value as of acquisition date and subsequently measured at amortized cost.

Loans and advances to customers acquired were fair valued using an Income Approach valuation model. The Income Approach indicates the value of an asset based on its cash generation potential, where the maximum amount that a potential investor would be willing to pay for the asset would not exceed the net present value of the future benefits generated by the asset. The fair values are estimated by discounting future expected cash flows over the time period they are expected to be recovered, using appropriate risk-adjusted discount rates. Loans are grouped according to their EBA statuses and IFRS 9 Stages at acquisition into homogenous assets with similar characteristics, such as currency, product, borrower type, etc., in order to improve the accuracy of the estimated valuation outputs. Assumptions for expected prepayments and timing of collateral realization were incorporated in estimating future cash flows, while the discount rates incorporate observable inputs such as BNB statistics for interest rates on new loans and unobservable inputs for relevant risk premiums to reflect liquidity, maturity, customer type, the required rate of return of average market investor in non-performing exposures, etc.

3.8. Lease

The Bank, as a lessee, determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank applies judgement in evaluating whether it is reasonably certain or not to exercise an option to renew or terminate the lease, by considering all relevant factors and economic aspects that create an economic incentive. The Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate, such as significant leasehold improvements or significant customization of the leased asset.

In measuring lease liabilities, the Bank uses a discount rate equal to the Bank's deposits cost of funds for the respective currency /at the date of transition. It is revised on a regular bases and the revised discount rate is used for the new contracts.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

4. Capital management

The Bank prepares quarterly statutory reports and monthly reports for internal purposes, in accordance with the requirements of Regulation (EU) 575/2013 and Regulation №8 of the Bulgarian National Bank (BNB) on capital buffers of banks. The Bank applies the standardised approach for credit and market risks and the Basic Indicator Approach for operational risk since 1 of January 2007.

According to supervisory statements of the Bank for the purposes of the Bulgarian National Bank in accordance with Regulation (EU) 575/2013 of the European Parliament and the Council as of 31 December 2019, the Bank was in compliance with capital adequacy requirements maintaining CET 1 ratio comfortably above the regulatory required level. As disclosed in the regulatory reports to the Central Bank, the capital adequacy ratio of the Bank is 16.82%.

The Bank's Management objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by the regulators of the banking markets where the Bank operates;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

In accordance with Law on Credit Institutions each bank or banking group is required to hold the minimum level of paid-in capital amounting to BGN 10,000 thousand.

Capital adequacy and the use of regulatory capital are monitored by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and Regulation № 575/2013 and Directive 2013/36 of the European Union. The required information is filed with the Bulgarian National Bank on a quarterly basis.

Regulatory capital consists of Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital. Tier 1 capital includes shareholders' ordinary equity, „Reserve" fund, retained earnings from previous year, unrealized gains/losses from available for sale financial instruments and is reduced by intangible assets. Tier II capital includes subordinated debt and hybrid instruments.
The own funds requirements under Basel III are the following (as a percentage of risk-weighted assets, RWA):

CET 1 capital ratio of 4.5%;
Tier 1 capital ratio of 6%;
Total capital ratio of 8 %.

Additionally, capital conservation buffer, systemic risk buffer, capital buffer for other systemically important institutions (O-SIIs) and countercyclical capital buffer are introduced. The capital conservation buffer equals 2.5% of RWA; the systemic risk buffer equals 3% of RWA; the O-SIIs buffer equals 0.50% of RWA and the countercyclical capital buffer – 0.50% of RWA. The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of − and reflecting an estimate of credit, market and other risks associated with − each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value

5.1 Use of financial instruments

By their nature the Bank’s activities are principally related to the use of financial instruments including derivatives. The Bank accepts deposits from customers for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.
The Bank also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to commercial and retail borrowers within a range of credit standing. Such exposures include both on-balance sheet loans and advances and off-balance sheet guarantees and other commitments such as letters of credit.
The Bank also trades in financial instruments where it takes positions in traded and over the counter financial instruments, including derivatives, to take advantage of short-term market movements in the equity and bond markets and in currency and interest rates.

5.2 Financial risk factors

Due to its activities, the Bank is exposed to a number of financial risks, such as credit risk, market risk (including currency and interest rate risk), liquidity and operational risks. The Bank's overall risk management strategy seeks to minimize any potential adverse effects on its financial performance, financial position and cash flows.

Risk Management objectives and policies

The Bank acknowledges that taking risks is an integral part of its operations in order to achieve its business objectives. Therefore, the Bank’s management sets adequate mechanisms to identify those risks at an early stage and assesses their potential impact on the achievement of these objectives.
Due to the fact that economic, industry, regulatory and operating conditions will continue to change, risk management mechanisms are set (and adjusted) in a manner that enables the Bank to identify and deal with the risks associated with those changes. The Bank’s structure, internal processes and existing control mechanisms ensure both the independence principle and the exercise of sufficient supervision.
The Bank's Management considers effective risk management as a top priority, as well as a major competitive advantage, for the organization. As such, the Bank has allocated significant resources for upgrading its policies, methods and infrastructure, in order to ensure compliance with the requirements of the European Central Bank (ECB), with the guidelines of the European Banking Authority (EBA) and of the Basel Committee for Banking Supervision, with Bulgarian National Bank and with the best international banking practices. The Bank implements a well-structured credit approval process, independent credit reviews and effective risk management policies for credit, market, liquidity and operational risk. The risk management policies implemented by the Bank are reviewed annually.

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

Risk Management objectives and policies (continued)

The Bank's Risk strategy, which has been formally documented, outlines the Bank's overall direction regarding risk and capital management issues, including the risk management mission and objectives, risk definitions, risk management principles, risk appetite framework, risk governance framework, strategic objectives and key management initiatives for the improvement of the risk management framework in place. The maximum amount of risk which the Bank is willing to assume in the pursuit of its strategic objectives is articulated via a set of quantitative and qualitative statements for specific risk types, including specific tolerance levels. The objectives are to support the Bank's business growth, balance a strong capital position with higher returns on equity and to ensure the Bank's adherence to regulatory requirements.

Risk Committee

The Bank's risk governance framework comprises a number of different constituents. In particular, the Supervisory Board has set up a Risk Committee overseeing all risk management functions. It is currently complemented by the Risk function.

The Supervisory Board has delegated to the Risk Committee the role of approving all strategic risk management decisions (e.g. local risk appetite, capital allocation, balance-sheet profile and risk management structure). The Risk Committee is in charge of monitoring the quantitative and qualitative aspects of all credit, market, liquidity and operational risks.

The Risk Committee is empowered to:

- ✓ Review and analyse the Bank's risk profile, identify and assess significant risks;
- ✓ Develop adequate policies and procedures in order to identify, assess, monitor and control significant risks;
- ✓ Inform the Supervisory Board about significant problems or developments that could have an impact on the Bank's risk profile;
- ✓ Monitor the implementation of policies related to the management of significant risks
- ✓ Approve adequate methodologies and models for risk assessment and exposure limitation.

The Risk Committee updates the Supervisory Board on the adequacy of the risk management structure and reports key risks. Any significant matters of concern are escalated either to the Supervisory Board or to the Eurobank Ergasias SA's Group Risk Committee.

Non-Performing Exposures (NPEs) management

The Bank has established an organizational and hierarchical model in order to empower the management of troubled assets and to be adequate to the macro environment, adopting the regulatory requirements.

Proactive measures have been taken in this regard, as the Bank has transformed its troubled assets operating model by establishing a dedicated Troubled Assets Group Division (TAG) and respective troubled assets governance bodies, namely the Troubled Assets Committee (TAC) and the Special Handling Monitoring Committee (SHMC).

Troubled Assets Committee (TAC)

The Troubled Assets Committee (TAC) is established as a committee of Troubled Assets Group Division under the Bank`s Management Board. The TAC oversees and monitors the Bank's troubled assets' management. In particular, the main competencies that have been delegated to TAC relate to the monitoring of loans in arrears and the management of non-performing loans, the determination and implementation of the troubled assets' management strategy, to approve and assess the sustainability of the forbearance and closure procedure measures and modification programs.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

Non-Performing Exposures (NPEs) management (continued)

Special Handling Monitoring Committee (SHMC)
The Special Handling Monitoring Committee (SHMC) is established as a dedicated committee that monitors Corporate watch-listed, problematic and non-performing relationships. The main competences of the SHMC are related to monitoring of customers activities and financial performance as well as to decide on the strategy for handling of problematic Corporate relationships.

Troubled Assets Group Division (TAG)
The TAG has been established as an independent body, reporting directly to the Chief Executive Officer of the Bank. TAG Division is the overall responsible body for the management of the Bank's troubled assets portfolio, for the whole process, from the pre-delinquency status in case of high risk exposures up to legal workout. It ensures close monitoring, tight control and course adjustment taking into account the continuous developments in the macro environment, the regulatory and legal requirements, the international best practices and new or evolved internal requirements.
TAG comprises the Retail TAG Department, the Wholesale TAG Department, Risk and policy Department and TAG Retail Underwriting Department. TAG structure is completely segregated from the Bank's business units both in terms of account management, as well as credit approval process, which ensures transparency, flexibility, better prioritization and management accountability and shifts the management from bad debt minimization to bad debt value management, in line with the Bank's risk appetite.
The TAG cooperates with the Bank`s Risk Division, being responsible for the overall risk management framework and the development and validation of credit assessment methodologies and tools (i.e. models and scorecards). Interaction with the Risk Division is in place with regard to the elaboration, validation and updating of the TAG Credit Policy, evaluation and opinion on TAG business proposals, approval of forbearance measures and modification programs (risk representatives participate in the approval process).
The overall results of the management of troubled assets are presented to the regular Risk Committees.
The key governing principles of the TAG are to:

- Ensure direct top management involvement in troubled assets management and close monitoring of the respective portfolio;
- Deploy a sound credit workout strategy through innovative propositions that will lead to viable short and long term solutions, ensuring a consistent approach for managing troubled assets across portfolios;
- Engineer improvements in monitoring and offering targeted solutions by segmenting delinquent borrowers and tailoring the remedial and workout approach to specific segment;
- Ensure a consistent approach for managing troubled assets across portfolios;
- Prevent non-performing exposures formation through early intervention and clear definition of primary financial objectives of troubled assets;
- Monitor the loan delinquency statistics, as well as define targeted risk mitigating actions to ensure portfolio risk reduction;
- Target maximization of borrowers who return to performing status through modifications or collections;
- Define criteria to assess the sustainability of proposed forbearance or resolution and closure measures and design decision trees.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

Operational targets for Non-performing exposures (NPEs)

In line with the requirements of the supervisory arm of the European Central Bank (ECB) and the Group guidance, the Bank has designed an operational targets framework for NPEs management, supported by several key performance indicators. Pursuant to the said framework, the Bank developed a set of NPEs operational targets together with a detailed NPEs management strategy with a 3-year time horizon, which is henceforth revised annually in order to align with changes in the operating environment and the Bank's strategic priorities. In December 2019, the Management of the Bank approved a NPEs management strategy for the years 2019-2022, which envisages projected NPEs stock to reach BGN 476 million by the end of 2020, and BGN 388 million (NPE ratio below 5%) by the end of 2022.
The key driver for the accelerated NPEs reduction will be NPE debt sales transactions.
NPE loans IFRS 9 ECL captures the expected loss related to the forward looking accelerated non-performing exposures management strategy. IFRS 9 does not limit the cash flows that the Bank can expect to receive only to contractual cash flows that are collected from the borrowers. Further it states that credit risk management activities that are aimed at minimizing potential credit losses, such as sales, are integral to a hold-to-collect business model. Accordingly, cash flows that are expected to be recovered from sale of defaulted assets should be included in the measurement of ECLs.
The recoverability of disposable non-performing exposures has been quantified by taking into account Bank's past practice and future expectations and relevant market information related to bad debt loans sale prices and similar transactions.
Additional measures for NPE reduction envisaged in the plan are write offs (partial and full) carried out against accumulated ECL from previous periods.

5.2.1 Credit Risk

Credit risk is the risk that a counterparty will be unable to fulfill its payment obligations in full when due.
Settlement risk is the risk arising when payments are settled, for example for trades in financial instruments, including derivatives and currency transactions. The risk arises when the Bank remits payments before it can ascertain that the counterparties' payments have been received.
Credit risk arises principally from the corporate and retail lending activities of the Bank, including from credit enhancement provided, such as financial guarantees and letters of credit. The Bank is also exposed to credit risk arising from other activities such as investments in debt securities, trading activities, capital markets and settlement activities. Taking into account that credit risk is the principal risk the Bank is exposed to, it is rigorously managed and is monitored by centralized dedicated risk units, reporting to the Bank Chief Risk Officer and to the Group Chief Risk Officer.

(a) Credit approval process

There are currently two distinct Groups of Credit Committees -Performing Clients Committees and Special Handling Committees.
The performing clients committees are responsible for implementing the functions of credit evaluation, approval and periodic review of performing clients. The mandate is to concurrently meet the objectives of having a robust loans portfolio together with maintaining profits for the Bank and sustainable growth.
The scope of the Special Handling Committees includes the handling of borrowers with Risk Classification Medium and High. Their primary emphasis is placed on accurately evaluating their financial viability in order to define the account strategy.
The segregation of duties ensures independence among executives responsible for the customer relationship, the approval process and the loan disbursement, as well as monitoring of the loan during its lifecycle.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

Credit Committees

The credit approval process in Corporate Banking is centralized through establishment of Credit Committees with escalating Credit Approval Levels, in order to manage the corporate credit risk. Main Committees of the Bank are considered to be the following:

- Credit Committees (Central and Local) authorized to approve new financing, renewals or amendments in the existing credit limits, in accordance with their approval authority level, depending on total limit amount and customer risk category (i.e. high, medium or low), as well as the value and type of security;
- Special Handling Credit Committees authorized to approve credit requests and take actions for distressed clients;
- International Credit Committees (Regional and Country) established for credit underwriting to wholesale borrowers for the subsidiaries within the Group, authorized to approve new limits, renewals or amendments to existing limits, in accordance with their approval authority level, depending on total customer exposure and customer risk category (i.e. high, medium or low), as well as the value and type of security; and
- International Special Handling Committees established for handling distressed wholesale borrowers of the subsidiaries within the Group

The Credit Committees meet on a weekly basis or more frequently, if needed.

Credit Risk Department

The main responsibilities of Credit Risk Department are:

- Review and evaluation of credit requests of:
  - ✓ Domestic large and medium scale corporate entities of every risk category;
  - ✓ Specialized units, such as Project Finance, Factoring;
  - ✓ Cross-border customers; and
  - ✓ Retail sector's customers (small business and individual banking) above a predetermined threshold and for predetermined types of exceptions.
- Issuance of an independent risk opinion for each credit request, which includes:
  - ✓ Assessment of the customer credit profile based on the qualitative and quantitative risk factors identified (market, operations, structural and financial);
  - ✓ A focused sector analysis; and
  - ✓ Recommendations to structure a bankable, well-secured and well-controlled transaction.
- Review and confirmation of the ratings of each separate borrower, to reflect the risks acknowledged;
- Participation in all credit committees (for both performing and TAG customers), as per the credit approval procedures and having voting rights for the local ones.
- Active participation in all external/regulatory audits of the Bank;
- Preparation of specialized reports to International Credit Sector (ICS) on a regular basis, with regards to expired credit reviews, leveraged transactions, as well as various statistics on the existing and newly approved financings at a request;
- Safeguarding compliance of the Lending Units with the approved Bank's policies; and
- Provision of specialized knowledge, expertise and support to other divisions of the Bank, in relation to operational and credit procedures, security policies, new lending products and restructuring schemes.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

Credit Risk Department (continued)

Retail Banking approval process

The approval process for loans to small businesses (turnover up to € 3 million) is centralized following specific guidelines for eligible collaterals as well as the 'four-eyes' principle. The assessment is based on an analysis of the borrower's financial position and statistical scorecards.
The credit approval process for Individual Banking (consumer and mortgage loans) is also centralized. It is based on specialized credit scoring models and credit criteria taking into account the payment behavior, personal wealth and financial position of the borrowers, including the existence of real estate property, the type and quality of securities and other factors. The ongoing monitoring of the portfolio quality and of any other deviations that may arise, leads to an immediate adjustment of the credit policy and procedures, when deemed necessary.

(b) Credit risk monitoring

Credit Control Department

The Bank's Credit Control Department monitors and assesses the quality of all of the Bank's loan portfolios and operates independently from the business units of the Bank. The department reports directly to the CRO. The main responsibilities of the department are to:

- monitor and review the performance of all of the Bank's loan portfolios;
- conduct field reviews and prepare written reports to the Management on the quality of all of the Bank's loan portfolios and adherence with EBA prevailing regulations;
- supervise, support and maintain the credit rating and impairment systems used to assess the wholesale lending customers;
- monitor on a regular basis and report on a quarterly basis to the Country Risk Committee of risk exposures, along with accompanying analyses;
- participate in the approval of new credit policies and new loan products;
- participate in the Troubled Asset Committee;
- attend meetings of Credit Committees and Special Handling Committees, without voting right;
- monitor and evaluate the efficiency of adopted strategies and proposed solutions in terms of dealing with Non Performing Exposures (NPEs) and the achievement of targets for NPEs reduction;
- formulate the provisioning policy and regularly monitor the adequacy of provisions of all of the Bank's loan portfolios.

Credit Risk Methodology and Capital Adequacy Control Department

The ***Credit Risk Methodology and Capital Adequacy Control (CRM-CAC) Department*** report to the Bank's CRO.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

Specifically, the main responsibilities of the ***CRM-CAC Department*** are to:

- manage the models development, implementation, maintenance and validation of the IRB models of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) for evaluating credit risk;
- manage the models development, implementation, maintenance and validation of the risk related scoring models;
- manage the models development, implementation, maintenance and validation of the IFRS9 models of 12m ECL and lifetime ECL calculation;
- implementation, monitoring and maintenance of IFRS9 impairment calculation engine;
- implementation, monitoring and maintenance of credit rating systems;
- perform stress tests, both internal and external (EBA/Bulgarian National Bank (BNB)), and maintain the credit risk stress testing infrastructure;
- prepare the credit risk analyses for Internal Capital Adequacy Assessment (ICAAP)/ Pillar 2 purposes;
- prepare the Basel Pillar 3 disclosures for credit risk;
- participate in the preparation of the business plan, the NPE targets plan and the recovery plan of the Bank in relation to asset quality and capital requirements for the loan book (projected impairments and RWAs), as well as participate in the relevant committees;
- support the business units in the use of credit risk models in business decisions, for funding purposes, in the capital impact assessment of strategic initiatives and the development and usage of risk related metrics such as risk adjusted pricing, Risk Adjusted Return on Capital (RAROC) etc.;
- monitor the regulatory framework in relation to the above, to perform impact assessment, to initiate and manage relevant projects;
- regularly report to the CRO and Group Chief Risk Officer, to the Management Risk Committee and to the Board Risk Committee on: risk models performance, risk parameters (PD, LGD, EAD), updates on regulatory changes and impact assessment and asset quality reviews.

Market Risk Department

Market Risk Department is responsible for the measurement, monitoring and reporting of the Bank's exposure to counterparty risk, which is the risk of loss due to the customer's failure to meet its contractual obligations in the context of treasury activities, such as securities, derivatives, repos, reverse repos, interbank placings, etc.

The Bank sets limits on the level of counterparty risk (see also below 5.2.1 (f) credit risk mitigation) that may be undertaken based mainly on the counterparty's credit rating, as provided by international rating agencies, and the product type (e.g. control limits on net open derivative positions by both amount and term, sovereign bonds exposure, interbank transactions and operating account balances). The utilization of the abovementioned limits, any excess of them, as well as the aggregate exposure per counterparty and product type are monitored by the department on a daily basis. Risk mitigation contracts are taken into account for the calculation of the final exposure.

In case of uncollateralized derivative transactions, the Bank measures the current exposure along with the potential future exposure (PFE) using financial models. The combined exposure is used for the monitoring of limit utilization.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

(c) Credit related commitments

The primary purpose of credit related commitments is to ensure that funds are available to a customer as agreed. Financial guarantee contracts carry the same credit risk as loans since they represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are secured by the underlying shipment of goods to which they relate and therefore carry less risk than a loan. Commitments to extend credit represent contractual commitments to provide credit under pre-specified terms and conditions (note 35) in the form of loans, guarantees or letters of credit for which the Bank usually receives a commitment fee. Such commitments are irrevocable over the life of the facility or revocable only in response to a material adverse effect.

(d) Concentration risk

The Bank structures the levels of credit risk it undertakes by placing exposure limits by borrower, or groups of borrowers, and by industry segments.
Concentration risk is monitored regularly and reported to the Risk Committee.

e) Rating systems

Rating of wholesale lending exposures

The Bank employs a number of rating models and tools in order to reflect appropriately the risk arising from wholesale lending customers with different characteristics. Accordingly, the Bank employs the following rating models for the wholesale portfolio:

- Moody’s Risk Analyst model (“MRA” or “Fundamental Analysis”-“FA”) is used to assess the risk of borrowers for Corporate Lending.
- Slotting models: in view of assessing the risk of specialized exposures, which are part of the Specialized Lending corporate portfolio, slotting rating models are employed.
- Internal Credit Rating model (“ICR”) is used for those customers that cannot be rated by neither MRA nor Slotting methodology.

Moody’s Risk Advisor credit rating system allows the assessment of the creditworthiness of corporate borrowers through the analysis of (a) quantitative criteria (min two financial years’ statements) which are compared with the financial statements of a peer group (i.e. companies with similar business activity) and (b) qualitative parameters such as company reputation and status, management characteristics and skills etc. MRA takes into account the entity's balance sheets, income statement accounts and cash flow statements to calculate key ratios. Its ratio analysis includes assessments of each ratio’s trend across multiple periods, both in terms of the slope and volatility of the trend. It also compares the value of the ratio for the most recent period with the quartile values for a comparable peer group. Moreover, MRA is supplied with a commonly used set of qualitative factors relating to the quality of the company’s management, the standing of the company within its industry and the perceived riskiness of the industry. MRA uses financial data for companies operating on the Bulgarian market.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

(e) Rating systems (continued)

Rating of wholesale lending exposures (continued)

With reference to Specialized Lending portfolio (for which the Bank is using Slotting rating models) and in line with European Banking Authority (EBA) definitions, it comprises types of exposures towards entities specifically created to finance or operate physical assets, where the primary source of income and repayment of the obligation lies directly with the assets being financed. The rating system New Credit Rating (NCR) is applied to real estate projects, i.e. financing real estate projects (for example, office buildings that can be rented out, commercial areas, residential building, industrial or warehouse areas) where the expected cash flows for the repayment of the loan will be generated by the asset under consideration (leasing payments, rent payments or sale of the asset). The rating system for real estate projects is used for investment real estate (Investors) and real estate in process of development (Developers). According to the slotting methodology, four keys aspects of the project are evaluated: financial stability, characteristics of the asset, stability of the investor/developer, collaterals.

The MRA is not employed for certain types of entities that use special characteristics of different accounting methods to prepare their financial statements, such as Insurance companies and brokerage firms. Moreover, entities such as start-ups that have not produced financial information for at least two annual accounting periods are not rated with MRA.
In case a client is not eligible neither for MRA nor rating based on Slotting methodology, the Internal Credit Rating ("ICR") is used. The ICR is based on a thorough analysis of a set of qualitative factors (company management, industry, operating conditions, market sector, collateral servicing the loan, etc.) and quantitative factors (financial indicators such as profitability, leverage, liquidity, etc., derived from the financial statements of the client). Each client must be individually rated, but customers who belong to a group of companies should be considered together. In the event that the related company provides corporate guarantee, then the company, which is the borrower must obtain a credit rating of the company providing the guarantee.

In the context of IFRS9 implementation, the Bank has further enhanced its corporate credit risk assessment models linking risk parameters estimation with macro-economic factors allowing the forecasting of rating transitions under different macroeconomic scenarios (base, adverse and optimistic).

The rating systems described above are an integral part of the wholesale banking decision-making and risk management processes:

- the credit approval or rejection, both at the origination and review process;
- the allocation of competence levels for credit approval;
- the impairment calculation (staging criteria and subsequent ECL estimation of forecasted risk parameters)

Rating of retail lending exposures

The Bank assigns credit scores to its retail customers using a number of statistically-based models both at the origination and on ongoing basis through behavioral scorecards. These models have been developed to predict, on the basis of available information, the probability of default, the loss given default and the exposure at default. They cover the entire spectrum of retail products (credit cards, consumer lending, mortgages and small business loans).

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

(e) Rating systems (continued)

The Bank's models were developed based on historical data and credit bureau data. Behavioral scorecards are calculated automatically on a monthly basis, thus ensuring that the credit risk assessment is up to date. The models are applied in the credit approval process, the credit limits management, as well as the collection process for the prioritization of the accounts in terms of handling.
In the context of IFRS 9, the Bank has further enhanced its retail credit risk assessment models linking risk parameters estimation with macro-economic factors allowing their forecasting over one year and lifetime horizon under different macroeconomic scenarios (base, adverse and optimistic) and supporting the staging analysis and allocation to risk classes under homogeneous pools.

The Credit Risk Methodology and Capital Adequacy Control Department monitors the capacity of rating models and scoring systems to classify customers according to risk, as well as to predict the probability of default and loss given default and exposure at default on an ongoing basis. The Bank verifies the validity of the rating models and scoring systems on an annual basis and the validation includes both quantitative and qualitative aspects.

(f) Credit risk mitigation

A key component of the Bank's business strategy is to reduce risk by utilizing various risk mitigating techniques. The most important risk mitigating means are collateral's pledge, guarantees and master netting agreements.

Types of collateral commonly accepted by the Bank

The Bank has internal policies in place which set out the following types of collateral that are usually accepted in a credit relationship:

- Real estate
- Pledge on movable property
- Pledge on commercial enterprises
- Pledge on receivables
- Securities
- Cash
- Letters of guarantees
- Personal guarantees /Sureties/
- Other eligible collaterals

A specific coverage ratio is pre-requisite, upon the credit relationship's approval and on ongoing basis, for each collateral type, as specified in the Bank's credit policy.
For interbank exposures (i.e. reverse repos, derivatives), the Bank accepts as collateral only cash or liquid bonds.

Valuation principles of collaterals

In defining the maximum collateral ratio for loans, the Bank considers all relevant information available, including the collaterals' specific characteristics, if market participants would take those into account when pricing the relevant assets. The valuation and hence eligibility is based on the following factors:

- the collateral's fair value, i.e. the exit price that would be received to sell the asset in an orderly transaction under current market conditions;

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

Valuation principles of collaterals (continued)

- the fair value reflects market participants' ability to generate economic benefits by using the asset in its highest and best use or by selling it;
- a reduction in the collateral's value is considered if the type, location or condition (such as deterioration and obsolescence) of the asset indicate so; and
- no collateral value is assigned if a pledge is not legally enforceable.

Collateral policy and documentation

Regarding collaterals, Bank's policy emphasizes the need that collaterals and relevant processes are timely and prudently executed, in order to ensure that collaterals and relevant documentation are legally enforceable at any time. The Bank holds the right to liquidate collateral in the event of the obligor's financial distress and can claim and control cash proceeds from the liquidation process.

Guarantees

The guarantees used as credit risk mitigation by the Bank are largely issued by central government, local banks and funds (Bulgarian Development Bank and National Guarantee Fund) and international financial institutions (European Investment Fund (EIF), International Financial Corporation (IFC), etc.).

Counterparty risk

The Bank mitigates counterparty risk arising from treasury activities by entering into master netting arrangements and similar agreements, as well as collateral agreements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in the offset of balance sheet assets and liabilities, as the transactions are usually settled on a gross basis.
However, the respective credit risk is reduced through a master netting agreement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis.

In the case of derivatives, the Bank makes use of International Swaps and Derivatives Association (ISDA) contracts, which limit the exposure via the application of netting, and Credit Support Annex (CSAs), which further reduce the total exposure with the counterparty. Under these agreements, the total exposure with the counterparty is calculated on a daily basis taking into account any netting arrangements and collaterals.
The same process is applied in the case of repo transactions where standard Global Master Repurchase Agreements (GMRAs) are used. The exposure (the net difference between repo cash and the market value of the securities) is calculated on a daily basis and collateral is transferred between the counterparties thus minimizing the exposure.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.1 Maximum exposure to credit risk before collateral held

	As at 31 December	
	2019	**2018**
Loans and advances to banks	1,702,886	1,418,148
Less: Impairment allowance	(90)	(226)
Loans and advances to customers:		
- Mortgages	2,094,864	1,751,030
- Consumer lending (including credit cards)	1,033,018	792,274
- Small Business lending	760,360	700,029
- Corporate lending	3,534,285	2,364,851
Less: Impairment allowance	(310,786)	(336,995)
Trading assets - debt securities	7,903	7,096
Derivative financial instruments	1,502	2,400
Debt securities at fair value through other comprehensive income	519,643	378,858
Debt securities at amortised cost	40,421	19,181
Less: Impairment allowance	(444)	(583)
Other financial assets (*)	20,136	15,404
Less: Impairment allowance	(2,378)	(1,337)
Credit risk exposures relating to off-balance sheet items are as follows (Note 35):		
Guarantees and Letters of credit	296,053	196,064
Loan commitments	1,349,801	1,089,966
Less: Impairment allowance	(515)	(589)
Total	**11,046,659**	**8,395,571**

(*) it refers to financial assets subject to IFRS 9 requirements, which are recognized within other assets

The above table represents the Bank's maximum credit risk exposure as at 31 December 2019 and 31 December 2018, without taking account of any collateral held or other credit enhancements attached.

For on-balance sheet assets, the exposures set out above are based on the net carrying amounts as reported in the balance sheet.

5.2.1.2 Loans and advances to customers

The section below provides an overview of the Bank's exposure to credit risk arising from its customer lending portfolios.
Loans and advances to customers carried at amortised cost are classified depending on how ECL is measured. Accordingly, loans reported as non-impaired include loans for which a '12-month ECL allowance' is recognized as they exhibit no significant increase in credit risk since initial recognition and loans for which a 'Lifetime ECL allowance' is recognized as they exhibit a significant increase in credit risk since initial recognition but are not considered to be in default .
Credit impaired loans category includes loans that are considered to be in default, for which a loss allowance equal to 'Lifetime ECL' is recognized and loans classified as 'Purchased or originated credit impaired' (POCI) which are always measured on the basis of lifetime ECL.
The Bank's accounting policy regarding impairment of financial assets is set out in Note 2.2.15.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers

Regulatory definitions

'Default exposures', in line with the regulatory definition of default as adopted by the Bank, include material exposures that are past due more than 90 days, exposures that are assessed by Bank as unlikely to pay as well as those that are assessed for impairment individually and carry an individual impairment allowance. As at 31 December 2019, the Bank's default exposures amounted to BGN 474,157 thousand.

'Non-performing exposures' as currently monitored and reported by the Bank, in line with the guidelines set by the European Banking Authority (EBA Implementing Technical Standards), include material exposures that are in arrears for more than 90 days, or assessed as unlikely to pay, impaired exposures, exposures categorized as defaulted for regulatory purposes, as well as forborne non performing exposures. The Bank has aligned its accounting definition of default with the EBA definition of default, as described above.

As at 31 December 2019, the Bank's non-performing exposures amounted to BGN 620,869 thousand (2018: BGN 647,378 thousand). POCI loans included in non-performing exposures are BGN 104,867 thousand (2018: 9,389 thousand). Correspondingly, 'Performing exposures' include exposures without arrears, those that are less than 90 days past due or are not assessed as unlikely to pay, non-impaired and non-defaulted for regulatory purposes exposures. As at 31 December 2019, the Bank's performing exposures amounted to BGN 6,801,658 thousand (2018: 4,960,806 thousand).

'Unlikely to pay' category refers to exposures where a borrower's ability to repay his credit obligations in full without realization of collateral is assessed as unlikely, regardless the existence of any past due amounts or the number of days past due.

Quantitative information

The following tables present the total gross amount, representing the maximum exposure to credit risk before the impairment allowance, of loans and advances that are classified as non-impaired (Stage 1 and Stage 2) and those classified as impaired (Stage 3 and POCI). They also present the total impairment allowance recognized in respect of all loans and advances and credit related commitments, analyzed into individually or collectively assessed, based on how the respective impairment allowance has been calculated, the carrying amount of loans and advances, as well as the value of collateral held to mitigate credit risk.
For credit risk management purposes, the Public Sector, which includes exposures to the central government, local or regional authorities, state-linked companies and entities controlled and fully or partially owned by the state, is incorporated in wholesale lending.
In addition, the value of collateral presented in the tables below is capped to the respective gross loan amount.

The total impairment provision for loans and advances is BGN 310,786 thousand, of which BGN 135,484 thousand represents the individually impaired loans provision and the remaining amount of BGN 175,302 thousand represents the portfolio provision. During 2019, the Bank's total net loans and advances increased by 35%, as a significant contribution to this growth has the acquisition of the Piraeus Bank loan portfolio during 2019. In order to minimize the potential increase of credit risk exposure, the Bank has focused more on the business with large corporate enterprises with good credit rating or retail customers providing sufficient collateral.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

The following table presents information about the credit quality of the gross carrying amount of loans and advances to customers carried at amortised cost, the nominal exposures of credit related commitments and the respective impairment allowance as at 31 December 2019 and 31 December 2018:

As at 31 December 2019

	Non-impaired		Credit-impaired					Non-impaired		Credit-impaired					
			Lifetime ECL credit-impaired		POCI		**Total gross carrying amount/ nominal exposure**			Lifetime ECL credit-impaired		POCI		**Carrying amount**	**Value of collateral**
	12-month ECL	Lifetime ECL not credit-impaired	Indivi-dually assessed	Collect-ively assessed	Indivi-dually assessed	Collect-ively assessed		12-month ECL	Lifetime ECL not credit-impaired	Indivi-dually assessed	Collect-ively assessed	Indivi-dually assessed	Collect-ively assessed		
Retail Lending	**3,194,766**	**286,619**	**175,142**	**208,414**	**11,546**	**11,755**	**3,888,242**	**(21,500)**	**(12,492)**	**(82,070)**	**(123,897)**	**(6)**	**(155)**	**3,648,122**	**2,720,878**
- Mortgage	1,742,756	129,101	84,014	119,807	9,534	9,652	2,094,864	(2,813)	(2,352)	(36,461)	(62,792)	(6)	(150)	1,990,290	
Value of collateral	*1,710,501*	*120,327*	*56,436*	*100,196*	*8,201*	*8,382*									*2,004,043*
- Consumer lending	904,328	87,681	-	40,554	-	455	1,033,018	(10,541)	(5,416)	-	(25,267)	-	-	991,794	
Value of collateral	*23,016*	*8,776*	-	*304*	-	-									*32,096*
- Small business	547,682	69,837	91,128	48,053	2,012	1,648	760,360	(8,146)	(4,724)	(45,609)	(35,838)	-	(5)	666,038	
Value of collateral	*542,748*	*62,206*	*58,820*	*18,769*	*1,800*	*396*									*684,739*
Corporate lending	**2,847,965**	**470,898**	**125,595**	**6,851**	**80,111**	**2,865**	3,534,285	**(7,414)**	**(7,740)**	**(46,698)**	**(1,737)**	**(6,710)**	**(367)**	**3,463,619**	**2,949,285**
Value of collateral	*2,316,182*	*453,170*	*92,390*	*4,089*	*80,688*	*2,766*									*2,949,285*
Total	**6,042,731**	**757,517**	**300,737**	**215,265**	**91,657**	**14,620**	**7,422,527**	**(28,914)**	**(20,232)**	**(128,768)**	**(125,634)**	**(6,716)**	**(522)**	**7,111,741**	**5,670,163**
Total Value of collateral	***4,592,447***	***644,479***	***207,646***	***123,358***	***90,689***	***11,544***	**-**								***5,670,163***
Credit related commitments	**1,594,573**	**46,860**	**3,448**	**237**	**666**	**70**	**1,645,854**	**(367)**	**(11)**	**(135)**	**(2)**	**-**	**-**	**-**	**-**
Loan commitments	1,305,856	42,878	106	225	666	70	1,349,801	-	-	-	-	-	-	-	-
Financial guarantee contracts and other commitments	288,717	3,982	3,342	12	-	-	296,053	(367)	(11)	(135)	(2)	-	-	-	-

As at 31 December 2018

	Non-impaired		Credit-impaired			Non-impaired		Credit-impaired			
			Lifetime ECL credit-impaired		**Total gross carrying amount/ nominal exposure**			Lifetime ECL credit-impaired		**Carrying amount**	**Value of collateral**
	12-month ECL	Lifetime ECL not credit-impaired	Indivi-dually assessed	Collect-ively assessed		12-month ECL	Lifetime ECL not credit-impaired	Indivi-dually assessed	Collect-ively assessed		
Retail Lending	**2,486,198**	**245,637**	**238,325**	**273,173**	**3,243,333**	**(17,386)**	**(10,810)**	**(106,658)**	**(143,675)**	**2,964,804**	**2,086,528**
- Mortgage	1,369,416	121,637	103,032	156,945	1,751,030	(2,860)	(3,276)	(40,561)	(65,275)	1,639,058	
Value of collateral	*1,327,718*	*108,016*	*54,135*	*84,827*							*1,574,696*
- Consumer lending	679,571	68,220	-	44,483	792,274	(8,037)	(3,538)	-	(29,217)	751,482	
Value of collateral	*9,350*	*4,641*	-	*116*							*14,107*
- Small business	437,211	55,780	135,293	71,745	700,029	(6,489)	(3,996)	(66,097)	(49,183)	574,264	
Value of collateral	*380,084*	*45,646*	*60,888*	*11,107*							*497,725*
Corporate lending	**1,893,769**	**335,201**	**127,484**	**8,397**	**2,364,851**	**(3,047)**	**(2,150)**	**(49,403)**	**(3,866)**	**2,306,385**	**1,638,085**
Value of collateral	*1,274,119*	*297,047*	*62,749*	*4,170*							*1,638,085*
Total	**4,379,967**	**580,838**	**365,809**	**281,570**	**5,608,184**	**(20,433)**	**(12,960)**	**(156,061)**	**(147,541)**	**5,271,189**	
Total Value of collateral	***2,991,271***	***455,350***	***177,772***	***100,220***							***3,724,613***
Credit related commitments	**1,185,506**	**99,270**	**587**	**667**	**1,286,030**	**(358)**	**(10)**	**(81)**	**(140)**		
Loan commitments	1,033,661	55,868	199	237	1,089,965	-	-	-	-		
Financial guarantee contracts and other commitments	151,845	43,402	388	430	196,065	(358)	(10)	(81)	(140)		

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

The Bank assesses the credit quality of its loans and advances to customers and credit related commitments that are subject to ECL. The Bank's internal credit rating systems in the wholesale portfolio are based on a variety of quantitative and qualitative factors, while the credit quality in the retail portfolio is based on their probability of default (PD's).

The following tables present the dist3.1ribution of the gross carrying amount of loans and advances and the nominal exposure of credit related commitments based on the credit quality classification categories and stage allocation:

		31 December 2019				
		Non-impaired		Credit-impaired		
	Internal credit rating	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	POCI	Total gross carrying amount
Retail Lending						
- Mortgage	PD<2.5%	1,742,516	851	-	-	**1,743,367**
	2.5%<=PD<4%	183	1,252	-	-	**1,435**
	4%<=PD<10%	-	20,697	-	129	**20,826**
	10%<=PD<16%	-	39,039	-	910	**39,949**
	16%<=PD<99.99%	57	67,262	-	350	**67,669**
	100%	-	-	203,821	17,797	**221,618**
- Consumer	PD<2.5%	93	8,244	-	-	**8,337**
	2.5%<=PD<4%	829,879	2,107	-	-	**831,986**
	4%<=PD<10%	73,643	6,397	-	7	**80,047**
	10%<=PD<16%	494	10,579	-	15	**11,088**
	16%<=PD<99.99%	219	60,354	-	-	**60,573**
	100%	-	-	40,554	433	**40,987**
- Small business	PD<2.5%	3	193	-	-	**196**
	2.5%<=PD<4%	474,270	65	-	-	**474,335**
	4%<=PD<10%	73,400	2,443	-	-	**75,843**
	10%<=PD<16%	9	7,368	-	-	**7,377**
	16%<=PD<99.99%	-	59,768	-	-	**59,768**
	100%	-	-	139,181	3,660	**142,841**
Corporate Lending						
	Strong	1,745,614	243,413	-	-	**1,989,027**
	Satisfactory	923,831	66,363	-	-	**990,194**
	Watch list	178,520	161,122	-	-	**339,642**
	Impaired	-	-	132,446	82,976	**215,422**
Total		**6,042,731**	**757,517**	**516,002**	**106,277**	**7,422,527**

Translation from the original Bulgarian version, in case of divergence the Bulgarian original shall prevail

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

		31 December 2018			
		Non impaired		Credit-impaired	
	Internal credit rating	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total gross carrying amount
Retail Lending					
- Mortgage	PD<2.5%	1,368,129	85,751	-	**1,453,880**
	2.5%<=PD<4%	1,207	1,828	-	**3,035**
	16%<=PD<99.99%	80	34,057	-	**34,137**
	100%	-	-	259,978	**259,978**
- Consumer	PD<2.5%	75	9	-	**84**
	2.5%<=PD<4%	619,569	9,975	-	**629,544**
	4%<=PD<10%	58,377	28,353	-	**86,730**
	10%<=PD<16%	484	5,718	-	**6,202**
	16%<=PD<99.99%	1,066	24,165	-	**25,231**
	100%	-	-	44,483	**44,483**
- Small business	PD<2.5%	24	-	-	**24**
	2.5%<=PD<4%	379,463	13,795	-	**393,258**
	4%<=PD<10%	56,900	30,678	-	**87,578**
	10%<=PD<16%	824	5,781	-	**6,605**
	16%<=PD<99.99%	-	5,527	-	**5,527**
	100%	-	-	207,037	**207,037**
Corporate Lending					
	Strong	904,193	117,600	-	**904,193**
	Satisfactory	989,576	176,353	-	**989,576**
	Watch list	-	41,248	-	**335,201**
	Impaired	-	-	135,881	**135,881**
Total		**4,379,967**	**580,838**	**647,379**	**5,608,184**

Translation from the original Bulgarian version, in case of divergence the Bulgarian original shall prevail

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

		31 December 2019			
		Non impaired		**Credit-impaired**	
	Internal credit rating	**12-month ECL**	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit-impaired**	**Total nominal amount**
Credit Related Commitments					
Retail Lending					
Loan Commitments					
	PD<2.5%	150,681	10,048	-	**160,729**
	2.5%<=PD<4%	227,495	1,837	-	**229,332**
	4%<=PD<10%	138,722	5,238	-	**143,960**
	10%<=PD<16%	306	5,683	-	**5,989**
	16%<=PD<99.99%	161	6,352	-	**6,513**
	100%	-	-	114	**114**
Financial Guarantee contracts and Other Commitments					
	PD<2.5%	11,065	-	-	**11,065**
	2.5%<=PD<4%	4,939	-	-	**4,939**
	100%	-	-	6	**6**
Wholesale Lending					
Loan Commitments					
	Strong	503,235	11,760	-	**514,995**
	Satisfactory	271,376	1,916	-	**273,292**
	Watch list	13,880	45	-	**13,925**
	Impaired	-	-	952	**952**
Financial Guarantee contracts and Other Commitments	Strong	230,271	3,027	-	**233,298**
	Satisfactory	30,286	-	-	**30,286**
	Watch list	12,157	954	-	**13,111**
	Impaired			3,348	**3,348**
Total		**1,594,574**	**46,860**	**4,420**	**1,645,854**

Translation from the original Bulgarian version, in case of divergence the Bulgarian original shall prevail

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

		31 December 2018			
		Non impaired		Credit-impaired	
	Internal credit rating	**12-month ECL**	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit-impaired**	**Total nominal amount**
<u>Credit Related Commitments</u>					
Retail Lending					
Loan Commitments					
	PD<2.5%	142,708	2,135	1	**144,844**
	2.5%<=PD<4%	188,048	554	-	**188,602**
	4%<=PD<10%	93,807	22,527	-	**116,334**
	10%<=PD<16%	272	2,566	4	**2,842**
	16%<=PD<99.99%	1,154	7,397	51	**8,602**
Financial Guarantee contracts and Other Commitments					
	2.5%<=PD<4%	15,891	-	19	**15,910**
Wholesale Lending					
Loan Commitments					
	Strong	223,134	-	-	**223,134**
	Satisfactory	384,538	-	-	**384,538**
	Watch list	-	20,689	-	**20,689**
	Impaired	-	-	381	**381**
Financial Guarantee contracts and Other Commitments	Strong	90,349	-	-	**90,349**
	Satisfactory	45,605	-	-	**45,605**
	Watch list	-	43,402	-	**43,402**
	Impaired	-	-	798	**798**
Total		**1,185,506**	**99,270**	**1,254**	**1,286,030**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

The table below depicts the internal credit rating bands (MRA/ NCR/ ICR rating scale) for the wholesale portfolio that correspond to the credit quality classification categories presented in the above tables, 1st and only criteria for category assignment being the borrower's stage.

Quality classification	Stage	Rating (MRA/ ICR/ NCR)
Strong	Stage 1	1-4
Satisfactory	Stage 1	4,1-8,6
Watchlist	Stage 2	2-9
Impaired	Stage 3	3-10

The following tables present the movement of the gross carrying amounts for loans and advances to customers by product line by reference to opening and closing balances for the reporting period from 01.01.2019 to 31.12.2019:

	31 December 2019																
	Wholesale				Mortgage				Consumer				Small Busines				
	12-month ECL-Stage 1	Lifetime ECL-Stage 2	Lifetime ECL credit-impaired -Stage 3	POCI	12-month ECL-Stage 1	Lifetime ECL-Stage 2	Lifetime ECL credit-impaired -Stage 3	POCI	12-month ECL-Stage 1	Lifetime ECL-Stage 2	Lifetime ECL credit-impaired-Stage 3	POCI	12-month ECL-Stage 1	Lifetime ECL-Stage 2	Lifetime ECL credit-impaired -Stage 3	POCI	Total
Gross carrying amount at 1 January	**1,893,769**	**335,201**	**135,345**	**536**	**1,369,416**	**121,637**	**253,048**	**6,929**	**679,571**	**68,220**	**44,429**	**54**	**437,211**	**55,780**	**205,168**	**1,870**	**5,608,184**
New loans and advances originated or purchased	475,782	-	-	-	358,029	-	-	582	254,286	-	-	-	145,203	-	-	-	**1,233,882**
Arising from merger	741,643	-	-	117,223	218,396	-	-	12,169	137,249	-	-	1,758	69,527	-	-	2,416	**1,300,381**
-to 12-month ECL	*18,966*	*(17,870)*	*(1,096)*	-	*41,231*	*(38,956)*	*(2,275)*	-	*20,737*	*(20,527)*	*(210)*	-	*16,504*	*(16,404)*	*(100)*	-	-
-to lifetime ECL	*(168,695)*	*169,284*	*(589)*	-	*(56,877)*	*74,349*	*(17,472)*	-	*(42,157)*	*47,606*	*(5,449)*	-	*(34,114)*	*38,245*	*(4,131)*	-	-
-to lifetime ECL credit-impaired loans	*(8,779)*	*(23,165)*	*31,944*	-	*(4,615)*	*(17,929)*	*22,544*	-	*(7,222)*	*(9,308)*	*16,530*	-	*(5,324)*	*(5,853)*	*11,177*	-	-
Loans and advances derecognised	-	-	(1,119)	-	-	-	(1,373)	-	-	-	-	-	-	-	(620)	-	**(3,112)**
Amounts written-off	-	-	(22,784)	(2)	-	-	(41,737)	(1,085)	-	-	(13,317)	(5)	-	-	(53,173)	(12)	**(132,115)**
Repayments	(90,656)	(3,609)	(3,591)	-	(88,409)	(5,476)	(13,607)	-	(93,116)	(6,986)	(2,087)	-	(54,907)	(4,739)	(6,428)	-	**(373,611)**
Foreign exchange differences and other movements	(14,065)	11,057	(5,664)	(34,781)	(94,415)	(4,524)	4,693	591	(45,020)	8,676	658	(1,352)	(26,418)	2,808	(12,712)	(614)	**(211,082)**
Gross carrying amount at 31 December	**2,847,965**	**470,898**	**132,446**	**82,976**	**1,742,756**	**129,101**	**203,821**	**19,186**	**904,328**	**87,681**	**40,554**	**455**	**547,682**	**69,837**	**139,181**	**3,660**	**7,422,527**
Impairment allowance	(7,414)	(7,740)	(48,435)	(7,077)	(2,813)	(2,352)	(99,253)	(156)	(10,541)	(5,416)	(25,267)	-	(8,146)	(4,724)	(81,447)	(5)	**(310,786)**
Carrying amount at 31 December	**2,840,551**	**463,158**	**84,011**	**75,899**	**1,739,943**	**126,749**	**104,568**	**19,030**	**893,787**	**82,265**	**15,287**	**455**	**539,536**	**65,113**	**57,734**	**3,655**	**7,111,741**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

	31 December 2018												
	Wholesale			Mortgage			Consumer			Small Busines			
	12-month ECL-Stage 1	**Lifetime ECL-Stage 2**	**Lifetime ECL credit-impaired-Stage 3**	**12-month ECL-Stage 1**	**Lifetime ECL-Stage 2**	**Lifetime ECL credit-impaired-Stage 3**	**12-Month ECL-Stage 1**	**Lifetime ECL-Stage 2**	**Lifetime ECL credit-impaired-Stage 3**	**12-month ECL-Stage 1**	**Lifetime ECL-Stage 2**	**Lifetime ECL credit-impaired-Stage 3**	**Total**
Gross carrying amount at 1 January	**1,871,587**	**58,192**	**222,661**	**1,205,613**	**156,530**	**293,892**	**467,576**	**158,385**	**52,504**	**360,743**	**76,740**	**273,708**	**5,198,131**
New loans and advances originated or purchased	305,370	-	-	298,848	-	-	236,986	-	-	137,945	-	-	**979,149**
-to 12-month ECL	*38,048*	*(37,740)*	*(308)*	*46,116*	*(45,555)*	*(562)*	*79,443*	*(79,275)*	*(167)*	*21,025*	*(20,978)*	*(47)*	-
-to lifetime ECL	*(305,436)*	*305,742*	*(306)*	*(29,986)*	*50,695*	*(20,708)*	*(15,994)*	*22,682*	*(6,689)*	*(27,047)*	*29,616*	*(2,569)*	-
-to lifetime ECL credit-impaired loans	*(6,666)*	-	*6,666*	*(4,113)*	*(17,364)*	*21,477*	*(3,079)*	*(8,799)*	*11,878*	*(2,566)*	*(10,284)*	*12,850*	-
Loans and advances derecognised	-	-	(52,504)	-	-	(8,056)	-	-	(580)	-	-	(293)	**(61,433)**
Amounts written-off	-	-	(44,999)	-	-	(9,405)	-	-	(7,451)	-	-	(56,229)	**(118,084)**
Repayments	(430,619)	(4,379)	(14,153)	(161,897)	(24,410)	(21,922)	(134,196)	(34,869)	(7,855)	(82,887)	(21,332)	(22,990)	**(961,509)**
Foreign exchange differences and other movements	421,485	13,386	18,824	14,835	1,741	5,261	48,835	10,096	2,843	29,998	2,018	2,608	**571,930**
Gross carrying amount at 31 December	**1,893,769**	**335,201**	**135,881**	**1,369,416**	**121,637**	**259,977**	**679,571**	**68,220**	**44,483**	**437,211**	**55,780**	**207,038**	**5,608,184**
Impairment allowance	(3,047)	(2,150)	(53,269)	(2,860)	(3,276)	(105,836)	(8,037)	(3,538)	(29,217)	(6,489)	(3,996)	(115,280)	**(336,995)**
Carrying amount at 31 December	**1,890,722**	**333,051**	**82,612**	**1,366,556**	**118,361**	**154,141**	**671,534**	**64,682**	**15,266**	**430,722**	**51,784**	**91,758**	**5,271,189**

Loans and advances derecognized during the year present loans sold and those that are modified (where the modification resulted in de-recognition) during the period.

Credit impaired loans and advances to customers

The following table presents the ageing analysis of credit impaired (Stage 3) loans and advances by product line at their gross carrying amounts, as well as the respective cumulative loss allowance:

	31 December 2019								
	Retail lending								
	Mortgage	**POCI**	**Consumer**	**POCI**	**Small business**	**POCI**	**Corporate lending**	**POCI**	**(Lifetime ECL credit-impaired)**
up to 90 days	56,581	6,107	12,583	25	20,618	130	59,092	59,683	**214,819**
90 to 179 days	11,459	450	6,340	4	5,170	81	17,879	252	**41,635**
180 to 360 days	5,385	1,356	7,677	73	3,906	211	7,927	350	**26,885**
more than 360 days	130,396	9,884	13,954	332	109,487	3,238	47,548	22,691	**337,530**
Gross carrying amount	**203,821**	**17,797**	**40,554**	**434**	**139,181**	**3,660**	**132,446**	**82,976**	**620,869**
Impairment Allowance	(99,253)	(156)	(25,267)	**-**	(81,447)	(5)	(48,435)	(7,077)	**(261,640)**
Carrying amount	**104,568**	**17,641**	**15,287**	**434**	**57,734**	**3,655**	**84,011**	**75,899**	**359,229**
Value of collateral	**156,632**		**304**		**77,589**		**96,479**		**331,004**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

	As at 31 December 2018				
	Mortgage	**Consumer**	**Small business**	**Corporate lending**	**(Lifetime ECL credit-impaired)**
up to 90 days	60,101	14,573	22,252	50,262	**147,188**
90 to 179 days	24,033	6,214	7,536	4,543	**42,326**
180 to 360 days	10,522	8,144	5,882	12,747	**37,295**
more than 360 days	165,321	15,552	171,368	68,328	**420,569**
Gross carrying amount	**259,977**	**44,483**	**207,038**	**135,880**	**647,378**
Impairment Allowance	(105,836)	(29,217)	(115,280)	(53,269)	(303,602)
Carrying amount	**154,141**	**15,266**	**91,758**	**82,611**	**343,776**
Value of collateral	**138,961**	**116**	**71,995**	**66,920**	**277,992**

(b) Collaterals and repossessed collaterals

Collaterals

The Loan-to-Value (LTV) ratio of the mortgage lending reflects the gross loan exposure at the balance sheet date over the market value of the property held as collateral.
The LTV ratio of the mortgage portfolio is presented below:

	As at 31 December:	
	2019	**2018**
Mortgages		
Less than 50%	394,092	281,815
50%-70%	534,966	396,795
71%-80%	440,167	322,401
81%-90%	333,476	266,948
91%-100%	65,573	60,093
101%-120%	121,382	149,046
121%-150%	80,851	98,606
Greater than 150%	124,357	175,326
Total exposure	**2,094,864**	**1,751,030**
Average LTV	**60.35%**	**66.46%**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(b) Collaterals and repossessed collaterals (continued)

Collaterals type held as security and other credit enhancements are presented in the table below:

Type of exposure	Percentage of exposure that is subject to collateral requirements		Principal type of collateral held
	31.12.2019	31.12.2018	
Trading derivative assets	100	100	Cash
Derivative financial instruments	100	100	Cash
Loans and advances to retail customers			
Small Banking Business - Secured loans	100	100	Properties (residential, commercial, administrative), cash collaterals, guarantees, equipment
Small Banking Business - Unsecured loans	below 100, not fixed % of coverage	below 100, not fixed % of coverage	Properties (residential, commercial, administrative), cash collaterals, guarantees, equipment
Small Banking Business - Factoring	100	100	Factoring invoices
Mortgage lending	100	100	Residential property
Consumer lending incl. credit cards	-	-	None
Loans and advances to wholesale customers			
Wholesale - Factoring	100	100	Factoring invoices
Wholesale lending	not fixed obligatory % of coverage	not fixed obligatory % of coverage	Properties (residential, commercial, administrative), cash collaterals, equipment

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(b) Collaterals and repossessed collaterals (continued)

The breakdown of collateral and guarantees is presented below:

	As at 31 December 2019			
	Value of collateral received			
	Real Estate	**Financial**	**Other Collateral**	**Total**
Retail Lending	2,534,131	117,799	68,948	2,720,878
Wholesale Lending	2,298,721	331,093	319,471	2,949,285
Total	**4,832,852**	**448,892**	**388,419**	**5,670,163**

	As at 31 December 2018			
	Value of collateral received			
	Real Estate	**Financial**	**Other Collateral**	**Total**
Retail Lending	1,849,748	54,613	182,167	2,086,528
Wholesale Lending	756,933	55,187	825,966	1,638,086
Total	**2,606,681**	**109,800**	**1,008,133**	**3,724,614**

The fair value of the presented collaterals in the tables above is capped at the amount of the loan outstanding balance.

Repossessed collaterals

The Bank recognizes collateral assets on the balance sheet by taking possession usually through legal processes or by calling upon other credit enhancements. The main type of collateral that the Bank repossesses against repayment or reduction of the outstanding loan is real estate, which is recognized within repossessed assets. They are included in Other assets (Note 23). Assets acquired from an auction process are held temporarily for liquidation and are valued at the lower of cost and net realizable value, which is the estimated selling price, in the ordinary course of business, less costs necessary to make the sale. In cases where the Bank makes use of repossessed collaterals as part of its operations, they are classified as own-used or investment properties, as appropriate.

The following tables present a summary of collaterals that the Bank took possession, and were recognized as repossessed assets, as well as the movement during 2019 and 2018:

Nature of assets	**2019**	**2018**
Commercial property	7,478	4,714
Residential property	3,294	3,139
Land	1,227	635
Total	**11,999**	**8,488**

Reconciliation of Level 3 movement:	**2019**	**2018**
Balance at 1 January	**8,488**	**11,649**
Additional	5,401	-
Sales	(1,415)	(2,664)
Impairment	(475)	(497)
Balance at 31 December	**11,999**	**8,488**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(b) Collaterals and repossessed collaterals (continued)

Quantitative information about fair value measurements using significant unobservable inputs (Level 3)

Class property	Fair value 31/12/2019 (BGN th)	Valuation technique	Input	Range (BGN) (weighted average) 2019	Range (BGN) (weighted average) 2018	Connection between the unobservable input and FV
Land	1,227	Market comparison approach	price per m2	0.51 - 90.63 (12.64)	0.50 - 94.29 (12.40)	A significant increase in price per m2 would result in a higher fair value
Residential	3,300	Market comparison approach	price per m2	1.51 - 1,502.08 (335.12)	1.47 - 1,521.64 (373.70)	A significant increase in price per m2 would result in a higher fair value
		Cost approach	price per m2	41.97	62.45	A significant increase in price per m2 would result in a higher fair value
Mixed	7,277	Market comparison approach	price per m2	37.47 - 1,451.23 (264.71)	44.34 - 1,441.23 (330.92)	A significant increase in price per m2 would result in a higher fair value
		Income approach	rent per m2	1.93 - 7.10 (3.06)	1.25 - 7.20 (2.94)	A significant increase in price per m2 would result in a higher fair value
		Cost approach	price per m2	6.59 - 100.00 (49.03)	8.79 - 288.00 (75.77)	A significant increase in price per m2 would result in a higher fair value

(c) Geographical and industry concentrations of loans and advances to customers

The Bank holds diversified portfolios across markets and implements limits on concentrations arising from the geographical location or the activity of groups of borrowers that could be similarly affected by changes in economic or other conditions, in order to mitigate credit risk.

The following table breaks down the Bank’s exposure into loans and advances to customers and credit related commitments at their gross carrying amount and nominal amount respectively by stage, product line, industry and geographical region as well as the impairment allowance.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(c) Geographical and industry concentrations of loans and advances to customers (continued)

31 December 2019

	Bulgaria					Greece					Rest of Europe					Other countries			
	Gross carrying/nominal amount					Gross carrying/nominal amount					Gross carrying/nominal amount					Gross carrying/nominal amount			
	12-month ECL-Stage 1	Lifetime ECL-Stage 2	Lifetime ECL credit-impaired-Stage 3	POCI	Impairment allowance	12-month ECL-Stage 1	Lifetime ECL-Stage 2	Lifetime ECL credit-impaired -Stage 3	POCI	Impairment allowance	12-month ECL-Stage 1	Lifetime ECL-Stage 2	Lifetime ECL credit-impaired -Stage 3	POCI	Impairment allowance	12-month ECL-Stage 1	Lifetime ECL-Stage 2	Lifetime ECL credit-impaired -Stage 3	Impairment allowance
Retail Lending	**3,167,602**	**282,997**	**379,530**	**23,168**	**(238,670)**	**4,553**	**714**	**628**	**119**	**(300)**	**17,094**	**2,345**	**1,910**	**14**	**(477)**	**5,517**	**563**	**1,488**	**(673)**
-Mortgage	1,726,415	126,291	200,069	19,083	(103,482)	2,589	516	574	89	(223)	9,616	1,887	1,769	14	(275)	4,136	407	1,409	**(594)**
-Consumer	893,519	86,869	40,280	425	(40,866)	1,964	198	54	30	(77)	7,470	458	141	-	(202)	1,375	156	79	**(79)**
-Small business	547,668	69,837	139,181	3,660	(94,322)	-	-	-	-	-	8	-	-	-	-	6	-	-	-
Wholesale Lending	**2,798,078**	**470,898**	**132,446**	**82,976**	**(70,619)**	**-**	**-**	**-**	**-**	**-**	**40,108**	**-**	**-**	**-**	**(35)**	**9,779**	**-**	**-**	**(12)**
-Commerce and services	940,519	12,725	32,329	40,046	(25,381)	-	-	-	-	-	-	-	-	-	-	5,973	-	-	**(6)**
-Manufacturing	750,100	100,296	14,829	7,735	(9,238)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-Construction	312,407	2,183	16,421	31,327	(6,565)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-Tourism	227,604	132,821	19,633	2,324	(3,139)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-Energy	85,445	-	25,022	209	(8,371)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-Other	482,003	222,873	24,212	1,335	(17,925)	-	-	-	-	-	40,108	-	-	-	(35)	3,806	-	-	**(7)**
Total	**5,965,680**	**753,895**	**511,976**	**106,144**	**(309,289)**	**4,553**	**714**	**628**	**119**	**(300)**	**57,202**	**2,345**	**1,910**	**14**	**(512)**	**15,296**	**563**	**1,488**	**(686)**
Credit related commitments	**1,529,822**	**46,532**	**3,685**	**732**	**(515)**	**3,906**	**172**	**-**	**4**	**-**	**60,279**	**137**	**-**	**-**	**-**	**567**	**18**	**-**	**-**
Loan commitments	1,241,299	42,550	331	732	-	3,741	172	-	4	-	60,279	137	-	-	-	538	18	-	-
Financial guarantee contracts and other commitments	288,523	3,982	3,354	-	(515)	165	-	-	-	-	-	-	-	-	-	29	-	-	-

31 December 2018

	Bulgaria				Greece				Rest of Europe				Other Countries			
	Gross carrying/nominal amount				Gross carrying/nominal amount				Gross carrying/nominal amount				Gross carrying/nominal amount			
	12-month ECL-Stage 1	Lifetime ECL-Stage 2	Lifetime ECL credit-impaired-Stage 3	Impairment allowance	12-month ECL-Stage 1	Lifetime ECL-Stage 2	Lifetime ECL credit-impaired-Stage 3	Impairment allowance	12-month ECL-Stage 1	Lifetime ECL-Stage 2	Lifetime ECL credit-impaired-Stage 3	Impairment allowance	12-month ECL-Stage 1	Lifetime ECL-Stage 2	Lifetime ECL credit-impaired-Stage 3	Impairment allowance
Retail Lending	**2,466,976**	**244,406**	**507,258**	**(277,176)**	**2,919**	**367**	**873**	**(384)**	**11,966**	**487**	**1,511**	**(334)**	**4,337**	**377**	**1,856**	**(635)**
-Mortgage	1,356,230	120,940	256,096	(110,966)	2,020	217	815	(324)	8,209	198	1,280	(124)	2,957	282	1,786	**(558)**
-Consumer	673,559	67,686	44,124	(40,445)	899	150	58	(60)	3,733	289	231	(210)	1,380	95	70	**(77)**
-Small business	437,187	55,780	207,038	(125,765)	-	-	-	-	24	-	-	-	-	-	-	-
Wholesale Lending	**1,621,973**	**334,207**	**135,287**	**(57,555)**	**-**	**-**	**-**		**267,762**	**994**	**594**	**(909)**	**4,034**	**-**	**-**	**(2)**
-Commerce and services	413,170	8,546	32,275	(17,327)	-	-	-	-	33,608	28	404	-	-	-	-	-
-Manufacturing	337,552	104,214	15,402	(7,426)	-	-	-	-	135,659	-	-	-	-	-	-	-
-Construction	201,224	11,100	16,974	(7,258)	-	-	-	-	974	966	-	-	-	-	-	-
-Tourism	172,314	128,245	8,407	(1,281)	-	-	-	-	-	-	-	-	-	-	-	-
-Energy	92,981	-	25,738	(3,490)	-	-	-	-	-	-	-	-	-	-	-	-
-Other	404,732	82,102	36,491	(20,773)	-	-	-	-	97,521	-	190	(909)	4,034	-	-	**(2)**
Total	**4,088,949**	**578,613**	**642,545**	**(334,731)**	**2,919**	**367**	**873**	**(384)**	**279,728**	**1,481**	**2,105**	**(1,243)**	**8,371**	**377**	**1,856**	**(637)**
Credit related commitments	**1,063,403**	**98,817**	**952**	**(589)**	**1,005**	**150**	**5**	**-**	**120,829**	**277**	**297**	**-**	**268**	**27**	**-**	**-**
Loan commitments	911,723	55,415	135	-	840	150	5	-	120,829	277	297	-	268	27	-	-
Financial guarantee contracts and other commitments	151,680	43,402	817	(589)	165	-	-	-	-	-	-	-	-	-	-	-

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(d) Forbearance practices on lending activities

Modifications of the loans' contractual terms may arise due to various factors, such as changes in market conditions, customer retention and other factors as well as due to the potential deterioration in the borrowers' financial condition. The Bank has employed a range of forbearance options in order to enhance the management of customer relationships and the effectiveness of collection efforts, as well as to improve the recoverability of cash flows and minimize credit losses for both retail and wholesale portfolios.

Forbearance practices' classification

Forbearance practices as monitored and reported by the Bank based on the European Banking Authority Implementing Technical Standards (EBA ITS) guidelines occur only in the cases where the contractual payment terms of a loan have been modified, as the borrower is considered unable to comply with the existing loan's terms due to apparent financial difficulties, and the Bank grants a concession by providing more favorable terms and conditions that it would not otherwise consider had the borrower not been in financial difficulties.

All other types of modifications granted by the Bank, where there is no apparent financial difficulty of the borrower and may be driven by factors of a business nature are not classified as forbearance measures.

Forbearance solutions

Forbearance solutions granted following an assessment of the borrower's ability and willingness to repay and can be of a short or longer term nature. The objective is to assist financially stressed borrowers by rearranging their repayment cash outflows into a sustainable modification, and at the same time, protect the Bank from suffering credit losses. The Bank deploys targeted segmentation strategies with the objective to tailor different short or long term and sustainable management solutions to selected groups of borrowers for addressing their specific financial needs.

The nature and type of forbearance options may include but is not necessarily limited to, one or more of the following:

- debt consolidations, whereby existing loan balances of the borrower are combined in a single loan;
- interest-only payments;
- grace period;
- reduced payment plans;
- arrears repayment plan;
- loan term extensions/ partial debt forgiveness/ write down;
- interest rate reduction;
- split balance (combination of forbearance options that mainly includes capitalization of arrears, loan term extensions and interest rate reduction).
- operational restructuring

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(d) Forbearance practices on lending activities (continued)

Specifically for unsecured consumer loans (including credit cards), forbearance programs (e.g. term extensions), are applied in combination with debt consolidation whereby all existing consumer balances are pooled together. Forbearance solutions are applied in order to ensure a sufficient decrease on installment and a viable solution for the borrower. In selected cases, the debt consolidations may be combined with mortgage establishment to convert unsecured lending exposures to secured ones.
In the case of mortgage loans, a decrease of installment may be achieved through forbearance measures such as extended payment periods, capitalization of arrears, split balance and reduced payment plans.

Wholesale exposures are subject to forbearance when there are indications of financial difficulties of the borrower, evidenced by a combination of factors including the deterioration of financials, credit rating downgrade, payment delays and other.

Retail business units are responsible for all first modifications of loans delinquent from 1 to 89 dpd.

The Troubled Assets Division (TAG) is the independent body, which has the overall responsibility for the management of the Bank's troubled assets portfolio, including forborne loans, in alignment with the acting regulations. TAG ensures tight control and close monitoring of the effectiveness of the forbearance schemes and the performance of the portfolios under management. TAG also warrants the continuous improvement and adjustment of policies and procedures, by performing quality assurance reviews and by assessing and taking into account the macroeconomic developments, the regulatory and legal requirements and changes, international best practices, and any existing or new internal requirements.

TAG cooperates with Risk Management to reach a mutual understanding and develop an appropriate methodology for the evaluation of the risks inherent in every type of modification and delinquency bucket, per portfolio.

i. Classification of Forborne loans

Forborne loans are classified either as non-impaired (Stage 2), or impaired (Stage 3) by assessing their delinquency and credit quality status.

Credit impaired forborne loans enter initially a probation period of one year where the borrowers' payment performance is closely monitored. If at the end of the abovementioned period, the borrowers have complied with the terms of the program and there are no past due amounts and concerns regarding the loans' full repayment, the loans are then reported as non-impaired forborne loans (Stage 2). In addition, non-impaired forborne loans, including those that were previously classified as credit impaired and complied with the terms of the program, are monitored over a period of two years. If, at the end of that period, the borrowers have made payments more than an insignificant aggregate amount, there are no past due amounts over 30 days and the loans are neither credit impaired nor any other SICR criteria are met they exit forborne status and are classified as Stage 1.

Particularly, the category of credit impaired forborne loans includes those that (a) at the date when forbearance measures were granted, were more than 90 days past due or assessed as unlikely to pay, (b) at the end of the one year probation period met the criteria of entering the non - impaired status and during the two years monitoring period new forbearance measures were extended or became more than 30 days past due, and (c) were initially classified as non- impaired and during the two years monitoring period met the criteria for entering the credit impaired status.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(d) Forbearance practices on lending activities (continued)

Furthermore, forborne loans that fail to perform under the new modified terms and are subsequently denounced cease to be monitored as part of the Bank's forbearance activities and are reported as denounced credit impaired loans (Stage 3) consistently with the Bank's management and monitoring of all denounced loans.

ii. Loan restructuring

In cases where the contractual cash flows of a forborne loan have been substantially modified, the original forborne loan is de-recognized and a new loan is recognized.The Bank records the modified asset as a 'new' financial asset at fair value and the difference with the carrying amount of the existing one is recorded in the income statement as derecognition gain or loss.
In some circumstances there may be evidence that the new loan is credit-impaired at initial recognition, and thus, it is recognized as an originated credit-impaired (POCI) loan.
In cases where the modification, as a result of forbearance measures, is not considered substantial, the Bank recalculates the gross carrying amount of the loan and recognizes the difference as a modification gain or loss in the income statement. The Bank continues to monitor the modified forborne loan in order to determine if the financial asset exhibits significant increase in credit risk since initial recognition during the forbearance period.

The following tables present an analysis of Bank's forborne activities for loans measured at amortised cost. The relevant tables below are presented on a gross carrying amount basis, while cumulative impairment allowance is presented separately, in line with the Bank's internal credit risk monitoring process under IFRS 9 principles.

The following table presents a summary of the types of the Bank's forborne activities:

Forbearance measures:	**2019**	**2018**
Loan term extension	186,316	208,050
Reduced payment below interest owed	20,860	22,878
Interest rate reduction	219,756	216,280
Reduced payment above interest owed	24,169	27,978
Arrears repayment plan	53,063	55,973
Interest only	9,509	17,521
Total gross carrying amount	**513,673**	**548,680**
Less: cumulative impairment allowance	(51,225)	(68,796)
Total carrying amount	**462,448**	**479,884**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(d) Forbearance practices on lending activities (continued)

The following tables present a summary of the credit quality of forborne loans and advances to customers:

	As at 31 December 2019		
	Total loans and advances	**Forborne loans and advances**	**% of Forborne loans and advances**
Gross carrying amounts:			
12-month ECL	6,042,731	-	**-**
Lifetime ECL non credit-impaired	758,927	361,279	**48%**
Lifetime ECL credit-impaired	620,869	152,394	**25%**
Total Gross Amount	**7,422,527**	**513,673**	**7%**
Cumulative ECL Loss allowance :			
12-month ECL allowance	(28,914)	-	-
Lifetime ECL (not credit-impaired) allowance	(20,232)	(4,909)	-
Lifetime ECL (credit-impaired) allowance of which:	(261,640)	(46,316)	-
- Individually assessed	*(135,484)*	*(21,278)*	-
- Collectively assessed	*(126,155)*	*(25,038)*	-
Total carrying amount	**7,111,741**	**462,448**	**7%**
Collateral received	**5,670,163**	**449,798**	

	As at 31 December 2018		
	Total loans and advances	**Forborne loans and advances**	**% of Forborne loans and advances**
Gross carrying amounts:			
12-month ECL	4,379,967	-	**-**
Lifetime ECL non credit-impaired	580,839	364,592	**63%**
Lifetime ECL credit-impaired	647,378	184,088	**28%**
Total Gross Amount	**5,608,184**	**548,680**	**10%**
Cumulative ECL Loss allowance :			
12-month ECL allowance	(20,432)	-	-
Lifetime ECL (not credit-impaired) allowance	(12,961)	(3,571)	-
Lifetime ECL (credit-impaired) allowance of which:	(303,602)	(65,225)	-
- Individually assessed	*(156,061)*	*(26,106)*	-
- Collectively assessed	*(147,541)*	*(39,119)*	-
Total carrying amount	**5,271,189**	**479,884**	**9%**
Collateral received	**3,724,613**	**413,765**	

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(d) Forbearance practices on lending activities (continued)

The following table presents the movement of forborne loans and advances:

Gross carrying amount at 1 January 2018	**354,884**
Forbearance measures in the year	337,000
Repayment of loans	(20,344)
Write-offs of forborne loans	(42,743)
Loans and advances that exited forbearance status	(80,117)
Less cumulative impairment allowance	(68,796)
Carrying amount at 31 December 2018	**479,884**
Gross carrying amount at 1 January 2019	**548,680**
Forbearance measures in the year	40,411
Repayment of loans	(16,165)
Write-offs of forborne loans	(7,004)
Loans and advances that exited forbearance status	(41,162)
Other	(11,087)
Less cumulative impairment allowance	(51,225)
Carrying amount at 31 December 2019	**462,448**

The following table presents the Bank's exposure to forborne loans and advances by product line:

	As at 31 December	
	2019	**2018**
Retail Lending	**165,128**	**196,687**
- Mortgage	104,905	126,372
- Consumer	27,884	28,977
- Small business	32,339	41,338
Wholesale Lending	**348,545**	**351,993**
Total gross carrying amount	**513,673**	**548,680**
Less cumulative impairment allowance	(51,225)	(68,796)
Total carrying amount	**462,448**	**479,884**

The following table presents the Bank's exposure to forborne loans and advances by geographical region:

	As at 31 December	
	2019	**2018**
Bulgaria	513,462	548,516
Greece	67	154
Rest of Europe	143	7
Other countries	1	3
Total gross carrying amount	**513,673**	**548,680**
Less cumulative impairment allowance	(51,225)	(68,796)
Total carrying amount	**462,448**	**479,884**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

(d) Forbearance practices on lending activities (continued)

The following table provides information on modifications due to forbearance measures on lending exposures which have not resulted in derecognition. Such financial assets were modified while they had a loss allowance measured at an amount equal to lifetime ECL:

Modified loans during the year	**As at 31 December**	
	2019	**2018**
Gross carrying amount at 31 December	115,777	548,680
Modification (loss)	(3,337)	(4,692)
Modified loans since initial recognition		
Gross carrying amount at 31 December for which loss allowance has changed to 12-month ECL measurement	16,138	13,468

5.2.1.3 Debt securities, loans and advances to banks and derivatives

The table below presents an analysis of debt securities, derivatives and banks placements net of ECL allowance by rating agency designation, based on the credit assessments of nominated External Credit Assessment Institutions. Debt securities, banks placements and financial assets are classified in Stage 1 as per the IFRS 9 requirements.

	31 December 2019					
	Non-impaired					
Rating	**Trading securities**	**Debt securities at FVOCI**	**Debt securities at AC**	**Loans and advances to banks**	**Derivatives**	**Total**
AA- to AA+	-	27,944	-	104,914	-	**132,858**
A- to A+	-	-	-	18,019	-	**18,019**
BBB- to BBB+	7,903	491,699	-	65,793	-	**565,395**
Lower than BB-	-	-	39,977	1,513,354	1,494	**1,554,825**
Unrated	-	-	-	716	8	**724**
Total	**7,903**	**519,643**	**39,977**	**1,702,796**	**1,502**	**2,271,821**

	31 December 2018					
	Non-impaired					
Rating	**Trading securities**	**Debt securities at FVOCI**	**Debt securities at AC**	**Loans and advances to banks**	**Derivatives**	**Total**
AA- to AA+	-	-	-	7,300	-	**7,300**
BBB- to BBB+	7,096	378,858	-	110,991	-	**496,945**
BB- to BB+	-	-	-	206	-	**206**
Lower than BB-	-	-	18,598	1,299,010	2,400	**1,320,008**
Unrated	-	-	-	415	-	**415**
Total	**7,096**	**378,858**	**18,598**	**1,417,922**	**2,400**	**1,824,874**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.3 Debt securities, loans and advances to banks and derviatives (continued)

Concentration of risks of financial assets with credit risk

The following table breaks down the Bank’s financial instruments (excluding Loans and advances to customers) at their carrying amounts, as categorized by geographical region as of 31 December. For this table, the Bank has allocated exposures to regions based on the country of domicile of its counterparties.

(a) Geographical sectors

	Bulgaria	**Greece**	**Rest of Europe**	**Other countries**	**Total**
Loans and advances to banks	26,116	1,513,354	117,850	45,476	1,702,796
Trading assets – debt securities	7,903	-	-	-	7,903
Debt securities at fair value through other comprehensive income	389,790	-	101,909	27,944	519,643
Derivative financial instruments	8	1,494	-	-	1,502
Debt securities at amortised cost	-	20,958	19,019	-	39,977
31 December 2019	**423,817**	**1,535,806**	**238,778**	**73,420**	**2,271,821**

	Bulgaria	**Greece**	**Rest of Europe**	**Other countries**	**Total**
Loans and advances to banks	-	1,299,010	85,936	32,976	1,417,922
Trading assets – debt securities	7,096	-	-	-	7,096
Debt securities at fair value through other comprehensive income	378,858	-	-	-	378,858
Derivative financial instruments	-	2,400	-	-	2,400
Debt securities at amortised cost	-	-	18,598	-	18,598
31 December 2018	**385,954**	**1,301,410**	**104,534**	**32,976**	**1,824,874**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.4 Offsetting of financial assets and financial liabilities

The Bank does not have offsetting assets/liabilities that fall under the scope of IAS 32, i.e. are offset in the statement of financial position when an entity has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The Bank has master netting arrangements with counterparty banks, which are enforceable in case of default. In addition, applicable legislation allows the Bank to unilaterally set off trade receivables and payables that are due for payment, denominated in the same currency and outstanding with the same counterparty. These fall in the scope of the disclosure as if they were set off in the statement of financial position. The Bank also made margin deposits as collateral for its outstanding derivative positions. The counterparty may set off the Bank's liabilities with the margin deposit in case of default.

	Gross amounts before offsetting in BS	Gross amounts set off in BS	Net amount after offsetting in BS	Financial or cash collateral received or given either recognised on BS or not, not offset on BS	Net amount of exposure
	(a)	**(b)**	**(c) = (a) - (b)**	**(d)**	**(c) - (d)**
Assets as of 31 December 2019					
Derivative assets	1,495	-	1,495	(1,495)	**-**
Liabilities as of 31 December 2019					
Derivative liabilities	(6,554)	-	(6,554)	5,269	**(1,285)**

	Gross amounts before offsetting in BS	Gross amounts set off in BS	Net amount after offsetting in BS	Financial or cash collateral received or given either recognised on BS or not, not offset on BS	Net amount of exposure
	(a)	**(b)**	**(c) = (a) - (b)**	**(d)**	**(c) - (d)**
Assets as of 31 December 2018					
Derivative assets	2,400	-	2,400	(2,400)	**-**
Liabilities as of 31 December 2018					
Derivative liabilities	(5,397)	-	(5,397)	5,138	**(259)**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.2 Market risk

Market risk is the current or prospective risk to earnings and capital arising from adverse movements in market parameters, such as interest rates, foreign exchange rates, equity prices and implied volatilities. Market risk can generally affect both trading and banking book positions, at both the asset and the liability side of the balance sheet. This risk for the Bank comprises:

- interest rate risk;
- foreign exchange risk;
- equity risk.

Interest rate risk is the current or prospective risk to earnings and capital arising from the change in the direction or volatility of interest rates/interest rate derivatives, the shape of the yield curve and the spread between different interest rates.

Foreign exchange risk is the current or prospective risk to earnings and capital arising from adverse movements in spot and forward currency exchange rates in the banking and trading books.

Equity risk is the current or prospective risk to earnings and capital arising from the change in the direction or volatility of equity prices/indices or changes in the relationship between different equity prices/indices.

The corporate governance with respect to market risk control and supervision is defined in the Bank's Market and Counterparty Risk Policy, developed in line with the Group Market and Counterparty Risk Policy. The objectives of the Bank's Market and Counterparty Risk Policy are to:

- set the framework and standards for market risk control and management throughout the Bank;
- enable compliance with the requirements of local and foreign regulators;
- be duly compliant with Group Guidelines;
- establish a framework that will eventually allow the Bank to gain competitive advantage through risk-based decision-making.

The Market and Counterparty Risk Policy is further supported by procedures which set out the detailed standards and requirements necessary to implement the Policy. The Policy and procedures apply to the control of market risks, arising on all of the Bank's assets, liabilities and off-balance sheet positions, therefore covering both Treasury and non-Treasury activities that run market risk.

The Bank's Market and Counterparty Risk Policy is approved by the Risk Committee of Eurobank Bulgaria AD and maintained by Market Risk Department. Market Risk Department reviews the policy at least annually and submits changes to the Risk Committee for approval.

The market risk control and supervision framework set by the Bank aims to:

- protect the Bank against unforeseen market losses and contribute to earnings stability through the independent identification, assessment and understanding of the market risks inherent in the business;
- help align the Bank's organizational structure and management processes with best international banking practice and set minimum standards for controlling market risks;
- develop transparent, objective and consistent market risk information as a basis for sound decision making;
- establish a structure that will allow the Bank to link business strategy and operations with the objectives for risk control and supervision

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.2 Market risk (continued)

The Bank's market risk appetite is the size of the potential unexpected loss that it is willing to absorb because of adverse changes in market variables. It is related to its ability to absorb those losses, which depends on the Bank's capital and reserves; the potential losses arising from other, non-market risks; and the regulatory capital, which is required to support the business. The Bank's market risk appetite is also expressed in terms of nominal limits set on the exposures to market risks. The market risk appetite is determined by the Bank's Risk Committee, which approves all risk limits at Bank level. These limits are also part of the global limit structure of the Group and are ratified at Group level. The Bank's market risk appetite is also expressed through characteristics such as different types of allowed markets, products, countries, counterparties and currencies.

Market risk measurement techniques

The Bank ensures that all material positions that are exposed to market risks are included within the market risk measurement system. At a minimum, the market risk measurement system should measure risk arising from exposure to the following specific market risk factors, i.e. the specific market prices or rates that affect the value of positions:

- foreign exchange rates;
- interest rates, and
- equity prices.

Currently market risk measurement is done using notional exposure data and notional level limits, supported by regular stress testing. The Bank is not using VaR-based limits. Daily VaR is calculated only for the listed equities portfolio. Upon senior management decision in the future the Bank may introduce additional value-at-risk analysis.

Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The major part of the Bank's FX position is against EUR, while the BGN/EUR currency rate remains pegged at 1.95583 as part of the Currency Board arrangements. The Management sets limits on the open positions in individual currencies as well as on the aggregate overnight open positions and these limits are monitored on a daily basis.

Sensitivity of assets and liabilities

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements arise. The Management reviews the interest rate gaps, the interest rate mismatch and the necessary reprising that may be undertaken on a monthly basis.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.2 Market risk (continued)

Sensitivity of assets and liabilities (continued)

The Bank is exposed to the fluctuations of the different types of market risk. The sensitivity analysis below illustrates the potential impact on the income statement and equity from reasonable possible shifts, based on the market dynamics and economic environment that have been observed during the reporting period.

	31 December 2019			
	Total Effect on Economic Vaue	**Direct P&L Effect**	**Direct Equity Effect**	**Banking Book Effect**
Interest Rate				
+100 bps parallel shift for all currencies	**(14,080)**	(444)	(12,937)	(699)
Equities / Equity Indices / Mutual Funds				
-10% equity price drop across the board	**(90)**	(90)	-	-
Foreign exchange				
-10% depreciation of local currency	**810**	810	-	-

	31 December 2018			
	Total Effect on Economic Value	**Direct P&L Effect**	**Direct Equity Effect**	**Banking Book Effect**
Interest Rate				
+100 bps parallel shift for all currencies	**(9,614)**	(398)	(10,836)	1,620
Equities / Equity Indices / Mutual Funds				
-10% equity price drop across the board	**(98)**	(98)	-	-
Foreign exchange				
-10% depreciation of local currency	**879**	879	-	-

The following table sets out the allocation of assets and liabilities subject to market risk between trading and non-trading portfolios:

		Market risk measure	
As at 31 December 2019	**Carrying amount**	**Trading portfolios**	**Non-trading portfolios**
Assets subject to Market risk			
Cash and balances with Central Bank	1,454,306	-	1,454,306
Trading assets	8,805	8,805	-
Derivative financial instruments	1,502	1,502	-
Loans and advances to banks	1,702,796	-	1,702,796
Loans and advances to customers	7,111,741	-	7,111,741
Investment securities	579,275	-	579,275
Other financial assets	17,758	-	17,758
Total assets subject to Market risk	**10,876,183**	**10,307**	**10,865,876**
Liabilities subject to Market risk			
Derivative financial instruments	8,353	3,981	4,372
Deposits from banks	15,036	-	15,036
Due to customers	9,438,085	-	9,438,085
Other borowed funds	38,924	-	38,924
Other financial liabilities	74,880	-	74,880
Total liabilities subject to Market risk	**9,575,278**	**3,981**	**9,571,297**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.2 Market risk (continued)

Sensitivity of assets and liabilities (continued)

		Market risk measure	
As at 31 December 2018	**Carrying amount**	**Trading portfolios**	**Non-trading portfolios**
Assets subject to Market risk			
Cash and balances with Central Bank	871,393	-	871,393
Trading assets	8,071	8,071	-
Derivative financial instruments	2,400	2,400	-
Loans and advances to banks	1,417,922	-	1,417,922
Loans and advances to customers	5,271,189	-	5,271,189
Investment securities	409,407	-	409,407
Other financial assets	14,067	-	14,067
Total assets subject to Market risk	**7,994,449**	**10,471**	**7,983,978**
Liabilities subject to Market risk			
Derivative financial instruments	5,938	2,640	3,298
Deposits from banks	28,079	-	28,079
Due to customers	6,814,255	-	6,814,255
Other borowed funds	22,973	-	22,973
Other financial liabilities	25,818	-	25,818
Total liabilities subject to Market risk	**6,897,063**	**2,640**	**6,894,423**

Sensitivity to changes to the three major market risk factors – foreign exchange rates, interest rates and equity prices, has been calculated and presented above. The calculation parameters used have been determined based on the market environment and the dynamics observed during the last couple of years and represent reasonable possible shifts in the market variables.

1. Foreign exchange risk sensitivity has been calculated directly on the total net open position (excluding Euro) of the Bank as a 10% depreciation of the local currency against all foreign currencies (except Euro), which include mainly USD, CHF and GBP. The BGN/EUR exchange rate is fixed at 1.95583 as part of the Currency Board Arrangement.
2. Interest rate risk sensitivity has been estimated by applying a parallel yield curve shift to all of the Bank's relevant on- and off-balance sheet positions and calculating the changes in their present value. The results have been allocated to three columns depending on the accounting treatment of each position:

- Direct P&L effect - for items with fair value changes recorded through profit and loss (trading portfolio securities and derivatives);
- Direct equity effect - for items with fair value changes included in OCI (FVOCI securities);
- Banking book effect - for items with no accounting revaluation (assets and liabilities not measured at fair value), the effect is through changes in the economic value of capital.

The sum of the three columns gives the total effect on the economic value of the Bank.

3. Equity price risk sensitivity has been calculated by applying a 10% drop in equity prices across the board for the traded equities portfolio.

Translation from the original Bulgarian version, in case of divergence the Bulgarian original shall prevail

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.2 Market risk (continued)

Foreign exchange risk concentration

The following table presents the Bank's exposure to foreign exchange risk as at 31 December 2019 and 2018:

	As at 31 December 2019					
Assets	**BGN**	**EUR**	**USD**	**CHF**	**OTHER**	**Total**
Cash and balances with the Central Bank	1,037,421	405,175	6,445	2,246	3,018	**1,454,305**
Loans and advances to banks	196	1,591,113	76,452	10,726	24,308	**1,702,795**
Trading assets	8,805	-	-	-	-	**8,805**
Derivative financial instruments	259	1,202	-	-	41	**1,502**
Loans and advances to customers	5,032,656	1,962,461	63,827	52,797	-	**7,111,741**
Investment securities	38,161	503,224	37,890	-	-	**579,275**
Other financial assets	8,599	6,243	2,906	2	8	**17,758**
Total financial assets	**6,126,097**	**4,469,418**	**187,520**	**65,771**	**27,375**	**10,876,181**
Liabilities						
Deposits from banks	5,886	7,824	957	-	369	**15,036**
Derivative financial instruments	-	8,282	-	71	-	**8,353**
Due to customers	5,828,024	2,992,404	561,862	11,658	44,138	**9,438,086**
Other borrowed funds	31,139	7,785	-	-	-	**38,924**
Other financial liabilities	71,567	64,830	4,706	307	35	**141,445**
Total financial liabilities	**5,936,616**	**3,081,125**	**567,525**	**12,036**	**44,542**	**9,641,844**

	As at 31 December 2018					
Assets	**BGN**	**EUR**	**USD**	**CHF**	**OTHER**	**Total**
Cash and balances with the Central Bank	707,916	153,749	5,530	1,181	3,017	**871,393**
Loans and advances to banks	195	1,363,029	37,532	5,203	11,963	**1,417,922**
Trading assets	8,040	-	31	-	-	**8,071**
Derivative financial instruments	319	-	2,000	-	81	**2,400**
Loans and advances to customers	3,787,304	1,373,729	53,546	56,610	-	**5,271,189**
Investment securities	7,711	397,557	4,139	-	-	**409,407**
Other financial assets	6,068	5,658	1,693	63	585	**14,067**
Total financial assets	**4,517,553**	**3,293,722**	**104,471**	**63,057**	**15,646**	**7,994,449**
Liabilities						
Deposits from banks	7,141	16,625	4,271	-	42	**28,079**
Derivative financial instruments	-	5,801	-	137	-	**5,938**
Due to customers	4,359,339	2,007,940	394,904	7,751	44,321	**6,814,255**
Other borrowed funds	22,973	-	-	-	-	**22,973**
Other financial liabilities	14,687	5,200	5,442	351	138	**25,818**
Total financial liabilities	**4,404,140**	**2,035,566**	**404,617**	**8,239**	**44,501**	**6,897,063**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.3 Liquidity risk

Basel Committee defines liquidity as "the ability of the Bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses".
Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.
The Bank has a limited appetite for liquidity risk and accepts the potentially increased costs of maintaining sufficient liquidity buffers to ensure a sound liquidity position.

Liquidity risk management process

The Bank maintains appropriate liquidity policies which have to ensure prudent liquidity management practices are in place.
Within its liquidity risk management framework, the Bank observes various liquidity ratios and indicators. The main aspects to be considered in liquidity control are liquidity ratios, the availability of sufficient and quality liquid assets and buffers, maturity mismatch profile, diversity and stability of the deposit base, loans to deposits ratio, stress test results and other.

Market Risk Department holds an important position in monitoring the market risks and in producing reports to the senior management for observation of risks.

Market Risk Department is responsible to regularly produce and distribute the internally adopted liquidity gap reports with embedded liquidity ratios. It is the unit which exercises an independent liquidity risk control function, escalating any excesses to the respective management bodies.

In addition to the internally defined liquidity ratios and reports, further to Regulation (EU) No 575/2013, Regulation (EU) No 2015/61 and Regulation No 2016/313 the Bank also prepares the reports under the Liquidity Coverage Ratio (LCR), Additional Liquidity Monitoring Metrics (ALMM) on a monthly basis and the Net Stable Funding Ratio (NSFR) on a quarterly basis. In 2018, the Liquidity Report under BNB Ordinance 11 was replaced by a new Maturity Ladder Report for monitoring of the maturity structure of inflows and outflows. The Maturity Ladder report is prepared under the EBA methodology as per Annex 23 of Commission Implementing Regulation (EU) 2017/2114.

The Bank also makes assessment of its liquidity position under stress scenarios, developed to analyse the adequacy of the Bank's liquidity to withstand crisis situations (e.g. significant deposit outflows, tightening of credit lines, etc.).

The Management Board (MB) of the Bank assigns the Assets and Liabilities Committee (ALCO) as the primary responsible body to advise the MB for the strategic management of assets and liabilities with aim to manage the interest rate and liquidity risks of the Bank.

ALCO is composed of the senior management of the Bank, meets at least once a month and duly reports any significant issues to the MB of the Bank.

Within its authority is to take all the necessary decisions regarding the interest rate policy, the liquidity and assets and liabilities management and to set the target parameters of potential external funding.

Regarding Assets and Liabilities management, ALCO shall regularly review the following:

- Structure, current state and trends of the assets and liabilities of the Bank;
- Interest income margin generated on assets and cost of funding base (deposit base and external funding);
- Interest rates offered by main competitors and market shares;
- Capital Adequacy.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.3 Liquidity risk (continued)

Liquidity risk management process (continued)

Regarding Liquidity management, ALCO shall regularly review the following:
- Liquidity Ratios and liquidity buffers as defined by BNB or the EU regulations;
- Internal Liquidity ratios;
- Liquid buffers;
- Sources and uses of Liquidity and Liquidity Projections;
- Liquidity Stress tests, reflecting the changes on the asset-liability maturity tables in different stress scenarios.

On a strategic level ALCO manages the Bank's assets and liabilities to ensure regular and timely meeting of current and future obligations.

The operational management of the Bank's liquidity and the execution of ALCO decisions regarding liquidity are assigned to the Head of Capital Markets Division. If necessary, ALCO can be directly engaged in the liquidity management via activating all resources of the Bank to meet all payment obligations.

Cash flows

The table below presents the cash flows receivables and payable by the Bank under financial assets/ liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows for the year 2019 and 2018. Liabilities without contractual maturities (sight and saving deposits) are presented in "less than 1 month" time bucket.

As at 31 December 2019	**Carrying**	**Gross nominal**	**Less than**	**1-3**	**3-12**	**1-5**	**More than**
Financial Assets	**amount**	**inflow/ (outflow)**	**1 month**	**months**	**months**	**years**	**5 years**
Non-derivative assets	***10,874,681***	***11,691,412***	***4,728,441***	***234,200***	***793,187***	***3,360,774***	***2,574,810***
Cash and balances with Central Bank	1,454,306	1,454,306	1,454,306	-	-	-	-
Loans and advances to banks	1,702,796	1,703,016	1,703,016	-	-	-	-
Loans and advances to customers	7,111,741	7,921,015	1,536,955	209,562	770,818	2,954,862	2,448,818
Financial assets held for trading	8,805	8,819	903	23	32	1,305	6,556
Investment securities	579,275	586,498	15,503	24,615	22,337	404,607	119,436
Other financial assets	17,758	17,758	17,758	-	-	-	-
Derivative financial instruments	***1,502***	***1,467,085***	***1,075,606***	***382,031***	***773***	***5,661***	***3,014***
Inflow from net settled		9,975	-	527	773	5,661	3,014
Inflow from gross settled		1,457,110	1,075,606	381,504	-	-	-
Total assets (contractual maturity)	**10,876,183**	**13,158,497**	**5,804,047**	**616,231**	**793,960**	**3,366,435**	**2,577,824**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.3 Liquidity risk (continued)

Liquidity risk management process (continued)

As at 31 December 2019	**Carrying**	**Gross nominal**	**Less than**	**1-3**	**3-12**	**1-5**	**More than**
Financial liabilities	**amount**	**inflow/ (outflow)**	**1 month**	**months**	**months**	**years**	**5 years**
Non-derivative liabilities	***9,633,488***	***(9,639,358)***	***(7,096,092)***	***(788,104)***	***(1,409,221)***	***(327,445)***	***(18,496)***
Due to other banks	15,036	(15,036)	(15,036)	-	-	-	-
Due to customers	9,438,085	(9,441,927)	(7,004,908)	(785,482)	(1,388,689)	(262,848)	-
Other borrowed funds	38,924	(40,376)	-	(119)	(9,963)	(27,446)	(2,848)
Lease liabilities	66,563	(67,139)	(1,268)	(2,503)	(10,569)	(37,151)	(15,648)
Other financial liabilities	74,880	(74,880)	(74,880)	-	-	-	-
Derivative financial instruments	***8,353***	***(1,472,255)***	***(1,074,789)***	***(382,318)***	***(1,751)***	***(9,490)***	***(3,907)***
(Outflow) from net settled		(16,321)	-	(1,173)	(1,751)	(9,490)	(3,907)
(Outflow) from gross settled		(1,455,934)	(1,074,789)	(381,145)	-	-	-
Total liabilities (contractual maturity)	**9,641,841**	**(11,111,613)**	**(8,170,881)**	**(1,170,422)**	**(1,410,972)**	**(336,935)**	**(22,403)**

As at 31 December 2019	**Gross nominal**	**Less than**	**1-3**	**3-12**	**1-5**	**More than**
Off Balance sheet items	**inflow/ (outflow)**	**1 month**	**months**	**months**	**years**	**5 years**
Credit commitments	(1,349,801)	-	(45,891)	(847,525)	(436,974)	(19,411)
Guarantees and other committments	(296,053)	(21,703)	(54,955)	(130,478)	(75,266)	(13,651)
Total amount	**(1,645,854)**	**(21,703)**	**(100,846)**	**(978,003)**	**(512,240)**	**(33,062)**

As at 31 December 2018	**Carrying**	**Gross nominal**	**Less than**	**1-3**	**3-12**	**1-5**	**More than**
Financial Assets	**amount**	**inflow/ (outflow)**	**1 month**	**months**	**months**	**years**	**5 years**
Non-derivative assets	***7,992,049***	***8,523,300***	***3,306,114***	***147,093***	***532,450***	***2,437,181***	***2,100,462***
Cash and balances with Central Bank	871,393	871,393	871,393	-	-	-	-
Loans and advances to banks	1,417,922	1,418,265	1,418,265	-	-	-	-
Loans and advances to customers	5,271,189	5,797,045	1,001,394	142,203	528,854	2,152,267	1,972,327
Financial assets held for trading	8,071	8,230	979	55	30	1,331	5,835
Investment securities	409,407	414,300	16	4,835	3,566	283,583	122,300
Other financial assets	14,067	14,067	14,067	-	-	-	-
Derivative financial instruments	***2,400***	***1,245,654***	***1,235,689***	***823***	***853***	***6,822***	***1,467***
Inflow from net settled		9,965	-	823	853	6,822	1,467
Inflow from gross settled		1,235,689	1,235,689	-	-	-	- -
Total assets (contractual maturity)	**7,994,449**	**9,768,954**	**4,541,803**	**147,916**	**533,303**	**2,444,003**	**2,101,929**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.3 Liquidity risk (continued)

Liquidity risk management process (continued)

As at 31 December 2018 Financial liabilities	Carrying amount	Gross nominal inflow/ (outflow)	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years
Non-derivative liabilities	***6,891,125***	***(6,895,080)***	***(5,125,442)***	***(508,815)***	***(1,050,503)***	***(204,942)***	***(5,378)***
Due to other banks	28,079	(28,079)	(28,079)	-	-	-	-
Due to customers	6,814,255	(6,816,963)	(5,071,545)	(508,717)	(1,046,715)	(189,986)	-
Other borrowed funds	22,973	(24,220)	-	(98)	(3,788)	(14,956)	(5,378)
Other financial liabilities	25,818	(25,818)	(25,818)	-	-	-	-
Derivative financial instruments	***5,938***	***(1,251,818)***	***(1,237,382)***	***(1,173)***	***(1,862)***	***(9,959)***	***(1,442)***
(Outflow) from net settled		(14,436)	-	(1,173)	(1,862)	(9,959)	(1,442)
(Outflow) from gross settled		(1,237,382)	(1,237,382)	-	-	-	-
Total liabilities (contractual maturity)	**6,897,063**	**(8,146,898)**	**(6,362,824)**	**(509,988)**	**(1,052,365)**	**(214,901)**	**(6,820)**

As at 31 December 2018 Off Balance sheet items	Gross nominal inflow/ (outflow)	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years
Credit commitments	(1,089,966)	-	(61,364)	(561,137)	(445,306)	(22,159)
Guarantees and other committments	(196,064)	(23,099)	(63,420)	(41,396)	(57,477)	(10,672)
Total amount	**(1,286,030)**	**(23,099)**	**(124,784)**	**(602,533)**	**(502,783)**	**(32,831)**

Off-balance sheet items

(a) *Loan commitments*

The amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities are presented on-demand - to the earliest period in which the Bank can be required to pay.

(b) *Financial guarantees and other financial facilities.*

Financial guarantees are presented on-demand, based on the earliest date on which the guranatee can be called.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.3. Fair values of financial assets and liabilities

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 under current market conditions (i.e. an exit price). When a quoted price for an identical asset or liability is not observable, fair value is measured using valuation techniques that are appropriate in the circumstances, and maximise the use of relevant observable inputs and minimise the use of unobservable inputs. Observable inputs are developed using market data, such as publicly available information about actual events or transactions, and reflect assumptions that market participants would use when pricing financial instruments, such as quoted prices in active markets for similar instruments, interest rates and yield curves, implied volatilities and credit spreads.

Fair values of financial assets and liabilities not measured at fair value
The following table presents the carrying amounts and fair values of financial assets and liabilities which are not carried at fair value on the balance sheet, analysed by the level in the fair value hierarchy into which each fair value measurement is included:

			At 31 December 2019		
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**	**Total Carrying Amount**
Financial assets					
Loans and advances to customers					
- Corporate	-	-	3,191,194	**3,191,194**	**3,463,619**
- SBB	-	-	650,087	**650,087**	**666,038**
- Consumer	-	-	1,071,427	**1,071,427**	**991,794**
- Mortgage	-	-	1,986,443	**1,986,443**	**1,990,290**
Total	**-**	**-**	**6,899,151**	**6,899,151**	**7,111,741**

			At 31 December 2018		
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**	**Total Carrying Amount**
Financial assets					
Loans and advances to customers					
- Corporate	-	-	2,116,779	**2,116,779**	**2,306,385**
- SBB	-	-	563,474	**563,474**	**574,264**
- Consumer	-	-	838,076	**838,076**	**751,482**
- Mortgage	-	-	1,748,441	**1,748,441**	**1,639,058**
Total	**-**	**-**	**5,266,770**	**5,266,770**	**5,271,189**

The assumptions and methodologies underlying the calculation of fair values of financial instruments not carried at fair value on the balance sheet date are in line with those used to calculate the fair values for financial instruments carried at fair value and are as follows:

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.3 Fair values of financial assets and liabilities (continued)

a) Loans and advances to customers

For loans and advances to customers quoted market prices are not available as there are no active markets where these instruments are traded. The fair values are estimated by discounting future expected cash flows over the time period they are expected to be recovered, using constructed risk-adjusted rates.

Loans are grouped into homogenous pools of assets based on shared credit risk characteristics, such as product type, borrower type, vintages and credit history. In estimating future cash flows, the Bank takes into account information for the contractual terms, remaining maturity and credit risk parameters of the exposures.

For other financial instruments which are short term (cash and balances with central banks, loans and advances to banks, due to central banks and other banks) or re-priced at frequent intervals (due to customers) and other borrowed funds the carrying amounts represent reasonable approximations of fair values.

b) Debt issued and other borrowed funds

For borrowed funds, which are either short term or re-priced at frequent intervals, the carrying amounts represent reasonable approximations of fair values.

The fair values of fixed rate borrowed funds are determined by discounting the expected cash flows at a risk-adjusted rate, where the Bank's own credit risk is determined using inputs indirectly observable, i.e. quoted prices of similar securities issued by the Bank or other issuers.

For other financial instruments which are short term (cash and balances with central banks, loans and advances to banks, due to central banks and other banks) or re-priced at frequent intervals (due to customers), the carrying amounts represent reasonable approximations of fair values.

Financial instruments measured at fair value

Trading assets, derivatives and other transactions undertaken for trading purposes, as well as FVOCI securities and assets and liabilities designated at fair-value-through-profit-or-loss are measured at fair value by reference to quoted market prices when available. If quoted prices are not available, the fair values are estimated using appropriate valuation techniques.

These financial instruments carried at fair value are categorised into the three levels of the fair value hierarchy as at 31 December 2019 based on whether the inputs to the fair values are observable or unobservable, as follows:

Level 1 – Financial instruments measured based on quoted prices in active markets for identical financial instruments that an entity can access at the measurement date. A market is considered active when quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency and represent actually and regularly occurring transactions. These include actively quoted debt instruments, equity and derivative instruments traded on exchanges, as well as mutual funds and unit-linked products that have regularly and frequently published quotes.

Level 2 – Financial instruments measured using valuation techniques with the following inputs: i) quoted prices for similar financial instruments in active markets, ii) quoted prices for identical or similar financial instruments in markets that are not active, iii) inputs other than quoted prices that are directly or indirectly observable, mainly interest rates and yield curves observable at commonly quoted intervals, forward exchange rates, equity prices, credit spreads and implied volatilities obtained from internationally recognised market data providers and iv) may also include other unobservable inputs which are insignificant to the entire fair value measurement. Level 2 financial instruments mainly include over-the-counter (OTC) derivatives and less-liquid debt instruments.

Level 3 – Financial instruments measured using valuation techniques with significant unobservable inputs. When developing unobservable inputs, best information available is used, including own data, while at the same time market participants' assumptions are reflected (e.g. assumptions about risk). Level 3 financial instruments include unquoted equity instruments and illiquid debt securities.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.3 Fair values of financial assets and liabilities (continued)

Financial instruments measured at fair value (continued)

The fair value hierarchy categorisation of the Bank's financial assets and liabilities carried at fair value is presented in the following table:

	31 December 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value:				
Trading assets				
-Debt securities	7,903	-	-	**7,903**
-Equity securities	902	-	-	**902**
Derivative financial instruments	-	1,502	-	**1,502**
Investment securities				
- Investment securities at FVOCI	512,757	-	-	**512,757**
- Investment securities at FVTPL	100	-	19,556	**19,656**
Total financial assets	**521,662**	**1,502**	**19,556**	**542,720**
Financial liabilities measured at fair value:				
Derivative financial instruments	-	8,353	-	**8,353**
Total financial liabilities	**-**	**8,353**	**-**	**8,353**

	31 December 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value:				
Trading assets				
-Debt securities	7,096	-	-	**7,096**
-Equity securities	975	-	-	**975**
Derivative financial instruments	-	2,400	-	**2,400**
Investment securities				
- Investment securities at FVOCI	378,858	-	-	**378,858**
- Investment securities at FVTPL	1	-	11,950	**11,951**
Total financial assets	**386,930**	**2,400**	**11,950**	**401,280**
Financial liabilities measured at fair value:				
Derivative financial instruments	-	5,938	-	**5,938**
Total financial liabilities	**-**	**5,938**	**-**	**5,938**

Reconciliation of Level 3 fair value measurement	**2019**	**2018**
Balance at 1 January	**11,950**	**12,704**
Transfers into Level 3	3,566	3,584
Total gain for the period included in profit or loss	4,040	2,448
Transfers to Loans and advances to customers	-	(6,786)
Balance at 31 December	**19,556**	**11,950**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.3 Fair values of financial assets and liabilities (continued)

Financial instruments measured at fair value (continued)

Bank's valuation processes

The Bank uses widely recognized valuation models for determining the fair value of common financial instruments, such as interest and currency swaps and forwards, that use only observable market data and require little management estimation and judgment. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded and simple over-the-counter derivatives. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values.

Where valuation techniques are used to determine the fair values of financial instruments, they are validated against historical data and published forecasts and, where possible, against current or recent observed transactions in different instruments, and periodically reviewed by qualified personnel independent of the personnel that created them. All models are certified before they are used and models are calibrated to ensure that outputs reflect actual data and comparative market prices. Fair values estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that market participants would take them into account in pricing the instrument. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty, where appropriate.

The Bank follows fair valuation processes and procedures, which are established at Group level by Global Market Counterparty Risk Sector. Some of the specific valuation controls include: verification of observable pricing, re-performance of model valuations, a review and approval process for new models and/or changes to models, calibration and back-testing against observable market transactions, where available, analysis of significant valuation movements, etc. Where third parties' valuations are used for fair value measurement, these are reviewed in order to ensure compliance with the requirements of IFRS 13.

Valuation techniques

OTC derivative financial instruments are fair valued by discounting expected cash flows using market interest rates at the measurement date. Counterparty credit risk adjustments and own credit risk adjustments are applied to OTC derivatives, where appropriate. Bilateral credit risk adjustments consider the expected cash flows between the Bank and its counterparties under the relevant terms of the derivative instruments and the effect of the credit risk on the valuation of these cash flows. As appropriate in circumstances, the Bank considers also the effect of any credit risk mitigating arrangements, including collateral agreements and master netting agreements on the calculation of credit risk valuation adjustments (CVAs).

The Bank determines fair values for debt securities held using quoted market prices in active markets for securities with similar credit risk, maturity and yield or by using discounted cash flows method.

The fair values of unquoted equity instruments are estimated mainly (i) using third parties' valuation reports based on investees' net assets, where management does not perform any further significant adjustments, (ii) net assets' valuations, adjusted where considered necessary and (iii) dividend discount models, where deemed appropriate.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

6 Net interest income

Interest and similar income	**2019**	**2018**
Loans and advances to customers	300,242	283,023
Loans and advances to banks	25,616	21,304
Investment securities	8,230	7,518
Hedging instruments	4,275	4,035
Derivative instruments	8,901	7,076
Trading securities	111	97
Total	**347,375**	**323,053**

The unwinding of the discount of the ECL allowance (Note 18) amounting to BGN 18,560 thousand (2018: BGN 21,528 thousand) is included in interest income on impaired loans and advances to customers. Interest income includes BGN 26,416 thousand (2018: BGN 30,037 thousand) interest income, recognised on impaired loans to customers, out of which BGN 11,858 thousand (2018: BGN 8,307 thousand) remain due by the customer as of year-end.

Interest income includes BGN 15,632 thousand (2018: BGN 12,286 thousand) income from insurers related to insurance premiums paid by borrowers as an integral part of loan deal origination.

Interest and similar charges	**2019**	**2018**
Deposits from customers	6,569	7,830
Hedging instruments	2,612	2,733
Deposits from banks	1,291	572
Other borrowed funds	367	405
Operating lease	49	-
Derivative instruments	9	-
Total	**10,897**	**11,540**

7 Net fee and commission income

Fees and commission income	**2019**	**2018**
Money transfers	34,061	32,710
Account maintenance	27,717	24,580
Foreign exchange operations	12,682	10,853
Loans' fees and commissions	10,262	9,955
Receipts from sales of services	12,957	9,444
Cash operations	8,888	7,518
Documentary business	2,615	2,180
Management, brokerage and securities trading	1,481	616
Other fees	1,284	1,363
Total	**111,947**	**99,219**

Fee and commission expense	**2019**	**2018**
Loans related fees	2,334	3,497
Transactions processing	13,252	11,173
Cash transactions and correspondent accounts	562	771
Other fees	1,269	648
Management, brokerage and securities trading	518	232
Total	**17,935**	**16,321**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

8 Other operating income, net	2019	2018
Net gain arising from derecognition of financial assets	1,940	2,255
Net (loss) from Modification of non-forborne loans	(1,189)	(1,885)
Net gain from non-current fixed assets	456	581
Rental income	608	186
(Loss) from sale of subsidiary	(814)	-
Investment and own property impairment	-	(105)
Total	**1,001**	**1,032**

9 Net trading income	2019	2018
Translation gains less losses	(212)	-
Net results from derivative instruments	501	118
of which:		
(Losses) on derivative fin. Instruments – Hedging (Note 25)	*(30)*	*(44)*
Gains on derivative fin. instruments - Non-Hedging	*531*	*162*
Net trading income	**289**	**118**

10 Other operating expenses	2019	2018
Staff costs (Note 11)	100,634	74,940
Depreciation of PPE and RoU assets (Note 21)	19,738	6,866
Repairs and maintenance	9,863	8,631
Operating lease rentals	1,656	20,683
Amortisation of intangible assets (Note 22)	8,142	6,814
External services	7,474	5,707
Software costs	7,020	5,518
Advertising and marketing	6,690	5,865
Security	5,970	4,834
Other operating expenses	6,972	1,035
Transaction related costs	20,541	-
Communication	613	550
Materials and utilities	1,627	1,441
Insurance	682	530
Travel and accommodation	1,011	793
Total	**198,633**	**144,207**

Transaction related costs include consultancy costs, legal, registration and other related to the acquisition of Piraeus Bank costs.

The amounts accrued in 2019 for the services provided by the registered auditors for statutory joint independent financial audit are as follows: for KPMG Audit OOD - BGN 446 thousand excluding VAT, for Baker Tilly Klitou and Partners OOD - BGN 117 thousand excluding VAT.

In 2019 the Bank has charged amounts for other non-statutory audit services provided by KPMG Audit OOD at a total amount of BGN 23 thousand excluding VAT.

The amounts accrued in 2018 for the services provided by the registered auditors for statutory joint independent financial audit are as follows: for KPMG Audit OOD - BGN 192 thousand excluding VAT, for Baker Tilly Klitou and Partners OOD - BGN 27 thousand excluding VAT.

In 2018 the Bank has charged amounts for other non-statutory audit services provided by KPMG Audit OOD at a total amount of BGN 121 thousand excluding VAT, for Baker Tilly Klitou and Partners OOD - BGN 3 thousand excluding VAT.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

11 Staff costs	**2019**	**2018**
Wages and salaries	72,631	61,883
Social security costs	5,155	4,513
Pension costs – defined contribution plans	7,208	5,753
Pension (income) / costs – defined benefit plans (Note 30)	(151)	585
Other	15,791	2,206
Total staff cost	**100,634**	**74,940**

Other staff cost for 2019 includes the expenses related to the restructuring process in view of the acquisition of Piraeus Bank Bulgaria.

12 Impairment charge for credit losses	**2019**	**2018**
Loans and advances to customers (Note 18)	(66,370)	(63,274)
Credit commitments release / (charge) of impairment	73	(453)
Other impairment release / (losses)	230	(72)
Total	**(66,067)**	**(63,799)**

Other impairment release/losses include the ECL charge during 2019 and 2018 as per IFRS 9 regarding financial assets other than loans and advances to customers (securities, placements, etc.)

13 Income tax expense	**2019**	**2018**
Deferred tax (benefit) / expense (Note 28)	(499)	217
Current income tax	17,879	17,565
Total	**17,380**	**17,782**

Tax is payable at an actual rate of 10% (2018: 10%) on adjusted profits under Corporate Tax Act.

The tax on the operating profit differs from the theoretical amount that would arise using the basic tax rate as follows:

	2019 Tax rate	**2019 Amount**	**2018 Tax rate**	**2018 Amount**
Profit before income tax		**231,079**		**175,209**
Tax calculated at the basic tax rate	10.0%	23,108	10.0%	17,521
Tax effect of:				
Non tax deductible expenses	0.3%	689	0.3%	544
Non taxable income	(2.9%)	(6,627)	(0.2%)	(271)
Loss / (gain) recognized in OCI	0.1%	210	0.0%	(12)
Income tax expense	**7.5%**	**17,380**	**10.1%**	**17,782**

Additional information about deferred tax is presented in Note 28.

The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional taxes and penalties. The management of the Bank is not aware of any circumstances, which can potentially raise material tax obligations.
The last full-scope tax audit of the Bank has been carried out in 2014, covering the periods 2008 – 31.03.2013 with respect to VAT and 2008 – 2012 with respect to CITA.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

14 Income tax effects relating to comprehensive income

	Year ended 31 December					
	2019			2018		
	Before tax amount	**Tax (expense)/ benefit**	**Net of tax amount**	**Before tax amount**	**Tax (expense)/ benefit**	**Net of tax amount**
Investment Securities at FVOCI	(2,191)	219	(1,972)	(9,610)	961	(8,649)
Change in FV of property, plant and equipment	1,003	(100)	903	(40)	4	(36)
Remeasurements of retirement benefit obligation	(193)	19	(174)	121	(12)	109
Total	**(1,381)**	**138**	**(1,243)**	**(9,529)**	**953**	**(8,576)**

15 Cash and balances with the Central Bank

	2019	**2018**
Cash in hand	150,938	116,689
Balances with Central bank	1,303,368	754,704
Total	**1,454,306**	**871,393**
of which:		
Mandatory reserve with Central Bank in accordance with BNB Regulation 21	834,167	608,978

Mandatory reserves with Central bank represent the minimum level of deposits which the Bank is required to maintain with BNB. As at the end of 2019 and 2018 the Bank has fulfilled the requirement for a minimum 100% coverage of mandatory reserves with balances with Central bank on a monthly basis. Balances with Central bank can be freely used daily provided the average monthly minimum deposits are maintained.

16 Loans and advances to banks

	2019	**2018**
Deposits in other banks	1,702,886	1,418,148
Less impairment loss allowance	(90)	(226)
Total	**1,702,796**	**1,417,922**

Included in the amount of loans and advances to banks is accrued interest of BGN 65 thousand (2018: BGN 59 thousand). The impairment provisions under IFRS9 as of end of 2019 amounted to BGN 90 thousand (2018: BGN 226 thousand).
Approximately 98 % (2018: 100 %) of the amounts due from other banks represent funds placed in banks domiciled in OECD (Organisation for Economic Co-operation and Development) countries.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

17 Trading assets	**2019**	**2018**
Bulgarian government bonds	7,903	7,096
Shares	902	975
Total	**8,805**	**8,071**
Equity securities:		
- Listed	902	975
Debt securities:		
- Listed	7,903	7,064
- Unlisted	-	32

Included in the amount of the bonds is accrued interest in the amount of BGN 17 thousand (2018: BGN 22 thousand).

Gains less (losses) from trading securities	**2019**	**2018**
Debt securities	333	(75)
Equity securities	(74)	(189)
Total	**259**	**(264)**

18 Loans and advances to customers	**2019**	**2018**
Consumer lending (including credit cards)	1,033,018	792,274
Small Business lending	760,360	700,029
Mortgages	2,094,864	1,751,030
Corporate lending	3,534,285	2,364,851
Gross loans and advances	**7,422,527**	**5,608,184**
Less allowance for impairment losses on loans and advances	(310,786)	(336,995)
Net outstanding balance of loans and advances to customers	**7,111,741**	**5,271,189**

Included in the amount of loans and advances to customers is accrued interest of BGN 31,294 thousand (2018: BGN 28,650 thousand). As at 31 December 2019 loans and advances to customers include the acquired loan portfolio of Piraeus Bank amounting to BGN 1,300,381 thousand at the date of the merger. During 2019 Eurobank Bulagria AD purchased loans from BRS in the amount of BGN 6,350 thousand (2018: BGN 12,538 thousand). The company was related party of the Bank in 2019.

	2019	**2018**
The ten largest exposures to customers	716,409	371,412
Percentage of gross loans	9.65%	6.62%

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

18 Loans and advances to customers (continued)

The following table presents the impairment allowance movement by product line:

31 December 2019

	Wholesale				Mortgage				Consumer				Small bisiness				
	12-month ECL	**Lifetime ECL-Stage 2**	**Lifetime ECL credit-impaired-Stage 3**	**POCI**	**12-month ECL**	**Lifetime ECL-Stage 2**	**Lifetime ECL credit-impaired-Stage 3**	**POCI**	**12-month ECL**	**Lifetime ECL-Stage 2**	**Lifetime ECL credit-impaired-Stage 3**	**POCI**	**12-month ECL**	**Lifetime ECL-Stage 2**	**Lifetime ECL credit-impaired-Stage 3**	**POCI**	**Total**
Impairment allowance as at 1 January	**3,046**	**2,149**	**53,270**	**-**	**2,860**	**3,275**	**105,665**	**171**	**8,038**	**3,539**	**29,217**	**1**	**6,488**	**3,997**	**115,244**	**35**	**336,995**
New loans and advances originated or purchased	1,268	-	-	1	763	-	-	153	5,723	-	-	-	2,748	-	-	5	**10,661**
Arising from acquisition/ merger	**9,874**	**-**	**-**	**12,641**	**1,150**	**-**	**-**	**485**	**1,575**	**-**	**-**	**70**	**1,134**	**-**	**-**	**352**	**27,281**
Transfers between stages:																	
-to 12-month ECL	*251*	*(251)*	*-*	*-*	*1,658*	*(678)*	*(980)*	*-*	*685*	*(564)*	*(121)*	*-*	*1,034*	*(969)*	*(65)*	*-*	*-*
-to lifetime ECL	*(8,662)*	*8,662*	*-*	*-*	*(329)*	*7,404*	*(7,075)*	*-*	*(1,005)*	*4,470*	*(3,465)*	*-*	*(543)*	*2,185*	*(1,642)*	*-*	*-*
-to lifetime ECL credit-impaired loans	*(32)*	*(435)*	*467*	*-*	*(23)*	*(579)*	*602*	*-*	*(102)*	*(689)*	*791*	*-*	*(88)*	*(541)*	*629*	*-*	*-*
Impact of ECL net remeasurement	(1,920)	(1,144)	9,305	-	798	575	23,258	-	916	551	11,458	-	586	435	43,606	-	**88,424**
Recoveries from written - off loans	-	-	(23,567)	-	-	-	(4,035)	-	-	-	(2,986)	-	-	-	(3,829)	-	**(34,417)**
Loans and advances derecognised/ reclassified as held for sale	-	-	(1,119)	-	-	-	(1,373)	-	-	-	-	-	-	-	(620)	-	**(3,112)**
Amounts written-off	-	-	(22,786)	-	-	-	(42,822)	-	-	-	(13,322)	-	-	-	(53,184)	-	**(132,114)**
Unwinding of discount	-	-	2,065	-	-	-	6,974	-	-	-	1,295	-	-	-	8,226	-	**18,560**
Foreign exchange differences and other movements	3,589	(1,241)	30,800	(5,565)	(4,064)	(7,645)	19,039	(653)	(5,289)	(1,891)	2,400	(71)	(3,213)	(383)	(26,918)	(387)	**(1,492)**
Impairment allowance as at 31 December	**7,414**	**7,740**	**48,435**	**7,077**	**2,813**	**2,352**	**99,253**	**156**	**10,541**	**5,416**	**25,267**	**-**	**8,146**	**4,724**	**81,447**	**5**	**310,786**

31 December 2018

	Wholesale			Mortgage			Consumer			Small bisiness			
	12-month ECL	**Lifetime ECL-Stage 2**	**Lifetime ECL credit-impaired-Stage 3**	**12-month ECL**	**Lifetime ECL-Stage 2**	**Lifetime ECL credit-impaired-Stage 3**	**12-month ECL**	**Lifetime ECL-Stage 2**	**Lifetime ECL credit-impaired-Stage 3**	**12-month ECL**	**Lifetime ECL-Stage 2**	**Lifetime ECL credit-impaired-Stage 3**	**Total**
Impairment allowance as at 1 January	**4,936**	**305**	**132,799**	**2,670**	**4,461**	**109,960**	**5,320**	**4,306**	**25,442**	**5,869**	**5,124**	**153,234**	**454,426**
New loans and advances originated or purchased	594	-	-	735	-	-	6,028	-	-	2,552	-	-	**9,909**
Transfers between stages:													
-to 12-month ECL	*510*	*(273)*	*(237)*	*1,741*	*(1,016)*	*(725)*	*1,684*	*(1,492)*	*(192)*	*1,558*	*(1,512)*	*(46)*	*-*
-to lifetime ECL	*(367)*	*531*	*(164)*	*(67)*	*7,580*	*(7,513)*	*(447)*	*2,501*	*(2,054)*	*(441)*	*1,212*	*(771)*	*-*
-to lifetime ECL credit-impaired loans	*(4)*	*-*	*4*	*(84)*	*(778)*	*862*	*(48)*	*(695)*	*743*	*(57)*	*(894)*	*951*	*-*
Remeasurement impact of transfers between 12M/Lifetime ECLs	(2,663)	1,385	6,446	415	(5,570)	6,935	(397)	(1,207)	11,381	(724)	792	(3,567)	**13,226**
Changes due to changes in ECL risk parameters (Other than transfers)	404	97	6,140	(1,333)	(315)	11,758	(3,221)	(142)	4,768	(1,002)	(287)	16,928	**33,795**
Recoveries from written - off loans	-	-	(5,755)	-	-	(2,146)	-	-	(4,214)	-	-	(2,915)	**(15,030)**
Changes to contractual cash flows due to modifications not resulting in de-recognition	-	-	(10)	(44)	(735)	(2,587)	(12)	(230)	(432)	(2)	(34)	(395)	**(4,481)**
Financial assets derecognised during period	(162)	(51)	-	(1,015)	(173)	-	(80)	(3)	-	(754)	(17)	-	**(2,255)**
Amounts written off	-	-	(97,503)	-	-	(17,462)	-	-	(8,030)	-	-	(56,522)	**(179,517)**
Unwinding of discount	-	-	1,958	6	1	7,759	6	56	1,329	-	-	10,414	**21,529**
Foreign exchange and other movements	(201)	156	9,591	(164)	(179)	(1,005)	(796)	444	476	(510)	(388)	(2,031)	**5,393**
Impairment allowance as at 31 December	**3,047**	**2,150**	**53,269**	**2,860**	**3,276**	**105,836**	**8,037**	**3,538**	**29,217**	**6,489**	**3,996**	**115,280**	**336,995**

Loan commitments, financial guarantees and other commitments

	12-month ECL- Stage 1	**Lifetime ECL not credit-impaired-Stage 2**	**Lifetime ECL credit-impaired-Stage 3**	**Total**
Impairment allowance as at 1 January 2018	**53**	**6**	**79**	**138**
New financial assets originated or purchased	167	-	-	**167**
Amounts charged during the year	138	1	142	**281**
Foreign exchange and other movements	-	3	-	**3**
Impairment allowance as at 31 December 2018	**358**	**10**	**221**	**589**

	12-month ECL-Stage 1	**Lifetime ECL not credit-impaired-Stage 2**	**Lifetime ECL credit-impaired-Stage 3**	**Total**
Impairment allowance as at 1 January 2019	**358**	**10**	**221**	**589**
New financial assets originated or purchased	187	-	-	**187**
Amounts charged during the year	(4)	1	(26)	**(29)**
Foreign exchange and other movements	(174)	-	(58)	**(232)**
Impairment allowance as at 31 December 2019	**367**	**11**	**137**	**515**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

18 Loans and advances to customers (continued)

	2019	2018
Impairment allowance as at 1 January	**336,995**	**454,426**
Arising from acquisition/ merger	**27,281**	
Amounts written off	(132,114)	(179,517)
Movement recognized in profit or loss	66,370	63,274
Recoveries from written - off loans	34,417	15,030
Unwinding of Discount	(18,560)	(21,529)
Other movements (Collection costs, FX, Modification Loss)	(3,603)	5,311
Impairment allowance as at 31 December	**310,786**	**336,995**

19 Investment securities

a) Investment securities breakdown

	2019	2018
Investment securities at FVTPL	19,655	11,951
Investment securities measured at amortised cost	40,421	19,181
ECL on investment securities measured at amortised cost	(444)	(583)
Investment securities at FVOCI - debt instruments	519,643	378,858
Total	**579,275**	**409,407**
Equity securities		
Listed	-	1
Unlisted	19,655	11,950
Debt securities		
Listed	559,620	397,456
Total	**579,275**	**409,407**

The movement of investment securities at FVOCI is presented in the table below:

b) Investment securities at FVOCI

Fair value as at 31 December 2017	**440,228**
IFRS 9 reclassification to Loans and advances to customers	(6,786)
Reclassification from AFS to inv.securities at AC/ inv.securities at FVTPL	(9,349)
Disposals	(39,728)
Change in accrued interest	(699)
Amortization of discounts or premium	(757)
Net fair value loss	(4,051)
Fair value as at 31 December 2018	**378,858**
Arising from acquisition/ merger	57,251
Additions	136,027
Disposals	(51,727)
Change in accrued interest	1,205
Amortization of discounts or premium	(473)
Net fair value loss	(1,461)
Foreign Exchange differences from translation into entity currency	(37)
Fair value as at 31 December 2019	**519,643**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

19 Investment securities (continued)

b) Investment securities at FVOCI (continued)

Gains less (losses) and impairment of investment securities	**2019**	**2018**
Transfer the fair value reserve from equity to income statement	3,237	2,480
Gains/ (Losses) OCI Bonds (Securities)	(113)	(100)
Gain/ (Losses) recognized on investment securities	1,907	2,409
Gains/ (Losses) on derivative fin. instruments (Hedging):	(61)	(47)
Total	**4,970**	**4,742**

c) Investment securities measured at amortized cost	**2019**	**2018**
Bonds issued by banks	19,179	19,181
ECL on Bonds issued by banks	(160)	(583)
Government bonds	21,242	-
ECL on Government bonds	(284)	-
Total	**39,977**	**18,598**

The following table presents the movement of loss allowance on Investment Securities:

	Investment securities measured at amortised cost 12-month ECL	**Investment securities measured at FVOCI** 12-month ECL
Balance at 1 January 2018	**10**	**678**
Changes due to change in ECL risk parameters (other than transfers)	573	(241)
Financial assets disposed during the period	-	(29)
Balance at 31 December 2018	**583**	**408**
New financial assets originated or purchased	284	151
Changes due to change in ECL risk parameters (other than transfers)	(423)	(46)
Financial assets disposed during the period	-	(15)
Balance at 31 December 2019	**444**	**498**

20 Investment property

Investment property is held for capital appreciation and is not occupied by the Bank.

Fair value of investment properties

The fair value of the investment property is updated in order to reflect the market conditions at the end of the reporting period by using the valuation reports of licensed appraiser company. The fair value of the investment property is the price that would be received to sell the asset in an orderly transaction between market participants at the measurement date. The best evidence of the fair value is current prices in an active market for similar properties. In the absence of such information, the fair value estimation of the external appraiser company is based on recent prices of properties with different condition or location, adjusted to reflect those differences.

For disclosure purposes fair value is based on reports prepared by a valuation company at the end of each reporting period. It is management’s assessment that there is sufficient market activity to provide comparable prices for orderly transactions with similar properties when determining the fair value.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

20 Investment property (continued)

Investment property	**2019**	**2018**
Beginning of the year	406	406
Arising from acquisition/ merger	1,086	-
Negative revaluation	(4)	-
End of the year	**1,488**	**406**

Quantitative information about fair value measurements using significant unobservable inputs (Level 3)

Class property	**Fair value 31/12/2019 (BGN th)**	**Valuation technique**	**Significant Unobservable Input**	**Range (weighted average) 2019 (BGN)**	**Range (weighted average) 2018 (BGN)**	**Connection between the unobservable input and FV**
Land	402	Market comparison approach	price per m2	11.87	11.97	A significant increase in price per m2 would result in a higher fair value
Commercial	1,086	Income approach	rent per m2	19.56		A significant increase in price per m2 would result in a higher fair value

21. Property, plant and equipment

	Land and buildings	**Leasehold improve-ments**	**Plant and equipment**	**Land and buildings – Right of use assets**	**Motor Vehicles – Right of use assets**	**Total tangible fixed assets**
At 31 December 2017						
Gross amount	**12,959**	**27,068**	**84,939**	**-**	**-**	**124,966**
Accumulated depreciation	**(4,017)**	**(19,091)**	**(61,256)**	**-**	**-**	**(84,364)**
Net book amount	**8,942**	**7,977**	**23,683**	**-**	**-**	**40,602**
Year ended 31 December 2018						
Opening net book amount	8,942	7,977	23,683	-	-	**40,602**
Additions	13,286	1,423	7,608	-	-	**22,317**
Negative revaluation and write offs	(145)	-	(6)	-	-	**(151)**
Arising from acquisition of subsidiaries	68,292	-	894	-	-	**69,186**
Depreciation charge (Note 10)	(393)	(1,858)	(4,615)	-	-	**(6,866)**
Closing net book amount	**89,982**	**7,542**	**27,564**	**-**	**-**	**125,088**
Gross amount	**94,394**	**27,864**	**87,960**	**-**	**-**	**210,218**
Accumulated depreciation	**(4,412)**	**(20,322)**	**(60,396)**	**-**	**-**	**(85,130)**
Net book amount	**89,982**	**7,542**	**27,564**	**-**	**-**	**125,088**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

21. Property, plant and equipment (continued)

Year ended 31 December 2019						
Opening net book amount	**89,982**	**7,542**	**27,564**	**-**	**-**	**125,088**
Recognition of right-of-use asset on initial application of IFRS 16	-	-	-	43,139	1,545	**44,684**
Additions	1,014	1,209	7,377	8,554	1,159	**19,313**
Revaluation and write offs	327	(1,343)	(1,079)	-	-	**(2,095)**
Arising from acquisition/ merger	9,091	1,336	4,854	10,182	-	**25,463**
Termination / Modifications	-	-	-	8,881	-	**8,881**
Movement in accumulated depreciation:						
Depreciation charge (Note 10)	(1,943)	(1,734)	(4,718)	(10,712)	(631)	**(19,738)**
Arising from acquisition/ merger				(707)		**(707)**
Termination / Modifications				98		**98**
Closing net book amount	**98,471**	**7,010**	**33,998**	**59,435**	**2,073**	**200,987**
At 31 December 2019						
Gross amount	**103,372**	**29,426**	**98,105**	**70,756**	**2,704**	**304,363**
Accumulated depreciation	**(4,901)**	**(22,416)**	**(64,107)**	**(11,321)**	**(631)**	**(103,376)**
Net book amount	**98,471**	**7,010**	**33,998**	**59,435**	**2,073**	**200,987**

Acquired assets through IMO Central Office subsidiary acquisition of BGN 69,186 in December 2018.

	2019	**2018**
Land and buildings at revalued amount	**98,471**	**89,982**
Revaluation reserve, net of tax	(1,855)	(1,023)
Difference between accumulated depreciation based on cost and based on revalued amount not yet transferred to retained earnings	1,361	683
Deferred tax on revaluation	(206)	(113)
Land and buildings at cost less accumulated depreciation	**97,771**	**89,529**

Quantitative information about fair value measurements using significant unobservable inputs (Level 3)

Class property	**Fair value 31/12/2019 in BGN thousands**	**Valuation technique**	**Significant Unobservable Input**	**Range (weighted average) 2019 in BGN**	**Range (weighted average) 2018 in BGN**
Land	13,529	Income approach	rent per m2	23.11	21.87
Land	945	Market comparison approach	price per m2	14.32 - 688.00 (85.86)	-
Office	77,380	Income approach	rent per m2	4.26 - 23.12 (19.72)	6.14 - 21.87 (20.05)
Office	6,617	Market comparison approach	price per m2	74.89 – 2,546.49 (416.89)	112.03 – 3,122.44 (535.38)
Total	**98,471**				

Land and buildings in their entirety are classified as Level 3 assets in the fair value hierarchy, thus the Level 3 movement reconciliation for the year can be found in the above tables.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

22 Intangible assets

At 31 December 2017	**Sotware**	**Licenses**	**Internally developed**	**Other**	**Total intangible fixed assets**
Gross book amount	**37,954**	**25,570**	**5,877**	**23,135**	**92,536**
Accumulated amortisation	**(17,581)**	**(15,755)**	**(1,633)**	**(11,313)**	**(46,282)**
Net book amount	**20,373**	**9,815**	**4,244**	**11,822**	**46,254**
Year ended 31 December 2018					
Opening net book amount	20,373	9,815	4,244	11,822	**46,254**
Additions	7,387	8,445	995	2,269	**19,096**
Transfers	(16)	49	-	(33)	**-**
Amortisation charge (Note 10)	(2,476)	(2,555)	(605)	(1,178)	**(6,814)**
Closing net book amount	**25,268**	**15,754**	**4,634**	**12,880**	**58,536**
At 31 December 2018					
Gross book amount	**44,588**	**34,015**	**6,829**	**25,077**	**110,509**
Accumulated amortisation	**(19,320)**	**(18,261)**	**(2,195)**	**(12,197)**	**(51,973)**
Net book amount	**25,268**	**15,754**	**4,634**	**12,880**	**58,536**
Year ended 31 December 2019					
Opening net book amount	25,268	15,754	4,634	12,880	**58,536**
Additions	6,834	2,213	66	2,118	**11,231**
Revaluation and write offs	(1,450)	(1,127)	-	-	**(2,577)**
Arising from acquisition/ merger	1,400	1,402	-	-	**2,802**
Amortisation charge (Note 10)	(3,436)	(2,927)	(519)	(1,260)	**(8,142)**
Closing net book amount	**28,616**	**15,315**	**4,181**	**13,738**	**61,850**

At 31 December 2019	**Sotware**	**Licenses**	**Internally developed**	**Other**	**Total intangible fixed assets**
Gross book amount	**50,828**	**36,622**	**6,895**	**27,194**	121,539
Accumulated amortisation	**(22,212)**	**(21,307)**	**(2,714)**	**(13,456)**	(59,689)
Net book amount	**28,616**	**15,315**	**4,181**	**13,738**	**61,850**

23 Other assets	**2019**	**2018**
Amounts in transit	11,401	10,894
Repossessed collaterals	11,999	8,488
Other debtors	5,998	2,963
Prepaid expenses	6,957	4,966
Other assets	2,738	1,547
Materials	24	24
Less: impairment on other financial assets	(2,378)	(1,337)
Total	**36,739**	**27,545**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

23 Other assets (continued)

The financial assets contained in the Other assets note amounted to BGN 17,758 thousand (2018: BGN 14,067 thousand). The impairment on financial assets amounted to BGN 2,378 thousand (2018: BGN 1,337 thousand). BGN 18,981 thousand (2018: 13,478 thousand) of the non-financial assets are expected to be realized within 12 months.

Impairment on other financial assets movement	**2019**	**2018**
Opening balance at 1st of January	1,337	1,113
Charged to the income statement	401	179
Reversed to the income statement	(153)	(15)
Used during year	793	60
Closing balance	**2,378**	**1,337**

24 Deposits from banks

Deposits from banks	**2019**	**2018**
Current accounts from other banks	6,843	2,183
Deposits from other banks	8,193	25,896
Total	**15,036**	**28,079**

25 Derivative financial instruments

The Bank enters into the following derivative contracts for either hedging or non-hedging (business) purposes: currency forwards, currency swaps, interest rate swaps, cross currency interest rate swaps, forward rate agreements, currency options and interest rate options.
Currency forward contracts are obligations to trade one currency for another at a specified exchange rate on a specific future delivery date. Being OTC contracts, currency forwards can be designed to exactly fit the clients' requirements as to the principal amount in the trade, its exact delivery date and which currencies are involved.

Currency swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or a combination of currencies and interest rates (i.e., cross-currency interest rate swaps). The Bank's credit risk is represented by the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. Since currency swaps may call for a final exchange of principal (increased importance of the diffusion effect), the potential credit exposure profile tends to be upward sloping. This risk is monitored on an on-going and forward looking basis with reference to the current fair value, a proportion of the notional amount of the contracts and the potential future exposure. To control the level of credit risk taken, the Bank assesses counterparties using the similar techniques as for its lending activities.

Interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of interest rates. The expected and maximum potential exposure profiles for an interest rate swap are estimated by a modeling exercise at inception. These depend on the "diffusion effect" (volatility of the underlying as well as other stochastic properties) and "amortization effect" (the passage of time). The peak exposure occurs at an intermediate point during the swap's life. Since the notional amounts themselves are not exchanged, the percentage of notional amount at risk is relatively low in normal market conditions.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

25 Derivative financial instruments (continued)

A forward rate agreement (FRA) is an agreement between two parties in which one party, the buyer or the long, agrees to make a known interest payment to the other party, the seller or the short, at a future date, with the seller agreeing to make an interest payment to the buyer based on an unknown rate that will be determined when the contract expires. Most FRAs are based on well-established interest rates such as dollar LIBOR or EURIBOR.

Options are financial instruments that give one party the right, but not the obligation, to buy or sell an underlying asset from or to another party at a fixed price over a specific period of time (also referred to as contingent claims). Options do not generally have periodic payments but are characterized by an up-front payment of the option premium and a final option payoff payment. The amortization effect is limited and is outweighed by the diffusion effect – a longer time period translates into a greater scope for movements in the underlying variable, which can generate a large exposure on the option payoff.

The notional amounts of certain types of financial instrument provide a basis for comparison with instruments recognized on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or market risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favorable or unfavorable, and thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below:

		Fair values	
Year ended 31 December 2019	**Contract / notional amount**	**Assets**	**Liabilities**
Derivatives that do not qualify for hedge accounting and held for trading			
Foreign exchange derivatives			
OTC currency swaps	1,446,500	300	2,182
Total OTC currency derivatives for trading	**1,446,500**	**300**	**2,182**
Interest rate derivatives			
OTC interest rate swaps	38,693	1,016	1,799
Total OTC interest rate derivatives for trading	**38,693**	**1,016**	**1,799**
Derivatives designated as fair value hedges			
OTC interest rate swaps	138,668	186	4,372
Total OTC interest rate derivatives for hedging	**138,668**	**186**	**4,372**
Total recognised derivative assets / liabilities		**1,502**	**8,353**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

25 Derivative financial instruments (continued)

Year ended 31 December 2018	Contract / notional amount	Fair values Assets	Fair values Liabilities
Derivatives that do not qualify for hedge accounting and held for trading			
Foreign exchange derivatives			
OTC currency swaps	1,228,543	2,400	1,323
Total OTC currency derivatives for trading	**1,228,543**	**2,400**	**1,323**
Interest rate derivatives			
OTC interest rate swaps	38,334	-	1,317
OTC IR options bought and sold	39,383	-	-
Total OTC interest rate derivatives for trading	**77,717**	**-**	**1,317**
Derivatives designated as fair value hedges			
OTC interest rate swaps	107,571	-	3,298
Total OTC interest rate derivatives for hedging	**107,571**	**-**	**3,298**
Total recognised derivative assets / liabilities		**2,400**	**5,938**

The Bank hedges a proportion of its existing interest rate risk resulting from any potential change in the fair value of fixed rate debt securities held, denominated both in local and in foreign currencies, using interest rate swaps.

In 2019 the Bank recognized a loss of BGN 850 thousand (2018: BGN 704 thousand loss) from changes in the fair value of the hedging instruments, used as the basis of recognising hedge ineffectiveness and BGN 820 thousand gain (2018: BGN 659 thousand gain) from changes in the fair value of the hedged items attributable to the hedged risk. The amount of hedge ineffectiveness recognized for 2019 in income statement was BGN 30 thousand loss (2018 BGN 44 thousand loss), as presented in note 9. In 2019 the fair value hedges were highly effective (2018: highly effective).

Fair value hedges

At 31 December 2019, the amounts relating to items designated as FV hedged items were as follows:

Year ended 31 December 2019 Fair Value Hedges	Carrying amount	Accumulated amount of FV hedge adjustments on the hedged item
Debt securities	154,410	(3,043)
Total	**154,410**	**(3,043)**

At 31 December 2019, the accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses was BGN 0 (2018: BGN 0).

(All amounts are shown in BGN thousands unless otherwise stated)
Notes to the separate financial statements (continued)

25 Derivative financial instruments (continued)

At 31 December 2019, the timing of the nominal amount of the financial instruments designated by the Bank in Fair value hedge relationships is presented in the table below:

Year ended 31 December 2019

	Fair Value Hedges					
Nominal Amount	**Less than 1 month**	**1 - 3 months**	**3 - 12 months**	**1-5 years**	**Over 5 years**	**Total**
Interest rate swaps	-	-	-	107,571	31,097	**138,668**
Total	**-**	**-**	**-**	**107,571**	**31,097**	**138,668**

26 Due to customers

	2019	**2018**
Large corporate customers	1,994,518	1,540,547
Medium corporate customers	458,042	228,046
Total due to corporate customers	**2,452,560**	**1,768,593**
Retail customers	6,985,525	5,045,662
Total due to customers	**9,438,085**	**6,814,255**

Included within due to customers is related accrued interest payable of BGN 3,605 thousand (2018: BGN 2,231 thousand).

27 Other borrowed funds

	2019	**2018**
Long term debt from Bulgarian Development Bank	31,139	22,973
European Bank for Reconstruction and Development	7,785	-
Total	**38,924**	**22,973**

Reconciliation of movements of liabilities to cash flows arising from financing activities is presented in the table below:

	2019	**2018**
Opening balance at 1 January	**22,973**	**30,420**
New funding	22,527	-
Repayment of long-term debt (principal)	(6,548)	(7,441)
Interest expense	379	405
Interest paid	(363)	(411)
Deferred expenses	(44)	-
Balance at 31 December	**38,924**	**22,973**

a) Loans received from the Bulgarian Development Bank

In July 2015, Eurobank Bulgaria signed a Loan Agreement with Bulgarian Development Bank (NAPRED) for on-lending to MSMEs combining funding and risk-sharing. The total size of the facility is BGN 30,000 thousand, disbursable in 3 tranches of BGN 10,000 thousand each in accordance with the contracted disbursement plan. As of 31 December 2019 the total liability amounted to BGN 19,438 thousand (2018: BGN 22,973 thousand).

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

27 Other borrowed funds (continued)

With the acquisition of Piraeus Bank Bulgaria AD, Eurobank Bulgaria AD has inherited a loan agreement from Bulgarian Development Bank under NAPRED framework. The loan agreement is under similar terms to the one originated by Postbank in 2015–supporting MSMEs and combining funding and risk sharing. As of 31 December 2019, the total liability amounted to BGN 11,701 thousand.

b) Loan from the European Bank for Reconstruction and Development

With the acquisition of Piraeus Bank Bulgaria AD, Eurobank Bulgaria AD has inherited a loan agreement from the European Bank for Reconstruction and Development under Residential Energy Efficiency Credit Line (REECL) framework. The loan agreement originates from July 2016 and its purpose is to finance energy efficiency improvements for individuals and companies. The total agreed amount of the loan is up to EUR 10,000 thousand (BGN 19,558 thousand) arranged in two tranches (A&B), of which only Tranche A of EUR 5,000 thousand (BGN 9,779 thousand) was disbursed. As of 31 December 2019, the total liability under this contract amounts to BGN 7,785 thousand.

c) Financing under the Guarantee Agreement between Eurobank Bulgaria and International Finance Corporation (IFC), member of the World Bank Group.

In February 2012, Eurobank Bulgaria and the International Finance Corporation (IFC), member of the World Bank Group, signed a Trade Finance Agreement for facilitation of trade transactions of local enterprises (short-term funding of pre-export/import transactions, issuance of bank guarantees and letters of credit). The total limit of the line was initially set at USD 20,000 thousand. In December 2013 the Limit was increased up to USD 40,000 thousand. As of December 2019 and 2018 the utilization of that line is BGN 0.

28 Deferred tax

Deferred tax is calculated on all temporary differences under the liability method using a principal tax rate of 10% (2018: 10%). The movement on the deferred tax account is as follows:

	2019	**2018**
Deferred tax liability at the beginning of year	2,001	1,776
Deferred tax asset arising from acquisition/ merger	(618)	-
Deferred tax asset, net, recognized in Bargain Gain	(16,915)	-
Deferred tax asset, net, recognized in Merger Reserve	(92)	-
Deferred tax liability, net, recognized in OCI	73	8
Deferred tax expense/ (benefit) (Note 13)	(499)	217
Net deferred tax (asset) / liability at end of year	**(16,050)**	**2,001**

Deferred tax assets and liabilities are attributable to the following items:

	2019	**2018**
Deferred tax liabilities		
Arising from acquisition/ merger	205	-
Accelerated tax depreciation	4,320	3,689
Property revaluation	206	113
Gain on share exchange	416	416
Deferred tax liability on bargain gain (FV of securities, LG/ LC)	393	-
	5,540	**4,218**
Deferred tax assets		
Arising from acquisition/ merger	822	-
Unused holidays	109	128
Provision for legal proceedings	1,154	787
Provision for retirement benefit obligations	482	523
Deferred tax assets on actuarial loss	39	20
Deferred tax assets on provisions for restructuring	2,185	181
Deferred tax assets on bargain gain (FV of loans, shares)	16,046	-
Other temporary differences	753	578
	21,590	**2,217**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

28 Deferred tax (continued)

The deferred tax charge/ (credit) in the income statement comprises of the following temporary differences:

	2019	2018
Deferred tax recognized on the FV of closed PBB loans	1,356	-
Depreciation	631	46
Unused holidays	19	9
Provision for legal proceedings and off balances	(367)	(162)
Other temporary differences	(175)	218
Provisions for restructuring and other liabilities	(2,004)	156
Provision for retirement benefit obligations	41	(50)
Net deferred tax (benefit)/ expense (Note 13)	**(499)**	**217**

29. Provisions for other liabilities and charges

(a) Legal proceedings

The Bank is subject to a number of legal proceedings arising in the normal course of business. The timing of the expected cash outflow of the court cases provided for could not be precisely estimated. Based on management's estimation it is expected that in two years' time the outflow may be realized. Further details are presented in Note 35a.
The table below represents the movement in provisions for legal claims:

Legal provisions	**2019**	**2018**
Opening balance at 1st of January	6,513	6,243
Charged to the income statement	6,481	1,642
Used during year	(981)	(1,372)
Closing balance	**12,013**	**6,513**

(b) Provisions for restructuring

In 2019 the Bank recognized provisions for restructuring in accordance with IAS 37, following the approval of a formal restructuring plan in view of the acquisition of Piraeus Bank Bulgaria. The plan envisages material contracts, branch locations and staff optimization and is expected to take place in three year horizon, following the merger.

The table below presents movement in provision for restructuring:

Provisions for restructuring	**2019**	**2018**
Opening balance at 1st of January	304	1,167
Charged to the income statement	31,848	-
Used during year	(12,754)	(863)
Reversed during the year	(4,828)	-
Closing balance	**14,570**	**304**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

29 Provisions for other liabilities and charges (continued)

(c) Assets pledged

Assets are pledged as collateral for government budget accounts, collateral for European Bank for Reconstruction and Development funding and under long term debt agreement signed with Bulgarian Development Bank. Mandatory reserves calculated as a percentage of the deposit base are held with the Central Bank in accordance with statutory requirements for securing liquidity.

	Asset		**Related liability**	
	2019	**2018**	**2019**	**2018**
Cash with Central bank (held as mandatory reserve)	834,167	608,978	9,447,037	6,813,134
Trading and investment securities (pledged under government accounts)	85,761	65,355	58,093	47,564
Investment securities (pledged under EBRD funding)	12,280	-	7,785	-
Loans pledged under long term debt agreement	19,878	18,604	39,139	22,973
Total	**952,086**	**692,937**	**9,552,054**	**6,883,671**

The total financial assets that have been pledged as collateral for liabilities (including amounts reflected above) as of 31 December 2019 was BGN 952,086 thousand (2018: BGN 692,937 thousand). These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities, as well as requirements determined by exchanges where the Bank acts as an intermediary. The amount of BGN 263 thousand (2018: BGN 263 thousand) is blocked in a BNB account under a disputed court ruling. Pledged funds under Credit Support agreements are BGN 3,775 thousand (2018: BGN 2,738 thousand).
The Bank has determined that it retains substantially all the risks and rewards of the pledged loans and trading and investment securities, therefore the specific assets have not been derecognized. The related liability is recognised in Due to customers (Note 26) and Other borrowed funds (Note 27), as appropriate.

30 Retirement benefits obligations

IAS 19 establishes the principle that the cost of providing employee benefits should be recognised in the period in which the benefit is earned by the employee, rather than when it is paid or payable.
Defined benefit plans involves incorporating actuarial assumptions into measurement of the obligation and the expenses. Therefore, actuarial gain and losses arise. Obligations are measured on a discounted basis, as they might be settled many years after the employees render the related services.
According to the revised IAS 19, the liability for employee benefits recognized on the balance sheet at the end of the fiscal year is equal to the balance sheet obligation at the beginning of the year after the effect of:

- service cost
- interest cost
- employers contributions
- paid benefits
- gains or losses from curtailment and settlements
- gains or losses in actuarial liability or in the assets of the plan

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

30 Retirement benefits obligations (continued)

	2019	2018
Retirement benefit obligation at 01 January	5,429	5,059
Arising from acquisition/ merger	2,852	-
Service cost	602	485
Interest cost	116	91
Benefits paid	(213)	(94)
Settlement/Curtailment	(917)	9
Remeasurement	193	(121)
Retirement benefit obligation at 31 December	**8,062**	**5,429**
Expenses recognised in profit or loss		
Service cost	602	485
Interest cost	116	91
Settlement/Curtailment	(917)	9
Total (income) / expense included in staff costs (Note 11)	**(199)**	**585**
Total remeasurement recognised in OCI	**193**	**(121)**

Significant actuarial assumptions	**2019**	**2018**
Discount rate	0.96%	2.01%
Future salary increase:		
2020:	5.00%	5.00%
2021:	5.00%	5.00%
2022:	4.00%	-

Notes to the separate financial statements (continued)

IAS19 requires the use of a discount rate determined by reference to the yield at the measurement date on high quality corporate debt, or Government bonds if there is no deep market in such debt. The discount rate should reflect the rate at which the liabilities could effectively be settled. The discount rate was set by reference to the yield on long-term fixed interest bonds issued by the Bulgarian Government.

Sensitivity analysis

A quantitative sensitivity analysis based on reasonable changes to significant actuarial assumptions as at 31 December 2019 is as follows:

An increase/ (decrease) of the discount rate assumed by 0.5% (0.5%) would result in a (decrease)/ increase of the standard legal staff retirement obligations by (BGN 661 thousand)/ BGN 742 thousand.

An increase/ (decrease) of the future salary increases assumed, by 0.5% (0.5%), would result in an increase/ (decrease) of the standard legal staff retirement obligations by BGN 726 thousand/ (BGN 653 thousand).

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

The methods and assumptions used in preparing the above sensitivity analysis were consistent with those used to estimate the retirement benefit obligation and did not change compared to the previous period.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

31 Other liabilities	**2019**	**2018**
Lease liabilities	66,565	-
Other creditors	64,716	20,467
Accrued expenses	28,298	25,948
Withholding tax obligations	11,593	12,582
Unused paid leave accrual	1,833	1,279
Deferred income	335	-
Other	2,023	771
Total	**175,363**	**61,047**

As at 31 December 2019 the financial liabilities contained in the Other liabilities note amounted to BGN 141,445 thousand (2018: BGN 25,818 thousand).

32 Capital, reserves and dividends

a) Share capital

As at 31 December 2019 and as at 31 December 2018 the total authorized number of ordinary shares of Eurobank Bulgaria AD was 560,323,302 with a nominal value of BGN 1 per share. Eurobank Ergasias S.A. owns directly 56.14%, another 43.85% of the share capital is owned by ERB New Europe Holding B.V. and 0.01% by minority shareholders.

The Bank has acquired its own shares during the year in the amount of 457 shares, according the procedure with the buy-back shares done to guarantee the minor shareholders of Piraeus Bank Bulgaria AD related to the merger.

b) Nature and purpose of reserves

i) Statutory reserve

According to Article 246 of the Bulgarian Commerce Act, the Bank shall set aside at least one tenth of its profit in a Statutory reserve fund, until it reaches one tenth or more of the Bank's equity. Disbursement from the reserve fund may be made only to cover losses from the current or previous years. As per Banking legislation, funds accumulated in the Statutory Reserve account cannot be distributed as dividends without the consent of the Local Bank Regulator.

(ii) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of debt securities measured at FVOCI until the assets are derecognized or reclassified. The amount is increased by the amount of loss allowance (Note 2.2.10)

(iii) Property revaluation reserve

The Property revaluation reserve comprises the fair value change of land and building as far as the Bank applies the IAS 16 revaluation model, which presumes that the asset is carried at its revalued amount, being its fair value at the date of revaluation, subsequent depreciation and impairment, provided that fair value can be determined reliably (Note 2.2.7).

c) Dividends

Dividends are recognised as a liability when authorized by the General Assembly of the Shareholders and are deducted from equity.

In 2019 the Bank did not pay dividend on ordinary shares. In 2018 a dividend on ordinary shares in the amount of EUR 30,000 thousand with equivalent in BGN 58,674 thousand (EUR 0.053541, representing the equivalent of BGN 0.10472 per ordinary share) was approved by the Extraordinary General Meeting of Shareholders and paid.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

33 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances with less than 90 days maturity from the date of origination:

	2019	**2018**
Cash in hand (Note 15)	150,938	116,689
Balances with Central bank excluding the minimum level of mandatory reserves	886,292	450,221
Loans and advances to banks (Note 16)	1,702,796	1,418,148
Total amount of cash and cash equivalents	**2,740,026**	**1,985,058**
Less impairment allowance	(90)	(226)
Net amount of cash and cash equivalents	**2,739,936**	**1,984,832**

50% of the minimum level of mandatory reserves held in BNB are considered cash equivalent, as the Bank is allowed to use them at any time and free of interest.

34 Related party transactions

Eurobank Bulgaria AD is a subsidiary of Eurobank Ergasias S.A., which is listed on the Athens Stock Exchange.

In May 2019, following the increase of the share capital of the Eurobank Ergasias in the context of the merger with absorption of Grivalia Properties REIC, the percentage of the its ordinary shares with voting rights held by the Hellenic Financial Stability Fund (HFSF) decreased from 2.38% to 1.40%. The HFSF is still considered to have significant influence over Eurobank Ergasias pursuant to the provisions of the Law 3864/2010, as in force, and the Relationship Framework Agreement (RFA) Eurobank Ergasias has entered into with the HFSF. In particular, among others rights according to Law 3864/2010, as in force, and the RFA, HFSF exercises its voting rights in the Eurobank Ergasias General Assembly only for decisions concerning the amendment of Eurobank Ergasias Articles of Association, including the increase or decrease of the Eurobank Ergasias capital or the granting of a corresponding authorization to the Eurobank Ergasias's Board, decisions concerning the mergers, divisions, conversions, revivals, extension of duration or dissolution of the Eurobank Ergasias, the transfer of assets (including the sale of subsidiaries), or any other issue requiring approval by an increased majority as provided for in Company Law 4548/2018. Further to this, the RFA signed on 4 December 2015 replacing the previous one, signed on 26 August 2014, regulates, among others, (a) Eurobank Ergasias's corporate governance, (b) the Restructuring Plan and its monitoring, (c) the monitoring of the implementation of Eurobank Ergasias's Non-Performing Loans (NPLs) management framework and of Eurobank Ergasias's performance on NPLs resolution, (d) the Material Obligations and the switch to full voting rights, (e) the monitoring of Eurobank Ergasias's actual risk profile against the approved Risk and Capital Strategy, (f) the HFSF's prior written consent for Eurobank Ergasias's Group Risk and Capital Strategy and for Eurobank Ergasias's Group Strategy, Policy and Governance regarding the management of its arrears and non-performing loans and any amendment, extension, revision or deviation thereof, and (g) the duties, rights and obligations of HFSF's Representative in Eurobank Ergasias's Board.

A number of banking transactions are entered into with related parties in the normal course of business and are conducted on an arm's length basis. These include loans, deposits and guarantees. In addition, as part of its normal course of business in investment banking activities, the Group at times may hold positions in debt and equity instruments of related parties.

Following the completion of the merger of Eurobank with Grivalia Properties REIC, Fairfax group has increased its percentage holding in Eurobank Ergasias share capital, which as at 31 December 2019 stands at 31.27%.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

34 Related party transactions (continued)

The volumes of related-party transactions, outstanding balances at the year end, and relating expense and income for the year are as follows:

	31 December 2019			31 December 2018		
	Parent company	**Other Group companies***	**Key management personnel**	**Parent company**	**Other Group companies***	**Key management personnel**
Purchased loans and advances to customers (Note 18)	-	6,350	-	-	12,538	-
Loans and advances to banks (weighted interest rate 2019: 0.65%, 2018: 0.98%)	1,513,442	-	-	1,299,229	174	-
Loans and advances to customers (weighted interest rate 2019: 1.88%, 2018: 2.10%)	-	21,254	91	-	-	108
Debt securities lending	-	19,179	-	-	19,181	-
Derivative financial instruments assets	1,495	-	-	2,400	-	-
Other assets	-	21	-	-	163	-
Shares in subsidiary undertakings	-	6,763	-	-	4,868	-
Due to other banks	2,288	2,152	-	908	776	-
Due to customers (weighted interest rate 2019: 0.01% , 2018: 0.02%)	-	9,548	245	-	24,262	95
Derivative financial instruments Liabilities	6,554	-	-	5,397	-	-
Other liabilities	-	79	-	-	63	-
Interest income	36,709	1,871	1	32,098	1,601	2
Interest expense	(2,638)	(598)	-	(2,748)	(5)	-
Fee and commission income	1	402	-	7	748	-
Fee and commission expense	(86)	(2)	-	(73)	(2)	-
Net trading (expense)/ income	1,056	-	-	(608)	(50)	-
Salaries and other short-term benefits	-	-	2,425	-	-	1,801
Rental income/(expense)	-	225	-	-	(6,964)	-
Valuation expenses	-	-	-	-	(266)	-
Other expenses	(1,211)	(192)	-	(643)	(606)	-
Letters of guarantee issued	-	-	-	-	79	-
Letters of guarantee received	5,867	1,565	-	2,816	-	-
Shares buy-back	31					
Total	**1,563,508**	**68,617**	**2,762**	**1,338,783**	**56,560**	**2,006**

*represent other entities under common control

All loans lent to related parties as at 31 December 2019 and as at 31 December 2018 are categorized as non impaired (Stage 1) according to the Bank's provision policy.

The ultimate controlling party of the Bank is Eurobank Ergasias S.A

Key management personnel include the members of the Management and Supervisory Boards.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

34 Related party transactions (continued)

A list of the related parties of the Bank during 2019 is presented in the table below:

Related party (company name)	Country	Related company category
Eurobank Ergasias S.A.	Greece	Parent company
ERB Hellas Plc	United Kingdom	Other company within the Group
Eurobank Factors S.A.	Greece	Other company within the Group
Be-Business Exchanges S.A.	Greece	Other company within the Group
Bancpost S.A.	Romania	Other company within the Group
Bulgarian Retail Services A.D.	Bulgaria	Other company within the Group
Eurobank EFG a.d. Beograd	Serbia	Other company within the Group
ERB Retail Services IFN S.A.	Romania	Other company within the Group
ERB Property Services Sofia E.A.D.	Bulgaria	Other company within the Group
Eurobank Fund Management Company (Luxembourg) S.A.	Luxembourg	Other company within the Group
ERB IT Shared Services S.A.	Romania	Other company within the Group
Eurobank Holding (Luxembourg) S.A.	Luxembourg	Other company within the Group
Eurobank Cyprus Limited	Cyprus	Other company within the Group
CEH Balkan Holdings Limited	Cyprus	Other company within the Group
IMO Property Investments Sofia E.A.D.	Bulgaria	Other company within the Group
IMO Central Office E.A.D.	Bulgaria	Other company within the Group
IMO 03 E.A.D.	Bulgaria	Other company within the Group
Eurobank Private Bank Luxembourg S.A.	Luxembourg	Other company within the Group
ERB Leasing Bulgaria E.A.D.	Bulgaria	Other company within the Group

35 Contingent liabilities and other commitments

(a) Legal proceedings

The Bank is subject to a number of legal proceedings arising in the normal course of business. Besides the provision made (Note 29) no contingent liabilities associated with legal actions have been disclosed as professional advice indicates that the possibility of any significant loss is remote.

(b) Loan commitments, guarantee and letters of credit

As at 31 December the Bank had the contractual amounts of its off-balance sheet financial instruments that commit it to extend credit to customers, guarantee and other facilities as follows:

	2019	2018
Guarantees	235,395	140,604
Letters of credit	60,658	55,460
Loan commitments	1,349,801	1,089,966
Total	**1,645,854**	**1,286,030**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

35. Contingent liabilities and other commitments (continued)

(c) Capital Expenditures

As at 31 December the Bank had the following capital expenditure commitments:

	2019	2018
Capital Expenditures	**13,631**	**8,362**

36 Leases

The Bank as a lessee

Policy applicable after 1 January 2019 (IFRS 16)

The Bank leases office and branch premises and motor vehicles.

The majority of the Bank's property leases are under long term agreements (for a term of 12 months or more in the case of leased real estate assets), with options to extend or terminate the lease according to the terms of each contract and the usual terms and conditions of commercial leases applicable in each jurisdiction, while motor vehicles generally have lease terms of up to 4 years. Extension options held by the Bank are included in the lease term when it is reasonably certain that they will be exercised based on its assessment.

Before the adoption of IFRS 16, these leases were classified as operating leases under IAS 17.

Information about the leases for which the Bank is a lessee is presented below:

Right-of-Use Assets

As at 31 December 2019, the right-of-use assets included in property plant and equipment amounted to BGN 61,508 thousand (Note 21), while those that meet the definition of investment property amounted to BGN 1,086 thousand (Note 20).

Lease Liabilities

The lease liability included under other liabilities amounted to BGN 66,565 thousand as at 31 December 2019 (Note 31). The maturity analysis of lease liabilities as at 31 December 2019, based on the contractual undiscounted cash flows, is presented in note 5.2.3 – Liquidity Risk.

Amounts recognised in profit or loss

Interest on lease liabilities is presented in Note 6 and the lease expense relating to short term leases is presented in Note 10. The operating lease expense under IAS 17 was BGN 20,683 thousand in 2018.

The Bank had total cash outflows for leases of BGN 13,709 thousand in 2019.

The maturity analysis of the future lease are presented in table below:

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

36. Leases (continued)

Policy applicable before 1 January 2019

The Bank has entered into commercial leases for premises and motor vehicles. The majority of the Bank's leases are under long-term agreements, according to the usual terms and conditions of commercial leases including renewal options.

Non-cancellable operating lease rentals were payable as follows:

Future minimum lease payments	**2018**
No later than one year	5,433
Later than one year and no later than five years	1,654
Total	**7,087**

The Bank as a lessor

Operating Leases

Policy applicable after 1 January 2019 (IFRS 16)

The Bank leases out its investment property under the usual terms and conditions of commercial leases applicable in each jurisdiction. When such leases do not transfer substantially all of the risks and rewards incidental to the ownership of the leased assets, the Bank classifies these lease as operating leases.

The maturity analysis of operating lease receivables, based on the undiscounted lease payments to be received after the reporting date, is provided below:

	2019
Not later than one year	357
One to two years	340
Two to three years	294
Three to four years	183
Four to five years	147
More than five years	594
Total	**1,915**

Policy applicable before 1 January 2019

The Bank has entered into commercial leases on premises. Where the Bank is the lessor, the amount of the future minimum rentals under non-cancellable operating leases as of 31 December 2018 was BGN 92 thousand, payable not later than one year.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

37 Shares in subsidiary undertakings

As a subsequence of acquiring of 99,98% of the share capital of Piraeus Bank Bulgaria AD on 13.06.2019 Eurobank Bulgaria AD acquired indirectly 99.98% of the share capital of Piraeus Insurance Brokerage EOOD – a sole limited liability company previously 100% owned by Piraeus Bank Bulgaria AD. Later in 2019 deregistration of the company's status as a "financial brokerage" was initiated with the Financial Supervision Commission. The company was subsequently renamed to Piraeus Brokerage EOOD. After completion of Piraeus Bank Bulgaria AD merger into Eurobank Bulgaria AD on 12.11.2019, the latter in its capacity of legal successor of Piraeus Bank Bulgaria AD became sole owner of Piraeus Brokerage EOOD.

The following acquisitions, spin-off and mergers have been completed in 2019 as part of a Group structure optimization project: on 04.09.2019 acquiring of 100% of the share capital of ERB Leasing Bulgaria EAD (BGN 3,018 thousand) and on 12.11.2019 acquiring of 100% of the share capital of Bulgarian Retail Services AD (BGN 2,176 thousand); on 28.10.2019 part of the business of ERB Leasing Bulgaria EAD was transferred through spin-off into ERB Property Services Sofia EAD; on 29.11.2019 Bulgarian Retail Services AD was absorbed by the means of merger into ERB Leasing Bulgaria EAD and on 03.12.2019 Piraeus Brokerage EOOD was absorbed by the means of merger into ERB Leasing Bulgaria EAD. On 30.12.2019 following a Management board apprioval 100 % of the shares in ERB Property Services Sofia EAD subsidiary were sold to a third party for the amount of BGN 4,053 thousand.

As at 31 December 2019, following the mergers during 2019 into ERB Leasing Bulgaria EAD, the total shares the Bank owns in ERB Leasing Bulgaria EAD increased by BGN 6,763 thousand, as follows:

	Shares
ERB Leasing Bulgaria EAD	3,018
Piraeus Brokerage EOOD	1,569
Bulgarian Retail Services AD	2,176
Total	**6,763**

38. Acquisition of Piraeus Bank Bulgaria A.D. by Eurobank Bulgaria A.D.

In November 2018, the Bank announced that it had concluded an agreement with Piraeus Bank S.A. for the acquisition of 99.98% of voting rights of Piraeus Bank Bulgaria A.D. ("PBB"), a subsidiary of Piraeus Bank S.A. (the "Transaction").

In June 2019, the Transaction was concluded, following the receipt of the relevant regulatory approvals. The final consideration of the Transaction amounted to BGN 150,956 thousand of which BGN 107,571 thousand cash, BGN 4,354 thousand additional amount payble based on the finalized pre-closing audit of Net Asset Value (NAV) of PBB and BGN 39,031 thousand net present value of deferred consideration, payable within a four year period.
The bargain purchase arose as the transaction represented the last major milestone towards the conclusion of Piraeus Bank S.A.'s Restructuring Plan commitments, as agreed with the European Commission

The acquisition was accounted for as a business combination using the purchase method of accounting.
The resulting gain on the acquisition of PBB, amounting to BGN 78,690 thousand is attributed to the particular circumstances of the acquisition, in line with the restructuring plan of the seller and Eurobank Group's strategy to focus on Bulgarian market. The above gain is considered non-taxable under the local corporate tax framework.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

38. Acquisition of Piraeus Bank Bulgaria A.D. by Eurobank Bulgaria A.D. (continued)

In relation with the Transaction, on 13 June 2019 the Bank and Piraeus Bank S.A. signed assignment agreements for PBB Subordinated Debt and Hybrid Capital, amounting to BGN 134,554 thousand, which effectively transferred all rights and obligations under the original contracts from Piraeus Bank S.A. to the Bank. These contracts between the Bank and PBB were effectively canceled out at the legal merger of the two entities.

Additionally on 13 June 2019 a Cash Collateral Assignment agreement for the amount of BGN 123, 374 thousand was signed between Eurobank Ergasias S.A. and Piraeus Bank S.A., which effectively transferred all rights and obligations under the cash collateral contract from Piraeus Bank S.A. to Eurobank Ergasias S.A. The cash collateral agreements between PBB and Eurobank Ergasias S.A. were terminated on 25 June 2019.

In September 2019, the General meeting of the shareholders of Postbank approved the merger of the company with PBB. In November 2019, Postbank successfully completed the merger of Piraeus Bank Bulgaria, following the receipt of the relevant regulatory approvals, achieving another important step in consolidating its position as a systemic bank, expanding its client base and developing its team.

The fair values of the identifiable assets and liabilities as of the date of acquisition are presented in the table below:

	Carrying amount	**Fair value adjustment**	**Fair Value**
Cash and balances with the Central Bank	532,215	-	532,215
Loans and advances to banks	637,013	-	637,013
Loans and advances to customers	1,596,462	(171,583)	1,424,879
Gross Contractual amount	*1,678,545*		
Investment securities	64,098	(887)	63,211
Property, plant and equipment and intangible assets	38,592	(7,841)	30,751
Other assets*	8,850	341	9,191
Total assets	**2,877,230**	**(179,970)**	**2,697,260**
Due to Banks	289,961	-	289,961
Due to customers	2,157,571	-	2,157,571
Other liabilities **	50,556	(13,591)	36,965
Total liabilities	**2,498,088**	**(13,591)**	**2,484,497**
Total shareholders' equity	379,142	(166,379)	212,763
Total shareholders' equity and liabilities	**2,877,230**	**(179,970)**	**2,697,260**

(*) Other assets include the investment in Piraeus Insurance Brokerage EOOD and other assets.
(**) Other liabilities include BGN 243 thousand additional litigation provisions.

Loans and advances to customers acquired were fair valued by an external valuator utilizing an Income Approach valuation model. The fair values are estimated by discounting future expected cash flows over the time period they are expected to be recovered, using appropriate risk-adjusted discount rates (Note 3.7). The carrying amounts of cash, cash equivalents and loans and advances to banks, as well as due to banks and due to customers equal their fair value due to their liquidity, market level pricing and short term nature. Investment securities acquired are measured and carried at fair value.

Properties fair values were determined by external valuator, using either the Income approach or Market comparison approach valuation technique.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

38. Acquisition of Piraeus Bank Bulgaria A.D. by Eurobank Bulgaria A.D. (continued)

The carrying amounts of tangible assets, other than properties, and intangible assets were assessed to be representative for their fair value using the depreciated replacement cost.
Carrying amounts of other assets were assessed for impairment. The impaired carrying amount is assumed to equal fair value.
For the other liabilities provision levels were reviewed, carrying amounts were equal to their fair value.
The table below presents how transaction bargain gain has been derived:

	2019
Total consideration paid/ payable	(150,956)
Fair value of identifiable net assets	212,763
Non-controlling interest	(32)
Deferred Tax Asset	16,915
Bargain Gain	**78,690**

The Bank incurred acquisition-related costs of BGN 2,188 thousand related to external legal fees and due diligence costs. These costs have been included in 'administrative expenses'.

In relation to the integration of PBB acquired business, the Bank has also recognized integration costs broken down to BGN 18,353 thousand administrative costs (see Note 10) and BGN 13,495 thousand staff cost (see Note 11).

Details on proceeds from acquisition of subsidiary, net of cash acquired can be found below:

Cash consideration paid	(107,571)
Less: Balances acquired	
Cash and cash equivalents	1,169,228
Borrowed funds	(289,961)
Net inflow from cash – investing activities at acquisition	**771,696**
Cash movement from acquistion to merger date	2,750
Net inflow from cash – investing activities at merger date	**774,446**

The results of PBB were incorporated in the Bank's financial statements prospectively, as of 1 November 2019. If the acquisition and the merger had occurred on 1 January 2019, PBB would have contributed net profit of BGN 13,992 thousand to the Bank for the period 1 January 2019 up to 31 October 2019.

39 Events after the balance sheet date

On 20.03.2020 a demerger of Eurobank Ergasias S.A. was approved through sector's hive down and establishment of a new company-credit institution under the corporate name Eurobank S.A, which has been registered on the same day in the General Commercial Registry.

As result of the Demerger:
a) Eurobank Ergasias S.A. became the shareholder of the new company Eurobank S.A. by acquiring all its issued shares, and
b) Eurobank S.A. substituted Eurobank Ergasias S.A., by way of universal succession, to all the transferred assets and liabilities, as set out in the transformation balance sheet of the hived down sector.
Following the completion of the Demerger, Eurobank Ergasias S.A. will cease to be a credit institution and maintains activities and assets and liabilities that are not related to main banking activities.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

39 Events after the balance sheet date (continued)

ERB Leasing Bulgaria merger wthin the Bank took place on 04 February 2020 after the receipt of the respective regulatory approvals. The business of ERB Leasing will continue within the operations of the Bank.

On 11 March 2020, The World Health Organization declared the coronavirus outbreak a pandemic and the Bulgarian government declared an emergency state on 13 March 2020. Responding to the potentially serious threat the Coronavirus presents to public health, the Bulgarian government authorities have taken measures to contain the outbreak, including introducing restrictions on the cross-borders movement of people, entry restrictions on foreign visitors from 16 countries pending further developments and the 'lock-down' of certain industries. In particular, airlines and railways suspended international transport of people, schools, universities, restaurants, cinemas, theatres and museums and sport facilities, retailers excluding food retailers, grocery stores and pharmacies were closed. Some businesses in Bulgaria have also instructed employees to remain at home and curtailed or temporarily suspended business operations.

The wider economic impacts of these events might include:
— Disruption to business operations and economic activity in Bulgaria, with cascading impacts on both upstream and downstream supply chains;
— Significant disruption to businesses in certain sectors, both within Bulgaria and in markets with high dependence on supply chain in China and Italy as well as export-oriented businesses with high reliance on foreign markets. The affected sectors include trade and transportation, travel and tourism, entertainment, manufacturing, construction, retail, insurance, education and also financial sector;
— Significant decrease in demand for non-essential goods and services;
— An increase in economic uncertainty, reflected in more volatile asset prices and currency exchange rates.

On 15 March 2020 the Bulgarian government announced a State aid program to counter the negative effects of the outbreak of COVID-19 on the economy. Some of the measure details of the program are yet to be announced.
In addition on 19 March 2020 the Bulgarian National Bank announced a package to ensure the functioning of the banking system in a pandemic. The aim is to preserve the resilience of the banking system and reduce the negative effects of the restrictions on citizens and businesses. The measures include requirements for capitalization of profit, reduction of exposures abroad, cancelling of the planned increase of the capital buffers.
Based on publicly available information at the date these financial statements were authorized for issue, management considered a number of severe but plausible adverse scenarios with respect to the potential development of the outbreak and its expected impact on the Bank and economic environment in which the Bank operates.

Considering the information available to date, management is of the opinion that the impact of the COVID-19 outbreak and the measures taken by the Government would not lead to a more severe impact on the economy and macroeconomic indicators than the one incorporated in the adverse scenario used in the stress test for the ICAAP.
The scenarios adverse stess test assumptions include:

- ✓ hypothetical adverse economic and financial market conditions (GDP, index of consumer prices, unemplyment rate, residential and commercial real estate prices)
- ✓ PD for stage 1 and 2 accounts is respectively the 12 month probability to enter into stage 3 and the lifetime PD for stage 2 accounts
- ✓ LGD for each of the years during the simulation is further adjusted according to the macroeconomic scenarios for residential and commercial real estate prices

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the separate financial statements (continued)

39 Events after the balance sheet date (continued)

- ✓ annual portfolio level transition matrices are applied to estimate the gross carrying amount allocation per stages throughout the simulation period. A macroeconomic adjustment is applied to the forecasted transition matrices as well as dynamic balance sheet components such as expected write-offs, payments, debt increase and new disbursements

Likewise, the stress test assessment as part of the ILAAP shows sufficient liquidity buffers even in the most adverse scenario. Respectively the calculated survival period exceeds the time horizon of the stress test which is one year and the liquidity buffer remains sufficient at the end of the 12-month period.
In case of a global slowdown in economic activity, an adverse impact on certain industries of the Bulgarian economy, such as tourism, transportation and manufacturing sectors is likely. The concentration of the lending exposures of the Bank towards these industries is approximately 19% of the total corporate portfolio as of the end of the year. Please refer to note 5.2.1.2. Geographical and industry concentrations of loans and advances to customers. Management considered the fact that the Bank is exposed to sectors subject to temporary lockdown imposed by the government and assumed that the lockdown period may be extended beyond the initially announced period of four weeks.

In response to these expected scenarios, management has already initiated actions aimed at mitigating the risks, which notably include:

- ✓ Actions towards the employees (ensuring the highest possible disinfection in offices; repositioning the personnel in different locations for minimizing the risks of infection; having an extensive number of people working from home)
- ✓ Actions towards ensuring the supply chain continuity (contacting vendors, seeking for alternative solutions)
- ✓ Actions towards clients and especially borrowers (providing easing conditions for loan repayments)
- ✓ Strategic actions towards fortification of the bank's capital and liquidity positions (full capitalizing of the previous year profits and securing enough liquidity within the country by reduction of exposures abroad) and fulfilment to the maximum possible degree, of the strategic and business plans for the quarters ahead

Due to the fact that the situation related to the outbreak of the disease is very dynamic and responses of the Bulgarian and other governments worldwide change very quickly, certain of the above measures initiated by management are still in progress and their outcome is uncertain at this stage. There is a risk that in a severe but plausible scenario of prolonged lockdown current management plans might be insufficient to mitigate the operating and liquidity risks. However, management is monitoring the situation very closely and stands prepared to apply further decisions, initiatives and policies, if necessary. Therefore, management is currently considering the going concern assumption adopted in the preparation of these financial statements as appropriate.

There are no other significant post balance sheet events with effect on the financial statements as of 31 December 2019.