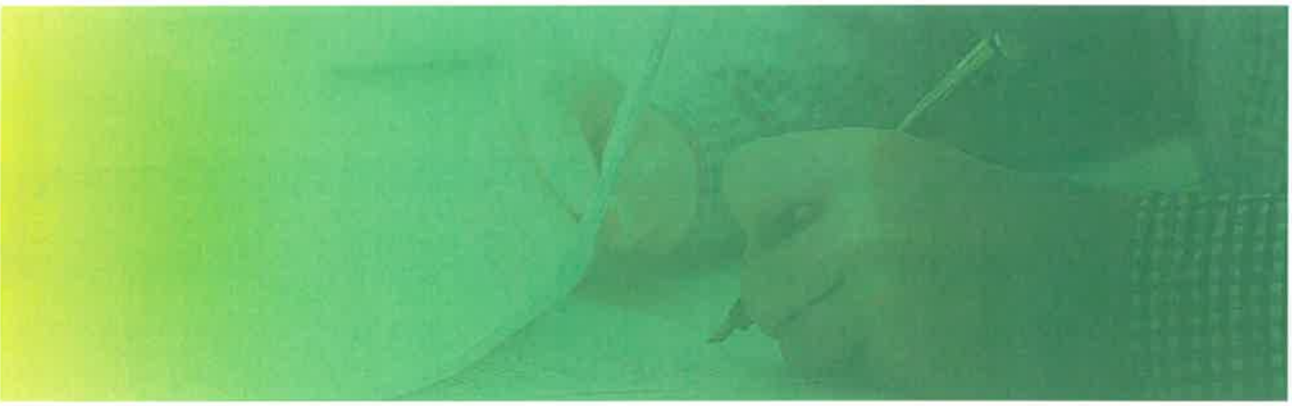
dskbank
otp group

DSK Bank Group

Consolidated Financial Statements
For the year ended 31 December 2019,
report on the management and activity
declaration of corporate governance
and independent auditors' report



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ANNUAL CONSOLIDATED REPORT
ON THE ACTIVITIES,
NON-FINANCIAL DECLARATION AND
CORPORATE GOVERNANCE STATEMENT

FOR 2019

DSK BANK GROUP
Report on the Management and Activity of DSK Bank EAD and the Companies of the Group for the year ending 31 December 2019

Basis for consolidation

As at the end of 2018 DSK Bank EAD has investments in subsidiaries, controls and has significant influence over the financial and operating activity of these companies. The financial statements of the subsidiaries are included in the consolidated financial statements of DSK Group as follows (the listed information shows the % of share of DSK Bank in the capital of the companies and the book value of the participation):

- PIC DSK Rodina BGN 10.972 million (99.75%);
- DSK Tours BGN 7.137 million (100%);
  - DSK Trans Security is 100% owned by DSK Tours EOOD
- DSK Asset Management BGN 7.300 million (66%);
- DSK Leasing BGN 1.962 million (60.02%)
  - DSK Leasing AD owns 100% of the capital of DSK Auro Leasing EOOD, DSK Operational Leasing EOOD and DSK Leasing Insurance Broker EOOD.
- DSK Mobile EAD BGN 7.200 million (100%)
- DSK Dom EAD BGN 0.500 million (100%)
- OTP Factoring Bulgaria EAD BGN 37.620 million (100%)
  - OTP Factoring Bulgaria EAD owns 100% of the capital of Project Company Complex Banya EOOD.
- Expressbank AD BGN 1 075.302 million (99.74%)
  - Expressbank AD owns 100% of the capital of OTP Leasing EOOD and Express Factoring EOOD and 52% of the capital of Regional Urban Development Fund AD.

On January 15, 2019 DSK Bank finalized the transaction for acquisition of 99.74% of the capital of Expressbank AD (former Societe Generale Expressbank AD) and indirect control over its subsidiaries Express Factoring EOOD (former Societe Generale Factoring EOOD), OTP Leasing EOOD (former Sogeliz-Bulgaria EOOD and Regional Fund for Urban Development AD from the French banking group Société Générale. Simultaneously, was also finalized the transaction for the acquisition of Express Life Insurance AD (former Sogelife Bulgaria AD) through the indirect acquisition of 41.55% of the capital of Sogelife Bulgaria AD, owned Expressbank AD, and the direct acquisition of the remaining 58.45% of the capital from Sogecap SA. Express Life Insurance AD is classified as a subsiary with a view for resale at acquisition date.

Expressbank AD functions as a universal bank and offers a full range of banking products and services to the banking market.

Main activities of Express Factoring EOOD are related to trade receivables factoring.

OTP Leasing EOOD primary activities are related to the financial leasing of production equipment, construction technique, transport equipment and cars.

Regional Fund for Urban Development AD is a joint-stock company with gratuitous financing for urban projects included in integrated plans for sustainable urban development, for public-private partnership or similar, as defined in Art. 44 of Council Regulation (EU) No 108362006 of 11 July

2006, as subsequently amended and acquired in such projects (including through the acquisition of shares in the capital of other companies), and other commercial activities not prohibited by the law.

Express Life Insurance AD is a joint-stock company with main activity of insurance in the following types of insurance: life insurance; investment-related life insurance; accident insurance.

On 14 November 2019 DSK Bank and Expressbank enter into a reorganisation agreement within the meaning of Chapter Sixteen of the Commercial Act by the merger of Expressbank (as an acquiree Bank) into DSK (as an acquiring Bank) in 2020.

On April 3, 2019 DSK Bank, via a share purchase agreement, acquires 100 % of the share capital of OTP Factoring Bulgaria EAD, thereby becoming the sole owner of the capital of the company and its wholly onwned non-operational subsidiaries.

DSK Bank holds investments in associated companies as follows:

- Cash Services Company BGN 2,964 m (25%).

DSK Bank Group

Macroeconomic environment

The worldwide economy was strongly influenced by the geopolitical conjuncture and the processes of rearrangement of the trading relations between the developed countries, which logically led to a slow down. This trend is expected to continue also in short-term. Europe and specifically the euro area was also impacted by these global tendencies. The countries in the area are in front of many challenges related to increasing public debt and the imbalance in the investment activities. 2019 leaves also in front of the euro area the consequences of the Brexit, the unresolved structural problems, regulatory changes and the weight of the imbalance between the countries in the union.

Together with these processes, the demographic problem and the quality of the education remain the key issues for the long-term economic and social development. In the following mid-term period it is expected that the dynamic of the EU economy will remain rather in the slow pace of growth.

In the economical map of Europe, Bulgaria is standing out with its still high temp of economic growth. During the fourth quarter of 2019 the gross domestic product increased by 3.5% compared to the corresponding quarter of the previous year according to the seasonally adjusted data (expert valuation of NSI). The basic driver of the national economy remains the internal demand. A significant influence from the slow-down of the large European economies representing key trading counterparties of Bulgaria, is the drop of the share of the export in the composition of the domestic product. A confirmation of this dynamic can be observed also in the indicators of the business climate. A drop on annual base can be seen in the industry and at a lower level also in the service area. On the other hand, a still growing trend is observed in the retail sector. The construction activity also holds an increasing trend in conditions of a stable real estate market with positive price dynamic. During 2019 the consumer price index remained stable reporting an average annual inflation of 3.1%. The historically low levels of unemployment in the country (average annual 5.9% according to the Agency of employment) are in line with the stable trend of growth of the wage, which reports an increase of 11.1% compared to previous year. On the other hand, the low unemployment is a serious indication for the increasing lack of work force. There is a necessity of timely measures related to the demographic policy and measures in the area of education in order to mitigate the increasing risk in this area.

As a conclusion it could be summarized that the Bulgarian economy enters 2020 in good investment position considering the low state debt, which represents a reasonable buffer for the government against unexpected economic shocks as well as the existing currency board, which is proven to be a good condition for lasting price stability.

In front of the banking unit and ERM II, the local banking system remains stable and reasonably capitalized. Confirmation of this were also the results of the performed ECB stress-tests in 2019. The profit of the system in 2019 remains at the level of previous year (close to BGN 1.7 bn) and the indicators for capital adequacy and liquidity remained high and above the average levels in the EU. The lending activity of the banks increases while the non-performing loans continue to decrease. As a result of the favorable economic environment in the Bulgarian banking system is observed an increased investment activity towards acquisitions and mergers.

Summary

During 2019 DSK Bank and Expressbank together hold the leadership on the market in the HH loan portfolio and retain its stability with regard to liquidity and capital position. As of December 2019, the banks are on the first place on the lending market with a market share of 20.7% compared to 20.6% a year before. Regarding the deposit portfolio the banks hold also the leading position in the local banking system with a share of 19.5% compared to 19.9% by end of 2018. Despite that both banks continue to follow its strategy for efficient management of the free liquidity, the retention of the deposit portfolio remained high and above the average on the market.

The main target for 2020 after the integration of the activities of both banks, is to keep the leading position on the banking market stable limiting any potential client outflow as a result of the integration process. The strategy of the bank in the long-term is also driven by the priority to retain the strong positions in retail banking. On the other hand, the activity in the wholesale segment will aim to affirm the consolidated position after the merge of the two portfolios.

As a result of the process for management of problem loans, which includes continuous improvements, both banks continue the positive trend in the dynamic of the portfolio quality and report better than the planned quality at year end.

The Cost-to-Income as of December 2019 of the Group is 51.3%. The increase of this ratio is mainly due to the costs, which both banks start to spend related to the project for the integration. Without these costs the ratio would amount to 49% at 2019 end, which shows the stable efficient management of the investment policy and the control over the operating expenses.

During 2019 DSK Bank and Expressbank continue to offer traditional lending and deposit products for the households and retain their leading position in this segment.

The market and the credit risk are regularly monitored and evaluated from the corresponding responsible units. The Group is compliant with the regulatory as well as the internal rules related to these risks. There are no indications for increasing of the risk above the levels, which the Banking group is able to absorb, in the segments or in different products, as well as in general concerning the entire balance sheet of the Group related to the asset quality, liquidity, currency position, trading limits and capital adequacy.

Different types of financial instruments are used for the management of the liquidity and the market risks on its own account and supporting the customers.

For customers of the banks are offered financial instruments for management of currency and interest rate risk like currency forwards, currency and interest rate swaps and currency options. The positions as result of customer orders are managed according to the policy for management of the market risks and are mostly closed on the interbank market.

The Group offers investment services on the account of customers complying with Ordinance 38 from 25.07.2007 on the requirements to the activities of the investment intermediaries and

Ordinance 58 from 28.02.2018 of the Financial supervision commission (FSC) on the requirements for protection of the financial instruments and the monetary funds of clients, for management of products and offering or receiving of remunerations, commissions, other pecuniary or non-pecuniary benefits, as well as the accepted internal rules related to this Regulation.

The banks keep the entire documentation related to the concluded customer contracts and the execution of customer orders, including documents, which ensure the identification of the clients according to the requirements of the Law on measures against money laundering. Both banks also maintains reporting and accounts for separate customer accounts for the entrusted client assets so that the letter can be distinguished from the financial instruments owned by the banks and can be individualized.

The performance of the administrative functions is strictly monitored (particularly those related to the interaction with external parties). Procurement is ensured for the entire branch network, whereas most of the supplier contracts are centralized and the orders, supplies and the respective expenses are closely monitored by the Head Office. Reports and other obligations toward external authorities and regulatory bodies are prepared and delivered timely and the compliance with all legislative requirements is monitored by Finance and strategy division, Legal directorate and Compliance department. The operational risk is monitored and regular reports are prepared and submitted to the Operational risk management committee measuring the events and the realized losses and the corresponding potential losses, as well as proposing measures for limiting of the operational risk.

In 2019, the companies included in DSK Bank Group did not have any research and development activities.

As of 31.12.2019 the companies included in DSK Bank Group have not acquired and do not possess own shares.

General information about the Management and the Structure of the Group

DSK Bank EAD is a fully licensed bank authorized to perform all banking operations according to the Bulgarian legislation. It is a universal commercial bank with prevailing activity in retail banking.

DSK Bank EAD has a two-tier management system. The Governing bodies are: General Assembly (GA), Supervisory Board (SB) and Management Board (MB).

As of December 31, 2019 DSK Bank EAD was managed by a Supervisory Board and a Management Board respectively with the following members:

Supervisory Board

László Bencsik - Chairman of the SB and Chief Financial Officer of OTP Bank
László Wolf - member of the SB
András Takács - member of the SB
Gábor Kuncze - member of the SB
Ákos Ferenc Tisza-Papp- member of the SB
Ilona Török - member of the SB
Krisztián Selmeczy – member of the SB

Management Board

Violina Marinova - Chairperson of the Management Board and Chief Executive Officer

Diana Miteva - member of the MB and Executive Director
Slaveyko Slaveykov – member of the MB and Executive Director
Yuriy Genov - member of the MB and Executive Director
Boyan Stefov – - member of the MB and Executive Director
Arnaud Leclair - member of the MB and Executive Director
Mihail Komitsky – member of the MB

The changes in the Bank's senior management in 2019 were follows:

As of March 25, 2019, have been registered as new members of the MB:

- Arnaud Renee Julien Leclair, Executive Director
- Slaveyko Lyubomirov Slaveykov, Executive Director
- Mihail Rumenov Komitsky

As of 01.04.2019 the follows members of the MB and executive directors have been removed:

- Margarita Dobreva Petrova-Karidi
- Dorothea Nikolaeva Nikolova

On September 18, 2019, Boyan Stefov was registered as the Executive Director.

In the Supervisory Board, the personal changes in 2019 were follows:

- As of April 30, 2019 heve been removed as a members of the Supervisory Board:
  - Attila Kozsik

- As of 19.08.2019 new members have been registered:
  - Krisztián Selmeczy
  - Ilona Török

In 2019, DSK Bank has no contracts under Art. 240b of the Commerce Act with members of the Management Board.

The total remuneration received by the management during the year was in accordance with management contracts and amounted to BGN 3.6 million.

In 2019 **Expressbank** is chaired by the Supervisory Board and the Management Board as follows:

Supervisory Board

László Bencsik – Chairmen of the SB
Ferenc Bole – member of the SB
Attila Kozsik – member of the SB
Krisztián Selmeczy – member of the SB
Boyan Filipov Stefov – member of the SB
Plamen Blagoev Iliev – member of the SB

Management Board

Dorothea Nikolaeva Nikolova – member of the MB and Chief Executive Officer
Damyan Evgeniev Medarov – member of the MB and Executive Officer
Eric Hauschild – member of the MB and Executive Officer
Willie Pierre Abal – member of the MB and Executive Officer
Slaveyko Lyubomirov Slaveykov – member of the MB, Procecutor and Chief Financial Officer
Daniela Dimitrova Hristova – member of the MB and Procecutor
Momchil Lyubomirov Momchilov – member of the MB

The total remuneration received by the management during the year was in accordance with management contracts and amounted to BGN 3.6 million.

The total remuneration received by the management of the Group during the year was in accordance with management contracts and amounted to BGN 8 million.

Participation of Management and Supervisory Board members of DSK Bank in the share capital

The Members of the Management and Supervisory Board do not participate in the share capital and do not have any rights to acquire shares and bonds of the company.

The participation of the Management Board members in management and supervisory bodies of other companies by the end of 2019, as representatives of DSK Bank is as follows:

Name	Company	Position
Violina Marinova	PIC DSK Rodina AD Borica AD	Chairperson of SB Vice-Chairman of BD
Diana Miteva	DSK Asset Management AD DSK Mobile AD DSK Dom AD	Member of SB Chairperson of SB Chairperson of BD
Yuriy Genov	DSK Mobile AD	Member of SB
Slaveyko Slaveykov	DSK Trans Security EAD Expressbank AD	Member of BD Member of SB
Arnaud Leclair	OTP Factoring Bulgaria AD	Chairperson of BD
Mihail Komitsky	DSK Leasing AD OTP Leasing EOOD DSK AUTO LEASING EOOD DSK Operational Leasing EOOD	Chairperson of SB Director Director Director
Boyan Stefov	Expressbank AD	Member of SB

The address of the Head Office of DSK Bank EAD is 19 Moskovska str., 1036 Sofia.

As at the end of 31 December 2019 DSK Bank EAD has 10 regional centers, 40 financial centers, 20 business centers and zones, 95 branches, 81 affiliated offices and 76 bank offices.

As at the end of 31 December 2019 Expressbank AD has 133 branches.

Participation of the members of the Management Board of Expressbank in the management and supervisory bodies of commercial companies of the OTP Group as of the end of 2019:

Name	Company	Position
Dorothea Nikolova	PIC DSK Rodina AD DSK Asset Management AD	Member of SB Member of SB
Damyan Medarov	DSK Mobile AD	Member of SB
Eric Hauschild	Without participation	
Slaveyko Slaveykov	DSK Trans Security EAD DSK Bank EAD	Member of BD Member of SB
Willie Pierre Abal	Without participation	
Daniela Hristova	Without participation	
Momchil Momchilov	Without participation	

The management bodies of the other companies in the Group as of end of 2019 are as follows:

PIC DSK Rodina AD

Two-tier management system.

Supervisory Board

Dorothea Nikolaeva Nikolova
Nikolay Ivanov Marev
Rumyana Boyanova Sotirova,
Mihail Petrov Sotirov

Management Board

Violina Marinova Spasova,
Choba Nagy
Yanaki Sevastiyanov Yanakiev.

The total remuneration received by the management during the year was in accordance with management contracts and amounted to BGN 0.5 million.

DSK Turs EOOD

The company is represented by the manager Andrey Stoyanov Andonov.

The total remuneration received by the management during the year was in accordance with management contracts and amounted to BGN 18 thousand.

DSK Trans Security EAD

The company is managed by a Board of Directors consisting of:

Svetlin Atanasov Bonev
Slaveyko Lyubomirov Slaveykov,
Krasimir Ivanov Kerchev

During February 2020 Svetlin Bonev is substituted by Jhivko Minchev as member of the Board of Directors and Executive Director.

The total remuneration received by the management during the year was in accordance with management contracts and amounted to BGN 53 thousand.

DSK Mobile AD

Two-tier management system.

Supervisory Board

Vasil Georgiev Dimitrov
Damyan Evgeniev Medarov
Emil Stefanov Hristov

Management Board

Diana Decheva Miteva
Yuriy Blagoev Genov
Peter Benjo.

The total remuneration received by the management during the year was in accordance with management contracts and amounted to BGN 6 thousand.

OTP Factoring Bulgaria AD

One-tier management system.

Supervisory Board

Ilka Georgieva Dimova- Mazgaleva
Andrásh Nemeth
Pal Valachai
Arnaud Renee Julien Leclair

The total remuneration received by the management during the year was in accordance with management contracts and amounted to BGN 0.3 million.

Project company Banya complex EOOD

The company is represented by the manager Ilka Georgieva Dimova-Mazgaleva.

OFB Projects EOOD

The company is represented by the manager Ilka Georgieva Dimova-Mazgaleva.

DSK Dom AD

The Company is managed by a Board of Directors consisting of:

Diana Decheva Miteva,
Veselin Hristov Petrov,
Dimitar Aleksandrov Aleksandrov,
Rózsa Dévényi

The company is represented by the Executive Director Veselin Hristov Petrov.

The total remuneration received by the management during the year was in accordance with management contracts and amounted to BGN 192 thousand.

DSK Leasing AD

Two - tier management system.

Management Board

Dincher Veli,
Kostadin Dimitrov Karadzov
Mihail Rumenov Komitsky
Borislav Veselinov Matakiev

Supervisory Board

Zoltán Tuboy
Christian Shelmetzi
Ivan Atanasov Atev

The total remuneration received by the management during the year was in accordance with management contracts and amounted to BGN 0.5 million.

DSK Auto Leasing EOOD

Management Board

Borislav Veselinov Matakiev

Mihail Rumenov Komitsky

OTP Insurance broker EOOD

The company is represented by Kostadin Dimitrov Karadzhov

DSK Operating Leasing EOOD

Management Board

Borislav Veselinov Matakiev

Mihail Rumenov Komitsky.

DSK Asset Management AD

Two - tier management system.

Management Board

Petko Krustev Krustev
Dorothea Nikolaeva Nikolova,
Svetoslav Spasov Velinov

Supervisory Board

Benedek Balázs Köves
Diana Decheva Miteva
Péter János Haas

The total remuneration received by the management during the year was in accordance with management contracts and amounted to BGN 0.4 million.

Express Factoring EOOD

Management Board

Alexander Blagoev Konsulov,
Nadezhda Plamenova Petkova

The total remuneration received by the management during the year was in accordance with management contracts and amounted to BGN 0.2 million.

OTP Leasing EOOD

The company is represented by the manager Mihail Rumenov Komitsky.

The total remuneration received by the management during the year was in accordance with management contracts and amounted to BGN 0.2 million.

Regional Urban Development Fund AD

Management Board

Asen Iliev Asenov
Kamen Marinov Kolchev
Didier Cossel,
Martin Mihaylov Zaimov

The total remuneration received by the management during the year was in accordance with management contracts and amounted to BGN 80 thousand.

Financial result and profitability

Financial indicators of the Group

For the year 2019 DSK Bank group reports profit before tax to the amount of BGN 342.9 m and reports an increase of 21% compared to 2018 mainly as a result of highet net interest income supported also by increase in non-interest revenues. Impact on the growth (ca. half of the effect) has also the acquisition of Expressbank.

The profit after tax amounts to BGN 309.1 m.

The net interest income reaches BGN 643.6 m driven by interest income of BGN 669.7 m and interest expenses of BGN 26.1 m. It is higher than 2018 by BGN 206 m or 47% out of which 38 pp (165 m) are due to the acquisition of Expressbank. The rest is driven by the lending activity.

The net non-interest income for 2019 is BGN 312.2 m and increases compared to 2018 by BGN 68 m or 28% entirely due to the acquisition of Expressbank. Without the acquisition effect, the group reports a decrease of 15% due to the drop in the net revenues from trading operations.

The net fee income is BGN 256.3 m and increases by 35% almost entirely due to the acqisition.

The operational expenses (including staff costs, depreciation, services and utilities) amount to BGN 490.2 m. and increase by 50% on annual basis, whereby 41 pp are due to the acquisition. It has to be also considered that the increase is also impacted by the costs incurred related to the integration project for the merger of Expressbank.

The headcount of DSK Bank Group by the end of 2019 is 6 777.

The assets per employee ratio is BGN 3.19 m by the end of 2019. The profit per 1 employee is BGN 45.6 thousand.

Balance sheet indicators of the Group

The total assets of the DSK Bank Group amount to BGN 21 645.5 m as of 31 of December 2019 and increase by 6 950.6 m (or 47.3%) compared to end of 2018 as a result of the acquisition of Expressbank and its subsidiaries.

At 2019 end DSK Bank holds a share of 13.9% in total banking assets in the country (13.7% at 2018 end) and is second in the system, while Expressbank is on the second position in the second group of the banking system with 5.6% (6.1% at 2018 end).

The interest bearing assets are 87.7% of the total assets.

The gross loan portfolio of DSK Bank Group as of 2019 end amounts to BGN 12 691.7 m and reports an annula growth of 54% entirely due to the acisition.

The loans to individuals at gross book value before impairment amount to BGN 7 611.2 m.

The market share of DSK Bank and Expressbank together in the household loans as of the end of 2019 is 31.5% compared to 31.2% by the end of 2018. On the non-financial companies loans the share by end of 2019 is 13.8% from 14.9% at 2018 year end.

The wholesale loans at gross book value before impairment amount to BGN 5 080.5 m.

The impairment of the loan portfolio by the end of 2019 is BGN 863.7 m.

Total customer deposits amount to BGN 17 832 m by end of 2019 and report an annual growth of 55% out of which 46 pp is due to the acquisition. BGN 13 711.5 m are deposits from individuals.

The market share of DSK Bank and Expressbank together in household deposits is 24.1% at 2019 year and from 23.9% in 2018.

Wholesale deposits amount to BGN 3 743.3 m at 2019 year end, while deposits from financial institutions are BGN 377.2 m.

Capital adequacy

DSK Bank Group constantly maintains a level of total capital adequacy, sufficient to cover the risks from its activity and to comply with the regulatory requirements. As at 31 December 2019 the total capital adequacy ratio on consolidated basis was 19.37%. In 2019 the Group provided BGN 458.3 million free capital above the total SREP capital requirement and the combined capital buffer, incl. capital conservation buffer (BGN 327 million), systemic risk buffer (BGN 392.4 million), O-SII buffer (BGN 98.1 million) and the specific for the institution countercyclical buffer (BGN 65.4 million).

Credit risk

The main credit risk to which DSK Bank Group is exposed results from the granted loans to clients. As of the end of the year, the gross loan portfolio of the Group comprised loans to households (60%) and company loans (40%). Within household loans the credit risk is well allocated between consumer loans (54.7%) and mortgage loans.

DSK Bank Group measures credit risk in compliance with IFRS requirements (officially adopted by the Bulgarian legislation) and according to the adopted impairment policy of DSK Bank EAD in accordance with International Financial Reporting Standards.

The coverage ratio (ratio of coverage of the total loan portfolio from expected credit loss impairment) as of December 2019 was as follows:

Total loan portfolio – 6.81%

According to the classification of the portfolio quality by stages in compliance with IFRS 9 the coverage with impairment of each group is as follows:

- Stage 1 – 1.05%
- Stage 2 – 8.71%
- Stage 3 – 69.31%

The risk coming from the activity of the banking group mainly in retail banking is well diversified by product types, collateral types and risk exposures. The relation between the separate exposures is monitored and according to their quality, corrective measures are taken in order to limit the increase of concentration risk. The introduced sector limits for company loans aim an additional improvement of risk portfolio diversification. The Centralized Commission for Problem Loans monitors on a monthly basis the limits compliance and imposes limitations and recommends measures in case of limit violations or indications for such.

As of the end of 2019 the credit performing exposures including those with increased credit risk (classified in stage 1 or stage 2) were 91.9%.

During the entire year continued the work on taking intensified measures for improvement of the process of monitoring and management of the portfolio quality, including improvement in the procedures for monitoring and analysis of problem loans, improvement of the work of the inspectors for problem loans in the branch network, early identification of problem exposures and undertaking intensive actions on determination of the reasons and finding solutions in line with the changed circumstances considering at the same time the interest of the Group, as well as of the borrowers. For this purpose within the Group a company OTP Factoring Bulgaria was established to which non-performing loans are sold or assigned for management.

Liquidity risk

Liquidity risk occurs as a result of the necessity to provide general funding for the Group's activities and the management of its positions. It includes both the risk of being unable to settle liabilities and the risk of a financial loss caused by forced sale of financial assets in order to provide liquidity.
DSK Bank Group maintains active trading positions in a limited number of derivative and non-derivative financial instruments. Most of the derivative trading activities within the Group are aimed at offering products to corporate clients at competitive prices and liquidity management.
The goal of liquidity risk management is to ensure that the Group will always have sufficient level of liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses from selling liquid assets or expensive financing.
The executive Body, responsible for managing the liquidity is Asset and Liability Committee (ALCO).
To analyse the liquidity, maturity tables for assets and liabilities are prepared, in which the cash flow from different assets and liabilities are distributed in different time bands, according to their payment date.
In addition to monitoring the liquidity position, the banks also analyse the stability of the funds attracted from various sources in order to define the expected cash outflows. The analysis is prepared on a regular basis and the information about the changes of depositors' behaviour is reported to the management.
The expected cash flows on some financial assets and financial liabilities vary significantly from the contractual cash flows. The principal differences are as follows:

- Demand deposits from customers are expected to remain stable or increase;
- Residential and non-residential mortgage loans to individuals have average original contractual maturity of 24 years but as the main part of these loans are with equal annuity payments the average effective maturity is 14 years. In addition the customers more often take the advantage of full or partial early repayment option which according to the law is without penalty payment after the first year of the contract. For these reasons the average effective maturity of the loans is additionally decreased with up to 4 years in view of actual observed volume of earlier repayments during 2019.

As part of the management of liquidity risk, the banks holds liquid assets comprising cash and cash equivalents and debt securities, which can be readily sold to meet liquidity requirements.
Responsible liquidity management requires avoiding concentration of attracted funds from large depositors. Analysis of attracted funds is made periodically and diversification in the general portfolio of liabilities is observed.

Interest rate risk

The interest rate risk is the risk of bearing a loss due to fluctuations in market (reference) interest rates. The Group manages separately the interest rate risk in the bank portfolio and the risk in its trading book.

Group's activities are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or undergo changes in their interest rates at different times and to a different degree. In cases of assets and liabilities with floating interest rates, the Group is exposed to a risk of adverse changes in the market interest curves.

Interest rate risk management activities are conducted in the context of the Group's sensitivity to interest rate changes. The actual effect will depend on a number of factors, including the degree to which repayments are made earlier or later than the contracted dates as well as variations in the interest rate, caused by the sensitivity to different periods and currencies.

The Group manages the interest rate risk in its trading book and limits the risk level through defining limits for interest rate sensitivity, BVP limits, incl.

The Group analyses the interest risk of the bank book, by classifying its financial assets and liabilities in time areas according to their sensitivity to the changes of interest rates in different currencies.
The management of interest rate risk is supplemented by monitoring the sensitivity of financial assets and financial liabilities to interest rate scenarios.

Exchange rate risk

The Group is exposed to exchange rate risk when conducting transactions with financial instruments denominated in foreign currencies.
As a result of the implementation of Currency Board in Bulgaria, the Bulgarian currency rate to the euro is fixed at 1.95583. The national reporting currency is the Bulgarian lev therefore the Group's financial results are affected by fluctuations in the exchange rates between the Bulgarian lev and currencies outside the Euro-zone.
The risk management policy is aimed at limiting the possible losses from negative fluctuations of foreign currencies rates different from euro. The Group senior management sets limits on maximum open positions - total and by currency, stop-loss and VaR (Value at Risk) to manage the Bank Group's exchange rate risk. Bank Group's strategy is to minimize the impact from the changes of exchange rates on financial results. The net open currency positions are reported to management on a daily basis. The limits for restricting the exchange rate risk are periodically renewed based on analysis of market information and the inner needs of the Group.
The Group applies VaR methodology to measure the exchange rate risk. Basic characteristics of this model are: historical with 99% level of confidence and 1 day. To bring out a correlation matrix the Group uses historical observations for currency exchange changes for 250 working days.
VaR model has some limitations such as the possibility of losses with greater frequency and with larger amount, than the expected ones. For this purpose the quality of the VaR model is continuously monitored through back-testing the VaR results. To value the currency risk in extreme conditions, stress test is used, based on potential changes of the currency rates.
For monetary assets and liabilities denominated in foreign currencies that are not hedged, the Group manages the net exposure by buying and selling foreign currencies at spot rates when considered appropriate, keeping approved limits for open currency position.

Operational risk

Operational risk means the risk of loss resulting from inadequate or malfunctioning internal processes, persons and systems or from external events, and includes legal risk.

The management of operational risk at the Group is coordinated by Operational Risk Management Committee (ORMC), which is a permanent consultative body subordinated to the Management Board (MB) and involves the heads of the major units of Bank Head Office of DSK Bank. The meetings are held at the end of each quarter of the current year, as on these meetings a report is being presented for consideration for the level of operational risk and the planed measures for mitigation/elimination of operational risks' consequences, identified in the previous quarter. The main focus of ORMC activity is the prevention of operational risks by implementing a comprehensive approach, aiming at limiting preconditions, leading to operational events occurrence.

The responsibility for the development of the Operational risk management system is assigned to Operational Risk Management Section as part of "General policy and risk management" Directorate of DSK Bank, an independent from the business units Directorate within the Risk management Division, headed by a responsible Executive Director.

The Group has a special system to manage operational risk, by gathering data for the operational events. The management of the Group receives periodically information about the level of operational risk. The system is based on the so-called Risk responsible employees on management positions in Head office and branch network and Bank's subsidiaries, which are responsible for the management of operational risk in their units, following the decentralized approach of operational risk management in OTP Group.

Potential risks shall be reviewed as part of the business processes and for this reason they shall have to be identified in the self- assessment of the Group's units, these risks shall be classified on the basis of the standardized taxonomy of operational risks annually.

Prior to the implementation of a new process, new system or new activity, the latter shall be analyzed and evaluated from the operational risk's viewpoint. This evaluation shall be prepared by the unit involved in the implementation, and shall be forwarded to the Operational Risk Management Department for further evaluation and analysis. For the preparation of the evaluation, the Risk Self-Assessment Forms shall be used. In cases when IT systems are implemented, the assessment shall be made by the unit(s) which has (have) defined the business requirements of the development.

Additionally, the actual level of operational risk is monitored based on Key Risk Indicator system which covered the main risk factors caused the significant operational risk losses and interruption in the critical business processes.

The methodology for potential risk identification is based on decentralised assessment performed by different units, using the methodological support from the Operational Risk Management Department. As part of this process, the so-called scenario analysis are prepared, aimed to assess the potential effects on the financial position of the Group and the ongoing processes in it, at a certain change in the risk factors associated with probable occurrence of an event with catastrophic consequences.

Methodology for stress testing analysing based on Monte Carlo simulations, which helps the assessment of the capital adequacy sufficiency of the Group connected to operational risk is developed and implemented.

The developed rules and procedures for monitoring and evaluation of operational risk are in line with the requirements of EU and Bulgarian legislation, the standards of the OTP Group and best banking practice in operational risk management.

Operational risk management includes activities such as identifying and registering the operational risk events, assessing the operational loss amount, and determining the capital needed to cover the risk of eventual loss. Currently the Group risk exposure to operational risk is monitored both by type of the risk events and by different business lines.

The Group has Business Continuity Plan for reaction in the event of unexpected circumstances, which purpose is to guarantee the recovery for the most important business processes to the preliminary defined level based on the Group needs.

The operational risk management is subject to regular inspections by the "Bank Supervision" Department of Bulgarian National Bank, "Internal control and audit" Directorate of DSK Bank and specialized audits initiated and conducted by a program of OTP Bank. For 2019 the assessment of all internal audits is that the Bank has created an organization, procedures and controls concerning the operational risk management. They are adequate for the volume of activity and continuously changing environment and development of the Group.

The National Bank of Hungary and Bulgarian National Bank Joint Decision which approved the Group to apply the Advanced Measurement Approach for the capital calculation purposes on the individual and also on the consolidated base has been in force since 31 March 2014.

During the 2019 year there are no registered events, which could potentially threaten the Group activity.

Investment program

The investments of DSK Bank Group during the year amounted to BGN 47.9 million, including those related to the integration of Expressbank.

The investments in IT projects were BGN 37.9 million, as their share in the total investments of the Bank was 79% (for 2018 this share was 74 %).

The capital investments during the year amounted to BGN 5.9 million, aiming at optimization and improvements in strategic locations servicing the Head Office.

Investments of BGN 1.9 million were made for transformation of working places, upgrading lighting systems, visual communication and replacing air-conditioning systems

The investment for purchasing cash-pick up vehicles amounted to BGN 1.7 million.

PIC DSK Rodina AD

Pension Insurance Company DSK Rodina is licensed for performing activities on supplementary social insurance. It has registered and manages four pension insurance funds – Universal Pension Fund, Occupational Pension Fund, Voluntary Pension Fund and Voluntary Pension Fund under Occupational Schemes.

For the year ending 2019 DSK Rodina reported a profit after tax of BGN 15 499 thousand. The revenues from the management of the four pension funds amounted to BGN 27 624 thousand, which represented a growth of 9.4% compared to the previous year.

At the end of 2019 the number of the insured individuals reached 759 thousand, which was an increase of 51.3 thousand or 7.2% compared to 2018. The net assets managed by the company reached BGN 2 577 694.8 thousand and reported a growth of 24.3% year-on-year.

DSK Trans Security EAD

DSK Trans Security is a company, specialized in the field of security, cash collection services and construction of structural cabling systems. The company provides its services mainly to DSK Bank but at the same time extends its activity and attracts external clients. Since 2018 the company started to offer VIP services – escort and security for individuals.

Regarding its main activity "cash pick-up services", including ATM servicing, DSK Trans Security is among the leading companies on the market, due to its well-trained employees and good technical equipment.

For the year 2019 the company reports loss of BGN 1 132 thousand and increases the loss compared to 2018 by BGN 600 thousand. The increase in the loss is due to the increase in the business activity, whereby the revenue growth was not sufficient to compensate the increase in the operational costs. In this regard, during 2020 a full revision of the structure and efficiency of the activity is planned, cost optimization and revision of the pricing policy for the offered services.

DSK Tours EOOD

The main activity of DSK Tours is related to management of the tourist premises of DSK Bank, hotel and restaurant services, tour operator and travel agency activity. The company manages premises for seaside and mountain tourism, balneology and ecological tourism.
The company reported positive cash flow, but the revenues received were not sufficient to cover annual depreciation of the premises.

The reported financial result of the company for 2019 was a profit of BGN 32 thousand as a result of realized income from a tourist premise sale.

The company offers complex tourist services: hotel reservations and organized trips in the country and abroad, specialized spa programs, business meetings, conferences, seminars, seaside and mountain tourism, rent-a-car services, etc.

DSK Asset Management AD

At the end of 2019 DSK Asset Management manages 12 mutual funds – DSK Alternative; DSK Alternative 1 ((previous name DSK Money Market Fund in BGN) and DSK Alternative 2 (previous name DSK Money Market Fund in Euro) – funds in short-term bonds; DSK Standard, DSK Euro Active (funds in bonds), DSK Balance (balanced fund), DSK Global defensive companies (previous name DSK Properties), DSK Growth and DSK Global companies (funds in shares), DSK Stability - European Equities and DSK Stability - German Equities (funds with principal protection). Since 2018 the company has a license to manage DSK Dynamics mutual fund, which adheres to a flexible investment strategy for absolute return.

The reported profit after tax of the company for 2019 amounted to BGN 123 thousand.

As at the end of 2019 the total assets managed by DSK Asset Management were BGN 205 330 thousand (2018: BGN 217 511 thousand).

OTP Factoring Bulgaria EAD

OTP Factoring Bulgaria (OFB) was registered in 2010 with scope of activity - factoring activity, including purchase and collection of receivables.

On April 3, 2019, DSK Bank, with a share purchase agreement, acquires 100% of the capital of OTP Factoring Bulgaria EAD, thereby becoming the sole owner of the capital of the company and its subsidiaries.

The company was established with the aim of improving the management process of DSK Bank's non-performing loans. The collaboration of the company with DSK Bank is related to sales of the bank's problem loans to the company, transferring all benefits and risks, as well as assigned services on problem loans that remain on the balance sheet of the Bank against fee remuneration. The activity of OFB is financed only by loans from DSK Bank. Respectively the risk for the Bank arises from the probability the company to be unable to entirely collect the sold receivables that are the main source for repayment of its liabilities.

As at the end of 2019 the company reported a profit after tax amounting to BGN 9 061 thousand.

DSK Leasing AD

DSK Leasing was registered in April 2005. In the second half of 2005 a separate leasing company for car leasing named DSK Auto Leasing, 100% owned by DSK Leasing was established with main activity – leasing of cars. In 2007 a second subsidiary leasing company – DSK Leasing Insurance Broker EOOD was registered. Further in 2014 DSK Leasing registered a 100% subsidiary – DSK Operating Leasing EOOD, specialized in offering operating leasing of cars and transport vehicles.

For the reporting period DSK Leasing Group reported a profit after tax amounting to BGN 5 589 thousand.

DSK Mobile EAD

In September 2016 DSK Mobile EAD was established in connection with DSK Bank's long-term strategy of digitalization of banking services and linking them to non-banking services in order to provide higher quality of complex banking products and services. The equity of the new company was BGN 250 thousand, distributed in 10 000 registered nominal shares, each having nominal value of BGN 25 and issue price of BGN 720. The main activity of the company is acting as intermediary in trade goods and services, marketing and advertising activities, development and operation of information systems for data processing.

At the end of 2019 the company had no operating activity.

DSK Dom EAD

In August 2018 DSK Bank EAD established its subsidiary DSK Dom EAD with equity of BGN 100 thousand, distributed in 10 000 registered nominal shares (non-preferred) with right to vote, each with nominal value of BGN 10. The main activity of the company is credit intermediation.

As at the end of 2019 DSK Dom realized a profit after tax of BGN 177 thousand.

Expressbank AD

Expressbank AD is a universal bank and offers a full range of banking products and services.

Financial indicators

The realized profit before tax of Expressbank was BGN 115.6 million, which was a decrease of 4.2% compared to 2018 mainly due to lower net interest income.

The 2019 profit after tax amounted to BGN 105.7 million.

Net interest income was BGN 163.1 million and was lower compared to 2018 by BGN 1.2 million.

Net non-interest income for 2019 reached BGN 117.5 million (an increase of 17.8% or 17.8 million compared to 2018). Net fee and commission income was at the amount of BGN 57.5 million and grew by BGN 1.1 million compared to 2018.

The operating expenses (incl. personnel expenses, amortization, hired services, material expenses and other) stood at BGN 108.5 million, which was a decrease of BGN 2.3 million or 2% year-on-year.

Balance sheet indicators

The total assets of Expressbank AD as at 31 December 2019 amounted to BGN 6 339.5 million and decreased by BGN 92.2 million (or 1%) compared to 2018.

As at the end of 2019 the Bank held the 7th position in the Bulgarian banking system in terms of assets, with a market share of 5.6% (as of December 2018: 6.1%).

The net loan portfolio of Expressbank as of December 2019 stood at BGN 4 850.8 million, which was a growth of BGN 425.9 million or 9.6% compared to 2018.

Loans to individuals amounted to BGN 1 823.9 million and increased by BGN 149.2 million (9%) compared to the previous year. The market share of Expressbank in terms of household loans was 7.5% as at the end of 2019, reporting a slight decrease compared to 2018, when the share was 7.6%.

In terms of consumer loans, incl. non-residential mortgage loans and overdrafts, Expressbank held the 5th position with a market share of 8.8% at the end of 2019. The market share of the housing loans was 6.4%. In 2018 these market shares were respectively 9.7% and 6.6%.

Company loans reached BGN 3 026.9 million and reported a growth of BGN 276.7 million (10.1%) compared to 2018. The market share in terms of loans to non-financial enterprises was 5.5% (end of December 2018: 6.7%).

Customer deposits amounted to BGN 5 276.7 million, which represented a decrease of BGN 0.5% or BGN 23.9 million compared to 2018.

Household deposits as at the end of 2019 were BGN 3 710.5 million and grew by BGN 152.4 million or 4.3%.

Company deposits amounted to BGN 1 566.2 million as at the end of 2019 and dropped by BGN 176.3 million year-on-year.

The market share of Expressbank in terms of household deposits as at the end of 2019 was 6.4% (2018: 6.7%), and the share in terms of deposits to non-financial enterprises was respectively 5.3% (2018: 6.5%).

Expressbank owns investments in the following companies:

OTP Leasing EOOD

Expressbank owns 100% of the capital of OTP Leasing EOOD, established in 2005 as Sogelease Bulgaria EOOD. OTP Leasing is a company specialized in the field of financial and operating leasing, which offers its services to all sectors of the economy and industry, except for the time being in the real estate sector. Its main activity is financial leasing of production equipment, construction equipment, transport equipment and cars.

The realized financial result of the company for 2019 was a profit of BGN 13 648 thousand.

Express Factoring EOOD

Expressbank owns 100% of the capital of Express Factoring EOOD, established in 2008 as Societe Generale Factoring EOOD. The main scope of activity of the company is factoring of client's obligations.

In 2019 the company reported a profit of BGN 2 984 thousand.

Regional Urban Development Fund AD

The subsidiary was established by Expressbank in 2011, with a 52% share in the capital. The scope of the activity of the company is financing of urban projects included in the integrated plans for sustainable urban development for public-private partnership.

The realized financial result in 2019 is a profit amounting to BGN 360 thousand.

Express Lifeinsuarance AD

As of the date of acquisition of Expressbank by DSK Bank, Expressbank held 41.55% of the capital of Express Life Insurance AD, formerly called Sogelife Bulgaria AD. Express Life Insurance AD is a joint-stock company that provides the following insurance products: life insurance; investment-related life insurance; accident insurance.

On October 31, 2019, the company was sold to the French insurance group Groupama.

Associates

Cash Services Company AD

Cash Services Company was registered in 2007 with shareholders DSK Bank EAD, UniCredit Bulbank, Bulgarian National Bank and United Bulgarian Bank. In 2008 Raiffeisenbank has been incorporated as a shareholder. All shareholders have 20% share of the capital. In August 2019 Raiffeisenbank Bulgaria sold its shares to the other shareholders, and respectively their share in the capital of the company increased to 25%.

The company reported a profit after tax for 2019 amounting to BGN 1 331 thousand.

Events after the reporting period

The management of DSK Bank considers the following events, which occurred after the end of the reporting period and may have significant impact on the activity of the Group:

- Event, which is specific for DSK Bank Group activity and is in line with the expectations and strategy of the Group - on February 27, 2020, the Management Board of the Bulgarian National Bank decided to authorize the transformation of Expressbank AD by merger under Art. 262 of the Commercial Law at DSK Bank EAD.

  The merger process is expected to be completed by May 2020.

- Event of global scale, impacting the entire banking system and the word-wide economy - the COVID-19 spreading has an impact on global demand and supply, with considerable uncertainty in economic activity, which will have a direct negative impact on credit activity and on the quality of the credit portfolio, which may lead to material adjustments to the carrying value of assets and liabilities within the next financial year.

  At this stage of virus spreading and the dynamics of its development, it is difficult to estimate the realistic impact on the economic development of the Bank. In accordance with the measures undertaken by the Government of the country and by the Governing Council of the Bulgarian National Bank, the management of the Group has undertaken actions by organizing a crisis headquarter for action plan and preventions. The longer-term impact may also affect trading volumes, cash flows, and profitability. Nevertheless, at the date of these financial statements the Bank continues to meet its obligations as they fall due, maintain liquidity and meet capital requirements and therefore continues to apply the going concern basis of preparation.

Major goals for 2020:

(the major goals are prepared before the end of the reporting period and do not reflect potential changes, which may have an impact related to the events occurred after the end of the reporting period)

The managements of the Bank together with the management of the newly acquired bank has defined the following priorities for the business year 2020:

- Successful implementation of the project on integration of both banks;
- Increasing customer satisfaction by introducing new products and services and improving customer service processes;
- Optimal utilization of market potential in loan sales;
- Income growth according to the positive expectations for economic environment development and compensation of the adverse effects from the continuing, although with a slower pace, margin decrease;
- Defending market position in retail banking;
- Keeping the decrease in the positions in company banking in the segments where the Bank has a risk appetite;
- Maintaining price policy on attracted funds in order to continue the optimization of the income margin erosion related to accumulated liquidity;
- Increase overall customer activity and in particular the use of electronic channels.

The major goals of the companies from the Banking Group in 2020 are as follows:

DSK Rodina – in 2020 the company plans to be among the leading companies on the pension insurance market. DSK Rodina expects to strengthen its market positions, increasing its market shares in terms of number of insured and assets under management.

DSK Trans Security – in 2020, the Company's main ambition is to expand its activity and increase its revenues from hired services. At the same time, the after-integration operation of the merged bank should be ensured, while maintaining the efficiency and quality of the provided services.

DSK Tours - the company will keep its business model also in 2020, increasing its revenues from tour agent activity.

DSK Asset Management – in 2020 the activity of the company will be accomplished in accordance with its main targets: growth of the assets under management in Mutual funds; stable and sustainable price increases of the funds units; increasing investor interest in collective investment schemes by implementing marketing and awareness campaigns.

DSK Leasing - in 2020 the company plans to continue to serve its clients on existing contracts, without developing a new business, which will be taken over by the subsidiary company OTP Leasing.

OTP Leasing – the company plans to expand its activity in 2020 and to be among the leaders on the leasing domestic market. The major challenges in front of the management team of OTP Leasing AD in the next year will be the implementation of adequate policy, with respect to the challenges of the economic environment, focused mainly on preserving the excellent quality of the leasing portfolio while maintaining optimal profitability.

Regarding to the above stated, the Company's management plans to concentrate its efforts on the strict monitoring of the existing leasing contracts, increasing the risk profile requirements of all potential leasing customers, while at the same time trying to expand the achieved market share.

DSK Dom - affirming DSK Dom as the largest credit intermediary in Bulgaria; sustainable growth of mortgage loan sales; maintaining high quality loan portfolio; established structure of representatives with lasting and loyal relations with DSK Dom.

The Report on the Management and the Activity of DSK Bank EAD for 2019 is approved by the Management Board with protocol № 20 from 20.03.2020.

Violina Marinova	Slaveyko Slaveykov
Chief Executive Officer	*Executive Director*

Банка ДСК ЕАД София 2115 27

NON-FINANCIAL DECLARATION

Pursuant to art. 41 and art. 48 of the Law on Accounting Act

Purpose: DSK Bank Group strives to establish and maintain high banking standards, best management practices and ethical business standards in accordance with the law of the Republic of Bulgaria, the banking rules and regulations and the relevant EU law.

DSK Bank Group's team aims to support the development of sustainable business models by providing full and efficient financial service, as well as excellent customer experience. Among the key goals of the institution is also the achievement of growth and overcoming the competition, while maintaining individual and sustainable corporate culture, which responds to the changes in the environment and contributes to the creation of long-term relations with clients. Last but not least, the Bank Group strives to uphold its position as a leader in trust among users of bank and financial services in Bulgaria and of a preferred employer by the Bulgarian students.

Strategy: The integration between DSK Bank and Expressbank is to create one of the largest and strongest bank institutions on the Bulgarian market, offering the full spectrum of cutting-edge financial products and services. Upon its completion, the new bank is to come close to the top position in terms of assets and credit portfolio, have the largest branch network and be first in deposits.

The clients of the two banks will benefit mostly from the integration due to the greater development and innovation possibilities, including in terms of branch and ATM networks and e-banking channels. Adopting the highest of standards from the two institutions and taking the best of their practices and experience, the new bank will continue to guarantee excellent customer service and protection of client funds and offer innovative products and services.

Organizational structure, infrastructure, products: As a part of OTP Bank group (hereinafter referred to as "the Group") and as a result of the high standards and large-scale investment programme of the group, DSK Bank Group has proven to be a stable institution, fast developing, modern and flexible, oriented to the needs of all client segments and offering, together with its subsidiaries, a wide range of services such as pension insurance, assets management, security, transport and collection services, mountain and sea tourism.

The process of integration of DSK Bank and Expressbank in 2019 included a full and thorough study and assessment of business processes, internal systems, branch networks, assets and resources of the two institutions, which made it possible to go forward with creating the best possible bank organization. The best of the two banks – history and traditions, business strategy, capacity and expertise, products and innovations, is to be made use so we can offer both our clients and employees optimum possibilities, at the same time taking the top position on the national bank market. The new bank would be able to use the best practices and experience of a strong European bank group – OTP Group, of which we are an integral part, as well as create new opportunities for our employees in terms of development and excellent work environment.

Among the key priorities of the Bank Group is the establishment of a stable connection with the modern people and the innovative products of the Bank prove the flexible approach of the financial institution in offering products and services to these clients that meet their needs and comply with their way of living.

A client-oriented institution, in 2019 the bank started redesigning its mobile banking app – DSK Smart (for the two operational systems Android and iOS) with a beta testing campaign among clients and we plan to take into consideration respondents' opinion regarding Smart's new design and functionalities, thus include ing client's input into the development of the bank's online services.

For clients' greater convenience and comfort, DSK Bank Group launched DSK mToken – a mobile application for smart devices operating under Android and iOS. The app is used to verify transfers and documents sent via the bank's e-banking platform for individuals DSK Direct and its mobile banking DK Smart.

This innovative solution meets the highest security standards and provides an alternative to the currently used digital certificates and token devices, offering a number of advantages and possibilities.

An established leader in terms of innovative products and digital services in the banking sector, DSK Bank Group develops different projects employing innovative approaches across the entire spectre of service. In late March 2019 the Bank Group lunched a new electronic service – online application and disbursement of consumer loans, enabling clients to sign their contract and other necessary documents via their mobile phone, using a qualified e-signature by Eurotrust.

It is not by accident that at the start of 2019 DSK Bank was pronounced the best preferred and top of mind bank among Bulgarian users, following a regular Financial Intelligence survey done by GfK on the use of bank products and services. Respondents were asked to review banks in the country in terms of top of mind and their preference of bank institutions and services.

Last year we got another recognition - Superbrands Bulgaria 2019 pronounced DSK Bank the strongest brand in Financial Services/Banks category. The seventh independent research of the national consumer segment Superbrands Bulgaria 2019 was conducted in March in partnership with the leading market research institute GfK Bulgaria and DSK Bank became winner in this category for a second time after 2017.

Policies applied with regard to the basic and auxiliary activities of the enterprise and other: As a customer-focused and socially responsible bank institution, DSK Bank implements policies focused on each customer segment, aiming to achieve high quality of service and efficiency. As a bank with 68-year history, DSK Bank Group has proven its ability to combine very successfully tradition and innovation and demonstrates a notable ability to adapt to the ever changing regulatory and market conditions, as well as dynamically develop as per the ever- changing clients' needs and attitudes.

The policies followed by the Bank Group comply with the long-term prospects of the Group and as an employer the Bank maintains responsible relationships based on partnerships, which stimulate loyalty, mutual respect and support. The Bank has a special focus on young people to whom it offers opportunities to develop and grow in a modern and friendly working environment, helping them to cultivate team work skills and preparing them to meet the challenges of the jobs of the future.

For years the Bank has followed a policy for wasteless bank administration the main purpose of which is environmental protection. Practically, this includes collection of all printer cartridges and ink cassettes across all bank branches and their recycling in a special process line.

All renovated branch offices represent the Group's vision with power-saving façades and energy-saving lighting fixtures are used in the whole branch network.

For a few years, the employees of the Bank Group have joined the mission of the Idea in Action Foundation, which combines the care for the nature with the support for good causes. Our colleagues take part in collecting plastic caps, which are delivered for recycling at the designated stations and the received money are used for different charity initiatives.

In the eve of Earth Day, April 22, employees of DSK Bank and Expressbank gave their contribution for a purer air in the city of Sofia. Some 100 volunteers from the two banks planted around 1000 young acacia trees, supporting Sofia's New Forest project, organized by Sofia Municipality, which envisages that 125 000 trees overall be planted across a 225 dca zone in Souhodol area. This initiative strives to set up a green belt in the vicinity of Sofia, so as to facilitate the improvement of air quality by turning waste municipal land into forests.

Another charity event supported by DSK Bank and Expressbanks' employees was The Good Hearts bazar, organized on June 27, 2019. Our colleagues joined forces to lend their support to a noble cause – raising funds for EuroVelo for Everyone/Accessible Biking project. The raised funds were to be used to make a special-purpose thricycle with an electrical engine intended for disabled people, so they can be part of cycling trips and have full life. The bazar raised a total of BGN 4227.74 which were donated to the project.

In 2019 charity and sport brought to life another common tradition for DSK Bank and Expressbank – a charity run with participation of colleagues from the two banks. In May a joint team of DSK Bank and Expressbank, as well as their children, took part in a charity run - Run2Gether България 2019. Our team became part of the thousands who together with disabled people ran a 5-kilometer distance, aiming to raise awareness of sport for all and the need for equal access thus change the attitudes towards disabled people.

In June a joint team of twelve DSK Bank and Expressbanks' employees took part in the Business Run, an annual charity run with a cause organized by The Runner Sport Club. The event took place in Sofia Business Park and our two banks participated with three teams – women, men and mixed who ran a 4-kilometer relay.

In October 40 colleagues from DSK Bank and Expressbank once again participated in a charity relay run - Business Run Plovdiv 2019, organized by The Runner Sport Club in support of a cause of For Our Children Foundation, making it possible for as many children as possible to live and grow in a safe family environment through Early Childhood Intervention program, targeting disabled children and children with development issues.

At the end of September DSK Bank and Expressbank once again came together on the sport field for charity purposes. On September 28 and 29, in Sofia and Varna the first common event of such a scale *Sports Day of DSK Bank and Expressbank* was held under the motto Together We Build Success. Some 300 employees from the two banks took place, entering different sport competitions, building up closer informal relations and team spirit. With their participation our collages contributed to a noble cause - Ole Male of Maiko Mila Foundation, in support of mothers of disabled children to which DSK Bank donated BGN 5000.

As a socially responsible institution, DSK Bank Group supports a wide range of initiatives and programmes in order to underline its commitment to the society and to contribute for the solution of a number of social challenges.

The focus of the social practices is the partnership with SOS Children's villages Bulgaria - an organization for social development, which guarantees the right of each child to have a family and to grow up surrounded in a loving, respectful and secure environment. The partnership started in 2011 when the Bank made a commitment to take care permanently of two SOS families. The care does not include only financial support for ensuring food, clothes, shoes, school aids, etc.

As one of the most loyal and generous partners and supporters of SOS Children's villages Bulgaria, in 2019 during the organization's annual awards DSK Bank received the *One Family* award, the big prize awarded by SOS to their largest corporate partners. The bank received this recognition in acknowledgement of its long-standing support by way of the Bank's annual donation of BGN 36 000 to the benefit of two SOS families located in the SOS villages in Tryavna and Pernik, donations through the Bank's ATM network and personal donations by employees. In 2019 the donations made on the Bank Group's ATMs amounts to around BGN 650 000.

As one of the institutions in Bulgaria with the longest history and traditions, DSK Bank accepted as a part of its mission to support valuable projects in the field of arts and culture and the artistic heritage of Bulgaria.

The traditional support of DSK Bank Group for children chess is one of the recognized good practices of the institution focused on children and sports. For years now, the Bank has consistently supported the organizers of different chess tournaments for children and young people. In 2019 the Bank once again gave its support for the Ivis Cup children chess tournament. We also supported the National University Chess Tournament in an effort to create appropriate opportunities for talented children and young people from all over the country and through long-term cooperation to facilitate the sport and intellectual development of the young generation in Bulgaria.

Every year DSK Bank Group supports different charitable initiatives - the Bulgarian Christmas, Support a Dream, etc. but the focus of the charity activity is the tradition to organize before Christmas an in-house event with a charitable purpos. It is usually in the form of a lunch for which colleagues who are willing to participate bring home-made food, which is sold during the event and the collected money is donated for different causes.

In 2019, following an internal inquiry, our colleagues chose to support ParaKids project by Shark Sports Club, which develops and promotes courses in adapted swimming, skiing, different specialized exercise programs and equipment, so that disabled children could be part of different sport activities together with kids their age and have full life.

In December 2019 employees from DSK Bank and Expressbanks' Head Offices took part in a series of charity events, where they brought and sold home-cooked meals, hand-made cards, jewellery and other articles. The sum raised by our colleagues who took part in these events – BGN 9000 was doubled by DSK Bank, so the total donation made to the benefit of ParaKids project amounted to BGN 18 000.

As a banking, financial and technological leader on the market, focusing on and investing in young people's knowledge, DSK Bank Group is aware of its responsibility to provide them with financial knowledge. For that purpose, in 2018 the Bank started developing its own financial literacy programme called National Financial Olympiade, which aims to increase the financial knowledge of students of different ages.

In early 2019 the first edition of the National Financial Olympiade took place in the form of a competition for students between 16 and 19 years between student-parent couples competing for the big prize – a BGN 300 scholarship for the next school year. The competition's semi-finals and finals were held live in Serdika Mall in Sofia. A total of 672 teams entered the competition and 12 teams from Sofia, Stara Zagora, Veliko Tarnovo and Rousse took part in the two-days semi-finals and final. Team Da Vinci – the 16-year old Zhanet Tablova and her father Stoyan Tablov from Sofia, came out the big winner, following a tight competition. Zhanet won the BGN 3000 scholarship for 2019/2020 school year.

The Bank Group's digital educational program continued with a summer edition. It consisted of three games held in the period April – September 2019 in the form of 20-question tests in finance. The competition was held online – at the special platform www.finansiada.bg and competitors were again student-parent couples (again for students between 16 and 19 years of age).

DSK Bank Group's National Financial Olympiade deservedly won several prizes throughout the year. In tight competition with 30 other entries it took home the prestigious first prize in the category Sustainable Development/Corporate Social Responsibility Campaign in the PR Prize 2019 competition organized by the Bulgarian Public Relations Society. The Bank's financial literacy program was acknowledged during the Annual b2b Media Awards – it was awarded the first prize in the category *Idea for Education*.

The Bank Group follows a policy of social commitment to its employees by offering excellent conditions for work, training and development. One distinguishing feature of the institution is the corporate culture, which recognizes the merits of its employees, creates a sustainable model for motivated and committed employees who are loyal and share common goals.

In 2019, for a second year in a row DSK Bank was pronounced preferred employer by students in Bulgaria in a Graduate Survey conducted by ToTheTop Agency.

8 241 students from 51 national and international universities took part in the survey, which measures students' opinion of their preferred employer. They responded to over 50 questions, covering a range of different emotional and functional characteristics of employers, among which strong managerial leadership, well-structured internship program, strong vision for the future, leading position in the respective sector and good future development outlook.

The fact that Bulgarian students have named DSK Bank as the best preferred employer to start their career with is one of the most valuable recognitions, as the Bank offers young people the opportunity to grow in a modern and friendly working environment, get equipped to meet the challenges of the jobs of the future and cultivate team work skills.

DSK Bank applies a balanced social policy. In 2019, the social expenses amounted to 7,9% of the total labour expenses. In 2019 the social expenses of the subsidiaries of DSK Bank amounted to 4,39% of the total labour expenses.

The internal corporate development of the employees continued to be one of the priorities of the management. In 2019 over 250 employees were promoted in the Bank, and for the subsidiaries of DSK Bank 206 employees were promoted.

In 2019 1336 different forms of internal and external training of the employees were organized and conducted and the number of the participants in the trainings was 10818. In the subsidiaries of DSK Bank 272 different forms of internal and external training of the employees were organized and conducted and the number of the participants was 9479.

DSK Bank successfully defended two global standards for the security and safety of card transactions and payments on the Internet – PCI DSS (Payment Card Industry Data Security Standard) and PCI 3DS (Payment Card Industry 3-D Secure).

The PCI DSS international standard for the security of card transactions includes a list of requirements in six main areas – building and maintaining a secure network, protection against data theft, developing and maintaining a vulnerability management program, applying access control measures, network monitoring and testing, and maintaining and applying an information security policy. Compliance with PCI DSS means that the IT infrastructure and the systems used for processing the card information of DSK Bank meet the criteria of the standard and securely store sensitive data such as card number, validity, verification code, client names, PIN code related data, etc.

The introduction of the standard for the security of card payments is of exceptional importance for DSK Bank also in the context of its forthcoming integration with Expressbank, which is expected to end in mid-2020. DSK Bank will then serve approximately 500 000 more card clients for whom the confirmed reliability of card payments in the bank is an additional advantage and guarantee for an exceptional client experience.

The rules of the PCI DSS standard are continuously renewed so that DSK Bank remains with a permanent commitment to regularly check and ensure that all requirements for providing the security of card transactions are complied with.

In parallel with the success in being certified under PCI DSS, DSK Bank defended another serious international security standard related to card transactions - Payment Card Industry 3-D Secure (PCI 3DS). As holder of such certificate, the financial institution guarantees the application of logical client security controls, which are to maintain the integrity and confidentiality of the process related to client card payments on the Internet. The main purpose of the PCI 3DS protocol is to facilitate and guarantee the secure exchange of data among internet traders and clients using bank cards as a means of payment.

Both certificates - PCI DSS and PCI 3DS, have been developed by the PCI Security Standards Council. The council was founded in 2006 by five global payment brands - American Express, Discover Financial Services, JCB International, Mastercard Worldwide and Visa Inc., and is responsible for developing, managing and maintaining information about the PCI security standards.

The fair business relations are a priority of the Bank Group and it has accepted a policy for “zero tolerance” to corruption in all its forms. The Bank requires that each employee and any other person acting on its name to abide by the high standards for ethical conduct of the Group and does not allow corruption practices or conduct contradicting the ethics. Being aware that each weakness in applying the established standards may expose to risk the good name and reputation of DSK Bank Group, its management continuously strives for improving the internal processes and regulations as well as raising the awareness and the commitment of the employees to its values.

DECLARATION OF CORPORATE GOVERNANCE
As per Art.39 of the Ownership Act and Art.100n of the Public Offering of Securities Act (POSA)

1. **Information under Art. 100n, para. 8, cl. 1, b. a**
   Where appropriate, DSK Bank EAD complies with the National Corporate Governance Code published on the website of the Bulgarian Stock Exchange in accordance with Art.39 of the Ownership Act and Art.100n of the POSA.

2. **Information under Art. 100n, para. 8, cl.3**
   2.1. The internal audit system of DSK Bank EAD is based on three main elements - management control, process integrated control and independent internal control.
   Internal Control and Audit Directorate is the structural unit for independent internal control.
   The organisational positioning ensures independence in the planning and performance of the internal audit activity, while the reporting is done at the highest level of management - Management Board, Supervisory Board, and Internal Audit Directorate of the mother-bank - OTP Hungary.
   The objective, powers and responsibilities of Internal Control and Audit Directorate are governed by the Internal Control and Audit Rules of DSK Bank Group. The rules comply with the requirements of: Bulgarian National Bank Act, Lending Institutions Act, Ordinance No 10 of the Bulgarian National Bank on the internal control in banks, Financial Supervision Commission Act, Public Offering of Securities Act, Financial Vehicle Corporations Act, Measures against Market Abuse with Financial Instruments Act and Financial Instruments Market Act.
   The focus of the activity is determined by the risk assessment of the different types of activities and management units of DSK Bank and its subsidiaries, by the business plan, budget and investment policy of the Bank, by the continuous optimisation of management processes and banking operations, centralisation of certain activities and processes, offering of new banking products and their software and by development and deployment of new software.

   2.2. During the operational work of the Bank internal financial control – ex-ante, current and post control - is organised and exercised.
   Ex-ante control is exercised of all types of accounting operations. It precedes the performance of accounting operations and aimed to ensure their lawful implementation.

   The current control of operations with high degree of operational risk is exercised in the process of execution of banking transactions and is aimed at current removal of deviations from the established rules and procedures for performance of accounting operations, at ensuring their lawful implementation, timely elimination of the errors, etc.

   The post control covers all actions and measures to promptly detect unlawful activities and operations, omissions and errors, abuse, waste and other irregularities that were committed, despite the measures taken by the ex-ante and current control.

   2.3. The control and risk management of the Bank is determined by the risk appetite and ability of the Bank to monitor the risks assumed by it. For this purpose, DSK Bank EAD has clearly defined levels of competence, depending on the type of risk and the total risk that is assumed for a client / counterparty and client group. The units performing approval and control functions in the loan process work independently from the business divisions.
   The Bank uses internal rating system to evaluate the creditworthiness of its clients.
   Other than by client and counterparty limits, DSK Bank restricts the concentration of its exposures through industry limits for its corporate clients. The industry limits are determined according to the methodology adopted in the Risk Assumption Rules and approved by the Loans and Limits Board, and their compliance is monitored by both Credit Risk Policy and General policy and risk management Directorate and the unit involved in the internal control and Centralised Non-

performing Loans Commission. Review or updating of the limits could be proposed in case of any change in the business plan for the risk exposures to corporate clients of the Bank, in case of any changes in the macroeconomic framework which have or could have a significant impact on the development of the companies belonging to the industry or on the financial performance of the industries or in case of business growth over the approved annual plan.

2.4. In the area of market risk, position limits, stop-loss limits, VaR limits, etc., are used. They support the proper management of this type of risk. The compliance with those limits is ensured through their integration into the system for execution of treasury transactions, thereby playing the role of preventive control. In addition, specialised analytical environments that allow their detailed monitoring has been developed within the banking group. Escalation system in case of any breach of the limit has also been developed and specific time limits for taking corrective measures in case of violation have been defined. The limits themselves are subject to regular review and updating depending on the changes in the business plans and business environment.

2.5. The Bank has developed reliable system for identification, registration and subsequent updating of all occurring events which cause financial damage, and events that affect the good name and reputation of the Bank. The collected information is subject to preparation of an analysis on a regular basis and its submission to the competent authorities of the Bank. Response plans for unforeseen circumstances have been developed. They enable the Bank to maintain its performance and to limit the impact on the financial status and reputation of the Bank which may arise after the occurrence of such circumstances.

3. Information under Art. 100n, para.8, cl.4:

3.1. DSK Bank EAD has no significant direct or indirect shareholdings within the meaning of Art. 85 (repealed) of Directive 2001/34 / EC;

3.2. DSK Bank EAD has no shareholders who hold shares with special rights of control;

3.3. DSK Bank EAD does not put restrictions on the rights of the shareholders to vote;

3.4. The rules which govern the appointment and replacement of the Management and Supervisory Board members and the amendments to the Statute are:

- Statute of DSK Bank EAD;
- Section IV. Decision-making Mechanism to the Management Rules of DSK Bank EAD;
- Conflict of Interest Rules;
- Instruction to ensure compliance with the requirements for assessing the suitability of governing bodies' members, executive directors and other key positions in DSK Bank EAD and its group.

3.5. 1. The powers of the Supervisory and Management Board members of DSK Bank EAD are defined in:

- Statute of DSK Bank EAD;
- Section IV - Decision-making Mechanism to the Management Rules of DSK Bank EAD.

2.5.2. The Supervisory and Management Board members of DSK Bank EAD are not entitled to make decisions on the issuance or redemption of shares.

4. Information under Art. 100n, para.8, cl. 5

4.1. The members of the management and supervisory bodies, Audit Committee, Committee on Management of Assets and Liabilities, Investment Committee, Risk Committee end Remuneration Committee of DSK Bank EAD are defined in:

- Statute of DSK Bank EAD;
- Management Rules of DSK Bank EAD]
- Rules of Procedure of the Remuneration Committee.

4.2. The functions of the management and supervisory bodies and committees of DSK Bank EAD are governed by:

- Rules of Procedure of the Supervisory Board;
- Rules of Procedure of the Management Board;

- Rules of Procedure of the Investment Committee;
- Rules of Procedure of the Committee on Operational Risk Management;
- Rules of Procedure of the Risk Committee;
- Rules of Procedure of the Selection Committee;
- Rules of Procedure of the Committee on Management of Assets and Liabilities;
- Rules of Procedure of the Remuneration Committee
- Statutes of the Audit Committee of DSK Bank EAD

5. Information under Art. 100n, para.8, cl. 6

DSK Bank implements diversity through:

- balanced sex and age structure at all management and control levels;
- educational level and different areas of knowledge (finance, law, information technologies) in compliance with national regulatory requirements;
- professional experience adequate to the respective positions in compliance with the regulatory requirements.

The diversity in DSK Bank is related to the continuity between the traditions in historical aspect and rapid adaptation to the new technologies in the area of financial services.

Violina Marinova
Chief Executive Director

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София
Банка ДСК ЕАД

Slaveyko Slaveykov
Executive Director

INDEPENDENT AUDITORS' REPORT AND
ANNUAL CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

INDEPENDENT AUDITORS' REPORT

To the shareholder of DSK Bank EAD

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements of DSK Bank EAD (the "Bank"), and its subsidiaries (together referred as "DSK Bank Group" or "the Group"), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of profit and loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Key audit matters

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

Key audit matter	How this key audit matter was addressed in our audit

Impairment Loss Allowance for Loans and Advances to Customers
 	
See Notes 4 and 20 to the consolidated financial statements
 	
Loans and advances to customers represent a significant part (54.64%) of the total assets of the DSK Bank Group as at December 31, 2019 with aggregate gross carrying amount of BGN 12,691,673 thousand and accumulated loss allowance of BGN 863,732 thousand. The Group applies impairment model based on expected credit losses ("ECL") in accordance with the requirements of IFRS 9 "Financial Instruments".
 	
The assessment of loss allowance for loans and advances to customers, within the application of this model, requires Bank's Management to exercise a significant level of judgment, especially with respect to identifying impaired loans and receivables and quantifying expected credit losses. The key inputs and areas of judgement in the assessment of expected credit losses are related to the development of quantitative and qualitative criteria for:
• identification of significant increase of credit risk (SICR) for staging of loans to customers;
• determining the probability of default or loss (PD/PL), the loss given default or loss (LGD/LGL) and the exposure at default or loss (EAD);
• imputing forward looking information (FLI) of macro-economic factors considering multiple scenarios in ECL estimation;
• the comprehensiveness and completeness on input data and calculation logic within the applied by the Group statistical models, with input parameters obtained from internal and external sources;
• the assumptions and estimates applied by Management in the review of individually significant credit impaired exposures pertaining to recent loss experience, ranges of possible scenarios based their outcomes for timing and amount of cash flows from future collections, including from collateral realization.
 	
Due to the significance of the above described circumstances that: (a) the process of determining the loss allowance for loans and advances to customers assumes a number of judgments, inherent high
	In this area, our audit procedures included, among others:
	
	• Inquiries and obtaining an understanding of the Group's process of determining the loss allowances for loans and advances to customers.
	• Inspection and review of internal policies, and procedures related to the process of determining the loan loss allowances. Inquiries with Group's credit risk modelling and credit risk management experts.
	• Review and assessment of the adequacy and the consistency of application of the methodology and models used by the Group to identify loan losses and calculate allowances for selected significant portfolios.
	• Assessment of design and implementation of key controls over the loan loss allowance estimation, and testing operating effectiveness of controls relevant to expected loss calculation.
	
	Based on the above described procedures, we developed tailored audit procedures to enable us to address the risks of material misstatement associated with the booked loss allowances for loans and advances to customers:
	• Assessment, together with our credit risk experts of the adequacy of management judgments in relation to probability of default / probability of loss and the estimated amount of loss given default / loss given loss in the context of the specifics of Group's loan portfolio and the availability of internal historical and forward-looking information
	• Assessment of the appropriateness of staging classification based on the determined by the Group classification criteria;
	• Analysis of the reasonableness of the PD/PL and LGD/LGL calculations by examining supporting information for the key assumptions used.
	• Based on the characteristics of the significant portfolios:
	  o Analysis of the parameter calculations of the Bank, considering FLI adjustments and their correlation with the loans to clients; or
	  o Independent recalculation, together with our credit experts, of the parameters applied in the loss allowance calculations for significant portfolios; procedures on sample basis on the inputs to the calculations were performed;

Key audit matter	*How this key audit matter was addressed in our audit*
uncertainty of assumptions and specific parameter-based model calculations of the impairment losses by the management; and (b) the significance of the reporting item itself for the consolidated financial statements of the Group, as noted above, we have considered this matter as a key audit matter.	• Based on the characteristics of the significant portfolios: o Independent recalculation, together with our credit risk experts, of the impairment allowance, following the estimation and mathematical logic as outlined in IFRS 9 *Financial Instruments*; procedures on sample basis on the completeness and accuracy of data inputs to the calculations; or o Observation of the expected credit loss calculation performed by the Group to arrive at loan loss allowance as at December 31, 2019, including data input, data processing and calculation. For a sample of loans we independently recalculated the expected credit losses and traced the results to Group's calculation; • Evaluation of the appropriateness of provisioning methodologies and their application for a sample of individually significant loans in Stage III. We performed tests of details on the sampled exposures to assess the adequacy of the loan loss allowances booked. For the respective exposures in the sample were performed the following audit procedures: • analysis of the key assumptions and judgments of Group's management, including assessment of the adequacy of applied scenarios and their respective weightings, as well as expected cash flow recoveries, • independent analysis of the financial position and results of borrowers; • inspection of evidence supporting the servicing of the exposures by respective borrowers; as well as • analysis and evaluation of collateral valuation reports for the respective exposures; • Assessment of the relevance and adequacy of the disclosures in the Group's consolidated financial statements related to the loss allowances on loans and advances to customers.

Key audit matter	*How this key audit matter was addressed in our audit*
Acquisition of subsidiaries within business combination ***See Notes 40 to the consolidated financial statements*** On January 15, 2019 DSK Bank Group has acquired 99.74% of the share capital of Expressbank AD and indirect control over its subsidiaries Express	*In this area, our audit procedures included, among others:* • Inquiries and obtaining an understanding of the Group's process of subsidiary acquisition within business combinations, including determination of the acquisition date and the purchase price allocation.

Key audit matter	*How this key audit matter was addressed in our audit*
Factoring EOOD, OTP Leasing EOOD and Regional Urban Development Fund AD for consideration at the amount of BGN 1,075,302 thousand. For the purposes of the acquisition, the Group performed a purchase price allocation, as a result of which the cost of the investment was allocated between the acquired identifiable assets and liabilities, non-controlling interests and goodwill, as disclosed in Note 40 to the consolidated financial statements. The acquisition accounting of subsidiaries within business combinations is associated with significant judgements by the Management of the Group with respect to determining the acquisition date in accordance with the requirements of IFRS 3 "Business Combinations" and their consolidation for first time. The purchase price allocation itself, requires a significant level of management assumptions and estimation with respect to: • Fair valuation of the acquired identifiable assets and liabilities within the business combination; and • The allocation of the purchase price to the acquired identifiable assets, including intangible assets and deferred tax liabilities, recognized as at acquisition date, the non-controlling interests and the goodwill. Due to the significance of the above described circumstances that: (a) the process of business combination accounting, including determining the acquisition date and purchase price allocation assumes a number of judgments, inherent high uncertainty of assumptions by the management; and (b) the significance of the acquisition as a whole for the consolidated financial statements of the Group, as noted above, we have considered this matter as a key audit matter.	• Inspection and review of internal policies, and procedures related to the process of acquisition of subsidiaries, including the reporting process for business combinations • Assessment of design of key controls over the acquisitions accounting process in the Group; Based on the above described procedures, we developed tailored audit procedures to enable us to address the risks of material misstatement associated with the subsidiary acquisition accounting during the annual period ending on December 31, 2019: • Review of the share purchase agreement and other relevant documents in order to assess the adequacy of the determined, by Management of the Group, acquisition date; • Tracing the acquisition cost estimation of the investment (consideration transferred) to supporting documents; • Review of the purchase price allocation to the acquired identifiable assets and liabilities, including intangible assets and deferred tax liabilities, recognized as at acquisition date, the non-controlling interests and the goodwill, performed by the Group • Assessment of the estimation of fair values of the identifiable assets and liabilities recognized within the business combination, based on generally accepted valuation models with the support of valuation specialists; as well as procedures on sample basis on relevant input data. • Assessment of the relevance and adequacy of the disclosures in the Group's consolidated financial statements related to the reporting for business combinations (acquisition of subsidiaries), including the determination of the acquisition date and the purchase price allocation.

Information other than the consolidated financial statements and auditors' report thereon

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements.
- We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

We are jointly responsible for the performance of our audit and the audit opinion expressed by us, in accordance with the requirements of the IFAA, applicable in Bulgaria. In accepting and performing the joint audit engagement, in respect to which we are reporting, we have considered the Guidelines for Performing Joint Audits, issued on June 13, 2017 by the Institute of Certified Public Accountants in Bulgaria and the Commission for Public Oversight of the Registered Auditors in Bulgaria.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Additional matters, required to be reported by the Accountancy Act and the Public Offering of Securities Act

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

Opinion under Article 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, in our opinion:

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

Additional reporting in connection with Ordinance 38/2007 and Ordinance 58/2018 of the Financial Supervisory Commission

Statement in connection with Art. 33 of Ordinance 38/2007 of the Financial Supervisory Commission (FSC) outlining the Requirements for the Activities of the Investment Intermediaries and Art. 11 of Ordinance 58/2018 of FSC outlining the Requirements for Protection of the Customers' Financial Instruments and Cash, for Product Management and Providing or Receiving Considerations, Commissions, Other Cash and Non-cash Benefits

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

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

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

- Deloitte Audit OOD and AFA OOD were appointed as a statutory auditors of the consolidated financial statements of the Group for the year ended 31 December 2019 by the general meeting of shareholders (session of the sole owner) held on April 04, 2019 for a period of one year.
- The audit of the consolidated financial statements of the Group for the year ended 31 December 2019 represents fifth total consecutive statutory audit engagement for that entity carried out by Deloitte Audit OOD and third total consecutive statutory audit engagement for that entity carried out by AFA OOD.

- We hereby confirm that the audit opinion expressed by us is consistent with the additional report March 24, 2020, provided to the Group's audit committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- No prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act were provided.
- We hereby confirm that in conducting the audit we have remained independent of the Group.
- For the period to which our statutory audit refers, Deloitte Advisory and Management Consulting Private Limited Company, Hungary, (member of Deloitte network) has provided separately to the Group, the following services which have not been disclosed in Group's annual report on the activities or consolidated financial statements:
    - Activities, related to the analysis of best practices in Central and Eastern Europe about premium retail segment, competition, customer research, distribution channels, customer value proposition.
- For the period to which our statutory audit refers, Deloitte Audit OOD has provided separately to the Group, the following services which have not been disclosed in Bank's annual report on the activities or consolidated financial statements:
    - Audit of the consolidated group reporting package as of December 31, 2019 of DSK Bank EAD, prepared in accordance with the accounting policies of OTP Bank RT Group, Hungary, based on IFRS, in accordance with ISA;
    - Audit of the consolidated group reporting package as of December 31, 2018 of DSK Bank EAD, prepared in accordance with the accounting policies of OTP Bank RT Group, Hungary, based on IFRS, in accordance with ISA;
    - Limited Review of group reporting package as of DSK Bank EAD as of June 30, 2019 and September 30, 2019, prepared in accordance with the accounting policies of OTP Bank RT Group, Hungary, based on IFRS, in accordance with ISA;
    - Audit of the group reporting package as of December 31, 2018 of OTP Factoring Bulgaria EAD (controlled undertaking), prepared in accordance with the accounting policies of OTP Bank RT Group, Hungary, based on IFRS, in accordance with ISA;
    - Analytical procedures on the group reporting package as of December 31, 2019 of OTP Factoring Bulgaria EAD (controlled undertaking), prepared in accordance with the accounting policies of OTP Bank RT Group, Hungary, based on IFRS, in accordance with ISA;
    - Audit of specified account balances and classes of transaction from the consolidated group reporting package as of December 31, 2019 of DSK Leasing AD (controlled undertaking), prepared in accordance with the accounting policies of OTP Bank RT Group, Hungary, based on IFRS, in accordance with ISA;
    - Audit of specified account balances and classes of transaction from the consolidated group reporting package as of December 31, 2018 of DSK Leasing AD (controlled undertaking), prepared in accordance with the accounting policies of OTP Bank RT Group, Hungary, based on IFRS, in accordance with ISA;
    - Audit of the group reporting package as of December 31, 2019 of Expressbank AD (controlled undertaking), prepared in accordance with the accounting policies of OTP Bank RT Group, Hungary, based on IFRS, in accordance with ISA;
    - Review of group reporting package of Expressbank AD (controlled company) as of June 30, 2019 and September 30, 2019, prepared in accordance with the accounting policies of OTP Bank RT Group, Hungary, based on IFRS, in accordance with ISA;
    - Agreed-upon procedures related to the application of BNB Ordinance 10 for the period January 01 – December 31, 2018 – observation of the current performance of the internal control systems of Expressbank AD (controlled undertaking), in accordance with the requirements of International Standard on Related Services 4400 "Engagements to Perform

Agreed-upon Procedures regarding Financial Information", performed jointly with Ernst and Young Audit OOD.

- o Audit of the group reporting package as of December 31, 2019 of OTP Leasing EOOD (controlled undertaking), prepared in accordance with the accounting policies of OTP Bank RT Group, Hungary, based on IFRS, in accordance with ISA;

- For the period to which our statutory audit refers, Deloitte Audit OOD and AFA OOD have provided jointly to the Group, the following services which have not been disclosed in Group's annual report on the activities or consolidated financial statements:
  - o Agreed-upon procedures related to the application of BNB Ordinance 10 for the period January 01 – December 31, 2018 – observation of the current performance of the internal control systems of the Bank, in accordance with the requirements of International Standard on Related Services 4400 "Engagements to Perform Agreed-upon Procedures regarding Financial Information".
  - o Agreed-upon procedures related to the financial supervision, in accordance with International Standard on Related Services 4400 "Engagements to Perform Agreed-upon Procedures regarding Financial Information", with respect to regulatory financial statements of POK "DSK-Rodina" AD (controlled undertaking) for 2018, representing reconciliation on sample basis of the amounts in the statement of financial position and statement of comprehensive income for regulatory purposes, with a purpose of general consistency with respective amounts in the audited annual financial statements, prepared under the requirements of the national accounting legislation, applicable for 2018 and IFRS.

On behalf of Deloitte Audit OOD

Sylvia Peneva
Statutory Manager
Registered Auditor, in charge for the audit

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 033
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103, Al. Stambolijski Blvd
1303 Sofia, Bulgaria

On behalf of AFA OOD

Renny Iordanova
General Manager
Registered Auditor, in charge for the audit

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 015
АФА ООД

38, Oborishte Street
1504 Sofia, Bulgaria

March 24, 2020

Contents:

Consolidated statement of cash flows
For the year ended 31 December

In thousands of BGN	Note	2019	2018
Cash flow from operating activities			
Profit before taxation		342 896	284 156
Adjustments for			
Impairment losses on financial assets, net	11	93 238	67 835
Impairment losses on non-financial assets, net	12	8 603	17 976
Depreciation and amortization	14	91 839	37 804
Net losses/(gains) from operations with investments		(7 235)	(19 067)
Net losses from foreign exchange rate revaluation		1 732	36 931
Net interest income	5	(643 595)	(437 688)
Dividends	10	59	47
Share of profit of associates		(541)	(168)
Other non cash changes		(5 848)	7 216
Increase/(decrease) in provisions		21 294	(13 408)
Net cash flow used in operating activities before movements in operating assets and liabilities		**(97 558)**	**(18 366)**
Movements in operating assets			
Increase in trading securities		(119 077)	(61 457)
Increase in loans and advances to banks		(807 002)	(384 825)
Increase in loans and advances to customers		(4 448 866)	(726 749)
Increase in receivables from factoring contracts		(184 410)	-
Decrease/(increase) in other assets		44 846	(67 981)
Movements in operating liabilities			
Increase/(decrease) in deposits from banks		65 709	(6 773)
(Decrease)/increase in loans from banks and financial institutions		(813 611)	13 212
Increase in deposits from customers		6 333 278	1 212 225
Increase/(decrease) in other liabilities		32 889	(39 704)
Cash generated from operations		**6 198**	**(80 418)**
Interest received		660 545	487 196
Interest paid		(27 788)	(30 211)
Tax paid		(37 790)	(26 833)
Net cash flow from operating activities		**601 165**	**349 734**
Cash flow from investing activities			
Acquisition of property, plant and equipment, and intangible assets net		(257 751)	(44 819)
(Acquisition)/proceeds from/of investments in securities, net		(207 921)	293 308
Acquisition of subsidiaries, net of cash acquired		(311 399)	-
Acquisition of associates		(475)	-
Acquisition of shares in controlled company		(37 620)	-
Disposal of subsidiaries acquired with a view for sale		(1 783)	-
Net cash flow (used in)/from investing activities		**(816 949)**	**248 489**
Cash flow from financing activities			
Issue of share capital	36	-	1 173 498
Dividends paid		-	(271 525)
Repayment of the lease liabilities		(18 050)	-
Net cash flow (used in)/from financing activities		**(18 050)**	**901 973**
Net (decrease)/increase in cash and cash equivalents		**(233 834)**	**1 500 196**
Effect of foreign exchange rate changes		768	460
Cash and cash equivalents at the beginning of the year	38	**3 210 371**	**1 709 715**
Cash and cash equivalents at the end of the year	38	**2 977 305**	**3 210 371**

The consolidated statement of cash flows is to be read together with the notes from 1 to 42 forming an integral part of the consolidated financial statements.

The consolidated financial statements are authorised for issue from the Management Board and signed on behalf of DSK Bank EAD on 20 March 2020.

Банка ДСК ЕАД София 2115 27

Violina Marinova
Chief Executive Director

Slaveyko Slaveyko
Executive Director

March 24, 2020
Sylvia Peneva
Registered Auditor
Deloitte Audit OOD

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

March 24, 2020
Renny Iordanov
Registered Auditor
AFA OOD

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 015 АФА ООД

Consolidated statement of financial position
As at 31 December

In thousands of BGN	Note	31-Dec-2019	31-Dec-2018
Assets			
Cash and current accounts with the Central Bank and other banks	17	2 707 191	3 210 371
Trading financial assets	18	208 318	96 717
Derivative financial instruments	18	31 536	14 880
Loans and advances to banks	19	2 949 633	1 923 718
Loans and advances to customers	20	11 827 941	7 458 394
Receivables under factoring agreements	21	222 578	38 168
Net receivables from finance lease	22	1 050 803	155 688
Investments in securities	23	1 832 493	1 261 035
Current tax assets		7 447	2 491
Investments in associates	39	3 773	2 757
Goodwill	24	78 547	1 175
Investment property	25	20 297	20 740
Right-of-use assets	26	67 406	-
Property, plant and equipment	27	440 809	340 535
Intangible assets	28	120 742	49 686
Other assets	29	76 028	118 557
Total assets		**21 645 542**	**14 694 912**
Liabilities			
Deposits from banks	30	69 143	7 994
Derivative financial instruments	18	43 493	27 437
Deposits from customers	31	17 832 064	11 485 138
Loans from banks and financial institutions	30	285 207	199 030
Current tax liabilities		1 243	3 442
Lease liabilities	32	65 166	-
Provisions	33	101 488	61 860
Deferred tax liabilities	34	15 700	4 824
Other liabilities	35	162 372	121 125
Total liabilities		**18 575 876**	**11 910 850**
Shareholder's equity			
Share capital	36	1 327 482	1 327 482
Reserves		1 376 825	1 133 452
Retained earnings		350 201	284 988
Equity attributable to the owners of the parent		**3 054 508**	**2 745 922**
Non-controlling interest		15 158	38 140
Total shareholder's equity		**3 069 666**	**2 784 062**
Total liabilities and shareholder's equity		**21 645 542**	**14 694 912**

The consolidated statement of financial position is to be together with the notes from 1 to 42 forming an integral part of the consolidated financial statements.

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2115
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Slaveyko Slaveykov
Executive Director

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София
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March 24, 2020
Sylvia Peneva
Registered Auditor
Deloitte Audit OOD

March 24, 2020
Renny Iordanova
Registered Auditor
AFA OOD

Consolidated statement of comprehensive income
For the year ended 31 December

In thousands of BGN	**2019**	**2018**
Profit for the year	**309 066**	**256 338**
Items that may be reclassified subsequently to profit or loss		
Cost of hedging for forward element of a forward and currency basis spread when excluded from designation in a hedge relationship	(14 811)	(2 623)
Movement in the investment revaluation reserve for debt instruments measured at fair value through other comprehensive income	36 515	(13 392)
Income tax related to OCI items that may be reclassified subsequently to profit or loss	(2 593)	1 453
	19 111	(14 562)
Items that will not be reclassified subsequently to profit or loss		
Movement in revaluation reserve for equity instruments designated at fair value through other comprehensive income	3 207	1 434
Gains and losses on land and buildings revaluation	(28)	4 183
Remeasurements of net defined benefit liability	(1 351)	(622)
Income tax related to OCI items that will not be reclassified subsequently to profit or loss	(302)	(528)
	1 526	4 467
Other comprehensive income for the year, net of tax	**20 637**	**(10 095)**
Total comprehensive income	**329 703**	**246 243**
Attributable to:		
Owners of the parent	327 104	222 252
Non-controlling interest	2 599	23 991

The consolidated statement of comprehensive income is to be read together with the notes from 1 to 42 forming an integral part of the consolidated financial statements.

The consolidated financial statements are authorised for issue from the Management Board and signed on behalf of DSK Bank EAD on 20 March 2020.

Violina Marinova
Chief Executive Director

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София
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2115

Slaveyko Slaveykov
Executive Director

Одиторско дружество
София
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March 24, 2020
Sylvia Peneva
Registered Auditor
Deloitte Audit OOD

Одиторско дружество
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March 24, 2020
Renny Iordanova
Registered Auditor
AFA OOD

Consolidated statement of profit or loss
For the year ended 31 December

In thousands of BGN	**Note**	**2019**	**2018**
Interest income		669 715	451 667
Interest expense		(26 120)	(13 979)
Net interest income	5	**643 595**	**437 688**
Fee and commission income		304 751	206 720
Fee and commission expense		(48 405)	(16 129)
Net fee and commission income	6	**256 346**	**190 591**
Net trading income	7	26 761	57 035
Net income from other financial instruments at FVTPL	8	5 814	(4 331)
Net gains from derecognition of financial assets measured at amortised cost	9	6 991	16 444
Net losses from foreign exchange		(1 732)	(36 931)
Other operating income, net	10	17 872	21 458
Operating income		**955 647**	**681 954**
Impairment losses on financial assets, net	11	(93 238)	(67 835)
Impairment losses on non-financial assets, net	12	(8 603)	(17 976)
Net income/(expense) for provisions	33	(21 294)	13 792
Personnel expenses	13	(192 433)	(134 848)
Depreciation and amortisation	14	(91 839)	(37 804)
Other expenses	15	(205 885)	(153 295)
Share of profit of associates, accounted for using the equity method	39	541	168
Profit before tax		**342 896**	**284 156**
Income tax expense	16	(32 047)	(27 818)
Profit for the year from continuing operations		**310 849**	**256 338**
Discontinued operations – subsidiaries with a view for resale:			
Loss for the period from a subsidiary acquired with a view for resale		(1 783)	-
Profit for the year		**309 066**	**256 338**
Attributable to:			
Owners of the parent:			
Profit for the year from continuing operations		308 275	232 353
Loss for the year from subsidiaries with a view for resale		(1 780)	-
Profit for the year attributable to the owners of the parent		**306 495**	**232 353**
Non-controlling interest:			
Profit for the year from continuing operations		2 574	23 985
Loss for the year from subsidiaries with a view for resale		(3)	-
Profit for the year attributable to the non-controlling interest		**2 571**	**23 985**

The consolidated statement of profit or loss is to be read together with the notes from 1 to 42 forming an integral part of the consolidated financial statements.

The consolidated financial statements are authorised for issue from the Management Board and signed on behalf of DSK Bank EAD on 20 March 2020.

Violina Marinova
Chief Executive Director

Slaveyko Slaveykov
Executive Director

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March 24, 2020
Sylvia Penева
Registered Auditor
Deloitte Audit OOD

March 24, 2020
Renny Iordanova
Registered Auditor
AFA OOD

Consolidated statement of changes in equity

For the year ended 31 December

In thousands of BGN	Share capital	Statutory and other reserves	Revaluation reserve - land and buildings	Investment revaluation reserve - financial instruments	Cost of hedging	Defined Benefit Pension Reserve	Retained earnings	Total Equity attributable to the owners of the parent	Non-controlling interest	Total equity
Balance as of 1 January 2018	**153 984**	**1 000 833**	**110 911**	**32 427**	**1 414**	**(2 656)**	**316 308**	**1 613 221**	**22 468**	**1 635 689**
Comprehensive income										
Net profit for the year	-	-	-	-	-	-	232 353	232 353	23 985	256 338
Other comprehensive income	-	-	3 765	(10 615)	(2 623)	(628)	-	(10 101)	6	(10 095)
Total comprehensive income	**-**	**-**	**3 765**	**(10 615)**	**(2 623)**	**(628)**	**232 353**	**222 252**	**23 991**	**246 243**
Transfer of revaluation reserve from land and buildings, net of tax	-	-	(668)	-	-	-	668	-	-	-
Other changes	-	1 292	-	-	-	-	(794)	498	(341)	157
Contributions by and distributions to owners										
Issue of share capital	1 173 498	-	-	-	-	-	-	1 173 498	-	1 173 498
Dividends	-	-	-	-	-	-	(263 547)	(263 547)	(7 978)	(271 525)
Balance as of 31 December 2018	**1 327 482**	**1 002 125**	**114 008**	**21 812**	**-1 209**	**-3 284**	**284 988**	**2 745 922**	**38 140**	**2 784 062**
Comprehensive income										
Net profit for the year	-	-	-	-	-	-	306 495	306 495	2 571	309 066
Other comprehensive income	-	-	(26)	36 797	(14 811)	(1 351)	-	20 609	28	20 637
Total comprehensive income	**-**	**-**	**(26)**	**36 797**	**(14 811)**	**(1 351)**	**306 495**	**327 104**	**2 599**	**329 703**
Transfer of revaluation reserve from land and buildings, net of tax	-	-	(308)	-	-	-	308	-	-	-
Distribution of profit for reserves	-	223 072	-	-	-	-	(223 072)	-	-	-
Recognition of non-controling interests as a result of business combinations	-	-	-	-	-	-	-	-	2 737	2 737
Effects from change in non-controlling interests	-	-	-	-	-	-	(18 518)	(18 518)	(28 318)	(46 836)
Balance as of 31 December 2019	**1 327 482**	**1 225 197**	**113 674**	**58 609**	**(16 020)**	**(4 635)**	**350 201**	**3 054 508**	**15 158**	**3 069 666**

The consolidated statement of changes in equity is to be read together with the notes from 1 to 42 forming part of the consolidated financial statements.

The consolidated financial statements are authorised for issue from the Management Board and signed on behalf of DSK Bank EAD on 20 March 2020.

Violina Marinova
Chief Executive Director

Slaveyko Slaveykov
Executive Director

Одиторско дружество София Рег. № 033 Делойт Одит ООД

Банка ДСК ЕАД София 27 2115

Одиторско дружество София Рег. № 015 АФА ООД

March 24, 2020
Sylvia Peneva
Registered Auditor
Deloitte Audit OOD

March 24, 2020
Renny Iordanova
Registered Auditor
AFA OOD

Translated from Bulgarian

1. Basis of preparation and legal status and governance

(a) Legal status and governance

DSK Bank EAD as the former State Savings Bank was incorporated on 2 March 1951 in Bulgaria as a centralised deposit accepting institution. Since 1998, when the Act of DSK transformation has been passed, DSK Bank EAD (The "Bank") was transformed into a commercial bank and is allowed to conduct all the transactions stated in art.1 par.2 from the Banking Law in force as of the date of transformation. Later the Bank receives a full banking license to operate as a commercial bank by order No.220882 of 26 September 2002 issued by the Bulgarian National Bank.

On 26 January 1999 Sofia City Court registered the State Savings Bank as a solely owned joint stock company "DSK Bank", 100% owned by the state. In 2001 pursuant to a court decision the Bank has been transformed to a joint stock company with its capital divided between the Council of Ministers –75% and the Bank Consolidation Company AD – 25%.

On 29 November 2002 following a decision of the Sofia City Court the Bank Consolidation Company acquired 100% of the share capital of DSK Bank EAD.

On 29 October 2003 following a decision of the Sofia City Court OTP Bank, incorporated in Hungary, acquired 100% of the share capital of DSK Bank EAD.

The Bank has a two-tier system – Management Board composed of 6 (six) members and Supervisory Board with 6 (six) members.

As of 31 December 2019 the persons in charge of the general management of the Bank represented by the Supervisory Board are: László Bencsik – Chairman of the Supervisory Board; László Wolf, Gábor Kuncze, András Takács, Ákos Ferenc Tisza-Papp, Ilona Török and Krisztián Selmeczy – members of the Supervisory Board.

As of 31 December 2019 the Management of the Bank is represented by the Management Board composed of 7 (seven) members, namely: Violina Marinova – Chairman of the Management Board and CEO; Diana Miteva, Slaveyko Slaveykov, Arnaud Leclair, Yuriy Genov, Boyan Stefov – Members of the Management Board and Executive Directors; Mihail Komitski– Member of the Management Board and Head of division.

According to the Law on credit institutions, the Bank statute regulations and its legal registration, the Bank is duly represented simultaneously by two Executive Directors.

An Audit Committee is functioning within the Bank and is in charge of monitoring the work of external auditors, internal audit performance, risk management, accounting activities and financial reporting. As of 31 December 2019, the Audit Committee is composed of: Chairman - Natashka Lazarova; members - Zoltan Tuboly and Vasilka Koycheva.

The consolidated financial statements of the Group for the year ended 31 December 2019 comprise the Bank and its subsidiaries and associates (together referred to as the Group).

(b) Going concern

The management has made an assessment of the ability of the Group to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Group ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

(c) Statement of compliance and representation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) effective from January 1, 2019 and adopted by the Commission of European Union. IFRSs adopted by the EU is the commonly accepted name of the frame – accounting base equivalent to the frame adopted with the definition of §1, p. 8 of Suplementary provisions of Accounting Act under the name International Accounting Standards (IAS).

The Group presents its statement of financial position in order of liquidityof the assets and liabilities.

(d) Basis of measurement

The consolidated financial statements of the Group have been prepared on the historical cost basis except for the derivative financial instruments, trading financial assets, financial liabilities, financial assets measured at fair value through other comprehensive income and land and buildings that are measured at fair value.

(e) Functional and presentation currency

These financial statements are presented in BGN, which is the Group's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

(f) Comparative information

In this financial statement, the Group presents comparative information for the previous year.

Whenever necessary, comparative data is being reclassified (and recalculated), in order to achieve coherence and comparability according to changes in the presentation for the current year.

Exception to this rule is the presentation of the effects from IFRS 16 Leases initial application. In the adoption of IFRS 16 Leases, the Group has applied the modified retrospective approach on its initial application and comparative data for the previous year (2018) is not recalculated.

The effects from initial application of the new standard IFRS 16 Leases are presented in Note 2.

(g) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Management discusses with the Group Audit Committees the development, selection and disclosure of the Group's critical accounting policies and estimates, and the application of these policies and estimates.

Determination of control over Investment and pension funds

The Group acts as a fund manager to a number of investment funds - DSK Global Defensive Companies, DSK Standard, DSK Euro Active, DSK Balance, DSK Growth, DSK Stability – European Equities, DSK Stability – German Equities, DSK Alternative, DSK Alternative 1, DSK Alternative 2, DSK Global Companies and DSK Dynamics. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the fund (comprising any carried interest and expected management fees) and the investors' rights to remove the fund manager. For all funds managed by the Group, the investors are not able to vote to remove the fund manager without cause, and the Group's aggregate economic interest is insignificant. As a result, the Group has concluded that it acts as agent for the investors in all cases, and therefore has not consolidated these funds.

Universal Pension Fund, Professional Pension Fund, Voluntary Pension Fund, and Voluntary Pension Fund with Occupational Schemes of Rodina Pension Company are excluded from the Consolidated Financial Statements of the Group as these funds are managed by the Rodina Pension Company on behalf of third parties and Rodina Pension Company acts as agent for the investors in all cases.

Determining control over companies with no equity participation

DSK Bank Group has a contractual relationship with OTP Factoring Bulgaria EAD, related to the sale of loans to the company, management of loans granted by the Bank as well as the participation of group representatives in the Management of the company. When assessing whether the Bank controls the company with no equity participation, the Bank is focusing on the assessment of the elements of control, namely: powers in the company, exposure to or rights in variable returns, as well as the ability to use power to affect these returns. As a result of the analysis and taking into account that the main activity of the company and its respective generated income resulting from Group interrelations connected with the purchase of loans at price levels defined by the Bank and fee based on management of loans granted by the Bank, also given the fact that a representative of the Bank Group is part of the Management of the company in the role of the Chairman of the Board of Directors, the Bank comes to the conclusion that the Group itself is exposed to a variable return from its involvement with the company and has the ability to influence that return through its power over the company. Given the analysis and the conclusion drawn thereof, the Bank Group consolidates with no equity participation in OTP Factoring Bulgaria EAD and its subsidiaries in 2018 . In 2019 DSK Bank acquires 100% of the equity of OTP Factoring Bulgaria EAD and its subsidiaries.

Areas which presume a higher level of subjective assessment and complexity or where presumptions and changes in accounting estimates are crucial for the financial statement are as follows:

Expected credit losses from financial assets

The Group regularly assesses its financial instruments for impairment. Management determines the adequacy of the allowances based upon reviews of individual loans and placements, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors. The use of three stage model is implemented for IFRS purposes. The impairment methodology is used to classify financial instruments in order to determine whether credit risk has significantly increased since initial recognition and able to identify credit-impaired assets. For instruments with credit-impairment or significant increase of credit risk lifetime expected losses will be recognized.

Accounting for acquisition of subsidiaries taking place in the reporting period

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The application of the acquisition method requires significant assumptions and estimates with respect to determining the acquisition date and the recognition and measurement the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree, as well as the recognition and measurement of goodwill. The apllied management assumptions and judgements are based on the share purchase agreements terms, other relevant documents and the application of industry accepted valuation models.

Fair value of financial instruments, not traded on active markets

In case when fair values of financial assets and liabilities in the statement of financial position cannot be obtained from active markets, these are defined through different measurement techniques using models. The basic data for these models is extracted from indicators observed where possible on financial markets; otherwise assumptions are made for establishing of fair values. These assumptions take in consideration factors related to liquidity, volatility for long – term derivatives and discount ratios, pre – term repayments and probabilities of default for asset – backed securities (Note 4 (f)).

Reassessment of land and buildings

As of 31 December 2019 no reassessment of Group`s land and buildings has been performed. The last reassessment of these assets has been carried out as of December 31, 2018 in cooperation with independent licensed valuers, who have used a number of acceptable valuation methods and techniques (Note 27).

Provisions for litigation settlements

For all open cases against the Group, the management assesses the probability and the risks of negative outcome and charges provisions in cases when a higher than 50% probability of unfavorable outcome for the Group is distinguished or in case of potential risks of increase in claims from the Group`s customers concerning contract payments for products and services (Note 33).

(h) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries) made up to 31 December each year. Control is achieved when the Bank:

- has the power over the investee;
- is exposed, or has rights, to variable return from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;

- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in the consolidated profit or loss account from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the owners of the Bank and to the non-controlling interests (NCI). Total comprehensive income of the subsidiaries is attributed to the owners of the Bank and to the NCI even if this results in the NCI having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies.

In the consolidated financial statements, the financial information of the subsidiaries is consolidated under the 'full consolidation' method, line-by-line. The investments of the parent company are eliminated against its share in the equity of the subsidiaries at the date of acquisition. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation, with the exception of foreign currency gains and losses on intragroup monetary items denominated in a foreign currency of at least one of the parties.

NCI in subsidiaries are identified separately from the Group's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the NCI's proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other NCI are initially measured at fair value. Subsequent to acquisition, the carrying amount of NCI is the amount of those interests at initial recognition plus the NCI's share of subsequent changes in equity.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Parent Company.

When the Group loses control of a subsidiary, the gain or loss on disposal recognised in profit or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as required/permitted by applicable IFRS Standards). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 Financial Instruments when applicable, or the cost on initial recognition of an investment in an associate or a joint venture.

(1) Reporting for Business combinations taking place in the reporting period

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. Applying the acquisition method requires:

a. identifying the acquirer;

b. determining the acquisition date;

c. recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; and

d. recognising and measuring goodwill or a gain from a bargain purchase.

Recognition principles

At the acquisition date, the Group (the acquirer) recognizes the acquiree's identifiable assets, liabilities and contingent liabilities at their fair values at the acquisition date and recognises goodwill which is subsequently tested for impairment.

To qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in the Framework for the Preparation and Presentation of Financial Statements at the acquisition date.

At the acquisition date the identifiable assets acquired and liabilities assumed are classified or designated as necessary to apply other IFRS Standards subsequently. The Group makes those classifications and designations on the basis of contractual terms, economic conditions, its operating or accounting policies and other pertinent conditions as they exist at the acquisition date.

When a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Goodwill

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period. On disposal of a cash generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

As of the acquisition date, the Group recognises, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree.

(2) Subsidiaries

Subsidiaries are those companies controlled by the Bank. The Group controls an entity when has power over the company and it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

As of December 31, 2019 DSK Bank has the following fully consolidated subsidiaries: DSK Rodina Pension Company AD, DSK Tours EOOD, DSK Dom EAD, DSK Mobile EAD, DSK Assets Management AD, DSK Leasing AD, DSK Auto Leasing EOOD, OTP Insurance Broker EOOD (former name DSK Leasing Insurance Broker EOOD), DSK Operative Leasing, DSK Trans Security EAD, OTP Factoring EAD, Expressbank AD, OTP Leasing EOOD, Express Factoring EOOD, Project Company Complex Banya EOOD and Regional Urban Development Fund AD.

(3) Subsidiaries acquired with a view for resale

Subsidiaries acquired exclusively with a view of resale are classified as disposal groups, held for sale, when the meet the following requirements:

At initial recognition, the identifiable liabilities acquired are measured at fair value, while the identifiable assets of subsidiaries acquired with a view to resale are measured at fair value less costs to sell, plus the fair value of liabilities acquired. At the end of the reporting period the Group remeasures the the liabilities acquired in accordance with relevant IFRSs, and the disposal group at fair value, the total assets are equal to the amount of the liabilities at the end of the period plus the value of the disposal group. The Group presents assets and liabilities of disposal groups separately from other assets and liabilities in its consolidated financial statements.

In the statement of comprehensive income, the Group presents the post-tax profit or loss of the subsidiary acquired with a view of resale and the post-tax gain or loss recognised on its subsequent remeasurement.

(4) Acquistions of subsidiaries in the period

On January 15, 2019 DSK Bank finalized the transaction for acquisition of 99.74% of the capital of Expressbank AD (former name Societe Generale Expressbank AD) and indirect control over its subsidiaries Express Factoring EOOD (former name Societe Generale Factoring EOOD), OTP Leasing EOOD (former name Sogeliz-Bulgaria EOOD and Regional Fund for Urban Development AD from the French banking group Société Générale. Simultaneously, was also finalized the transaction for the acquisition of Express Life Insurance AD (former name Sogelife Bulgaria AD) through the indirect acquisition of 41.55% of the capital of Sogelife Bulgaria AD, owned Expressbank AD, and the direct acquisition of the remaining 58.45% of the capital from Sogecap SA. Express Life Insurance AD is classified as a subsiary with a view for resale at acquisition date.

Expressbank AD functions as a universal bank and offers a full range of banking products and services to the banking market.

Main activities of Express Factoring EOOD are related to trade receivables factoring.

OTP Leasing EOOD primary activities are related to the financial leasing of production equipment, construction technique, transport equipment and cars.

Regional Fund for Urban Development AD is a joint-stock company with gratuitous financing for urban projects included in integrated plans for sustainable urban development, for public-private partnership or similar, as defined in Art. 44 of Council Regulation (EU) No 108362006 of 11 July 2006, as subsequently amended and acquired in such projects (including through the acquisition of shares in the capital of other companies), and other commercial activities not prohibited by the law.

Express Life Insurance AD is a joint-stock company with main activity of insurance in the following types of insurance: life insurance; investment-related life insurance; accident insurance.

On 14 November 2019 DSK Bank and Expressbank enter into a reorganisation agreement within the meaning of Chapter Sixteen of the Commercial Act by the merger of Expressbank (as an acquiree Bank) into DSK (as an acquiring Bank) in 2020.

(5) Acquistion of ownership interest in controlled entities without previous equity participation

On April 3, 2019 DSK Bank, via a share purchase agreement, acquires 100 % of the share capital of OTP Factoring Bulgaria EAD, thereby becoming the sole owner of the capital of the company and its wholly onwned non-operational subsidiaries. Before the acquisition acquiree is consolidated line by line by the Bank on a control basis with no equity participation, the effect of the acquisition is presented in the consolidated financial statements as a transaction between the owners and is reflected as a movement in equity.

(6) Disposal of subsidiaries acquired with a view of resale in the period

On 31 October 2019 the Group sold its ownership interest in Express Life Insurance EAD to the French group Grupama.

(7) Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Investments in associates are accounted for under the equity method. Equity accounting involves recognition of the Bank’s share of the total recognized gains and losses of associates for the year in the statement of profit or loss. The Bank’s interest in the associates is carried in the statement of financial position at an amount that reflects its share of the net assets of the associate.

DSK Bank owns 25% of the equity in Cash Services Company and has significant influence over the financial and operating policies of the company.

2. Changes in Accounting policy

Changes related to the application of IFRS 16 Leases

The Group has adopted IFRS 16, as issued by the IASB in January 2016, with a transition date of January 1, 2019, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements.

IFRS 16 Leases supersedes IAS 17 – Leases, interpretation IFRIC 4 - Determining Whether an Arrangement Contains a Lease, SIC 15 - Operating Leases – Incentives and SIC 27 - Evaluating the Substance of Transactions in the Legal Form of a Lease.

The purpose of the new standard is to ease the comparability of the financial statements, presenting both financial and operating leases in the statement of financial position, and providing corresponding information to the users of the financial statements about the risks associated with the agreements.

Impact on the lessee's reporting

The new standard discontinues the differentiation between operating and finance leases in the lessee's books, and requires to recognise a right-of-use asset and lease liability regarding all of the lesses's lease agreements.

Pursuant to IFRS 16, an agreement is a lease or contains a lease if it transfers the rights to control the use of an identified asset for a given period in exchange for compensation.

The essential element differentiating the definition of a lease from IAS 17 and from IFRS 16 is the requirement to have control over the used, specific asset, indicated directly or indirectly in the agreement.

Expenses related to the use of lease assets, the majority of which were previously recognised in external services costs, will be currently classified as depreciation/amortisation and interest costs.

In the cash flow statement cash flows from the principal of the lease liability are classified as cash flows from financing activities, while lease payments for short-term leases, lease payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability are classified as cash-flows from operating activities. The interest payments regarding the lease liability are classified according to the IAS 7.

The Group as a lessee uses a modified retrospective approach. The application of the modified retrospective approach requires the lessee to present the cumulative effect of IFRS 16 as an adjustment to the opening balance of equity for the period in which the standard is first applied.

Impact of IFRS 16 on the financial statements

Following the adoption of IFRS 16, the Group has recognized:

- right-of-use assets and lease liabilities related to leases in the Consolidated statement of financial position, initially measured at the present value of lease payments receivable as at the date of commencement of the application of IFRS 16. Lease payments are discounted using the interest rate implicit in the lease or, if that rate can not be readily determined, the incremental borrowing rate.
- Depreciation of right-of-use assets and interest on leasing liabilities in the consolidated statement of profit or loss and
- Split the total amount of payments between the portion of the principal and the interest in the consolidated statement of profit or loss

The implementation of IFRS 16 requires the making of certain estimates and calculations which effect the measurement of financial lease liabilities and of right-of-use assets. These include among others:

- determining which agreements are subject to IFRS 16;

- determining the life of such agreements (including for agreements with unspecified lives or which may be prolonged);
- determining the interest rates to be applied for the purpose of discounting future cash flows;
- determining depreciation rates.

The Group makes use of expedients with respect to short-term leases (less than 12 months) as well as in the case of leases in respect of which the underlying asset has a low value (under BGN 10 000) and for which agreements it will not recognise financial liabilities nor any respective right-of-use assets. These types of lease payments will be recognised as costs using the straight-line method during the life of the lease.

The impact of implementing IFRS 16 on the recognition of additional financial liabilities and respective right-of-use assets was estimated on the basis of agreements in force as of 31 December 2018.

In the Consolidated Statement of Profit or Loss, IFRS 16 reflects a decrease in other expenses and an increase in depreciation and interest expense.

Initial recognition of right-of-use assets

In thousands of BGN	**Land, buildings and equipment**	**Vehicles**	**Total**
Right-of-use assets			
Initial recognition	40 300	30	40 330
Transferred from tangible assets	-	1 027	1 027
Total right-of-use assets as at 01 January 2019	**40 300**	**1 057**	**41 357**
Depreciation			
Transferred from tangible assets	-	63	63
Total depreciation as at 01 January 2019	**-**	**63**	**63**
Lease liabilities			
Initial recognition	40 524	30	40 554
Transferred from financial lease liabilities	-	991	991
Total lease liabilities as at 01 January 2019	**40 524**	**1 021**	**41 545**

The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets of BGN 41 357 thousand and lease liabilities of BGN 41 545 thousand. It also resulted in a decrease in other expenses of BGN 16 460 thousand and an increase in depreciation of BGN 15 810 thousand and interest expense of BGN 650 thousand for the Group.

The lease liability on leases previously classified as finance leases under IAS 17 and previously presented within Other liabilities (Obligations under finance leases) of BGN 63 thousand is presented in the line Lease liabilities. There has been no change in the liability recognised.

Impact on the lessor's reporting

For the lessor, IFRS 16 retains the requirements and rules of IAS 17 for initial recognition and measurement. Leases should be classified as financial or operating under IFRS 16. Compared to IAS 17, IFRS 16 requires lessors to disclose more detailed information than previously, but overall the main features of accounting treatment are retained.

3. Significant accounting policies

(a) Interest income and expenses recognition

In the Consolidated Statement of profit or loss interest income and expense include:

- interest on financial assets and liabilities at amortised cost calculated on an effective interest basis;
- interest on securities at fair value through other comprehensive income calculated on an effective interest basis.

Interest income and expenses are recognised in the consolidated statement of profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes all fees paid or received as well as discounts and premiums which are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest revenue on receivables with risk Stage 3 including with delays in payments over 90 days on a collective assessment basis. For these financial assets, the Group recognizes interest on the basis of the net amortized cost of the receivables. For this purpose, a corrective adjustment is calculated for the difference between the contractually accrued interest on the basis of EIR on the gross value of the financial asset and the calculated interest on the EIR basis of the amortized cost of the asset less the loss allowance for expected credit losses.

Interest revenue on receivables with risk Stage 3 including with delays in payments over 90 days on individual assessment basis with credit impairment based on unwinding when the receivable is expected to be covered by the contractual cash flows from collateral or other cash flows. For these financial assets, the Group recognizes interest on the basis of the discounted unwinding cash flows by accruing an adjustment for the difference between the contractually accrued interest on the basis of EIR on the gross value of the financial asset and the difference between the present values of the unwinding cash flows in the separate reporting periods discounted with the EIR.

(b) Foreign currency transactions

Upon initial recognition, each foreign currency transaction is reported in the functional currency (Bulgarian Lev) by applying the exchange rate at the date of the transaction to the amount of the foreign currency. Monetary assets and liabilities denominated in foreign currencies and stated at historical cost, are translated at the foreign exchange rate ruling at that date. Foreign exchange rate differences arising on translation are recognized in the statement of profit or loss. Non-monetary assets and liabilities initially denominated in a foreign currency are reported in the functional currency using the historical exchange rate at the date of the transaction.

The effects of exchange differences related to the settlement of foreign currency transactions or the reporting of foreign currency transactions at rates different from those for which they were initially recognized are included in the current profit or loss of their occurrence to the item "net gains / (losses) on trading".

(c) Fees and commission

Fees and commission income, including account servicing fees, investment management fees, sales commission, guarantees, and letter of credit fees are recognised as the related services are performed.

Fees and commission expenses related mainly to transaction and service fees, which are expensed as the services are received.

Performance obligations and revenue recognition policies

Fee type	Nature and timing of satisfaction of performance obligations, and the significant payment terms	Revenue recognition under IFRS
Fees and commissions related to payment transactions	The Group provides to its customers a variety of services, related to withdrawals and depositing funds into bank accounts, payments in local and foreign currency, according to which different fees are applied. In the case of transaction – based fees (for example in the case of cash withdrawal either a POS/ATM payment fee or a fee for cash withdrawal in the Group`s offices is charged, etc.) the fee is due immediately after the transaction takes place or once per month. The fee is usually defined in % of the transaction amount with a pre – defined fixed minimum amount. For services resulting in bank transfer of money, the fee is charged when the transaction takes place. These fees are defined in fixed amount or in %. The Group performs a regular pricing review of applicable fees and commissions.	Transaction-based fees are charged when the transaction takes places or monthly at the end of the month.
Fees and commissions related to credit deals	The Group offers a number of account management services for both retail and companies, also provides its clients` with various types of credit cards charged at differentiated levels. Fees related to these services are mainly connected with account management, credit card issuing, annual bank card fees and other fees for usual account services. Annual bank card fees are defined as fixed amount depending on the card type. The Group performs a regular pricing review of applicable fees and commissions.	Fees for current account management services are on a monthly basis. Fees on one – off services are charged at the moment of service delivery.

Fee type	Nature and timing of satisfaction of performance obligations, and the significant payment terms	Revenue recognition under IFRS
Fees and commissions related to deposit deals	The Group offers a wide range of account management services to both individuals and enterprises, for which respective fees are charged, in addition they are provided with various debit cards charged differently.	Fees for current account management services are on a monthly basis.
	Fees related to these services are mainly connected with account opening and closing fees, management fees, online banking, debit card issuing, monthly fees for debit card services and other fees for usual account services. Fees for current account management services are charged to the customer on a monthly basis. They are usually fixed to an amount depending on the package program or the category of the client. Monthly and annual fees on bank cards are set in fixed amount. They depend on the type of the bank card. Fees for one – off services of occasional type are charged in the moment the client makes use if the service. These fees can be fixed or determined in %. The Group regularly reviews applied fees.	Fees on one – off services are charged at the moment of service delivery.
Other fees and commissions	Fees reported in the “Other fees” category are fees for safekeeping of money or valuables in the safe boxes of the public treasury issuing of bank certificate, issuing of bank reference, photocopies of documents, etc.	Long – term service fees related to the period the client takes benefit of this service.
	These fees concern long – term services provision (bank safekeeping) or one – off administrative services.	One – off fees are charged on the moment of service delivery.
	Fees and deductions related to asset management of DSK Rodina are reported in this category. They include fees from security contributions, initial charges, investment fees and others. Fees and deductions related to asset management of Group Funds are fixed in % and are defined according to the local legal requirements and the rules of procedure of the respective pension fund.	Revenues are recognized along the time, as the contract progress is measured on the basis of time elapsed (on a linear basis - monthly).

(d) Net trading income

Net trading income comprises gains net from losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, and foreign exchange rate differences. Net trading income includes foreign currency exchange rate differences on investment financial assets.

(e) Financial instruments

(1) Classification

In accordance with the IFRS 9 provisions the Group classifies financial assets as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of the following two conditions: the Group business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Classification of financial assets is driven by the Bank Group's business model for managing of financial assets and their contractual cash flow characteristics. The process for determining the classification and requirements for its application technology is illustrated by the following scheme:

Is the objective of the Group business model to hold the financial assets to collect contractual cash flows?	No	Is the financial asset held to achieve an objective by both collecting contractual cash flows and selling financial assets?	No	
Yes		Yes		
Do contractual cash flows represent solely payments of principal and interest?			No	
	Yes			FVPL
Does the Group apply the fair value option to eliminate an accounting mismatch?			Yes	
No		Yes		
Amortised cost		FVOCI		

Business model for financial assets management

The business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

The business model does not depend on the intentions of the management with respect to a separate instrument.

The Group can have more than one business model for managing its financial instruments. The Group can hold one portfolio of investments that it manages in order to collect contractual cash flows and another portfolio of investments that it manages in order to sell to realize fair value changes.

Depending on the strategy and the risk profile, the Group has identified the following business models for managing financial assets:

- Business model whose objective is to hold financial assets in order to collect contractual cash flows (held to collect)
- Business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (held to collect and sell)
- Business model that aims to realise cash flows through the sale of financial assets.

The Group may have the same type of instrument in all three categories, depending on the asset management model.

(2) Recognition

The Group shall recognise a financial asset or a financial liability in its statement of financial position when the Group becomes party to the contractual provisions of the instrument.

Unconditional receivables and payables are recognised as assets or liabilities when the Group becomes a party to the contract and, as a consequence, has a legal right to receive or a legal obligation to pay cash.

Assets to be acquired and liabilities to be incurred as a result of a firm commitment to purchase or sell goods or services are generally not recognised until at least one of the parties has performed under the agreement.

Forward contract that is within the scope of IFRS 9 is recognised as an asset or a liability on the commitment date, instead of on the date on which settlement takes place. When the Group becomes a party to a forward contract, the fair values of the right and obligation are often equal, so that the net fair value of the forward is zero. If the net fair value of the right and obligation is not zero, the contract is recognised as an asset or liability.

Option contracts that are within the scope of IFRS 9 are recognised as assets or liabilities when the holder or writer becomes a party to the contract.

Planned future transactions, no matter how likely, are not assets and liabilities because the Group has not become a party to a contract.

A regular way purchase or sale of financial assets shall be recognised and derecognised, as applicable, using settlement date accounting.

Regular way purchase or sale according to the terminology in Appendix A of IFRS 9 is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

The settlement date is the date that an asset is delivered to or by the Group. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the Group, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the entity.

(3) Initial measurement

Except for trade receivables that do not contain a significant financing component and are measured at their transaction price within the scope of paragraph 5.1.3 of IFRS 9, at initial recognition, the Group shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

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).

(4) Subsequent measurement

Amortised cost measurement

The amortized cost (net amortized cost) at a certain date includes the cost of: outstanding principal, accrued interest receivables/payables, non-amortized discount, premium and fees participating as part of the exposure of the financial instrument upon acquisition and element in determining the EIR and the amount of the accumulated write-off for interest or credit impairment.

If the credit risk on the financial instrument improves, the criteria set by the Group shall resume charging interest over subsequent periods on the basis of the gross amortized cost of the financial asset.

The cumulative interest corrective is derecognized from the amortized cost and is recognized as interest income. Recognition of interest corrective as interest income is made after the receivable is fully repaid by the debtor or in forming of a negative amortized cost thereon.

Fair value measurement

The Group measures fair values of financial instruments using hierarchy methods that reflect the significance of the inputs used in making the fair value measurements:

Level 1: Quoted market price (unadjusted) in an active market for identical assets or liabilities. Fair values of financial assets and financial liabilities which are traded on active markets with access to market information are based on the quoted market prices or the closing prices.

Level 2: Valuation techniques for financial instruments based on market data either direct (i.e. such as quoted prices) or indirect (i.e. inputs from the prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data. The Group measures the fair values using the valuation technique based on the net present value. The calculation of NPV is based on market yield curves and credit spreads where it is required for the corresponding instrument. The aim of the measurement methods is to define the fair value which reflects the value of the financial instrument as of the reporting date, which would have been defined by direct market players.

Level 3: Valuation techniques using significant unobservable inputs for financial assets and liabilities.

The Group recognizes transfer between the levels in the hierarchy of the fair values in the end of the reported period when the change is made.

The best evidence of the fair value at the initial recognition is the transaction price (i.e. the fair value of the consideration given or received). If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, 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. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure.

Fair value measurement through other comprehensive income

Gain or loss attributable to a financial asset measured at fair value through other comprehensive income is recognized in other comprehensive income, except for gains or losses on impairment and foreign exchange gains or losses until the asset is derecognised or reclassified.

Upon derecognition of the financial asset, cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

Interest calculated using the effective interest method is recognized in profit or loss.

When assessing a financial asset at fair value through other comprehensive income, the amounts recognized in profit or loss are the same as those that would have been recognised in profit or loss if the financial asset had been measured at amortised cost.

Gain or loss associated with investments in equity instruments measured at fair value in other comprehensive income is recognized in other comprehensive income, including foreign exchange gains or losses until the financial asset is derecognised or reclassified. Amounts recognized in other comprehensive income are not subsequently transferred to profit or loss. The Group may transfer the accumulated profit or loss within equity. Dividends on these investments are recognized in profit or loss.

Investments in equity instruments for which there is insufficient more recent information to measure fair value, or varied widely, are presented at cost as the most appropriate fair value estimate.

Fair value measurement through profit or loss

A gain or loss on a financial asset or financial liability that is measured at fair value shall be recognised in the statement of profit or loss unless: it is part of a hedging; it is an investment in an equity instrument the profits and losses from which are recognized in accordance with IFRS 9 paragraph 5.7.5; it is a financial liability designated as at fair value through profit or loss and the Group should present changes in fair value resulting from a change in its own credit risk in other comprehensive income; or it is a financial asset measured at fair value through other comprehensive income.

(5) Derecognition

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

The Group takes decision for full write-off of financial asset when it is: classified as “loss”, entirely impaired and lost by limitation or the debtor is an entity deleted from trade or other public register and has no successor, or it is an individual who has passed away, without leaving heirs or the heirs have waived their rights over the inheritance. The Group could partially write-off financial assets when each of the following conditions must be cumulatively met: there is no reasonable expectation of a full recovery of the asset; the exposure is overdue for more than 365 days; it can be expected that a certain part of the exposure will not be collected and the exposure is subject to collection through a court procedure and there is no effective out-of-court agreement for settlement of the claim.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if it does not retain control over the asset. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers in which control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised in its entirety if it meets the criteria for derecognition. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the service.

(6) Offsetting

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

Income and expenses are presented on a net basis only when permitted by the accounting standards.

(7) Impairment

The Group applies the impairment requirements to financial assets that are measured at amortised cost, to financial assets that are measured at fair value through other comprehensive income as well as commitments on loans and financial guarantee contracts falling within the scope of the Standard in accordance with IFRS 9 paragraph 5.2.2.

The assessment of credit risk is performed on a collective or individual basis for a group or sub-group of financial instruments.

The Group recognises a loss allowance for expected credit losses on all financial assets that are measured at amortised cost, at fair value through other comprehensive income, a lease receivable, a contract asset or a loan commitment and a financial guarantee contract using the General approach of IFRS 9.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event,ie when the counterparty has not made a payment that has become payable by contract (over 90 days);
- the Group, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event identifying evidence of credit impairment. Instead the combined effect of several events may have caused financial assets to become credit-impaired.

Credit loss is the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (ie all cash shortfalls), discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

The Group estimates cash flows by considering all contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) through the expected life of that financial instrument. The cash flows that are considered shall include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. There is a presumption that the expected life of a financial instrument can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the expected life of a financial instrument, the Group uses the remaining contractual term of the financial instrument.

Credit-adjusted effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset to the amortised cost of a financial asset that is a purchased or originated credit-impaired financial asset.

When calculating the credit-adjusted effective interest rate, the Group estimates the expected cash flows by considering all contractual terms of the financial asset (for example, prepayment, extension, call and similar options) and expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Transaction costs are the Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

(8) *Reclassification*

When, and only when, the Group changes its business model for managing financial assets the Group reclassifies all affected financial assets measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss.

If the Group reclassifies financial assets, it applies the reclassification prospectively from the reclassification date. The Group does not restate previously recognised gains, losses (including impairment gains or losses) or interest.

If the Group reclassifies a financial asset out of the amortised cost measurement category and into the fair value through profit or loss measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in profit or loss.

If the Group reclassifies a financial asset out of the fair value through profit or loss measurement category and into the amortised cost measurement category, its fair value at the reclassification date becomes its new gross carrying amount (the amortised cost of the financial asset before adjusting for any loss allowance).

If the Group reclassifies a financial asset out of the amortised cost measurement category and into the fair value through other comprehensive income measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in other comprehensive income. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

If the Group reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the amortised cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. However, the cumulative gain or loss previously recognised in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortised cost. This adjustment affects other comprehensive income but does not affect profit or loss and therefore is not a reclassification adjustment. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

If the Group reclassifies a financial asset out of the fair value through profit or loss measurement category and into the fair value through other comprehensive income measurement category, the financial asset continues to be measured at fair value.

If the Group reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the fair value through profit or loss measurement category, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

Subsequent reclassification of financial liabilities is prohibited in accordance with the IFRS 9.

(9) Modification

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset in accordance with IFRS 9, but results in a material change in the net present value of the asset (NPV changes by more than 1% as a result of the modification/renegotiation and this change is not related to a change in market prices), the Group recalculates the gross carrying amount of the financial asset and shall recognise a modification gain or loss in profit or loss, such as:

- The gross carrying amount of the financial asset shall be recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets);

- The adjustment to the gross carrying amount is the difference between the present value of the modified cash flow discounted to the agreed EIR and the present value of the modified cash flow on the recalculated new EIR. This adjustment is reflected in a corrective account and a one-time effect on profit or loss and is amortized as interest income/expense over the remaining term of the modified financial asset.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a 'new' financial asset.

A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The terms are 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 per cent 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 recognised 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 amortised over the remaining term of the modified liability.

(10) Purchased credit-impaired financial assets

Purchased financial asset is an asset which is credit-impaired on initial recognition.

The Group classifies the purchased credit-impaired financial assets as measured at amortized cost only if the following conditions are met simultaneously:

The financial asset is held by the Group within a business model with the objective to hold financial assets in order to collect contractual cash flows; and

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

Amortised cost is the amount at which the credit-impaired financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation between that initial amount and the maturity amount, which for purchased credit-impaired financial assets is calculated by applying the credit-adjusted effective interest rate (CAEIR).

Credit-adjusted effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset to the amortised cost of a financial asset that is a purchased or originated credit-impaired financial asset.

When calculating the credit-adjusted effective interest rate, the Group shall estimate the expected cash flows by considering all contractual terms of the financial asset (for example, prepayment, extension, call and similar options) and expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Transaction costs are the Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

The Group only recognises the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance for purchased or originated credit-impaired financial assets. At each reporting date, the Group shall recognise in profit or loss the amount of the change in lifetime expected credit losses as an impairment gain or loss. The Group recognises favourable changes in lifetime expected credit losses as an impairment gain, even if the lifetime expected credit losses are less than the amount of expected credit losses that were included in the estimated cash flows on initial recognition.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand and cash deposited with the Central Bank, nostro accounts, and short term highly liquid receivables from banks with initial maturity of up to three months.

(g) Financial assets and liabilities held for trading

Trading assets and liabilities that are measured at fair value through profit or loss in accordance with the business model within which they are managed.

All changes in fair value are recognised as part of net trading income in profit or loss.

(h) Investment securities

Investment securities are initially measured at fair value and subsequently accounted for depending on their classification depending on the business model.

(i) Derivatives

The Group uses derivatives as forward, futures, swap and option deals to manage an exposure to market risk or for trading. All derivatives are recognised as financial assets for trading on the settlement date with respective gains and losses. The changes in market value of derivatives are recognised in the Statement of profit or loss.

The objective of hedge accounting is to represent, in the financial statements, the effect of an Group's risk management activities that use financial instruments to manage exposures arising from particular risks that could affect profit or loss (or other comprehensive income, in the case of investments in equity instruments for which the Group has elected to present changes in fair value in other comprehensive income).

A derivative measured at fair value through profit or loss may be designated as a hedging instrument, except for some written options.

A non-derivative financial asset or a non-derivative financial liability measured at fair value through profit or loss may be designated as a hedging instrument unless it is a financial liability designated as at fair value through profit or loss for which the amount of its change in fair value that is attributable to changes in the credit risk of that liability is presented in other comprehensive income.

For a hedge of foreign currency risk, the foreign currency risk component of a non-derivative financial asset or a non-derivative financial liability may be designated as a hedging instrument provided that it is not an investment in an equity instrument for which the Group has elected to present changes in fair value in other comprehensive income.

A hedged item can be a recognised asset or liability, an unrecognised firm commitment, a forecast transaction or a net investment in a foreign operation.

A hedging relationship qualifies for hedge accounting only if all of the following criteria are met:

- The hedging relationship consists only of eligible hedging instruments and eligible hedged items;

- At the inception of the hedging relationship there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess whether the hedging relationship meets the hedge effectiveness requirements (including its analysis of the sources of hedge ineffectiveness and how it determines the hedge ratio);

- The hedging relationship meets all of the following hedge effectiveness requirements: there is an economic relationship between the hedged item and the hedging instrument; the effect of credit risk does not dominate the value changes that result from that economic relationship; and the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. However, that designation shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness (irrespective of whether recognised or not) that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting.

The Group applies hedge accounting to hedging relationships that meet the qualifying criteria in paragraph 6.4.1 of IFRS 9.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group shall adjust the hedge ratio of the hedging relationship so that it meets the qualifying criteria again.

The Group shall discontinue hedge accounting prospectively only when the hedging relationship (or a part of a hedging relationship) ceases to meet the qualifying criteria (after taking into account any rebalancing of the hedging relationship, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. For this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such a replacement or rollover is part of, and consistent with, the entity's documented risk management objective.

(j) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near future term. They include loans and advances to banks and loans and advances to customers.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo"), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the statement of financial position.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured in accordance with the business model.

(k) Property, plant and equipment

The Group applies a policy to measure subsequently land and buildings at revalued amount under the allowed alternative approach in IAS 16, Property, plant, and equipment.

Items of land and buildings are stated at fair value determined periodically by a professional registered valuer. The revaluation of assets is carried asset by asset based on proportional calculation of the book value of the asset and the accumulated for it depreciation as of the date of revaluation. When the carrying amount of assets is increased as a result of revaluation, the increase is credited directly as revaluation reserve. When the carrying amount of assets is decreased as a result of revaluation, the decrease is recognized as a decrease of previous revaluation reserve and any excess is recognized as an expense in the statement of profit or loss.

Items of fixtures and fittings and other tangible assets are stated in the statement of financial position at their acquisition cost less accumulated depreciation.

Depreciation is provided on a straight-line basis designed to write down the cost of property, plant, and equipment over their expected useful life.

The approximations of the annual rates of depreciation used from the Group are as follow:

	%
▪ Buildings	2 - 33
▪ Machines and equipment	30
▪ Motor cars	25
▪ Vehicles (without motor cars)	10
▪ Computers, according to their class and useful life	12.5 - 100
▪ Fixtures and fitting and other depreciable fixed assets	10 - 15

Assets are depreciated from the date they are brought into use.

(l) Investment property

Investment properties are presented in the financial statements at historical cost less accumulated depreciation and impairment losses.

Depreciation is provided on a straight-line basis and a depreciation rate of 4%.

Rental income from investment property is recognised as revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Rental income from other property is recognised as other income.

(m) Intangible assets

Intangible assets include mainly software and other intangible assets. Intangible assets can be acquired as part of a business combination transaction (see Business combinations 1 h (1)), or acquired separately.

Other intangible assets, which are acquired by the Group, are stated at cost less accumulated amortization and any impairment losses.

Amortization is calculated on a straight-line basis over the expected useful life of the asset.

The annual rates of amortization are as follows:

	%
▪ Computer software, according to class and useful life	10 -100

(n) Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than land and buildings) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

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

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss statement. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed.

For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(o) Leasing

Policy, applied from 01 January 2019

(1) General provisions

The recognition, measurement, presentation and disclosure of leases shall be made in accordance with the requirements of IFRS 16 Leasing, considering the terms and conditions of the contracts and all relevant facts and circumstances.

Upon initial recognition, the Group determines whether a contract is a lease or contains a lease component. A contract is a lease or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group reassesses whether a contract is or contains a lease only if the terms and conditions of the contract are changed.

(2) Accounting for the lease when the Group is a lessee

On the commencement date, the Group recognizes a right-of-use asset and a lease liability. The Group measures the right-of-use asset at cost. The cost of the right-of-use asset comprises of:

(a) the amount of the initial measurement of the lease liability;

(b) any lease payments made at or before the commencement date, less any lease incentives received;

(c) any initial direct costs incurred by the lessee; and

(d) an estimate of costs to be incurred by the Group in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

At the commencement date, the Group measures the lease liability at the present value of the lease payments that are not paid at that date.

The Group includes prolongation options as part of the lease contracts of buildings with a shorter, irrevocable period (from three to five years).

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses its incremental borrowing rate. At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

(a) fixed payments, less any lease incentives receivable;

(b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

(c) amounts expected to be payable by the lessee under residual value guarantees;

(d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and

(e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

After the commencement date, the Group measures the right-of-use asset applying a cost model. The right-of-use asset is measured at cost:

(a) less any accumulated depreciation and any accumulated impairment losses; and

(b) adjusted for any remeasurement of the lease liability.

If the lease transfers ownership of the underlying asset to the Group by the end of the lease term or if the cost of the right-of-use asset reflects that the Group will exercise a purchase option, the Group depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Group depreciates the right-of use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

After the commencement date, the Group measures the lease liability by:

(a) increasing the carrying amount to reflect interest on the lease liability;

(b) reducing the carrying amount to reflect the lease payments made; and

(c) remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. The periodic rate of interest is the discount rate implicit in the lease, if that rate can be readily determined, or the Group's incremental borrowing rate if the interest rate implicit in the lease cannot be readily determined or if applicable the revised discount rate.

After the commencement date, the Group remeasures the lease liability to reflect changes to the lease payments. The Group recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Group recognises any remaining amount of the remeasurement in profit or loss.

The Group recognizes a right-of-use asset and lease liability for all lease contracts (an unified balance approach) with two exceptions:

(a) short term leases - up to 12 months; and

(b) leases for which the underlying asset is of low value. For the purpose of the standard low-value assets are up to the BGN 10 000.

For short-term lease or lease, the underlying asset of which is of low value, the Group recognizes the related lease payments as an expense on a straight-line basis over the term of the lease.

The effects of lease contracts of the Group as lessee are disclosed in notes 5, 14, 15, 26 and 32.

(3) Accounting for the lease when the Group is a lessor

The Group as a lessor classifies each of its leases as either an operating lease or a finance lease. The leasing activity of the Group involves lease of vehicles, industrial equipment, real estate and others, on finance lease contracts.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset and as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

Typical indicators, considered by the Group for determining if all significant risks and benefits have been transferred include: present value of minimum lease payments in comparison with the fair value of the lease asset at the beginning of the lease contract, the term of the lease contract in comparison with the economic life of the leased out asset and also whether the lessee will acquire ownership over the leased asset at the end of the term of finance lease.

Lease classification is made at the inception date and is reassessed only if there is a lease modification. Changes in estimates (for example, changes in estimates of the economic life or of the residual value of the underlying asset), or changes in circumstances (for example, default by the lessee), do not give rise to a new classification of a lease for accounting purposes.

Minimum lease payments

Minimum lease payments are the payments that the lessee will or may be required to make during the term of the lease contract. From the Group's point of view minimum lease payments also include the residual value of the asset guaranteed by a third party, not-related to the Group, provided that such party is financially capable of fulfilling its commitments under the guarantee or under the repurchase agreement. In the minimum lease payments the Group also includes the cost of exercising the option, which the lessee has for the purchase of the asset, as at the beginning of the lease contract it is to a large extent certain that the option will be exercised. Minimum lease payments do not include conditional rents, as well as costs of services and taxes to be paid by the Group and subsequently re-invoiced to the lessee.

Initial and subsequent measurement

Initially the Group recognizes a receivable under finance lease, equal to its net investment, which includes the present value of minimum lease payments and any unsecured residual value for the Group. The present value is calculated by discounting the minimum lease payments due by the inherent to the lease contract interest rate. Initial direct costs are included in the calculation of the claim under finance lease. During the term of the lease contract the Group accrues financial income (income from interest on finance lease) on net investment. Received lease payments are treated as a reduction of net investment (repayment of principal) and recognition of financial income in a manner to ensure a constant rate of return on net investment. Consequently, the net investment in finance lease contracts is presented net, after deduction of expected credit loss (see 3 (e) (*7*)).

Policy, applied till 31.12.2018

Leased assets

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

Assets under contracts of financial leases are reported in statement of financial position as property, plant and equipment and lease liability. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term.

Finance lease receivables

The leasing activity of the Group involves lease of vehicles, industrial equipment, real estate and others, on finance lease contracts. The lease contract is an agreement under which the lessor gives the lessee the right of use of a particular asset for an agreed term against a reward. Lease contract is recorded as finance when with the contract the lessor transfers to the lessee all substantial risks and benefits associated with the ownership of the asset.

Typical indicators, considered by the Group for determining if all significant risks and benefits have been transferred include: present value of minimum lease payments in comparison with the fair value of the lease asset at the beginning of the lease contract, the term of the lease contract in comparison with the economic life of the leased out asset and also whether the lessee will acquire ownership over the leased asset at the end of the term of finance lease.

Minimum lease payments

Minimum lease payments are the payments that the lessee will or may be required to make during the term of the lease contract. From the Group's point of view minimum lease payments also include the residual value of the asset guaranteed by a third party, not-related to the Group, provided that such party is financially capable of fulfilling its commitments under the guarantee or under the repurchase agreement. In the minimum lease payments the Group also includes the cost of exercising the option, which the lessee has for the purchase of the asset, as at the beginning of the lease contract it is to a large extent certain that the option will be exercised. Minimum lease payments do not include conditional rents, as well as costs of services and taxes to be paid by the Group and subsequently re-invoiced to the lessee.

Initial and subsequent measurement

Initially the Group recognizes a receivable under finance lease, equal to its net investment, which includes the present value of minimum lease payments and any unsecured residual value for the Group. The present value is calculated by discounting the minimum lease payments due by the inherent to the lease contract interest rate. Initial direct costs are included in the calculation of the claim under finance lease. During the term of the lease contract the Group accrues financial income (income from interest on finance lease) on net investment. Received lease payments are treated as a reduction of net investment (repayment of principal) and recognition of financial income in a manner to ensure a constant rate of return on net investment. Consequently, the net investment in finance lease contracts is presented net, after deduction of expected credit loss.

(p) Classification and measurement of assets acquired from collaterals

Acquired assets, which prior to their acquisition were held as collateral of loans granted, are classified by the Group as investment property and other assets. Upon the initial acquisition of these assets, the Group's management makes judgements regarding their classification, based on its intentions and possibilities for future use and/or disposal. According to the Group's accounting policy, assets classified as other assets acquired from collaterals, are subsequently measured at the lower of the their carrying amount and the fair value less costs for disposal.

(q) Inventories

The measuring of inventories at their acquisition is of the amount of purchase, which includes the sum of all purchase and processing costs, as well as other expenses, incurred in connection with the delivery of inventories to their current location and condition.

The used cost formula is "first in - first out" (FIFO).

Inventories are presented in the statement of financial position at the lower of the carrying amount and net realizable value. For this reason, annually, at the date of financial statement of the Group, these assets are estimated of the net realizable value on the most reliable existing data at the valuation date.

(r) Provisions

Provisions are current liabilities and incurred expenses of the Group for which there is uncertainty in terms of timing and amount of future expenses necessary for settlement of the liability.

Provision shall be recognized in the financial statements of the Group when:

- The Group has a present obligation (legal or constructive) as a result of past events;
- Probability exists that to repay the obligation, an outflow of economic benefits will be required; and
- A reliable measurement can be performed of the amount of liability.

Provision is also recognized and measured for commitments to extend credit and for warranties arising from banking activities based on IFRS 9 Financial Instruments. For calculation of provisions is used credit conversion factor, which shows the proportion of the undrawn facility that will be probably funded.

The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

Provisions shall be reviewed at the end of each reporting period to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision shall be reversed.

A provision shall be used only for expenditures for which the provision was originally recognised.

(s) Pension reserves

By managing the additional pension assurance Fund, DSK Rodina Pension Company AD guarantees its obligations towards the insured individuals by forming specialized reserves, as stipulated by the provisions of the Social Assurance Code.

(t) Deposits

Deposits are one of the Group’s sources of debt funding.

Deposits are initially measured at fair value minus incremental direct costs, and subsequently measured at their amortised cost using the effective interest rate method.

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (“repo”), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Group’s financial statements.

(u) Contingent liabilities

Contingent liabilities are:

- Unused funds on loans and credit lines authorized by the Group;
- Possible obligations of the Group arising from past events and whose existence can be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that cannot be entirely controlled by the Group; or
- A current liability arising from past events, however, unrecognized because it is improbable that an outflow of resources including economic benefits will be required for its repayment or the amount of obligation cannot be identified reliably enough.

Major areas in The Group's activity arising and subject of a review for the needs of their recognition and provision are related with:

- Claims against the Group on cases enforced by clients, counterparties and employees of the Group;
- Taxation risks obligations;
- Possible claims against the Group related to ownership;
- Other potential obligations – on contracts with counterparties which under certain circumstances would lead to cash outflows from the Group and others.

(v) Taxation

Tax on the profit for the year comprises current tax and deferred tax. Tax on the profit is recorded in the statement of profit or loss except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity. Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates effective or enacted by the statement date, and any adjustment of tax payable for previous years.

Deferred tax is provided using the statement of financial position liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is calculated on the basis of the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. The effect on deferred tax of any changes in tax rates is charged to the statement of profit or loss, except to the extent that it relates to items previously charged or credited directly to equity.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and tax credits can be utilized.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income taxes levied by the same tax authority on the same taxable entities.

(w) Employee benefits

(1) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligations to pay any further amounts. The Government of Bulgaria is responsible for providing pensions in Bulgaria under a defined contribution pension plan. The Group's contributions to the defined contribution pension plan are recognised as an employee benefit expense in statement of profit or loss in the periods during which services are rendered by employees.

(2) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation with respect to defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, that benefit is discounted to determine its present value.

The Group has obligation to pay certain amounts to each employee who retires with the Group in accordance with Art.222, § 3 of the Labour Code in Bulgaria. According to these regulations in the LC, when a labour contract of a company's employee, who has acquired a pension right, is ended, the Group is obliged to pay compensations amounted to two gross monthly salaries. In case the employee's length of service in the company equals to or is greater than 10 or more years, as at retirement date, then the compensation amounts to six gross monthly salaries. If the employee has been working continuously for DSK Bank for certain period the Collective Labour Contract adopts the next compensations: five years – the severance payment is two gross monthly salaries; from five to ten years – the severance payment is three gross monthly salaries; from ten to fifteen years – the severance payment is seven gross monthly salaries; more than fifteen years – the severance payment is eight gross monthly salaries. The Management of the Group estimates the approximate amount of the potential expenditures for every employee based on a calculation performed by a qualified actuary using the projected unit credit method as at the statement date. The estimated amount of the current year obligation and the main assumptions, on the base of which the estimation of the obligation has been made, is disclosed to the financial statements in note 33.

The Group recognises actuarial gain or loss, arising from defined benefit plans in the statement of comprehensive income.

(3) Termination benefits

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(4) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group 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.

The Group recognises as a liability the undiscounted amount of the estimated costs related to annual leave expected to be paid in exchange for the employee's service for the period completed.

(x) Initial application of new amendments to the existing Standards and Interpretations effective for the current financial period

The following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- IFRS 16 Leases – adopted by the EU on October 31, 2017 (effective for annual periods beginning on or after January 1, 2019),
- Amendments to IFRS 9 Financial Instruments - Prepayment Features with Negative Compensation – adopted by the EU on March 22, 2018 (effective for annual periods beginning on or after January 1, 2019),
- Amendments to IAS 19 Employee Benefits - Plan Amendment, Curtailment or Settlement – adopted by the EU on March 13, 2019 (effective for annual periods beginning on or after January 1, 2019),
- Amendments to IAS 28 Investments in Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures – adopted by the EU on February 8, 2019 (effective for annual periods beginning on or after January 1, 2019),
- Amendments to various standards due to Improvements to IFRSs (cycle 2015 -2017) resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on March 14, 2019 (effective for annual periods beginning on or after January 1, 2019),
- IFRIC 23 Uncertainty over Income Tax Treatments – adopted by the EU on October 23, 2018 (effective for annual periods beginning on or after January 1, 2019).

The adoption of these amendments to the existing standards has not led to any material changes in the Group's financial statements exept for IFRS 16.

Amendments to the existing Standards issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these consolidated financial statements, the following new standards, amendments to the existing standards nor interpretations which are issued by IASB and adopted by the EU, but are not yet effective:

- Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" - Definition of Material (effective for annual periods beginning on or after January 1, 2020);
- Amendments to References to the Conceptual Framework in IFRS Standards issued on March 29, 2018 (effective for annual periods beginning on or after January 1, 2020);

- Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" - Interest Rate Benchmark Reform (effective for annual periods beginning on or after January 1, 2020).

New Standards and amendments to the existing Standards issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at the date of publication of financial statements (the effective dates stated below is for IFRS in full):

- IFRS 14 Regulatory Deferral Accounts (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard;
- IFRS 17 Insurance Contracts (effective for annual periods beginning on or after 1 January 2021);
- Amendments to IFRS 3 Business Combinations - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period);
- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded);
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material (effective for annual periods beginning on or after 1 January 2020);

The Group anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the financial statements of the Group in the period of initial application.

Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated.

According to the Group's estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to IAS 39: Financial Instruments: Recognition and Measurement would not significantly impact the financial statements, if applied as at the balance sheet date.

4. Risk management disclosures

Structure and functions of the Risk Management Unit

The credit risk management of the Group is the responsibility of a unit which is independent from the business units and is managed by an Executive Director. The various risk management functions are performed by the following sub-units:

- Credit risk - Corporate clients Directorate having functions related to approval of exposures to corporate and MLE clients depending on the specified competencies, while maintaining low level of credit risk as well as functions related to ongoing monitoring of business clients;
- Credit risk – individual clients having functions related with development, maintaining and implementation of models and analytical system for credit risk assessment, performs monitoring and provides internal reporting on the loan portfolio quality;
- Retail loans Validation Department having functions related to management of the process of centralized approval of all types of retail loans for which decision taking is not ensured on the basis of automatical checks;
- Collateral Validation Department having functions related to approval of valuation and revaluation of real estate;
- General Policy and Risk Management Directorate having functions related to мanagement of the counterparty, market and operational risk through adequate controls and methodologies, delivery of the regulatory reporting regarding the assumed risk and improvement of the risk management and risk reporting practices;
- Problem Loans Directorate having functions related to organization and coordination and perform activity on problem receivables management as well as carrying out the policy for sale of property - collaterals on problem loans and management of property acquired from problem loans;
- Credit Control and Administration Department having functions related to implementation of credit utilization control of business clients;

Below are represented the various risks on which the Group is exposed to as well as the approaches taken to manage those risks.

(a) Liquidity risk

Liquidity risk occurs as a result of the necessity to provide general funding for the Group's activities and the management of its positions. It includes both the risk of being unable to settle liabilities and the risk of a financial loss caused by forced sale of financial assets in order to provide liquidity.

The Group maintains active trading positions in a limited number of derivative and non-derivative financial instruments. Most of the Group's derivative trading activities are aimed at offering products to corporate clients at competitive prices and liquidity management.

The goal of liquidity risk management of the Group is to ensure that it will always have sufficient level of liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses from selling liquid assets or expensive financing.

The executive Body, responsible for managing the liquidity is Asset and Liability Committee (ALCO).

To analyze the liquidity, the Group prepares a maturity table for assets and liabilities, in which the cash flow from different assets and liabilities are distributed in different time bands, according to their payment date.

The following table presents the liabilities of the Group distributed by their remaining term to maturity into relevant maturity zones based on undiscounted cash outflows.

Residual contractual maturities of liabilities as of 31 December 2019

In thousands of BGN	Carrying amount	Gross nominal flow	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Without maturity
Liabilities								
Deposits from banks	**69 143**	**74 814**	74 814	-	-	-	-	-
Derivative financial instruments	**43 493**	**43 493**	6 629	6 439	16 518	6 033	7 874	-
Deposits from customers	**17 832 064**	**17 832 976**	14 933 367	928 492	1 868 120	102 997	-	-
Loans from banks and financial institutions	**285 207**	**294 243**	84 665	31 249	(4 132)	145 132	37 329	-
Current tax liabilities	**1 243**	**1 243**	1 216	27	-	-	-	-
Lease liabilities	**65 166**	**66 887**	507	4 229	7 767	46 390	7 994	-
Provisions	**101 488**	**101 488**	14 699	956	8 055	73 928	3 778	72
Deferred tax liabilities	**15 700**	**15 700**	(187)	-	(984)	16 983	-	(112)
Other liabilities	**162 372**	**162 372**	39 078	27 940	46 090	26 549	22 567	148
Total liabilities	**18 575 876**	**18 593 216**	**15 154 788**	**999 332**	**1 941 434**	**418 012**	**79 542**	**108**
Unused loan commitments	-	2 220 675	17 383	243 170	1 025 213	581 422	272 340	81 147
Total liabilities and commitments	**18 575 876**	**20 813 891**	**15 172 171**	**1 242 502**	**2 966 647**	**999 434**	**351 882**	**81 255**

Residual contractual maturities of liabilities as of 31 December 2018

In thousands of BGN	Carrying amount	Gross nominal flow	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Without maturity
Liabilities								
Deposits from banks	**7 994**	**7 994**	7 994	-	-	-	-	-
Derivative financial instruments	**27 437**	**27 437**	1 911	325	635	17 681	6 885	-
Deposits from customers	**11 485 138**	**11 486 096**	9 337 889	710 641	1 413 585	23 981	-	-
Loans from financial institutions	**199 030**	**201 928**	-	-	21 546	169 253	11 129	-
Current tax liabilities	**3 442**	**3 442**	2 431	1 011	-	-	-	-
Provisions	**61 860**	**61 860**	459	1 660	9 946	49 581	214	-
Deferred tax liabilities	**4 824**	**4 824**	-	-	-	4 824	-	-
Other liabilities	**121 125**	**121 125**	29 786	7 433	52 049	22 300	9 414	143
Total liabilities	**11 910 850**	**11 914 706**	**9 380 470**	**721 070**	**1 497 761**	**287 620**	**27 642**	**143**
Unused loan commitments	-	1 281 100	61 721	64 514	640 910	356 297	157 658	-
Total liabilities and commitments	**11 910 850**	**13 195 806**	**9 442 191**	**785 584**	**2 138 671**	**643 917**	**185 300**	**143**

The tables below set out the remaining expected maturities of the Group's assets and liabilities based on their contractual dates of repaiment as at 31 December 2019 and 31 December 2018. The tables do not reflect adjustments by maturity buckets, depending on the retention periods of funds borrowed from clients.

Maturity table of assets and liabilities as of 31 December 2019

In thousands of BGN	Carrying amount	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Without maturity
Liabilities							
Deposits from banks	**69 143**	69 143	-	-	-	-	-
Derivative financial instruments	**43 493**	6 629	6 439	16 518	6 033	7 874	-
Deposits from customers	**17 832 064**	14 933 035	928 320	1 867 757	102 952	-	-
Loans from banks and financial institutions	**285 207**	84 665	38	25 938	129 531	45 035	-
Current tax liabilities	**1 243**	1 216	27	-	-	-	-
Lease liabilities	**65 166**	462	4 141	7 395	45 293	7 875	-
Provisions	**101 488**	14 699	956	8 055	73 928	3 778	72
Deferred tax liabilities	**15 700**	(186)	-	(985)	16 983	-	(112)
Other liabilities	**162 372**	39 077	27 940	46 090	26 549	22 568	148
Total liabilities	**18 575 876**	**15 148 740**	**967 861**	**1 970 768**	**401 269**	**87 130**	**108**
Unused loan commitments	-	17 383	243 170	1 025 213	581 422	272 340	81 147
Total liabilities and commitments	**18 575 876**	**15 166 123**	**1 211 031**	**2 995 981**	**982 691**	**359 470**	**81 255**
Derivatives liabilities							
Trading:	22 591						
Outflow		(417 719)	(137 683)	(215 905)	(12 763)	(80 454)	-
Inflow		415 240	136 100	206 389	4 559	71 209	-
Hedge accounting:	20 902						
Outflow		-	-	-	(1 000 760)	(24 620)	-
Inflow		-	-	-	977 915	-	-
Total derivatives	**43 493**	**(2 479)**	**(1 583)**	**(9 516)**	**(31 049)**	**(33 865)**	**-**
Assets							
Cash and current accounts with the Central Bank and other banks	**2 707 191**	2 626 367	-	-	-	-	80 824
Trading financial assets	**208 318**	20 867	2 025	6 316	162 719	16 391	-
Derivative financial instruments	**31 536**	6 588	4 922	2 928	7 163	9 935	-
Loans and advances to banks	**2 949 633**	119 184	294	20 571	2 809 311	273	-
Loans and advances to customers	**11 827 941**	389 679	529 261	2 679 813	3 950 882	4 278 306	-
Receivables under factoring agreements	**222 578**	172 267	47 542	2 769	-	-	-
Net receivables from finance lease	**1 050 803**	28 671	68 119	267 142	681 765	5 106	-
Investments in securities	**1 832 493**	159 572	98 944	108 139	730 382	710 561	24 895
Current tax assets	**7 447**	7 266	-	181	-	-	-
Investments in associates	**3 773**	-	-	-	-	2 225	1 548
Goodwill	**78 547**	-	-	-	-	-	78 547
Investment property	**20 297**	-	-	-	-	-	20 297
Right-of-use assets	**67 406**	282	152	593	2 535	-	63 844
Property, plant and equipment	**440 809**	36	10	49	270	3 302	437 142
Intangible assets	**120 742**	143	2	3	3	-	120 591
Other assets	**76 028**	11 460	6 075	21 290	16 483	19 471	1 249
Total assets	**21 645 542**	**3 542 382**	**757 346**	**3 109 794**	**8 361 513**	**5 045 570**	**828 937**
Derivatives assets							
Trading:	24 433						
Outflow		(381 838)	(256 386)	(287 825)	(219 877)	(504 404)	-
Inflow		383 704	257 458	297 650	221 740	508 913	-
Hedge accounting:	7 102						
Outflow		-	-	-	(585 611)	-	-
Inflow		-	-	-	586 749	-	-
Total derivatives	**31 535**	**1 866**	**1 072**	**9 825**	**3 001**	**4 509**	**-**

Maturity table of assets and liabilities as of 31 December 2018

In thousands of BGN	Carrying amount	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Without maturity
Liabilities							
Deposits from banks	**7 994**	7 994	-	-	-	-	-
Derivative financial instruments	**27 437**	1 911	325	635	17 681	6 885	-
Loans from banks and financial institutions	**199 030**	-	-	21 514	166 387	11 129	-
Deposits from customers	**11 485 138**	9 337 755	710 477	1 412 982	23 924	-	-
Current tax liabilities	**3 442**	2 431	1 011	-	-	-	-
Provisions	**61 860**	459	1 660	9 946	49 581	214	-
Deferred tax liabilities	**4 824**	-	-	-	4 824	-	-
Other liabilities	**121 125**	29 786	7 433	52 049	22 300	9 414	143
Total liabilities	**11 910 850**	**9 380 336**	**720 906**	**1 497 126**	**284 697**	**27 642**	**143**
Unused loan commitments	-	61 721	64 514	640 910	356 297	157 658	-
Total liabilities and commitments	**11 910 850**	**9 442 057**	**785 420**	**2 138 036**	**640 994**	**185 300**	**143**
Derivatives liabilities							
Trading:	7 842						
Outflow		(415 467)	(45 599)	(48 896)	(5 243)	(4 525)	-
Inflow		414 831	45 543	48 922	-	-	-
Hedge accounting:	19 595						
Outflow		-	-	-	(1 604 991)	(8 316)	-
Inflow		-	-	-	1 564 664	-	-
Total derivatives	**27 437**	**(636)**	**(56)**	**26**	**(45 570)**	**(12 841)**	**-**
Assets							
Cash and current accounts with the Central Bank and other banks	**3 210 371**	3 210 371	-	-	-	-	-
Trading financial assets	**96 717**	11 084	2 703	2 014	39 054	41 862	-
Derivative financial instruments	**14 880**	2 526	534	54	5 838	5 928	-
Loans and advances to banks	**1 923 718**	76 434	100 213	167 188	1 576 751	3 132	-
Loans and advances to customers	**7 458 394**	154 663	264 400	1 512 122	2 384 853	3 142 356	-
Net receivables from finance lease	**155 688**	2 851	10 105	43 113	99 544	75	-
Investments in securities	**1 261 035**	20 104	138 359	2 573	592 996	489 808	17 195
Receivables under factoring agreements	**38 168**	44		33 428	4 696		
Current tax assets	**2 491**	2 491	-	-	-	-	-
Investments in associates	**2 757**	-	-	-	-	-	2 757
Goodwill	**1 175**	-	-	-	-	-	1 175
Property, plant and equipment	**340 535**	-	-	-	-	-	340 535
Intangible assets	**49 686**	-	-	-	-	-	49 686
Other assets	**118 557**	70 121	1 189	19 780	21 243	2 999	3 225
Total assets	**14 674 172**	**3 550 689**	**517 503**	**1 780 272**	**4 724 975**	**3 686 160**	**414 573**
Derivatives assets							
Trading:	10 065						
Outflow		(320 178)	(51 533)	-	(39 386)	-	-
Inflow		321 959	51 745	-	46 376	6 591	-
Hedge accounting:	4 815						
Outflow		-	-	-	-	-	-
Inflow		-	-	-	2 930	3 822	-
Total derivatives	**14 880**	**1 781**	**212**	**-**	**9 920**	**10 413**	**-**

In addition to monitoring the liquidity position, the Group also analyses the stability of the funds attracted from various sources in order to define the expected cash outflows. The analysis is prepared on a regular basis and the information about the changes of depositors' behaviour is reported to the management of the Group.

The Group's expected cash flows on some financial assets and financial liabilities vary significantly from the contractual cash flows. The principal differences are as follows:

- demand deposits from customers are expected to remain stable or increase;
- Residential and non-residential mortgage loans to individuals have average original contractual maturity of 24 years but as the main part of these loans are with equal annuity payments the average effective maturity is 14 years. In addition the customers more often take the advantage of full or partial early repayment option which according to the law is without penalty payment after the first year of the contract. For these reasons the average effective maturity of the loans is additionally decreased with up to 4 years in view of actual observed volume of earlier repayments during 2019.

As part of the management of liquidity risk, the Group holds liquid assets comprising cash and cash equivalents and debt securities, which can be readily sold to meet liquidity requirements.

Responsible liquidity management requires avoiding concentration of attracted funds from large depositors. Analysis of attracted funds is made periodically and diversification in the general portfolio of liabilities is observed.

(b) Market risk

Market risk is the risk that changes in market prices – such as interest rates, equity prices, foreign exchange rates – will affect the Group's income or the value of its holdings of financial instruments.

Exposure to market risk is managed in accordance with risk limits set by senior management.

The Group holds trading assets with the aim to manage the risk. In the table below is represented the credit quality of the maximum credit exposure, on the basis of the ratings issued from Moody`s:

In thousands of BGN	**31-Dec-2019**	**31-Dec-2018**
Government bonds		
Rated Baa2	177 941	70 837
Rated Baa3	10 090	7 489
Rated Ba2	20 287	18 391
Total	**208 318**	**96 717**

(1) Interest rate risk

The interest rate risk is the risk of bearing a loss due to fluctuations in market (reference) interest rates. The Group manages separately the interest rate risk in the bank portfolio and the risk in its trading book.

Group's activities are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or undergo changes in their interest rates at different times and to a different degree. In cases of assets and liabilities with floating interest rates, the Group is exposed to a risk of adverse changes in the market interest curves.

Interest rate risk management activities are conducted in the context of the Group's sensitivity to interest rate changes. The actual effect will depend on a number of factors, including the degree to which repayments are made earlier or later than the contracted dates as well as variations in the interest rate, caused by the sensitivity to different periods and currencies.

The Group manages the interest rate risk in its trading book and limits the risk level through defining limits for interest rate sensitivity, BVP limits, incl.

The Group analyses the interest risk of the bank book, by classifying its financial assets and liabilities in time areas according to their sensitivity to the changes of interest rates in different currencies.

Exposure to interest rate risk as of 31 December 2019

In thousands of BGN	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 2 years	Over 2 years	Non-interest-bearing	Total
Cash and current accounts with the Central Bank and other banks	**430 563**	**-**	**-**	**-**	**-**	**2 276 628**	**2 707 191**
Fixed rate	394 023	-	-	-	-	-	394 023
Floating rate	36 540	-	-	-	-	-	36 540
Non-interest bearing	-	-	-	-	-	2 276 628	2 276 628
Trading financial assets	**20 719**	**158**	**6 345**	**66 179**	**114 917**	**-**	**208 318**
Fixed rate	20 719	158	6 345	66 179	114 917	-	208 318
Floating rate	-	-	-	-	-	-	-
Non-interest bearing	-	-	-	-	-	-	-
Derivative financial instruments	**4 460**	**2 597**	**2 921**	**-**	**-**	**21 558**	**31 536**
Fixed rate	-	-	-	-	-	-	-
Floating rate	4 460	2 597	2 921	-	-	-	9 978
Non-interest bearing	-	-	-	-	-	21 558	21 558
Loans and advances to banks	**119 575**	**-**	**20 747**	**2 809 311**	**-**	**-**	**2 949 633**
Fixed rate	119 184	-	20 717	2 809 311	-	-	2 949 212
Floating rate	391	-	30	-	-	-	421
Non-interest bearing	-	-	-	-	-	-	-
Loans and advances to customers	**8 578 763**	**1 769 947**	**252 945**	**205 854**	**995 999**	**24 433**	**11 827 941**
Fixed rate	199 792	74 287	246 614	205 854	995 999	-	1 722 546
Floating rate	8 378 971	1 695 660	6 331	-	-	-	10 080 962
Non-interest bearing	-	-	-	-	-	24 433	24 433
Receivables under factoring agreements	**172 267**	**47 542**	**2 769**	**-**	**-**	**-**	**222 578**
Fixed rate	5 154	2 848	-	-	-	-	8 002
Floating rate	167 113	44 694	2 769	-	-	-	214 576
Non-interest bearing	-	-	-	-	-	-	-
Net receivables from finance lease	**28 867**	**68 026**	**266 800**	**644 701**	**42 409**	**-**	**1 050 803**
Fixed rate	4 220	9 906	38 552	101 632	846	-	155 156
Floating rate	24 647	58 120	228 248	543 069	41 563	-	895 647
Non-interest bearing	-	-	-	-	-	-	-
Investments in securities	**155 243**	**263 318**	**106 236**	**90 591**	**1 192 210**	**24 895**	**1 832 493**
Fixed rate	155 243	89 154	106 236	90 591	1 192 210	-	1 633 434
Floating rate	-	174 164	-	-	-	-	174 164
Non-interest bearing	-	-	-	-	-	24 895	24 895
Total interest sensitive assets	**9 510 457**	**2 151 588**	**658 763**	**3 816 636**	**2 345 535**	**2 347 514**	**20 830 493**
Fixed rate	898 335	176 353	418 464	3 273 567	2 303 972	-	7 070 691
Floating rate	8 612 122	1 975 235	240 299	543 069	41 563	-	11 412 288
Non-interest bearing	-	-	-	-	-	2 347 514	2 347 514
Deposits from banks	**64 696**	**-**	**-**	**-**	**-**	**4 447**	**69 143**
Fixed rate	64 668	-	-	-	-	-	64 668
Floating rate	28	-	-	-	-	-	28
Non-interest bearing	-	-	-	-	-	4 447	4 447
Derivative financial instruments	**3 946**	**9 945**	**8 781**	**-**	**-**	**20 821**	**43 493**
Fixed rate	-	-	-	-	-	-	-
Floating rate	3 946	9 945	8 781	-	-	-	22 672
Non-interest bearing	-	-	-	-	-	20 821	20 821
Deposits from customers	**17 004 680**	**245 029**	**489 659**	**66 927**	**17 380**	**8 389**	**17 832 064**
Fixed rate	4 550 792	245 029	489 659	66 927	17 380	-	5 369 787
Floating rate	12 453 888	-	-	-	-	-	12 453 888
Non-interest bearing	-	-	-	-	-	8 389	8 389
Loans from banks and financial institutions	**8 370**	**38**	**71 506**	**88 012**	**91 329**	**25 952**	**285 207**
Fixed rate	-	-	11 735	-	-	-	11 735
Floating rate	8 370	38	59 771	88 012	91 329	-	247 520
Non-interest bearing	-	-	-	-	-	25 952	25 952
Lease liabilities	**1 272**	**3 064**	**11 072**	**25 581**	**23 887**	**290**	**65 166**
Fixed rate	658	1 709	5 630	18 838	3 578	-	30 413
Floating rate	614	1 355	5 442	6 743	20 309	-	34 463
Non-interest bearing	-	-	-	-	-	290	290
Total interest sensitive liabilities	**17 082 964**	**258 076**	**581 018**	**180 520**	**132 596**	**59 899**	**18 295 073**
Fixed rate	4 616 118	246 738	507 024	85 765	20 958	-	5 476 603
Floating rate	12 466 846	11 338	73 994	94 755	111 638	-	12 758 571
Non-interest bearing	-	-	-	-	-	59 899	59 899

Exposure to interest rate risk table as of 31 December 2018

In thousands of BGN	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 2 years	Over 2 years	Non-interest-bearing	Total
Cash and current accounts with the Central Bank and other banks	**35 881**	**-**	**-**	**-**	**-**	**3 174 490**	**3 210 371**
Fixed rate	17 288	-	-	-	-	-	17 288
Floating rate	18 593	-	-	-	-	-	18 593
Non-interest bearing	-	-	-	-	-	3 174 490	3 174 490
Trading financial assets	**10 804**	**2 005**	**1 770**	**9 138**	**25 271**	**47 729**	**96 717**
Fixed rate	10 804	2 005	1 770	9 138	25 271	47 729	96 717
Floating rate	-	-	-	-	-	-	-
Non-interest bearing	-	-	-	-	-	-	-
Derivative financial instruments	**3 176**	**6 020**	**2 429**	**-**	**-**	**3 255**	**14 880**
Fixed rate	-	-	-	-	-	-	-
Floating rate	3 176	6 020	2 429	-	-	-	11 625
Non-interest bearing	-	-	-	-	-	3 255	3 255
Loans and advances to banks	**79 500**	**100 214**	**167 253**	**1 576 751**	**-**	**-**	**1 923 718**
Fixed rate	76 369	100 214	167 253	1 576 751	-	-	1 920 587
Floating rate	3 131	-	-	-	-	-	3 131
Non-interest bearing	-	-	-	-	-	-	-
Loans and advances to customers	**7 356 229**	**5 260**	**21 331**	**8 212**	**67 362**	**-**	**7 458 394**
Fixed rate	3 193	5 260	21 331	8 212	67 362	-	105 358
Floating rate	7 353 036	-	-	-	-	-	7 353 036
Non-interest bearing	-	-	-	-	-	-	-
Investments in securities	**16 693**	**304 816**	**-**	**158 842**	**763 489**	**17 195**	**1 261 035**
Fixed rate	13 694	131 450	-	158 842	763 489	-	1 067 475
Floating rate	2 999	173 366	-	-	-	-	176 365
. Non-interest bearing	-	-	-	-	-	17 195	17 195
Receivables under factoring agreements	**38 168**	**-**	**-**	**-**	**-**	**-**	**38 168**
Fixed rate	-	-	-	-	-	-	-
Floating rate	38 168	-	-	-	-	-	38 168
Non-interest bearing	-	-	-	-	-	-	-
Net receivables from finance lease	**2 799**	**10 106**	**43 105**	**45 525**	**54 153**	**-**	**155 688**
Fixed rate	-	-	-	-	-	-	-
Floating rate	2 799	10 106	43 105	45 525	54 153	-	155 688
Non-interest bearing	-	-	-	-	-	-	-
Total interest sensitive assets	**7 543 250**	**428 421**	**235 888**	**1 798 468**	**910 275**	**3 242 669**	**14 158 971**
Fixed rate	121 348	238 929	190 354	1 752 943	856 122	47 729	3 207 425
Floating rate	7 421 902	189 492	45 534	45 525	54 153	-	7 756 606
Non-interest bearing	-	-	-	-	-	3 194 940	3 194 940
Deposits from banks	**447**	**-**	**-**	**-**	**-**	**7 547**	**7 994**
Fixed rate	374	-	-	-	-	-	374
Floating rate	73	-	-	-	-	-	73
Non-interest bearing	-	-	-	-	-	7 547	7 547
Derivative financial instruments	**3 917**	**2 107**	**4 695**	**-**	**-**	**16 718**	**27 437**
Fixed rate	-	-	-	-	-	-	-
Floating rate	3 917	2 107	4 695	-	-	-	10 719
Non-interest bearing	-	-	-	-	-	16 718	16 718
Loans from financial institutions	**67**	**11 204**	**21 514**	**97 791**	**68 454**	**-**	**199 030**
Fixed rate	-	-	-	19 558	-	-	19 558
Floating rate	67	11 204	21 514	78 233	68 454	-	179 472
Non-interest bearing	-	-	-	-	-	-	-
Deposits from customers	**9 365 761**	**700 574**	**1 386 690**	**8 616**	**15 299**	**8 198**	**11 485 138**
Fixed rate	1 547 188	700 574	1 386 690	8 616	15 299	-	3 658 367
Floating rate	7 818 573	-	-	-	-	-	7 818 573
Non-interest bearing	-	-	-	-	-	8 198	8 198
Total interest sensitive liabilities	**9 370 192**	**713 885**	**1 412 899**	**106 407**	**83 753**	**32 463**	**11 719 599**
Fixed rate	1 547 562	700 574	1 386 690	28 174	15 299	-	3 678 299
Floating rate	7 822 630	13 311	26 209	78 233	68 454	-	8 008 837
Non-interest bearing	-	-	-	-	-	32 463	32 463

Financial assets and liabilities in the table above are grouped by the earlier of the next contractual repricing date or maturity date.

The management of interest rate risk is supplemented by monitoring the sensitivity of financial assets and financial liabilities to interest rate scenarios - 200 basis points change for equity and 100 basis points for profit or loss. The change in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit or loss		**Equity**	
	100 bp increase	**100 bp decrease**	**200 bp increase**	**200 bp decrease**
Effect in thousands of BGN				
31 December 2019				
As at 31 December	(33 744)	33 744	(203 981)	203 981
Average for the period	(44 470)	44 470	(212 353)	212 353
Maximum for the period	(33 744)	54 743	(186 152)	237 832
Minimum for the period	(54 743)	33 744	(237 832)	186 152
31 December 2018				
As at 31 December	(22 172)	22 172	(55 061)	55 061
Average for the period	(4 444)	4 444	(38 647)	38 647
Maximum for the period	5 988	22 172	(23 590)	55 061
Minimum for the period	(22 172)	(5 988)	(55 061)	23 590

(2) Exchange rate risk

The Group is exposed to exchange rate risk when conducting transactions with financial instruments denominated in foreign currencies.

As a result of the implementation of Currency Board in Bulgaria, the Bulgarian currency rate to the euro is fixed at 1.95583. The national reporting currency is the Bulgarian lev therefore the Group’s financial results are affected by fluctuations in the exchange rates between the Bulgarian lev and currencies outside the Euro-zone.

The risk management policy is aimed at limiting the possible losses from negative fluctuations of foreign currencies rates different from euro. The Group senior management sets limits on maximum open positions - total and by currency, stop-loss and VaR (Value at Risk) to manage the Bank Group’s exchange rate risk. Bank Group’s strategy is to minimize the impact from the changes of exchange rates on financial results. The net open currency positions are reported to management on a daily basis. The limits for restricting the exchange rate risk are periodically renewed based on analysis of market information and the inner needs of the Group.

The Group applies VaR methodology to measure the exchange rate risk. Basic characteristics of this model are: historical with 99% level of confidence and 1 day. To bring out a correlation matrix the Group uses historical observations for currency exchange changes for 250 working days.

The statistics of the model for 2019 and 2018 are as follows:

In thousands of BGN	**2019**	**2018**
At 31 December	5	34
Average for the period	29	29
Maximum for the period	65	125
Minimum for the period	5	1

VaR model has some limitations such as the possibility of losses with greater frequency and with larger amount, than the expected ones. For this purpose the quality of the VaR model is continuously monitored through back-testing the VaR results. To value the currency risk in extreme conditions, stress test is used, based on potential changes of the currency rates.

For monetary assets and liabilities denominated in foreign currencies that are not hedged, the Group manages the net exposure by buying and selling foreign currencies at spot rates when considered appropriate, keeping approved limits for open currency position.

(c) Credit risk

Credit risk is the risk that a customer or counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's main income generating activity is lending to customers and therefore credit risk is a principal risk. Credit risk mainly arises from loans and advances to customers and other banks (including related commitments to lend such as loan or credit card facilities), investments in debt securities and derivatives that are an asset position. The Group considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes.

Significant increase in credit risk

The Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

(1) Nature and scope of the systems for risk assessment – models for credit risk assessment

When determining the credit risk of a deal, the Group uses statistical and/or expert models to assess the credibility of the client, thus providing a common standard for credit risk assessment. Based on the result from the application of such models, the client or the deal is classified in a certain risk pool.

The credit risk assessment models are developed taking into account the specifics of each customer segment, based mainly on the application of statistical approaches. For client segments, where historical data and/or volumes are insufficient, the Group uses expert models for credit risk assessment. The responsibility for the modelling is with the Risk Management Division, which is independent from the business divisions. These models are not used for estimation of expected credit loss in view of impairment/provision calculations.

Currently the models developed and used in the risk management process of the Group are three major types:

- Application PD models

The purpose of application PD models is to provide a reliable tool (quantitative measurement) for prediction of the future debt service by customers applying for credit. The Application PD model uses client data, which is available at the point of loan application, such as demographic data, working experience, banking history for individuals or financial data for companies.

Calculated PD value represents the probability of default as a percentage from 0% to 100% during the 12 month period following the approval.

The application PD models are used for the assessment of probability of default when applying for credit of the following client segments:

- Individuals, requesting mass products in the retail banking – mortgage backed loans, revolving loans, consumer, quick and POS loans;
- Retail business clients (standard SMEs);
- Corporate clients- non-standard SMEs and corporate customers.

- Behavioural PD models

The purpose of the behavioural PD model is to provide a reliable tool for prediction of the future debt servicing based on the client's behaviour, when using the products of the Group and servicing its debt obligations.

Based on the calculated PD result, which represents the probability of default during the 12 month- period following the calculation, the credits are distributed into pre-defined pools. The probability is expressed as a percentage from 0% to 100%.

The behaviour models have to be used as an analytical tool helping to assess the PD at a portfolio level. It can also be used to identify early warning signals.

The Group has developed behaviour models for the individuals using mass products in the retail banking – mortgage loans, revolving and consumer loans. The Group enforces these types of models for managing of the loan portfolio.

- Models assisting the collection of problem loans (Collection Models)

The purpose of the model is to distinguish problem loans for which the delay to undertake measures could probably lead to subsequent deterioration of the exposure of the Group. When on the basis of the model high probability for deterioration of certain exposures is estimated, the Group undertakes actions to collect it with the aim for minimisation of risk.

The expert models for assessment of customers applying for credits are based on the experts' expectations regarding the reasonable parameters to be used, their weights and cut-off levels. Finally a matrix is determined, which provides the basis for pooling the customers into risk groups. The Group uses expert models, when it is impossible to develop a statistical model due to insufficient transactions and/or defaults as well as when brand new products are created or a new segment becomes a target, when it is not possible an available statistical model to be applied.

The Group has an expert model for the municipalities segment, the public sector entities segment and for individual deals assessment for the specialized lending segment.

The credit risk assessment models are subject to periodical review and are updated on an ongoing basis.

(2) Expected Credit Loss measurement

The key inputs used for measuring ECL are:

- probability of default or loss (PD/PL);
- loss given default or loss (LGD/LGL); and
- exposure at default or loss (EAD).

These figures are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect probability-weighted forward-looking information.

PD/PL is an estimate of the likelihood of default or loss over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical migration models, and assessed using tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD/PL.

LGD/LGL is an estimate of the financial loss arising on the fact that a receivable is classified as receivable in default or loss. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD/LGL models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realisation of collateral, cross- collateralisation and seniority of claim, cost of realisation of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

EAD is an estimate of the exposure at a future default or loss 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 Bank Group's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortisation profiles, early repayment or overpayment, changes in utilisation of undrawn commitments and credit mitigation actions taken before default or loss. The Group uses EAD models that reflect the characteristics of the portfolios.

The Group measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if contact extension or renewal is common business practice. However, for financial instruments such as credit cards, revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment component, the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. For such financial instruments the Group measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period. However, the Group does not enforce in the normal day-to-day management the contractual right to cancel these financial instruments. This is because these financial instruments are managed on a collective basis and are canceled only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take to mitigate ECL, e.g. reduction in limits or cancellation of the loan commitment.

The measurement of ECL is based on probability weighted average credit loss. As a result, the measurement of the loss allowance should be the same regardless of whether it is measured on an individual basis or a collective basis (although measurement on a collective basis is more practical for large portfolios of items). In relation to the assessment of whether there has been a significant increase in credit risk it can be necessary to perform the assessment on a collective basis as noted below.

Expected credit losses are measured in a way that reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes,
- the time value of money, and
- reasonable and supportable information that is available without undue cost of effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Individual and collective assessment of expected credit losses

The following exposures are subject to collective valuation methods:

- retail exposures;
- SME exposures;
- any other type of exposure of the above ones, which are not significant individually or, if significant individually- not in Stage 3.

Groupings based on shared risk characteristics

For the purpose of collective ECL determination financial instruments are grouped on the basis of shared credit risk characteristics:

- instrument type;
- credit risk ratings;
- collateral type;
- date of initial recognition;
- remaining term to maturity;
- industry;
- geographical location of the borrower; and
- the value of collateral relative to the financial asset if it has an impact on the probability of a default occurring (for example, non-recourse loans in some jurisdictions or loan-to-value ratios).

The groupings are reviewed on a regular basis to ensure that each group is comprised of homogenous exposures.

Credit quality

The Group monitors credit risk per class of financial instrument.

An analysis of the Group's credit risk concentrations per class of financial asset is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Loans and advances to banks at amortised cost

	31-Dec-2019	**31-Dec-2018**
In thousands of BGN		
Concentration by sector		
Central banks	1 938 099	2 709 168
Other banks	3 078 916	1 958 480
Total	**5 017 015**	**4 667 648**
Concentration by region		
Europe	5 000 063	4 657 187
America	15 428	10 225
Asia	918	236
Australia	606	-
Total	**5 017 015**	**4 667 648**

Loans and advances to customers at amortised cost

In thousands of BGN	31-Dec-2019	31-Dec-2018
Concentration by sector		
Retail:		
Mortgages	3 208 981	2 152 092
Other retail loans	3 773 570	2 537 160
Corporate:		
Agriculture and forestry	283 230	222 157
Construction	198 975	138 048
Financial and insurance activities	104 145	27 808
Hotels and catering	394 212	220 510
Manufacturing	1 779 863	813 150
Real estate activities	386 767	460 513
State Budget	41 163	1 930
Trade and services	1 175 961	624 950
Transport and communications	170 845	100 170
Other industry sectors	310 229	159 906
Total	**11 827 941**	**7 458 394**
Concentration by region		
Europe	11 815 883	7 448 222
North America	5 958	5 467
Asia	5 041	3 688
Africa	643	575
Australia	341	365
South America	75	77
Total	**11 827 941**	**7 458 394**

Receivables under factoring agreements

In thousands of BGN	31-Dec-2019	31-Dec-2018
Corporate:		
Agriculture and forestry	626	-
Construction	1 936	1 313
Financial and insurance activities	257	-
Hotels and catering	3	10
Manufacturing	105 781	25 598
State Budget	-	2
Trade and services	98 590	7 815
Transport and communications	10 117	1 423
Other industry sectors	5 268	2 007
Total	**222 578**	**38 168**
Concentration by region		
Europe	220 380	35 841
Africa	2 198	2 327
Total	**222 578**	**38 168**

Lease receivables

In thousands of BGN	**31-Dec-2019**	**31-Dec-2018**
Concentration by sector		
Retail:		
Households	233 330	14 526
Corporate:		
Agriculture and forestry	80 141	3 765
Construction	56 694	6 974
Financial activities	1 875	1 520
Hotels and catering	6 733	1 568
Manufacturing	78 034	9 077
Real estate activities	4 291	963
Trade and services	250 186	32 741
Transport and communications	310 077	50 805
Administrative and Support Service Activities	24 223	27 970
Other industry sectors	5 219	5 779
Total	**1 050 803**	**155 688**
Concentration by region		
Europe	1 050 803	155 688
Total	**1 050 803**	**155 688**

Investment securities

In thousands of BGN	**31-Dec-2019**	**31-Dec-2018**
Concentration by sector		
Investments in instruments measured at fair value through other comprehensive income		
Government debt securities	1 633 434	1 067 476
Equity instruments	22 728	14 929
Investments in instruments mandatory measured at fair value through profit or loss		
Equity instruments	2 167	2 265
Government debt securities	-	2 999
Corporate debt securities	174 164	173 366
Total	**1 832 493**	**1 261 035**
Concentration by region		
Europe	1 673 290	1 253 958
North America	159 203	7 077
Total	**1 832 493**	**1 261 035**

The carrying amount of the Group's financial assets at FVTPL best represents the assets' maximum exposure to credit risk.

The Group diversifies the undertaken credit risks through the application of sector risk limits. The sector risk limits system is based on a methodology, which takes into account the historical data related to the development of the respective industries. Despite this the methodology for determining of sector limits provides top limit of the maximum share of the total business portfolio which could be allowed as risk in certain industry sector. This limits the concentration risk. Reaching the maximum share leads to application of more restrictive requirements during the process of risk taking (including higher level of approval) or to a decrease of credits in certain industry sector.

Loan commitments and financial guarantee contracts

In thousands of BGN	**31-Dec-2019**	**31-Dec-2018**
Concentration by sector		
Retail:		
Mortgages	57 332	46 503
Other retail loans	315 100	229 324
Corporate:		
Agriculture and forestry	99 024	54 027
Construction	240 491	189 451
Financial and insurance activities	74 661	35 564
Hotels and catering	51 145	13 702
Manufacturing	704 883	426 347
Real estate activities	36 698	71 613
State Budget	10 431	77
Trade and services	673 032	326 000
Transport and communications	185 977	34 566
Other industry sectors	117 601	96 226
Total	**2 566 375**	**1 523 400**
Concentration by region		
Europe	2 565 677	1 523 187
North America	56	24
Asia	204	150
Africa	407	35
Oceania	24	-
South America	7	4
Total	**2 566 375**	**1 523 400**

Factoring agreement commitments

In thousands of BGN	31-Dec-2019	31-Dec-2018
Concentration by sector		
Corporate:		
Agriculture and forestry	1 920	-
Construction	6 563	3 038
Financial and insurance activities	237	-
Hotels and catering	1 625	2 130
Manufacturing	162 257	38 517
State Budget	4 500	-
Trade and services	48 554	21 342
Transport and communications	3 078	1 897
Other industry sectors	4 802	3 509
Total	**233 536**	**70 433**
Concentration by region		
Europe	229 547	70 374
North America	1 760	-
Asia	1 037	59
Africa	1 192	-
Total	**233 536**	**70 433**

Credit risk exposures per class of financial asset, internal rating and stage

An analysis of the Group's credit risk exposure per class of financial asset, internal rating and stage without taking into account the effects of any collateral or other credit enhancements is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

The tables below disclose the allocation of loans and advances by stage under IFRS 9 and by internal credit rating applied for current monitoring and management of credit risk. For some of the products outside the corporate segment, new models for current monitoring are to be implemented and validated bedore they are accepted by the Management of the Group as adequate for the purpose of estimation of increased credit risk from initial recognition.

Loans and advances to banks at amortised cost

	31-Dec-2019			
In thousands of BGN	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Grades 1-3: Low risk	5 017 987	-	-	5 017 987
Total gross carrying amount	**5 017 987**	**-**	**-**	**5 017 987**
Loss allowance	(972)	-	-	(972)
Carrying amount	**5 017 015**	**-**	**-**	**5 017 015**

In thousands of BGN	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	31-Dec-2018			
Grades 1-3: Low risk	4 668 045	-	-	4 668 045
Total gross carrying amount	**4 668 045**	**-**	**-**	**4 668 045**
Loss allowance	(397)	-	-	(397)
Carrying amount	**4 667 648**	**-**	**-**	**4 667 648**

Loans and advances to customers at amortised cost

In thousands of BGN	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	Total
	31-Dec-2019				
Grades 1-3: Low risk	4 689 780	60 237	1 277	377	4 751 671
Grades 4-6: Moderate risk	4 144 053	60 159	2 103	511	4 206 826
Grades 7-8: Increased risk	1 214 032	218 209	7 524	1 066	1 440 831
Grade 9: High risk	77 474	199 984	15 622	1 230	294 310
Grade 10: Default	-	-	897 553	20 103	917 656
Municipality, PSE	49 207	-	865	-	50 072
Not rated	932 190	14 008	55 997	28 112	1 030 307
Total gross carrying amount	**11 106 736**	**552 597**	**980 941**	**51 399**	**12 691 673**
Loss allowance	(117 096)	(48 254)	(676 161)	(22 221)	(863 732)
Carrying amount	**10 989 640**	**504 343**	**304 780**	**29 178**	**11 827 941**

In thousands of BGN	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	31-Dec-2018			
Grades 1-3: Low risk	3 403 906	29 293	-	3 433 199
Grades 4-6: Moderate risk	2 306 832	103 034	-	2 409 866
Grades 7-8: Increased risk	1 048 141	202 711	-	1 250 852
Grade 9: High risk	10 913	127 202	-	138 115
Grade 10: Default	-	-	945 664	945 664
Municipality, PSE	7 018	-	981	7 999
Not rated	31 602	3 153	-	34 755
Total gross carrying amount	**6 808 412**	**465 393**	**946 645**	**8 220 450**
Loss allowance	(101 638)	(41 381)	(619 037)	(762 056)
Carrying amount	**6 706 774**	**424 012**	**327 608**	**7 458 394**

Receivables under factoring agreements

	31-Dec-2019				
In thousands of BGN	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**POCI Lifetime ECL**	**Total**
Grades 1-3: Low risk	157 548	-	-	-	157 548
Grades 4-6: Moderate risk	8 606	37	-	-	8 643
Grades 7-8: Substandard	57 481	-	-	-	57 481
Grade 9: Doubtful	-	171	-	-	171
Grade 10: Default	-	-	13	48	61
Not rated	263	-	-	-	263
Total gross carrying amount	**223 898**	**208**	**13**	**48**	**224 167**
Loss allowance	(1 571)	(5)	(13)	-	(1 589)
Carrying amount	**222 327**	**203**	**-**	**48**	**222 578**

	31-Dec-2018			
In thousands of BGN	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Grades 1-3: Low risk	4 566	6	-	4 572
Grades 4-6: Moderate risk	6 731	102	-	6 833
Grades 7-8: Substandard	16 757	-	-	16 757
Not_Rated	10 353	-	-	10 353
Total gross carrying amount	**38 407**	**108**	**-**	**38 515**
Loss allowance	(346)	(1)	-	(347)
Carrying amount	**38 061**	**107**	**-**	**38 168**

Lease receivables

In thousands of BGN	31-Dec-2019 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	Total
Grades 1-3: Low risk	781 256	39 025	-	-	820 281
Grades 4-6: Moderate risk	158 958	39 869	1 854	-	200 681
Grade 10: Default	-	-	25 371	11 391	36 762
Total gross carrying amount	**940 214**	**78 894**	**27 225**	**11 391**	**1 057 724**
Loss allowance	(2 255)	(786)	(3 609)	(271)	(6 921)
Carrying amount	**937 959**	**78 108**	**23 616**	**11 120**	**1 050 803**

In thousands of BGN	31-Dec-2018 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Grades 1-3: Low risk	147 765	-	-	147 765
Grades 4-6: Moderate risk	-	3 745	-	3 745
Grade 10: Default	-	-	6 298	6 298
Total gross carrying amount	**147 765**	**3 745**	**6 298**	**157 808**
Loss allowance	(1 022)	(267)	(831)	(2 120)
Carrying amount	**146 743**	**3 478**	**5 467**	**155 688**

Investment securities

In thousands of BGN	31-Dec-2019 Stage 1 12-month ECL	 Stage 2 Lifetime ECL	 Stage 3 Lifetime ECL	 Total
Investments in instruments measured at fair value through other comprehensive income				
Grades 1-3: Low to fair risk	1 656 162	-	-	1 656 162
Investments in instruments mandatory measured at fair value through profit or loss				
Grades 1-3: Low to fair risk	176 331	-	-	176 331
Total carrying amount	**1 832 493**	**-**	**-**	**1 832 493**
Loss allowance	(859)	-	-	(859)

In thousands of BGN	31-Dec-2018 Stage 1 12-month ECL	 Stage 2 Lifetime ECL	 Stage 3 Lifetime ECL	 Total
Investments in instruments measured at fair value through other comprehensive income				
Grades 1-3: Low to fair risk	1 082 405	-	-	1 082 405
Investments in instruments mandatory measured at fair value through profit or loss				
Grades 1-3: Low risk	178 630	-	-	178 630
Total carrying amount	**1 261 035**	**-**	**-**	**1 261 035**
Loss allowance	(1 136)	-	-	(1 136)

Loan commitments and financial guarantee contracts

In thousands of BGN	31-Dec-2019 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Grades 1-3: Low risk	1 141 281	10 882	74	1 152 237
Grades 4-6: Moderate risk	858 212	3 639	131	861 982
Grades 7-8: Increased risk	147 299	6 641	95	154 035
Grade 9: High risk	3 310	8 330	40	11 680
Grade 10: Default	-	-	9 369	9 369
Municipality, PSE	15 206	-	-	15 206
Not rated	338 261	1 439	22 166	361 866
Total amount committed	**2 503 569**	**30 931**	**31 875**	**2 566 375**
Loss allowance	(26 585)	(2 222)	(12 696)	(41 503)

In thousands of BGN	31-Dec-2018 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Grades 1-3: Low risk	871 443	10 290	-	881 733
Grades 4-6: Moderate risk	434 227	2 822	-	437 049
Grades 7-8: Increased risk	147 706	2 245	-	149 951
Grade 9: High risk	11 539	1 574	-	13 113
Grade 10: Default	-	-	9 173	9 173
Municipality, PSE	770	-	-	770
Not rated	31 611	-	-	31 611
Total amount committed	**1 497 296**	**16 931**	**9 173**	**1 523 400**
Loss allowance	(11 601)	(354)	(2 573)	(14 528)

Factoring agreement commitments

	31-Dec-2019			
In thousands of BGN	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Grades 1-3: Low risk	35 986	150	-	36 136
Grades 4-6: Moderate risk	18 543	13	-	18 556
Grades 7-8: Increased risk	173 635	-	-	173 635
Grade 9: High risk	-	129	-	129
Grade 10: Default	-	-	225	225
Not rated	4 855	-	-	4 855
Total amount committed	**233 019**	**292**	**225**	**233 536**
Loss allowance	(3 499)	(5)	(53)	(3 557)

	31-Dec-2018			
In thousands of BGN	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Grades 1-3: Low risk	6 367	144	-	6 511
Grades 4-6: Moderate risk	12 778	88	-	12 866
Grades 7-8: Increased risk	18 915	-	-	18 915
Grade 10: Default	-	-	98	98
Not rated	32 043	-	-	32 043
Total amount committed	**70 103**	**232**	**98**	**70 433**
Loss allowance	(472)	(2)	(7)	(481)

The next table summarises the loss allowance as of the year end by class of exposure.

Loss allowance or provision by class of exposure

In thousands of BGN	**31-Dec-2019**	**31-Dec-2018**
Loans and advances to banks at amortised cost	(972)	(397)
Loans and advances to customers at amortised cost	(863 732)	(762 056)
Receivables under factoring agreements	(1 589)	(347)
Receivables from finance lease	(6 921)	(2 120)
Debt investment securities at FVTOCI	(859)	(1 136)
Loan commitments and financial guarantee contracts	(45 060)	(15 009)
Total	**(919 133)**	**(781 065)**

Loss allowance - Loans and advances to banks at amortised cost

	31-Dec-2019			
In thousands of BGN	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Loss allowance as at 31 December 2018	**(397)**	**-**	**-**	**(397)**
Changes in the loss allowance				
New financial assets originated or purchased	(972)	-	-	(972)
Financial assets that have been derecognised	397	-	-	397
Loss allowance as at 31 December 2019	**(972)**	**-**	**-**	**(972)**

	31-Dec-2018			
In thousands of BGN	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Loss allowance as at 31 December 2017	**(782)**	**-**	**-**	**(782)**
Changes in the loss allowance				
Decreases due to change in credit risk	385	-	-	385
Loss allowance as at 31 December 2018	**(397)**	**-**	**-**	**(397)**

Loss allowance - Loans and advances to customers at amortised cost

	31-Dec-2019				
In thousands of BGN	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**POCI Lifetime ECL**	**Total**
Loss allowance as at 31 December 2018	**(101 638)**	**(41 381)**	**(619 037)**	**-**	**(762 056)**
Changes in the loss allowance					
Transfer to stage 1	(9 515)	6 612	2 903	-	-
Transfer to stage 2	9 659	(25 796)	16 137	-	-
Transfer to stage 3	30 548	9 295	(39 843)	-	-
Increases due to change in credit risk	(28 747)	(15 865)	(125 609)	-	(170 221)
Decreases due to change in credit risk	41 226	21 625	75 308	-	138 159
Write-offs	-	-	36 273	-	36 273
New financial assets originated or purchased	(79 804)	(9 441)	(93 142)	(22 221)	(204 608)
Financial assets that have been derecognised	21 175	6 697	70 849	-	98 721
Loss allowance as at 31 December 2019	**(117 096)**	**(48 254)**	**(676 161)**	**(22 221)**	**(863 732)**

	31-Dec-2018			
In thousands of BGN	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Loss allowance as at 31 December 2017	(90 937)	(28 418)	(639 704)	(758 726)
Changes in the loss allowance				
Transfer to stage 1	(5 036)	3 269	1 767	-
Transfer to stage 2	3 318	(21 786)	18 468	-
Transfer to stage 3	1 368	11 783	(13 151)	-
Increases due to change in credit risk	10	(15 100)	(58 053)	(73 143)
Decreases due to change in credit risk	11 987	11 821	-	23 808
Write-offs	-	-	64 782	64 782
New financial assets originated or purchased	(40 134)	(7 061)	(21 154)	(68 349)
Financial assets that have been derecognised	17 453	4 111	28 008	49 572
Loss allowance as at 31 December 2018	**(101 638)**	**(41 381)**	**(619 037)**	**(762 056)**

Loss Allowance - Receivables under factoring agreements

In thousands of BGN	31-Dec-2019 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	Total
Loss allowance as at 31 December 2018	**(346)**	**(1)**	**-**	**-**	**(347)**
Changes in the loss allowance					
Transfer to stage 1	(1)	1	-	-	-
Transfer to stage 2	2	(2)	-	-	-
Transfer to stage 3	13	-	(13)	-	-
Increases due to change in credit risk	(423)	(3)	-	-	(426)
Decreases due to change in credit risk	59	-	-	-	59
New financial assets originated or purchased	(995)	-	-	-	(995)
Financial assets that have been derecognised	120	-	-	-	120
Loss allowance as at 31 December 2019	**(1 571)**	**(5)**	**(13)**	**-**	**(1 589)**

In thousands of BGN	31-Dec-2018 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 31 December 2017	**(333)**	**-**	**-**	**(333)**
Changes in the loss allowance				
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Increases due to change in credit risk	(10)	-	-	(10)
Decreases due to change in credit risk	134	-	-	134
New financial assets originated or purchased	(255)	(1)	-	(256)
Financial assets that have been derecognised	118	-	-	118
Loss allowance as at 31 December 2018	**(346)**	**(1)**	**-**	**(347)**

Loss allowance - Lease receivables

	31-Dec-2019				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	
In thousands of BGN	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
Loss allowance as at 31 December 2018	**(1 022)**	**(267)**	**(831)**	**-**	**(2 120)**
Changes in the loss allowance	-	-	-	-	-
Transfer to stage 1	(73)	11	61	1	-
Transfer to stage 2	1 324	(1 325)	-	1	-
Transfer to stage 3	2 476	52	(2 528)	-	-
Increases due to change in credit risk	(5 633)	(4)	(97)	(325)	(6 059)
Decreases due to change in credit risk	740	911	170	-	1 821
New financial assets originated or purchased	(212)	(319)	(625)	-	(1 156)
Financial assets that have been derecognised	145	155	241	52	593
Loss allowance as at 31 December 2019	**(2 255)**	**(786)**	**(3 609)**	**(271)**	**(6 921)**

	31-Dec-2018			
In thousands of BGN	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Loss allowance as at 31 December 2017	**(744)**	**(190)**	**(1 362)**	**(2 296)**
Changes in the loss allowance				
Transfer to stage 1	38	(27)	(11)	-
Transfer to stage 2	(27)	163	(136)	-
Transfer to stage 3	(40)	(34)	74	-
Increases due to change in credit risk	(84)	(181)	(338)	(603)
Decreases due to change in credit risk	303	36	392	731
New financial assets originated or purchased	(516)	(39)	(31)	(586)
Financial assets that have been derecognised	48	5	581	634
Loss allowance as at 31 December 2018	**(1 022)**	**(267)**	**(831)**	**(2 120)**

Loss allowance - Debt investment securities at FVTOCI

	31-Dec-2019			
In thousands of BGN	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Loss allowance as at 31 December 2018	**(1 136)**	**-**	**-**	**(1 136)**
Changes in the loss allowance				
Increases due to change in credit risk	(49)	-	-	(49)
Decreases due to change in credit risk	408	-	-	408
New financial assets originated or purchased	(244)	-	-	(244)
Financial assets that have been derecognised	162	-	-	162
Loss allowance as at 31 December 2019	**(859)**	**-**	**-**	**(859)**

	31-Dec-2018			
In thousands of BGN	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Loss allowance as at 31 December 2017	**(1 345)**	**-**	**-**	**(1 345)**
Changes in the loss allowance				
Decreases due to change in credit risk	209	-	-	209
Loss allowance as at 31 December 2018	**(1 136)**	**-**	**-**	**(1 136)**

Loss allowance - Loan commitments and financial guarantee contracts

	31-Dec-2019			
In thousands of BGN	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Loss allowance as at 31 December 2018	**(11 601)**	**(354)**	**(2 573)**	**(14 528)**
Acquisition of subsidiaries	(4 514)	(309)	(5 344)	(10 167)
Changes in the loss allowance				
Transfer to stage 1	(226)	86	140	-
Transfer to stage 2	147	(155)	8	-
Transfer to stage 3	13	10	(23)	-
Increases due to change in credit risk	(9 744)	(1 072)	(8 067)	(18 883)
Decreases due to change in credit risk	3 366	106	1 003	4 475
Write-offs	2 971	89	2 324	5 384
New loan commitments originated or purchased	(10 020)	(731)	(389)	(11 140)
Financial assets that have been derecognised	3 023	108	225	3 356
Loss allowance as at 31 December 2019	**(26 585)**	**(2 222)**	**(12 696)**	**(41 503)**

In thousands of BGN	31-Dec-2018 **Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Loss allowance as at 31 December 2017	**(16 656)**	**(446)**	**(2 624)**	**(19 726)**
Changes in the loss allowance				
Transfer to stage 1	(133)	72	61	-
Transfer to stage 2	118	(218)	100	-
Transfer to stage 3	8	(10)	2	-
Increases due to change in credit risk	27	(2)	(362)	(337)
Decreases due to change in credit risk	5 826	320	-	6 146
New loan commitments originated or purchased	(4 921)	(166)	(96)	(5 183)
Financial assets that have been derecognised	4 130	96	346	4 572
Loss allowance as at 31 December 2018	**(11 601)**	**(354)**	**(2 573)**	**(14 528)**

Loss allowance - Factoring agreement commitments

In thousands of BGN	31-Dec-2019 **Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Loss allowance as at 31 December 2018	**(472)**	**(2)**	**(7)**	**(481)**
Changes in the loss allowance				
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Increases due to change in credit risk	(1 025)	(3)	(46)	(1 074)
Decreases due to change in credit risk	50	-	-	50
New loan commitments originated or purchased	(2 126)	-	-	(2 126)
Financial assets that have been derecognised	74	-	-	74
Loss allowance as at 31 December 2019	**(3 499)**	**(5)**	**(53)**	**(3 557)**

In thousands of BGN	31-Dec-2018 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 31 December 2017	**(249)**	**-**	**-**	**(249)**
Changes in the loss allowance				
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Increases due to change in credit risk	(27)	-	-	(27)
Decreases due to change in credit risk	124	-	-	124
New loan commitments originated or purchased	(364)	(2)	(7)	(373)
Financial assets that have been derecognised	44	-	-	44
Loss allowance as at 31 December 2018	**(472)**	**(2)**	**(7)**	**(481)**

Information about the significant changes in the gross carrying amount of financial assets during the period that contributed to changes in the loss allowance, is provided in the tables below:

Loans and advances to banks at amortised cost

In thousands of BGN	31-Dec-2019 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at 31 December 2018	**4 668 045**	**-**	**-**	**4 668 045**
Changes in the gross carrying amount				
Acquisition of subsidiaries	683 448	-	-	683 448
Increases due to change in credit risk	22 813	-	-	22 813
Decreases due to change in credit risk	(1 585 721)	-	-	(1 585 721)
New financial assets originated or purchased	3 836 630	-	-	3 836 630
Financial assets that have been derecognised	(2 607 228)	-	-	(2 607 228)
Gross carrying amount as at 31 December 2019	**5 017 987**	**-**	**-**	**5 017 987**
Loss allowance as at 31 December 2019	(972)	-	-	(972)

In thousands of BGN	31-Dec-2018 Stage 1 12-month ECL	 Stage 2 Lifetime ECL	 Stage 3 Lifetime ECL	 Total
Gross carrying amount as at 31 December 2017	**2 908 770**	**-**	**-**	**2 908 770**
Changes in the gross carrying amount				
Increases due to change in credit risk	1 759 275	-	-	1 759 275
Gross carrying amount as at 31 December 2018	**4 668 045**	**-**	**-**	**4 668 045**
Loss allowance as at 31 December 2018	(397)	-	-	(397)

Loans and advances to customers at amortised cost

In thousands of BGN	31-Dec-2019 Stage 1 12-month ECL	 Stage 2 Lifetime ECL	 Stage 3 Lifetime ECL	 POCI Lifetime ECL	 Total
Gross carrying amount as at 31 December 2018	**6 808 412**	**465 393**	**946 645**	**-**	**8 220 450**
Changes in the gross carrying amount					
Acquisition of subsidiaries	3 766 980	-	-	82 634	3 849 614
Transfer to stage 1	142 108	(133 819)	(8 289)	-	-
Transfer to stage 2	(218 425)	261 492	(43 067)	-	-
Transfer to stage 3	(100 538)	(65 035)	165 573	-	-
Increases due to change in credit risk	436 700	55 926	24 338	28 246	545 210
Decreases due to change in credit risk	(1 095 607)	(56 619)	(73 618)	-	(1 225 844)
Write-offs	-	-	(36 273)	-	(36 273)
New financial assets originated or purchased	3 884 152	81 188	140 426	-	4 105 766
Financial assets that have been derecognised	(2 517 046)	(55 929)	(134 794)	(59 481)	(2 767 250)
Gross carrying amount as at 31 December 2019	**11 106 736**	**552 597**	**980 941**	**51 399**	**12 691 673**
Loss allowance as at 31 December 2019	(117 096)	(48 254)	(676 161)	(22 221)	(863 732)

In thousands of BGN	31-Dec-2018 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at 31 December 2017	**6 217 108**	**319 893**	**1 026 940**	**7 563 941**
Changes in the gross carrying amount				
Transfer to stage 1	64 158	(58 827)	(5 331)	-
Transfer to stage 2	(202 689)	294 318	(91 629)	-
Transfer to stage 3	(79 896)	(90 124)	170 020	-
Decreases due to change in credit risk	(323 257)	(32 540)	(60 304)	(416 101)
Write-offs	-	-	(64 782)	(64 782)
New financial assets originated or purchased	2 166 495	72 907	42 753	2 282 155
Financial assets that have been derecognised	(1 020 299)	(40 234)	(71 022)	(1 131 555)
Gross carrying amount as at 31 December 2018	**6 808 412**	**465 393**	**946 645**	**8 220 450**
Loss allowance as at 31 December 2018	(101 638)	(41 381)	(619 037)	(762 056)

Receivables under factoring agreements

In thousands of BGN	31-Dec-2019 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	Total
Gross carrying amount as at 31 December 2018	**38 407**	**108**	**-**	**-**	**38 515**
Changes in the gross carrying amount	-	-	-	-	-
Acquisition of subsidiaries	149 034	-	-	48	149 082
Transfer to stage 1	68	(68)	-	-	-
Transfer to stage 2	(231)	231	-	-	-
Transfer to stage 3	(33)	-	33	-	-
Increases due to change in credit risk	10 448	3	-	-	10 451
Decreases due to change in credit risk	(9 850)	(66)	(20)	-	(9 936)
New financial assets originated or purchased	65 918	-	-	-	65 918
Financial assets that have been derecognised	(29 863)	-	-	-	(29 863)
Gross carrying amount as at 31 December 2019	**223 898**	**208**	**13**	**48**	**224 167**
Loss allowance as at 31 December 2019	(1 571)	(5)	(13)	-	(1 589)

In thousands of BGN	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	31-Dec-2018			
Gross carrying amount as at 31 December 2017	**13 208**	**-**	**-**	**13 208**
Changes in the gross carrying amount	-	-	-	-
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Increases due to change in credit risk	1 799	-	-	1 799
Decreases due to change in credit risk	(5 468)	-	-	(5 468)
New financial assets originated or purchased	28 868	108	-	28 976
Financial assets that have been derecognised	-	-	-	-
Gross carrying amount as at 31 December 2018	**38 407**	**108**	**-**	**38 515**
Loss allowance as at 31 December 2018	(346)	(1)	-	(347)

Lease receivables

In thousands of BGN	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	Total
		31-Dec-2019			
Gross carrying amount as at 31 December 2018	**147 765**	**3 745**	**6 298**	**-**	**157 808**
Changes in the gross carrying amount	-	-	-	-	-
Acquisition of subsidiaries	768 258	-	-	37 101	**805 359**
Transfer to stage 1	2 400	(2 055)	(345)	-	**-**
Transfer to stage 2	(100 651)	100 662	(11)	-	-
Transfer to stage 3	(15 348)	(5 755)	21 103	-	**-**
Increases due to change in credit risk	8 365	-	549	-	**8 914**
Decreases due to change in credit risk	(37 553)	(19 342)	(2 811)	(19 873)	**(79 579)**
New financial assets originated or purchased	241 935	4 308	5 416	-	**251 659**
Financial assets that have been derecognised	(74 957)	(2 669)	(2 974)	(5 837)	**(86 437)**
Gross carrying amount as at 31 December 2019	**940 214**	**78 894**	**27 225**	**11 391**	**1 057 724**
Loss allowance as at 31 December 2019	(2 255)	(786)	(3 609)	(271)	(6 921)

In thousands of BGN	31-Dec-2018 Stage 1 12-month ECL	 Stage 2 Lifetime ECL	 Stage 3 Lifetime ECL	 Total
Gross carrying amount as at 31 December 2017	**139 690**	**2 175**	**6 248**	**148 113**
Changes in the gross carrying amount				
Transfer to stage 1	668	(504)	(164)	-
Transfer to stage 2	(4 269)	4 421	(152)	-
Transfer to stage 3	(2 480)	(1 284)	3 764	-
Increases due to change in credit risk	-	-	-	-
Decreases due to change in credit risk	(42 369)	(1 423)	(2 237)	(46 029)
New financial assets originated or purchased	70 219	554	334	71 107
Financial assets that have been derecognised	(13 694)	(194)	(1 495)	(15 383)
Gross carrying amount as at 31 December 2018	**147 765**	**3 745**	**6 298**	**157 808**
Loss allowance as at 31 December 2018	(1 022)	(267)	(831)	(2 120)

Debt investment securities at FVTOCI

In thousands of BGN	31-Dec-2019 Stage 1 12-month ECL	 Stage 2 Lifetime ECL	 Stage 3 Lifetime ECL	 Total
Carrying amount as at 31 December 2018	**1 067 476**	**-**	**-**	**1 067 476**
Changes in the carrying amount				
Acquisition of subsidiaries	706 943	-	-	706 943
Increases due to change in credit risk	46 092	-	-	46 092
Decreases due to change in credit risk	(15 031)	-	-	(15 031)
New financial assets originated or purchased	22 364	-	-	22 364
Financial assets that have been derecognised	(194 410)	-	-	(194 410)
Carrying amount as at 31 December 2019	**1 633 434**	**-**	**-**	**1 633 434**
Loss allowance as at 31 December 2019	(859)	-	-	(859)

In thousands of BGN	31-Dec-2018 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Carrying amount as at 31 December 2017	**1 153 065**	**-**	**-**	**1 153 065**
Changes in the carrying amount				
Decreases due to change in credit risk	(85 589)	-	-	(85 589)
Carrying amount as at 31 December 2018	**1 067 476**	**-**	**-**	**1 067 476**
Loss allowance as at 31 December 2018	(1 136)	-	-	(1 136)

Loan commitments and financial guarantee contracts

In thousands of BGN	31-Dec-2019 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Total amount committed as at 31 December 2018	**1 497 296**	**16 931**	**9 173**	**1 523 400**
Changes in the amount committed				
Acquisition of subsidiaries	1 375 894	6 104	24 905	1 406 903
Transfer to stage 1	4 862	(4 324)	(538)	-
Transfer to stage 2	(9 539)	9 576	(37)	-
Transfer to stage 3	(1 294)	(207)	1 501	-
Increases due to change in credit risk	188 196	9 837	3 608	201 641
Decreases due to change in credit risk	(701 147)	(7 181)	(6 247)	(714 575)
New loan commitments originated or purchased	502 613	5 919	308	508 840
Financial assets that have been derecognised	(353 312)	(5 724)	(798)	(359 834)
Total amount committed as at 31 December 2019	**2 503 569**	**30 931**	**31 875**	**2 566 375**
Loss allowance as at 31 December 2019	(26 585)	(2 222)	(12 696)	(41 503)

In thousands of BGN	31-Dec-2018 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Total amount committed as at 31 December 2017	**1 488 154**	**15 255**	**12 294**	**1 515 703**
Changes in the amount committed	-	-	-	-
Transfer to stage 1	3 137	(2 703)	(434)	-
Transfer to stage 2	(6 818)	7 068	(250)	-
Transfer to stage 3	(1 074)	4	1 070	-
Increases due to change in credit risk	288	81	254	623
Decreases due to change in credit risk	(252 251)	(7 023)	(314)	(259 588)
New loan commitments originated or purchased	574 492	9 271	416	584 179
Financial assets that have been derecognised	(308 632)	(5 022)	(3 863)	(317 517)
Total amount committed as at 31 December 2018	**1 497 296**	**16 931**	**9 173**	**1 523 400**
Loss allowance as at 31 December 2018	(11 601)	(354)	(2 573)	(14 528)

Factoring agreement commitments

In thousands of BGN	31-Dec-2019 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Total amount committed as at 31 December 2018	**70 103**	**232**	**98**	**70 433**
Changes in the amount committed				
Acquisition of subsidiaries	23 407	-	-	23 407
Transfer to stage 1	72	(72)	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	(3)	-	3	-
Increases due to change in credit risk	35 149	135	26	35 310
Decreases due to change in credit risk	(11 593)	(3)	-	(11 596)
New loan commitments originated or purchased	127 177	-	98	127 275
Financial assets that have been derecognised	(11 293)	-	-	(11 293)
Total amount committed as at 31 December 2019	**233 019**	**292**	**225**	**233 536**
Loss allowance as at 31 December 2019	(3 499)	(5)	(53)	(3 557)

In thousands of BGN	31-Dec-2018 **Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Total amount committed as at 31 December 2017	**20 596**	**-**	**-**	**20 596**
Changes in the amount committed				
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Increases due to change in credit risk	-	-	-	-
Decreases due to change in credit risk	(2 224)	-	-	(2 224)
New loan commitments originated or purchased	55 051	232	98	55 381
Financial assets that have been derecognised	(3 320)	-	-	(3 320)
Total amount committed as at 31 December 2018	**70 103**	**232**	**98**	**70 433**
Loss allowance as at 31 December 2018	(472)	(2)	(7)	(481)

The table below provides an analysis of the gross carrying amount of loans and advances to customers by past due status.

Loans and advances to customers

In thousands of BGN	31-Dec-2019 **Gross carrying amount**	**Loss allowance**	31-Dec-2018 **Gross carrying amount**	**Loss allowance**
0-30 days	11 807 054	(247 491)	7 444 627	(218 017)
31-60 days	98 340	(25 382)	81 575	(20 888)
61-90 days	65 695	(21 404)	62 099	(19 211)
91-180 days	85 537	(48 335)	39 407	(20 300)
More than 181 days	635 047	(521 120)	592 742	(483 640)
Total	**12 691 673**	**(863 732)**	**8 220 450**	**(762 056)**

Receivables under factoring agreements

	31-Dec-2019		31-Dec-2018	
	Gross carrying amount	**Loss allowance**	**Gross carrying amount**	**Loss allowance**
In thousands of BGN				
0-30 days	224 036	(1 575)	38 515	(347)
31-60 days	70	(1)	-	-
61-90 days	-	-	-	-
91-180 days	-	-	-	-
More than 181 days	61	(13)	-	-
Total	**224 167**	**(1 589)**	**38 515**	**(347)**

As a result of the Group's forbearance activities financial assets might be modified.

The carrying amount of the modified loans as of 31 December 2019 is BGN 71 970 thousand and BGN 74 396 thousand as of 31 December 2018.

Mortgage lending

The Group holds residential properties as collateral for the mortgage loans it grants to its customers. The Group monitors its exposure to retail mortgage lending using the LTV ratio, which is calculated as the ratio of the gross amount of the loan - or the amount committed for loan commitments - to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is typically based on the collateral value at origination updated based on changes in house price indices. For credit-impaired loans the value of collateral is based on the most recent appraisals. The tables below show the exposures from mortgage loans by ranges of LTV.

	31-Dec-2019		31-Dec-2018	
	Gross carrying amount	**Loss allowance**	**Gross carrying amount**	**Loss allowance**
In thousands of BGN				
LTV ratio				
Less than 50%	724 422	(3 784)	464 481	(1 672)
51-70%	1 035 648	(5 482)	680 775	(2 918)
71-90%	1 254 061	(6 375)	749 136	(4 151)
91-100%	53 322	(500)	63 662	(603)
More than 100%	59 070	(1 823)	67 758	(1 855)
Total	**3 126 523**	**(17 964)**	**2 025 812**	**(11 199)**

Credit impaired - mortgage lending

In thousands of BGN	31-Dec-2019 Gross carrying amount	31-Dec-2019 Loss allowance	31-Dec-2018 Gross carrying amount	31-Dec-2018 Loss allowance
LTV ratio				
Less than 50%	44 912	(14 971)	37 020	(7 405)
51-70%	42 896	(16 564)	43 891	(9 575)
71-90%	37 795	(16 797)	42 923	(12 806)
91-100%	12 338	(6 676)	19 403	(6 992)
More than 100%	179 682	(162 193)	203 224	(172 204)
Total	**317 623**	**(217 201)**	**346 461**	**(208 982)**

Loan commitments - Mortgage lending

In thousands of BGN	31-Dec-2019 Amount committed	31-Dec-2019 Loss allowance	31-Dec-2018 Amount committed	31-Dec-2018 Loss allowance
LTV ratio				
Less than 50%	2 697	10	2 510	5
51-70%	8 648	28	8 272	21
71-90%	6 203	19	5 905	16
91-100%	1 773	5	914	4
More than 100%	38 011	251	28 902	230
Total	**57 332**	**313**	**46 503**	**276**

Assets obtained by taking possession of collateral

In 2019 the Group acquired real estate, collateral for loans amounting to BGN 1 523 thousand (2018: BGN 1 319 thousand). The Group's policy is to realise collateral on a timely basis.

The table below sets out information about collateral of loans and receivable to banks and other customers both impaired and not impaired, measured at fair value determined in accordance with the Group policy up to the amount of loans extended as well as the amortised cost of loans that have no collateral.

Loans and advances to banks and customers by type of collateral

In thousands of BGN	31-Dec-2019	31-Dec-2018
Secured by mortgages	4 848 597	2 984 476
Cash collateral	27 855	14 626
Government securities	2 617 013	1 586 075
Other types of collateral*	4 726 780	4 184 411
Without collateral	5 489 415	4 118 907
Total	**17 709 660**	**12 888 495**

***** Other types of collateral comprise tangible collateral, guaranties from credit institutions pledge over receivable and personal guarantees for loans.

Included in loans and advances and collaterals held are the receivables on repurchase agreements. The table below represents the carrying amount of repurchase agreements and the fair value of collateral held.

Repurchase agreements

	31-Dec-2019		31-Dec-2018	
In thousands of BGN	Carrying amount	Collateral	Carrying amount	Collateral
Advances to banks	2 635 734	2 745 178	1 586 075	1 610 685
Total	**2 635 734**	**2 745 178**	**1 586 075**	**1 610 685**

(d) Operational risk

Operational risk means the risk of loss resulting from inadequate or malfunctioning internal processes, persons and systems or from external events, and includes legal risk.

The management of operational risk at the Group is coordinated by Operational Risk Management Committee (ORMC), which is a permanent consultative body subordinated to the Management Board (MB) and involves the heads of the major units of Bank Head Office of DSK Bank. The meetings are held at the end of each quarter of the current year, as on these meetings a report is being presented for consideration for the level of operational risk and the planed measures for mitigation/elimination of operational risks' consequences, identified in the previous quarter. The main focus of ORMC activity is the prevention of operational risks by implementing a comprehensive approach, aiming at limiting preconditions, leading to operational events occurrence.

The responsibility for the development of the Operational risk management system is assigned to Operational Risk Management Section as part of "General policy and risk management" Directorate of DSK Bank, an independent from the business units Directorate within the Risk management Division, headed by a responsible Executive Director.

The Group has a special system to manage operational risk, by gathering data for the operational events. The management of the Group receives periodically information about the level of operational risk. The system is based on the so-called Risk responsible employees on management positions in Head office and branch network and Bank's subsidiaries, which are responsible for the management of operational risk in their units, following the decentralized approach of operational risk management in OTP Group.

Potential risks shall be reviewed as part of the business processes and for this reason they shall have to be identified in the self- assessment of the Group's units, these risks shall be classified on the basis of the standardized taxonomy of operational risks annually.

Prior to the implementation of a new process, new system or new activity, the latter shall be analyzed and evaluated from the operational risk's viewpoint. This evaluation shall be prepared by the unit involved in the implementation, and shall be forwarded to the Operational Risk Management Department for further evaluation and analysis. For the preparation of the evaluation, the Risk Self-Assessment Forms shall be used. In cases when IT systems are implemented, the assessment shall be made by the unit(s) which has (have) defined the business requirements of the development.

Additionally, the actual level of operational risk is monitored based on Key Risk Indicator system which covered the main risk factors caused the significant operational risk losses and interruption in the critical business processes.

The methodology for potential risk identification is based on decentralised assessment performed by different units, using the methodological support from the Operational Risk Management Department. As part of this process, the so-called scenario analysis are prepared, aimed to assess the potential effects on the financial position of the Group and the ongoing processes in it, at a certain change in the risk factors associated with probable occurrence of an event with catastrophic consequences.

Methodology for stress testing analysing based on Monte Carlo simulations, which helps the assessment of the capital adequacy sufficiency of the Group connected to operational risk is developed and implemented.

The developed rules and procedures for monitoring and evaluation of operational risk are in line with the requirements of EU and Bulgarian legislation, the standards of the OTP Group and best banking practice in operational risk management.

Operational risk management includes activities such as identifying and registering the operational risk events, assessing the operational loss amount, and determining the capital needed to cover the risk of eventual loss. Currently the Group risk exposure to operational risk is monitored both by type of the risk events and by different business lines.

The Group has Business Continuity Plan for reaction in the event of unexpected circumstances, which purpose is to guarantee the recovery for the most important business processes to the preliminary defined level based on the Group needs.

The operational risk management is subject to regular inspections by the "Bank Supervision" Department of Bulgarian National Bank, "Internal control and audit" Directorate of DSK Bank and specialized audits initiated and conducted by a program of OTP Bank. For 2019 the assessment of all internal audits is that the Bank has created an organization, procedures and controls concerning the operational risk management. They are adequate for the volume of activity and continuously changing environment and development of the Group.

The National Bank of Hungary and Bulgarian National Bank Joint Decision which approved the Group to apply the Advanced Measurement Approach for the capital calculation purposes on the individual and also on the consolidated base has been in force since 31 March 2014.

During the 2019 year there are no registered events, which could potentially threaten the Group activity.

(e) Capital Management

The Bank Group's regulatory capital requirements are based on CRD IV.

(1) Regulatory capital

The Group's regulatory capital consists of the sum of the following elements:

- Tier I capital (all qualifies as Common Equity Tier 1 (CET 1) capital) which includes ordinary share capital, related share premiums, and reserves and deductions for goodwill, intangible assets and other regulatory adjustments relating to items that are included in equity or assets but are treated differently for capital adequacy purposes;

CRD IV defines the scope of consolidation for regulatory purposes.

- Fully consolidated the following subsidiaries: DSK Leasing Group, DSK Asset Management AD, DSK Rodina Pension Company AD, DSK Mobile EAD, DSK Dom EAD, OTP Factoring Bulgaria EAD, Project Company Complex Banya EOOD, DSK Tours EOOD and its subsidiary DSK Trans Security EAD which provides services auxiliary to the main banking activities as per the Credit Institutions Act. After the acquisition of Societe Generale Expressbank AD Group Expressbank AD, OTP Leasing EOOD, Express Factoring EOOD and Regional Urban Development Fund AD are included in the consolidated statements;
- Equity consolidation is applied to the following associates: Cash Services Company AD.

The Group calculates the total capital adequacy (the 'Basel ratio') as a ratio between total own funds for solvency purposes and the total of the risk-weighted assets for credit, market and operational risks. Tier I capital adequacy is the ratio between the Tier I capital and the risk-weighted assets and should be higher than 11.88%, buffers including. The total capital adequacy ratio should be higher than 14.25%, buffers including.

(2) Capital ratios

Total own funds for solvency purposes

In thousands of BGN	**Basel III 2019**	**Basel III 2018**
Tier 1 capital	2 534 014	1 155 784
Common equity Tier 1 capital	2 534 014	1 155 784
Additional Tier 1 capital (AT1)	-	-
Tier 2 capital	-	-
Own funds	**2 534 014**	**1 155 784**
Credit risk capital requirement	944 881	522 010
Market risk capital requirement	6 751	5 891
Operational risk capital requirement	92 699	46 935
Total requirement regulatory capital	**1 044 331**	**574 836**
Surplus of total capital	**1 487 633**	**580 948**
CET1 capital ratio (%)	19,37%	16,09%
Capital adequacy ratio (%)	**19,37%**	**16,09%**

The policy of the Group management and allocation of capital is determined by Management Board. Allocation of capital between different operations and activities aims to optimise the profitability of the allocated capital. The process is managed by ALCO by reviewing the level of credit, market and operational risks undertaken by the Group. The Group together with OTP perform internal analysis of the size, type and allocation of the required capital and assess the need of increase in regulatory required capital.

In connection with the implementation of the International regulatory framework Basel III for Banks additional capital buffers consistently are introduced. The aim is to provide additional funds for the recovery and restructuring of banks in a crisis, as well as to preserve the accumulated until the moment capital reserves for preventing or reducing the effects of long-term non-cyclical or macroprudential risks that could cause disruptions in the financial system generally.

By complying with the provisions of Bulgarian National Bank Regulation 8 the Group holds Capital conservation buffer of common equity Tier I equivalent to 2.5% of the amount of the total risk weighted exposures. With the same Regulation Bulgarian National Bank introduces a requirement for the capital systemic risk buffer. In 2018, the buffer is 3% of risk-weighted exposures. The Group holds its specific countercyclical capital buffer. The assessment of the buffer depends on the level of the reference indicator that the Central Bank announces quarterly. From the beginning of the fourth quarter of 2019 BNB changed the level of the countercyclical capital buffer from 0% to 0.5%. The specific for the Group countercyclical capital buffer as of December 31, 2019 is 0.49%. The capital requirements are also increasing by introducing other systemically important institutions buffer, which is calculated at 0.75% of the total risk exposures of the Group for 2019.

According to joint decision of the Bulgarian National Bank and Hungarian Central Bank the Group has to keep additional capital requirement of 1.12% for 2019 (1.38% for 2018) in result of supervisory review and evaluation process.

(f) Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in the accounting policy. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The fair values of financial assets and financial liabilities which are traded on active markets and for which market information is available are based on quoted market prices or closing prices. The use of real market prices and information reduces the necessity for management assessment and assumptions as well as the uncertainty related to the determination of the fair value. The availability of real market prices and information varies depending on the products and markets and changes based on the specific events and the general financial markets environment. For part of the other financial instruments (Level 2) the Group defines fair value using a measurement method based on net present value (NPV). The calculation of the NPV is based on market yield curves and credit spreads where it is required for the corresponding instrument. The aim of the measurement methods is to define the fair value which reflects the value of the financial instrument as of the reporting date, which would have been defined by direct market players. For equity shares with no observable market prices (Level 3) the Group accepts that the fair value is the purchase value.

The Group has an established control environment with regard to the fair value measurement. The fair value of the financial instruments is determined independently from the front office by a unit for control of the market risk and the counterparty risk. The specific controls consist of: control of the real price information and performing second measurement using different methods; process of revision and approving of new methods and changes in methods including measurement and back-testing of methods based on real market deals; analysis and research of significant daily dynamics as a result of assessments; revision of significant inside data which is not observed on the market.

The table below analyses financial instruments carried at fair value, by valuation method.

In thousands of BGN	**Level 1: Quoted market prices in active markets**	**Level 2: Valuation techniques - observable inputs**	**Level 3: Valuation techniques - unobservable inputs**	**Total**
31-Dec-2019				
Assets				
Trading financial assets	208 318	-	-	208 318
Derivative financial instruments	-	31 536	-	31 536
Investments in securities	1 809 481	284	22 728	1 832 493
Total	**2 017 799**	**31 820**	**22 728**	**2 072 347**
Liabilities				
Derivative financial instruments	-	43 493	-	43 493
Total	**-**	**43 493**	**-**	**43 493**
31-Dec-2018				
Assets				
Trading financial assets	96 717	-	-	96 717
Derivative financial instruments	-	14 880	-	14 880
Investments in securities	1 240 841	5 265	14 929	1 261 035
Total	**1 337 558**	**20 145**	**14 929**	**1 372 632**
Liabilities				
Derivative financial instruments	405	27 032	-	27 437
Total	**405**	**27 032**	**-**	**27 437**

The following tables analyze the fair values of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised:

As of 31 December 2019

In thousands of BGN	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Total carrying amount**
Assets					
Cash and current accounts with the Central Bank and other banks	639 809	2 067 382	-	**2 707 191**	**2 707 191**
Loans and advances to banks	-	2 949 633	-	**2 949 633**	**2 949 633**
Loans and advances to customers	-	-	11 916 273	**11 916 273**	**11 827 941**
Receivables under factoring agreements	-	222 578	-	**222 578**	**222 578**
Net receivables from finance lease	-	-	1 050 803	**1 050 803**	**1 050 803**
Liabilities					
Deposits from banks	-	69 143	-	**69 143**	**69 143**
Deposits from customers	-	17 834 560	-	**17 834 560**	**17 832 064**
Loans from financial institutions	-	285 207	-	**285 207**	**285 207**
Lease liabilities	-	65 166	-	**65 166**	**65 166**

As of 31 December 2018

In thousands of BGN	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Total carrying amount**
Assets					
Cash and current accounts with the Central Bank and other banks	466 441	2 743 930	-	**3 210 371**	**3 210 371**
Loans and advances to banks	-	1 923 718	-	**1 923 718**	**1 923 718**
Loans and advances to customers	-	-	7 577 817	**7 577 817**	**7 496 562**
Liabilities					
Deposits from banks	-	7 994	-	**7 994**	**7 994**
Loans from financial institutions	-	199 030	-	**199 030**	**199 030**
Deposits from customers	-	11 485 182	-	**11 485 182**	**11 485 138**

The fair value of Cash equivalents, loans and receivables from banks, loans and deposits from banks is approximately equal to their carrying value because of their short-term maturity.

The fair value of loans to non-financial institutions and other customers is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes expected lifetime credit losses, market interest rates and forecast analysis. The fair value of the impaired loans with a collateral backing is based on the valuated fair value of the collateral.

To improve the accuracy of the valuation estimate loans are grouped into portfolios with similar characteristics such as product type, borrower type, maturity, currency, collateral type.

The fair value of deposits from customers is estimated using discounted cash flow techniques, applying the rates that are currently offered in the country for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

5. Net interest income

In thousands of BGN	**2019**	**2018**
Interest income		
Loans and advances to banks	26 842	8 348
Loans and advances to customers, incl factoring	611 591	421 181
Investments in securities	26 002	20 735
Deposits from banks	720	414
Deposits from customers	4 560	989
Total	**669 715**	**451 667**
Interest expense		
Deposits from banks	(11 031)	(5 474)
Deposits from customers	(7 679)	(3 682)
Loans from banks and financial institutions	(4 066)	(1 529)
Lease liabilities	(650)	-
Investments in securities (negative interest)	(34)	(3)
Loans and advances to banks (negative interest)	(2 555)	(3 236)
Loans and advances to customers (negative interest)	(105)	(55)
Total	**(26 120)**	**(13 979)**
Net interest income	**643 595**	**437 688**

6. Net fee and commission income

In thousands of BGN	2019	2018
Fee and commission income		
In Bulgarian Leva		
Payment and settlement transactions	65 600	50 740
Credit related deals	30 671	15 359
Deposit related deals	88 696	60 397
Mutual and pension funds management	29 342	27 104
Other	30 287	16 870
	244 596	**170 470**
In foreign currencies		
Payment and settlement transactions	33 592	25 347
Credit related deals	6 762	4 703
Deposit related deals	12 902	2 940
Other	6 899	3 260
	60 155	**36 250**
Total	**304 751**	**206 720**
Fee and commission expense		
In Bulgarian Leva	(40 411)	(10 330)
In foreign currencies	(7 994)	(5 799)
Total	**(48 405)**	**(16 129)**
Net fee and commission income	**256 346**	**190 591**

7. Net trading income

In thousands of BGN	2019	2018
Net interest income from trading	(6 259)	2 095
Net income on FX derivarives revaluation	1 624	41 366
Net income on non FX derivarives revaluation	325	545
Securities trading and revaluation	996	(4 602)
Foreign exchange trading	29 802	17 461
Ineffective hedge net gain	273	170
Total	**26 761**	**57 035**

Net gains or losses due to change on fair value hedges for the year

In thousands of BGN	**2019**	**2018**
Gains/(Losses) on hedged assets	14 683	(677)
Gains/(Losses) on the hedging instruments	(14 410)	847
Hedge ineffectiveness recognised immediately in the income statement	**273**	**170**

The effect of revaluation of derivatives hedging repo deals is reported in net (losses)/gains from foreign exchange of the Statement of profit or loss.

8. Net income from other financial instruments at FVTPL

In thousands of BGN	**2019**	**2018**
Debt instruments	5 911	(4 181)
Equity instruments	(97)	(150)
Total	**5 814**	**(4 331)**

9. Net gains from derecognition of financial assets measured at amortised cost

In thousands of BGN	**2019**	**2018**
Write-off of financial assets	3 014	8 489
Sale of financial assets	3 977	7 955
Total	**6 991**	**16 444**

The income from sale of financial assets result from sale of problem loan portfolio.

10. Other operating income, net

In thousands of BGN	**2019**	**2018**
Net income of securities measured at fair value through other comprehensive income		
Government bonds	127	(232)
Equity investments	-	288
Dividends	59	47
Rental fees	4 589	1 560
Income from security and cash collection	1 792	3 234
Income from tourist services	709	293
Operating lease	4 030	9 078
Card operators	1 481	-
Net gain from non financial assets disposal	(624)	950
Other services	2 191	-
Other	3 518	6 240
Total	**17 872**	**21 458**

11. Impairment losses on financial assets, net

In thousands of BGN	**2019**	**2018**
Impairment (loss)/gain on bank deposits or loans, net	(692)	385
Impairment (losses) on loans, factoring agreements and finance lease, net	(88 497)	(68 126)
Impairment (losses) on other assets, net	(4 326)	(310)
Impairment (loss)/gain on financial assets at FVTOCI, net	277	216
Total	**(93 238)**	**(67 835)**

12. Impairment losses on non-financial assets, net

In thousands of BGN	**2019**	**2018**
Impairment losses on tangible assets	(488)	(11 048)
Impairment losses on intangible assets	(4 034)	-
Impairment losses on inventory	-	(920)
Impairment losses on collaterals acquired	(4 081)	(6 008)
Impairment losses on subsidiaries	-	-
Total	**(8 603)**	**(17 976)**

13. Personnel expenses

In thousands of BGN	**2019**	**2018**
Wages and salaries	149 220	105 675
Social payments	36 567	26 278
Other	6 646	2 895
Total	**192 433**	**134 848**

The average number of staff in the Group is 6 777 for 2019 and 5 300 for 2018.

14. Depreciation and amortisation

In thousands of BGN	Note	**2019**	**2018**
Investment property	25	443	443
Right-of-use assets	26	15 810	-
Property, plant and equipment	27	31 806	24 541
Intangible assets	28	43 780	12 820
Total		**91 839**	**37 804**

15. Other expenses

In thousands of BGN	**2019**	**2018**
Services expense	103 349	84 406
Guarantee Funds instalments	59 823	37 293
Materials	23 161	14 130
Operating lease expenses	997	14 568
Expenses related to short-term leases	5 569	-
Expense relating to leases of low value assets	206	-
Other expenses	12 780	2 898
Total	**205 885**	**153 295**

The contracted fees for independent financial audit for 2019 are BGN 1 390 thousand and for regulatory agreed-upon procedures under ISRS 4400 of BGN 83 thousand (2018: BGN 779 thousand independent financial audit and BGN 59 thousand negotiated procedures).

The Group accrues provisions on some of the potential contingent liabilities. The management takes into account the possibility of negative outcome for some of the litigations against the Group.

16. Income tax expense

In thousands of BGN	**2019**	**2018**
Current tax expense	(43 235)	(25 898)
Current tax expense connected with initial application of IFRS 9	-	(891)
Deferred tax (expense)/income related to origination and reversal of temporary tax differences	11 188	(1 029)
Total	**(32 047)**	**(27 818)**

In thousands of BGN	**2019**	**2018**
Accounting profit	341 113	284 156
Income tax using the statutory corporate tax rate	(34 111)	(28 417)
Tax on permanent tax differences	2 064	599
Income tax expense	**(32 047)**	**(27 818)**
Effective tax rate	9,39%	9,79%

Current taxes are calculated using a tax rate of 10% for 2019 and 2018.

17. Cash and current accounts with the Central Bank and other banks

In thousands of BGN	**31-Dec-2019**	**31-Dec-2018**
Cash on hand		
In Bulgarian Leva	564 021	410 156
In foreign currencies	75 788	56 285
Current accounts with the Central Bank and other banks		
In Bulgarian Leva	1 923 863	2 705 511
In foreign currencies	143 519	38 419
Total	**2 707 191**	**3 210 371**

Included in cash on hand are cash in transfer and cash at ATM’s.

The current account with the Central Bank is used for direct participation in the money and securities markets and for settlement purposes as well as for keeping funds for Group's participation in the Guarantee Mechanism of the System Processing Card-based Payment Transactions. Balances with the Central Bank also cover the minimum required reserves amounting to BGN 1 431 831 thousand and BGN 894 196 thousand as of 31 December 2019 and 2018 respectively. Minimum reserves are non-interest bearing and are regulated on a monthly basis. Daily fluctuations are allowed. Shortages or excess reserve funds on monthly basis bear penalty interest.

The Group has nostro accounts with OTP Bank denominated in EUR, SEK, USD, GBP, CHF и HUF with total balance as of December 31, 2019 BGN 21 302 thousand.

The Group has nostro accounts with OTP Bank denominated in EUR, SEK and HUF with total balance as of December 31, 2018 BGN 12 811 thousand.

The Group has nostro accounts with other OTP Bank Group members denominated in RON, RUB and RSD with total balance as of December 31, 2019 BGN 2 504 thousand.

The Group has nostro accounts with other OTP Bank Group members denominated in RON, RUB and RSD with total balance as of December 31, 2018 BGN 670 thousand.

18. Financial assets held for trading and derivative financial instruments

In thousands of BGN	**31-Dec-2019**	**31-Dec-2018**
Government securities – Republic of Bulgaria denominated in Bulgarian Leva	13 255	14 016
Government securities – Republic of Bulgaria denominated in foreign currencies	164 686	56 821
Foreign issuers debt securities denominated in foreign currencies	30 377	25 880
Total	**208 318**	**96 717**

Government securities issued by the Bulgarian government comprise securities denominated in BGN and EUR. The BGN denominated government securities earn interest as of December 31, 2019 between 0.30% and 5.00% and government securities denominated in EUR earn interest between 1.875% and 5.75%.

Government securities issued by foreign governments comprise securities denominated in EUR and USD. The EUR denominated government securities earn interest as of December 31, 2019 between 1.00% and 3.875% and government securities denominated in USD earn interest between 4.375% and 6.625%.

Derivative financial instruments as of 31 December 2019

Type of restructuring	Carrying value Assets	Carrying value Liabilities	Notional amount
In thousands of BGN			
Derivatives held for trading			
Interest rate swaps	18 635	15 679	1 177 316
Foreign exchange contracts	5 799	6 912	1 719 113
Total	**24 434**	**22 591**	**2 896 429**
Derivatives used as fair value hedges			
Interest rate swaps	-	14 918	392 639
Foreign exchange contracts	7 102	5 984	1 585 939
Total	**7 102**	**20 902**	**1 978 578**
Total derivative financial instruments	**31 536**	**43 493**	**4 875 007**

Derivative financial instruments as of 31 December 2018

Type of restructuring	Carrying value Assets	Carrying value Liabilities	Notional amount
In thousands of BGN			
Derivatives held for trading			
Interest rate swaps	6 765	5 376	627 225
Foreign exchange contracts	3 255	1 832	923 816
Equity swaps	45	634	15 323
Total	**10 065**	**7 842**	**1 566 364**
Derivatives used as fair value hedges			
Interest rate swaps	4 815	5 114	389 531
Foreign exchange contracts	-	14 481	1 604 990
Total	**4 815**	**19 595**	**1 994 521**
Total derivative financial instruments	**14 880**	**27 437**	**3 560 885**

As of 31 December 2019 DSK Bank has the following intragroup deals:

- Interest rate swaps with OTP Bank Group members – assets BGN 1 974 thousand, liabilities BGN 20 929 thousand, notional amount BGN 760 783 thousand;
- Derivative deals for foreign exchange with OTP Bank Group members - assets BGN 9 027 thousand, liabilities BGN 9 799 thousand, notional amount BGN 2 302 012 thousand;
- Derivative deals for fair value hedge are with OTP Bank. Derivatives are hedging fair value of FVOCI securities and reverse purchase loans.

As of 31 December 2018 DSK Bank has the following intragroup deals:

- Interest rate swaps with OTP Bank – assets BGN 1 288 thousand, liabilities BGN 3 686 thousand, notional amount BGN 303 801 thousand;
- Derivative deals for foreign exchange with OTP Bank - assets BGN 1 312 thousand, liabilities BGN 586 thousand, notional amount BGN 397 261 thousand;
- Equity swaps with OTP Bank - assets BGN 45 thousand, liabilities BGN 448 thousand, notional amount BGN 8 027 thousand;
- Derivative deals for fair value hedge are with OTP Bank. Derivatives are hedging fair value of FVOCI securities and reverse purchase loans.

Type of hedge	Type of instrument	Type of risk	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument as at 31 December 2019		Changes in fair value used for calculating hedge ineffectiveness for the year
In thousands of BGN				Assets	Liabilities	2019
Fair value hedge	Interest rate swap	Interest rate risk	397 860	-	(14 918)	(14 410)
Fair value hedge	Currency swap	Currency Risk	2 151 413	1 118	-	10 703

Type of hedge	Type of instrument	Type of risk	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument as at 31 December 2018		Changes in fair value used for calculating hedge ineffectiveness for the year
In thousands of BGN				Assets	Liabilities	2018
Fair value hedge	Interest rate swap	Interest rate risk	389 531	-	(299)	(678)
Fair value hedge	Cross-currency swap	FX risk	1 564 664	-	(14 481)	(12 966)

Type of hedge	Type of risk	Carrying amount of the hedging instrument as at 31 December 2019		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item as at 31 December 2019		Type of hedged item
In thousands of BGN		Assets	Liabilities	Assets	Liabilities	
Fair value hedge	Interest rate risk	435 390	-	13 960	-	Bond
Fair value hedge	Currency Risk	1 559 539	-	-	(6 595)	Repo

Type of hedge	Type of risk	Carrying amount of the hedging instrument as at 31 December 2018		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item as at 31 December 2018		Type of hedged item
In thousands of BGN		Assets	Liabilities	Assets	Liabilities	
Fair value hedge	Interest rate risk	409 078	-	3 448	(4 172)	Bond
Fair value hedge	FX risk	1 575 465	-	11 886	-	Repo

19. Loans and advances to banks

(a) Analysis by type

In thousands of BGN	31-Dec-2019	31-Dec-2018
Deposits with domestic and foreign banks		
In Bulgarian Leva	908	11 104
In foreign currencies	313 872	323 805
Encumbered assets with foreign banks	87	3 131
Loans granted	4	-
Loans under repurchase agreements	2 635 734	1 586 075
Less impairment loss allowances	(972)	(397)
Total	**2 949 633**	**1 923 718**

(b) Geographical analysis

In thousands of BGN	31-Dec-2019	31-Dec-2018
Domestic banks	608	30 590
Foreign banks	2 949 025	1 893 128
Total	**2 949 633**	**1 923 718**

The Group purchases financial instruments under agreements to sell them at future dates (“reverse repurchase agreements”) and are presented as part of loans and advances to banks.

As of 31 December 2019 DSK Bank has the following intragroup deals:

- Repurchase agreements with OTP Bank are denominated in HUF, USD and EUR and amount to BGN 2 165 078 thousand. Interest rates vary from (-0.45)% to 2.74%. The deals are collateralised with Government Bonds with coverage at 100%;
- Deposits blocked in connection with derivative deals with OTP Bank denominated in EUR and USD amounting to BGN 391 thousand.
- A long term deposit with OTP Bank denominated in EUR amounting to BGN 194 955 thousand with two years original maturity and maturing in February 2021. The deposit bears negative interest of (-0.418)%.
- Overnight deposits with OTP Bank denominated in USD, GBP, CAD and CHF amounting to BGN 108 622 thousand. Interest rates vary from (-0.89)% to 1.67%.

As of 31 December 2018 DSK Bank has the following intragroup deals:

- Repurchase agreements with OTP Bank denominated in HUF amounting to BGN 1 576 751 thousand with original maturity between 16 and 23 months and maturing between March and October 2020. Interest rates vary from 0.6338% to 1.0401%. The deals are collateralised with Hungarian Government Bonds with coverage at 100%.
- Deposits blocked in connection with derivative deals with OTP Bank denominated in EUR and USD amounting to BGN 334 thousand.

20. Loans and advances to customers

In thousands of BGN	**31-Dec-2019**	**31-Dec-2018**
Individuals		
In Bulgarian Leva		
Consumer loans	4 072 050	2 794 109
Housing and mortgage loans	3 008 471	2 011 961
In foreign currencies		
Consumer loans	94 970	116 123
Housing and mortgage loans	435 675	360 312
Companies		
In Bulgarian Leva		
Working capital loans	1 561 759	928 576
Investment loans	1 173 827	681 846
In foreign currencies		
Working capital loans	919 366	401 541
Investment loans	1 383 997	924 695
State Budget		
In Bulgarian Leva	32 436	306
In foreign currencies	9 122	981
Less impairment loss allowances	(863 732)	(762 056)
Total loans and advances to customers	**11 827 941**	**7 458 394**

Impairment allowances of loans and advances to customers

In thousands of BGN	**31-Dec-2019**	**31-Dec-2018**
Balance at 1 January	**762 056**	**758 726**
Net change for the year through profit or loss	93 821	67 890
Impairment gain on POCI included	44 128	-
Decrease	(36 273)	(64 560)
Balance at 31 December	**863 732**	**762 056**

The interest rates on receivables from loans as at 31 December 2019 are ranged as follows: receivables from individuals from 1.25% to 40.35%; receivables from companies from 0.75% to 21.00%; receivables from State Budget from 0.33% to 4.50%.

In accordance with the policy of DSK Bank in 2019 carrying amount of the the sale of problem loans to parties outside the Group are to the amount of BGN 9 186 thousand and the impairment allowance amounts to BGN 9 186 thousand.

Write-off on account of impairment, including on loan sales, booked during the year 2019 amounts to BGN 32 567 thousand, of which BGN 14 416 thousand are with partial termination of the balance sheet reporting.

21. Receivables under factoring agreements

In thousands of BGN	**31-Dec-2019**	**31-Dec-2018**
Receivables under local factoring	84 420	-
Receivables under international factoring	32 145	-
Advances to clients under local and international factoring	107 602	38 515
Impairment	(1 589)	(347)
Total receivables under factoring agreements	**222 578**	**38 168**

22. Net receivables from finance lease

In thousands of BGN	**31-Dec-2019**	**31-Dec-2018**
Gross receivables from finance lease	1 114 403	167 766
Unrealized financial income	(56 679)	(9 958)
Net minimum lease payments	**1 057 724**	**157 808**
Impairment	(6 921)	(2 120)
Net receivables from finance lease	**1 050 803**	**155 688**

Net receivables from finance leases are allocated as follows:

In thousands of BGN	**31-Dec-2019**	**31-Dec-2018**
With maturity of up to 1 year	366 957	56 209
With maturity from 1 to 5 years	685 659	101 509
With maturity over 5 years	5 108	90
Impairment	(6 921)	(2 120)
Net receivables from finance lease	**1 050 803**	**155 688**

23. Investments in securities

In thousands of BGN	**31-Dec-2019**	**31-Dec-2018**
Investments in instruments measured at fair value through other comprehensive income		
Equity instruments	22 728	14 929
Government debt securities	1 634 293	1 068 612
Less impairment loss allowances	(859)	(1 136)
Total investments in instruments measured at fair value through other comprehensive income	**1 656 162**	**1 082 405**
Investments in instruments mandatory measured at fair value through profit or loss		
Equity instruments	2 167	2 265
Government debt securities	-	2 999
Corporate debt securities	174 164	173 366
Total investments in instruments mandatory measured at fair value through profit or loss	**176 331**	**178 630**
Total	**1 832 493**	**1 261 035**

The assets of the Group in its investment portfolio consist of investments mandatory measured at fair value through profit and loss (FVTPL) and investments measured at fair value through other comprehensive income (FVTOCI).

As of 31 December 2019 DSK Bank reports in its mandatory FVTPL portfolio perpetual bond issued in EUR from OTP Bank (ISIN XS0274147296) with nominal value BGN 188 626 thousand and carrying amount BGN 174 164 thousand. The bond is with variable interest rate – as of the statement date it is 2.61%.

As of 31 December 2018 DSK Bank reports in its mandatory FVTPL portfolio perpetual bond issued in EUR from OTP Bank (ISIN XS0274147296) with nominal value BGN 188 626 thousand and carrying amount BGN 173 366 thousand. The bond is with variable interest rate – as of the statement date it is 2.681%.

Investments measured at FVTOCI include government bonds issued by the Ministry of Finance denominated in BGN with an applicable interest rate in the range between 0.30% and 5.00% and denominated in euro with an interest rate ranging between 1.875% and 5.75%; Foreign issuers' debt securities represent government bonds denominated in EUR earning interest from 1.30% to 4.625% and government bonds denominated in USD earning interest in the range from 3.25% to 6.75%.

The equity investments represent shares in domestic and foreign companies and financial institutions.

As of 31 December 2019, securities pledged as collateral and blocked in favour of the Ministry of Finance on deposits from the State Budget amount to BGN 277 544 thousand.

24. Goodwill

The Group's goodwill arised on acquisition of POK DSK Rodina AD and Expressbank AD. For the purpose of impairment testing, goodwill is allocated to POK DSK Rodina AD and Expressbank AD as separate CGUs.

In this relation, a test for impairment through analysis of the companies' performance and of the environment in which they operate was made. The analysis showed that in 2019, significant changes with an adverse effect on the operation of the companies associated with the market, economic or legal environment did not occur and were not expected to occur in the next periods and therefore the net assets' carrying amount of the reporting entities showed sustainable growth in time. The companies' net cash flows and operating profit meet the estimated ones. Based on the foregoing, the Group accepts that the goodwill is not impaired as at 31.12.2019.

The carrying value of the goodwill allocated to the appropriate cash generation units is as follow:

In thousands of BGN	**31-Dec-2019**	**31-Dec-2018**
List of units		
Expressbank AD	77 372	-
DSK Rodina Pension Company AD	1 175	1 175
Total	**78 547**	**1 175**

The change in carrying amount for the period is:

In thousands of BGN	**2019**	**2018**
Gross balance as at 1 January	**1 175**	**1 175**
Additions	77 372	-
Gross balance as at 31 December	**78 547**	**1 175**

25. Investment property

In thousands of BGN	**31-декември-2019**	**31-декември-2018**
Revalued amount		
Balance as of 01 January	22 512	22 512
Additions	-	-
Disposals	-	-
Revaluation	-	-
Balance as of 31 December	**22 512**	**22 512**
Depreciation		
Balance as of 01 January	1 772	1 329
Charge for the period	443	443
Disposals	-	-
Revaluation	-	-
Balance as of 31 December	**2 215**	**1 772**
Net book value	**20 297**	**20 740**

The fair value of the investment property determined by independent external valuers is BGN 21 001 thousand.

The fair value determined corresponds to Level 3 of the Fair Value Hierarchy adopted with IFRS 13 for all financial and non-financial assets and liabilities that fall under IFRS 13. Fair value is determined on the basis of estimates by external valuers by weighing different valuation methods, based on the comparative sales method and the revenue approach.

26. Right-of-use assets

In thousands of BGN	**Land, buildings and equipment**	**Vehicles**	**Total**
Cost or revalued amount			
Balance as of 31 December 2018	-	-	-
Changes on initial application of IFRS 16	40 300	1 057	41 357
Balance as of 1 January 2019	**40 300**	**1 057**	**41 357**
Acquisition of subsidiaries	**27 465**	**1 935**	29 400
Additions due to new contracts	11 957	1 572	13 529
Derecognition due to expired contracts	-	-	-
Changes from reassessment and modification	(1 170)	(17)	(1 187)
Cost or revalued amount as of 31 December 2019	**78 552**	**4 547**	**83 099**
Depreciation			
Balance as of 31 December 2018	-	-	-
Changes on initial application of IFRS 16	-	63	63
Balance as of 1 January 2019	**-**	**63**	**63**
Depreciation for the period	14 568	1 242	15 810
Derecognition due to expired contracts	-	-	-
Changes from reassessment and modification	(179)	(1)	(180)
Depreciation as of 31 December 2019	**14 389**	**1 304**	**15 693**
Net book value 31 December 2019	**64 163**	**3 243**	**67 406**

27. Property, plant and equipment

Movement of property, plant and equipment during the year 2019

In thousands of BGN	**Land and buildings**	**IT equipment**	**Office equipment**	**Other equipment**	**Assets under operative leasing**	**Total**
Cost or revalued amount						
Balance as of 31 December 2018	403 810	81 182	91 529	19 679	24 960	621 160
Changes on initial application of IFRS 16	-	-	-	(1 027)	-	(1 027)
Balance as of 1 January 2019	**403 810**	**81 182**	**91 529**	**18 652**	**24 960**	**620 133**
Acquisition of subsidiaries	98 182	7 165	7 563	2 667	415	115 992
Additions	48	111	46	29 479	4 100	33 784
Disposals	(1 821)	(8 621)	(7 987)	(5 439)	(5 942)	(29 810)
Transfers	4 682	12 193	4 243	(22 299)	-	(1 181)
Cost or revalued amount as of 31 December 2019	**504 901**	**92 030**	**95 394**	**23 060**	**23 533**	**738 918**
Depreciation						
Balance as of 31 December 2018	126 408	65 022	71 717	9 202	8 276	280 625
Changes on initial application of IFRS 16	-	-	-	(63)	-	(63)
Balance as of 1 January 2019						
Charge for the period	10 779	8 867	7 258	704	4 198	31 806
Disposals	(1 039)	(4 513)	(4 755)	(606)	(3 858)	(14 771)
Impairment	-	-	-	512	-	512
Depreciation as of 31 December 2019	**136 148**	**69 376**	**74 220**	**9 749**	**8 616**	**298 109**
Net book value 31 December 2019	**368 753**	**22 654**	**21 174**	**13 311**	**14 917**	**440 809**
Net book value 31 December 2018	**277 402**	**16 160**	**19 812**	**10 477**	**16 684**	**340 535**

Movement of property, plant and equipment during the year 2018

In thousands of BGN	**Land and buildings**	**IT equipment**	**Office equipment**	**Other equipment**	**Assets under operative leasing**	**Total**
Cost or revalued amount						
Balance as of 31 December 2017	377 718	82 237	88 842	24 006	23 767	596 570
Additions	-	84	17	23 059	6 558	29 718
Disposals	(7 472)	(8 388)	(2 126)	(2 631)	(5 365)	(25 982)
Transfers	12 710	7 249	4 796	(24 755)	-	-
Revaluation	20 857	-	-	-	-	20 857
Impairment	(3)	-	-	-	-	(3)
Cost or revalued amount as of 31 December 2018	**403 810**	**81 182**	**91 529**	**19 679**	**24 960**	**621 160**
Depreciation						
Balance as of 31 December 2017	95 334	68 594	66 797	7 862	7 649	246 236
Charge for the period	6 740	5 725	7 020	827	4 229	24 541
Disposals	(2 619)	(9 297)	(2 100)	513	(3 602)	(17 105)
Revaluation	15 903	-	-	-	-	15 903
Impairment	11 050	-	-	-	-	11 050
Depreciation as of 31 December 2018	**126 408**	**65 022**	**71 717**	**9 202**	**8 276**	**280 625**
Net book value 31 December 2018	**277 402**	**16 160**	**19 812**	**10 477**	**16 684**	**340 535**
Net book value 31 December 2017	**282 384**	**13 643**	**22 045**	**16 144**	**16 118**	**350 334**

In “Land and buildings” are included leasehold improvements to the amount of BGN 3 264 thousand as of 31 December 2019 and BGN 4 467 thousand as of 31 December 2018.

In “Other equipment” are included property, plant and equipment under construction and acquisition of property plant and equipment to the amount of BGN 11 858 thousand as of 31 December 2019 and BGN 7 723 thousand as of 31 December 2018.

As of 31 December 2019, the gross carrying amount of fully depreciated property, plant and equipment that are still in use in the course of the Group's activities is as follows: buildings: to the amount of BGN 6 932 thousand, IT equipment: to the amount of BGN 49 582 thousand, office equipment: to the amount of BGN 46 005 thousand, other equipment: to the amount of BGN 7 449 thousand.

As of 31 December 2018, the gross carrying amount of fully depreciated property, plant and equipment that are still in use in the course of the Group's activities is as follows: buildings: to the amount of BGN 5 368 thousand, IT equipment: to the amount of BGN 45 433 thousand, office equipment: to the amount of BGN 42 938 thousand, other equipment: to the amount of BGN 6 707 thousand.

The fair value of land and buildings was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. As at 31 December 2019 the fair value of land and buildings is not significantly different than their book value as at the same date. The fair value of land and buildings is categorized as Level 3 based on the inputs of the valuation technique used.

Valuation technique	**Significant unobservable inputs**	**Inter-relationship between key unobservable inputs and fair value measurement**
Depreciated replacement method The method is based on construction expenses. The value of the property is evaluated as a sum of land value including buildings equipment and infrastructure on it. The value of the land is evaluated on the market analogues adjusting for comparable market costs. The share of the land in the total value depends on its location, possible and actual construction and depreciation of the buildings. The new investment value of buildings is evaluated through adjustment of common production cost for a unit of area with ratios for: physical obsolescence, removable construction defects and damages, functional obsolescence, economic impairment/overestimation, supplement for luxury. *Capitalisation of income method* The fair value is defined from the ability of the property to generate future benefits. The value is estimated through adjustment of the market net annual rental income with a rate for payback period. *Comparative value method* The depreciated recoverable amount is determined using market adjustments by means of factors for economic impairment/overestimation based on the market price of property in particular built-up area and the level of supply and demand. The information used is for selling price of property adjusted with factors for location, size, state etc.	1. Costs of administering the property as percentage of its gross annual income; 2. Rate of return on income from property; 3. Adjusting factors in terms of similar market transactions.	The estimated fair value would increase (decrease) if: • the percentage of administering costs is decreased (increased); • the rates of return are decreased (increased); • the adjusting factors are increased (decreased).

28. Intangible assets

Movement of intangible assets during 2019

In thousands of BGN	**Intangible assets**	**Assets acquired in business combinations**	**Assets under construction**	**Total**
Cost				
Balance as of 31 December 2018	147 660	-	17 294	164 954
Acquisition of subsidiaries	7 552	86 588	1 546	95 686
Additions	45	-	24 175	24 220
Disposals	(9 799)	-	(1 253)	(11 052)
Transfers	20 050	-	(20 050)	-
Cost as of 31 December 2019	**165 508**	**86 588**	**21 712**	**273 808**
Amortization and impairment losses				
Balance as of 31 December 2018	115 268	-	-	115 268
Charge for the period	17 243	26 537	-	43 780
Disposals	(9 661)	-	-	(9 661)
Impairment	3 633	-	46	3 679
Depreciation as of 31 December 2019	**126 483**	**26 537**	**46**	**153 066**
Net book value 31 December 2019	**39 025**	**60 051**	**21 666**	**120 742**
Net book value 31 December 2018	**32 392**	**-**	**17 294**	**49 686**

Movement of intangible assets during 2018

In thousands of BGN	**Intangible assets**	**Assets under construction**	**Total**
Cost			
Balance as of 31 December 2017	138 663	7 929	146 592
Additions	231	21 422	21 653
Disposals	(2 737)	(554)	(3 291)
Transfers	11 503	(11 503)	-
Cost as of 31 December 2018	**147 660**	**17 294**	**164 954**
Amortization / impairment losses			
Balance as of 31 December 2017	105 170	-	105 170
Charge for the period	12 820	-	12 820
Disposals	(2 722)	-	(2 722)
Depreciation as of 31 December 2018	**115 268**	**-**	**115 268**
Net book value 31 December 2018	**32 392**	**17 294**	**49 686**
Net book value 31 December 2017	**33 493**	**7 929**	**41 422**

As of 31 December 2019, the gross carrying amount of fully amortized intangible assets (licenses and software) that are still in use in the course of the Group's activities is to the amount of BGN 83 908 thousand.

As of 31 December 2018, the gross carrying amount of fully amortized intangible assets (licenses and software) that are still in use in the course of the Group's activities is to the amount of BGN 85 698 thousand.

29. Other assets

In thousands of BGN	**31-Dec-2019**	**31-Dec-2018**
Deficiencies in assets	726	599
Advances to suppliers	11 672	3 283
Receivables in litigation	9 423	1 682
Collateral provided	1 623	-
Depository accounts	3 540	54 955
Materials, spare parts	6 026	4 375
Deferred expenses	17 807	14 108
Clearing and bank settlement assets	7 644	12 451
Acquired collaterals	20 815	21 733
Other assets	33 955	23 605
Impairment	(37 203)	(18 234)
Total	**76 028**	**118 557**

At 31 December 2019 the amount of impairment of assets acquired against non-collectable loans is BGN 11 244 thousand.

At 31 December 2018 the amount of impairment of assets acquired against non-collectable loans is BGN 7 552 thousand.

Depositary accounts represent temporary balances to secure transactions with securities.

30. Deposits from banks and loans from banks and financial institutions

In thousands of BGN	31-Dec-2019	31-Dec-2018
Deposits from banks		
Current accounts	34 590	7 994
Deposits	34 553	-
Total deposits from banks	**69 143**	**7 994**
Loans from financial institutions		
Short term loans	56 758	21 514
Long term loans	228 449	177 516
Total loans from banks and financial institutions	**285 207**	**199 030**

On 5 August 2013 DSK Bank and European Investment Fund (EIF) signed a loan contract for EUR 20 000 thousand. The purpose of the loan is granting preferential interest loans to SME's. As of December 31, 2018 the interest rate on the outstanding amount is 0.44%, as of December 31, 2019 it is 0.338%.

On 27 December 2012 Expressbank and European Investment Fund (EIF) signed a loan contract for EUR 30 000 thousand. The purpose of the loan is granting preferential interest loans to SME's. As of December 31, 2019 the interest rate on the outstanding amount is 0.138%.

In August 2013 OTP Bank Plc grants 2 year loan to DSK Leasing on the amount of EUR 50 000 thousand. In February 2015 OTP Financing Malta Ltd enters as assaignee of the loan. In November 2015 OTP Financing Malta Ltd signs with DSK Leasing a facility agreement for renewal of EUR 50 000 thousand with 5 year term and it is separated to two loans – EUR 40 000 thousand with floating interest rate and EUR 10 000 thousand with fixed interest rate. As of December 31, 2019 EUR 17 000 thousand are repaid and interest rates are 0.97% and 1.4434%.

In October 2016 OTP Financing Malta Ltd grants to DSK Leasing five year loan on the amount of EUR 5 000 thousand. As of December 31, 2019 the loan is fully disbursed with interest rate 0.388%.

In January 2017 OTP Financing Malta Ltd grants to DSK Leasing five year loan on the amount of EUR 15 000 thousand. As of December 31, 2019 the loan is fully disbursed with interest rate 0.48%.

In July 2018 OTP Financing Malta Ltd grants to DSK Leasing five year loan on the amount of EUR 15 000 thousand. As of December 31, 2019 the loan is fully disbursed with interest rate 0%.

In April 2019 OTP Financing Malta Ltd grants to DSK Leasing three year loan on the amount of EUR 11 000 thousand. As of December 31, 2019 the loan is fully disbursed with interest rate 0.222%.

In January 2019 OTP Financing Malta Ltd grants to Express Factoring EOOD one year loan on the amount of EUR 40 000 thousand with variable interest. As of December 31, 2019 the loan is fully disbursed with interest rate 0.13%.

In July 2016 Raiffeisen Bank Bulgaria grants to OTP Leasing Bulgaria EOOD five year loan on the amount of EUR 20 000 thousand with variable interest. As of December 31, 2019 the loan is fully disbursed with interest rate 1.00%.

OTP Bank Group members have loro accounts with DSK Bank denominated in BGN and EUR with total balance as of December 31, 2019 BGN 2 253 thousand.

OTP Bank Group members have loro accounts with DSK Bank denominated in BGN and EUR with total balance as of December 31, 2018 BGN 1 544 thousand. The Group has not had any defaults of principal or interest or other breaches with respect to its liabilities during the periods 2018 and 2019.

31. Deposits from customers

In thousands of BGN	**31-Dec-2019**	**31-Dec-2018**
Individuals		
In Bulgarian Leva		
Term deposits	2 860 130	2 298 859
Demand deposits	6 719 422	4 387 383
In foreign currencies		
Term deposits	1 929 904	1 242 950
Demand deposits	2 202 081	1 103 111
Companies		
In Bulgarian Leva		
Term deposits	112 011	73 030
Demand deposits	2 256 036	1 198 274
In foreign currencies		
Term deposits	128 215	59 674
Demand deposits	987 452	478 777
State Budget		
In Bulgarian Leva		
Term deposits	1 037	942
Demand deposits	186 914	119 478
In foreign currencies		
Term deposits	678	47
Demand deposits	70 945	33 935
Financial institutions		
In Bulgarian Leva		
Term deposits	27 594	19 094
Demand deposits	220 933	65 682
In foreign currencies		
Term deposits	5 610	393
Demand deposits	123 102	403 509
Total	**17 832 064**	**11 485 138**

The interest rates on deposits as at 31 December 2019 are ranged as follows: deposits from individuals from 0% to 8.50%; deposits from companies from 0% to 2.79%; deposits from State Budget from 0% to 2%; deposits from financial institutions from -1.10% to 0.25%.

32. Lease liabilities

In thousands of BGN	**31-Dec-2019**
With maturity of up to 1 year	15 914
With maturity from 1 to 5 years	41 378
With maturity over 5 years	7 874
Total liabilities from operating lease	**65 166**

33. Provisions

Movement in provisions during 2019

In thousands of BGN	**Pension employment defined benefit obligations**	**Provisions for litigation and others**	**Provisions for commitments and guarantees given**	**Provisions for restructuring**	**Total**
Opening balance as of 31 December 2018	8 701	38 150	15 009	-	61 860
Acquisition of subsidiaries	5 367	2 835	10 167	-	18 369
Additions during the year	2 023	2 917	54 730	5 842	65 512
Reversal during the year	(2 056)	(7 317)	(34 845)	-	(44 218)
Amounts paid	(799)	(581)	1	-	(1 379)
Other movements	1 346	-	(2)	-	1 344
Total	**14 582**	**36 004**	**45 060**	**5 842**	**101 488**

Movement in provisions during 2018

In thousands of BGN	**Pension employment defined benefit obligations**	**Provisions for for litigation and others**	**Provisions for commitments and guarantees given**	**Total**
Opening balance as of 31 December 2017	7 967	48 398	3 993	
Changes on initial application of IFRS 9	-	-	15 981	15 981
Additions during the year	801	2 843	-	3 644
Reversal during the year	-	(12 452)	(4 984)	(17 436)
Amounts paid	(727)	(639)	-	(1 366)
Other movements	660	-	19	679
Total	**8 701**	**38 150**	**15 009**	**61 860**

The estimated amount of the obligation as at each reporting date and the expenses for retirement compensations recognised are based on an actuarial report (see below information on actuarial assumptions).

In thousands of BGN	**2019**	**2018**
Defined benefit obligations at 1 January	8 701	7 967
Acquisition of subsidiaries	5 202	-
Benefits paid by the plan	(772)	(734)
Current service costs	1 240	804
Past service costs	(1 904)	-
Interest cost	187	119
Remeasurements:		
Experience adjustments	1 624	816
Actuarial (gains) losses from changes in demographic assumptions	(355)	31
Actuarial (gains) losses from changes in financial assumptions	248	(302)
Defined benefit obligations at 31 December	**14 171**	**8 701**

Expense recognised in statement of profit or loss

In thousands of BGN	**2019**	**2018**
Current service costs	1 240	804
Interest on obligation	187	119
Past service costs	(1 904)	-
Actuarial (gains) losses	171	(122)
Total	**(306)**	**801**

Actuarial assumptions

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages):

	2019	**2018**
Discount rate at 31 December	0,60%	1.00%
Future salary increases	3,00%	5.00%

34. Deferred tax liabilities

Deferred income taxes for 2019 are calculated on all temporary differences under the liability method using a tax rate of 10%.

Deferred income tax balances are attributable to the following items:

	Assets		Liabilities		Net	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
In thousands of BGN						
Pension severance payments under Labour Code and other personnel liabilities	(2 300)	(1 547)	-	-	(2 300)	(1 547)
Business reorganisation	-	-	443	443	443	443
Impairment of equity shares	(602)	(589)	-	-	(602)	(589)
Financial assets	(105)	(12)	496	-	391	(12)
Fixed assets	(85)	(72)	23 339	11 542	23 254	11 470
Provisions for litigation and others	(3 847)	(3 806)	-	-	(3 847)	(3 806)
Unused annual leave and other	(2 109)	(1 135)	470	-	(1 639)	(1 135)
Net deferred tax (assets)/liabilities	**(9 048)**	**(7 161)**	**24 748**	**11 985**	**15 700**	**4 824**

Movement in temporary differences during 2019

	Balance as of 31 December	**Acquisition of subsidiaries**	**Recognised in the statement of profit or loss**	**Recognised in equity**	**Balance as of 31 December**
	2018	**2019**	**2019**	**2019**	**2019**
In thousands of BGN					
Pension severance payments under Labour Code and other personnel liabilities	(1 547)	(578)	(175)	-	(2 300)
Business reorganisation	443	-	-	-	443
Impairment of equity shares	(589)	-	(13)	-	(602)
Financial assets	(12)	(91)	(2 404)	2 898	391
Fixed assets	11 470	20 783	(8 996)	(3)	23 254
Provisions for litigation and other liabilities	(3 806)	(428)	387	-	(3 847)
Unused annual leave and other	(1 135)	(517)	13	-	(1 639)
Total	**4 824**	**19 169**	**(11 188)**	**2 895**	**15 700**

Movement in temporary differences during 2018

In thousands of BGN	Balance as of 31 December 2017	Recognised in the statement of profit or loss 2018	Recognised in equity 2018	Balance as of 31 December 2018
Pension severance payments under Labour Code and other personnel liabilities	(1 569)	26	(4)	(1 547)
Business reorganisation	443	-	-	443
Impairment of equity shares	(576)	(13)	-	(589)
Financial assets available for sale	(10)	1 361	(1 351)	-
Fixed assets	12 068	(1 055)	457	11 470
Contingent liabilities	(4 898)	1 092	-	(3 806)
Unused annual leave and other	(765)	(382)	-	(1 147)
Total	**4 693**	**1 029**	**(898)**	**4 824**

35. Other liabilities

In thousands of BGN	31-Dec-2019	31-Dec-2018
Liabilities for centralisation of State Budget with BNB	334	11 734
Initial installments received under finance leases	4 989	-
Deferred income	6 317	8 082
Liabilities to suppliers	13 519	8 380
Obligations under factoring contracts without recourse	15 322	-
Liabilities to personnel and management	18 223	13 541
Money transfers for execution	21 564	12 130
Liabilities under condition for financial asset refunding	54 043	56 992
Other	28 061	10 266
Total	**162 372**	**121 125**

Commitment upon contingents for ownership recovery of financial assets represent collateralization of liabilities under contracts for risk assumption through ownership transfer in favour of the Bank of cash under the Financial Collateral Arrangements Act.

36. Shareholder's equity

(a) Face value of registered shares

In thousands of BGN	31-Dec-2019	31-Dec-2018
Ordinary registered voting shares	1 327 482	1 327 482

OTP Bank, incorporated in Hungary, is the owner of 100% of the share capital of DSK Bank.

On 31 July 2018 the sole proprietor took decision to increase the capital of the Bank from BGN 153 984 thousand to BGN 1 327 482 thousand through issuing 117 349 800 registered, ordinary shares with a nominal amount of BGN 10 each, registered by OTP Bank PT.

The capital increase is registered in the Commercial Register on 27 December 2018.

The ultimate shareholders with over 5% stake of OTP Bank as of December 31, 2019 are as follows:

Name	Number of shares	Ownership	Voting rights
Hungarian Oil and Gas Company (MOL)	24 000 000	8.57%	8.58%
KAFIJAT Ltd.	19 278 248	6.89%	6.89%
OPUS Securities SA	14 496 476	5.18%	5.18%
Groupama	14 335 422	5.12%	5.13%

(b) General reserve

General reserve includes statutory reserve according to local regulation and profits transferred as general reserve according to decisions of the General Assembly of shareholders.

37. Contingent liabilities and commitments

(a) Off balance sheet liabilities and commitments

In thousands of BGN	**31-Dec-2019**	**31-Dec-2018**
Litigation against the Group and other contingent liabilities	41 460	39 833
Bank guarantees and letters of credit		
In Bulgarian Leva	416 391	228 911
In foreign currencies	162 845	83 822
	579 236	**312 733**
Factoring agreement commitments		
In Bulgarian Leva	97 566	34 430
In foreign currencies	135 970	36 003
	233 536	**70 433**
Commitments for undrawn credit facilities		
In Bulgarian Leva	1 291 387	837 367
In foreign currencies	695 752	373 300
	1 987 139	**1 210 667**
Forward and spot deals - sell		
In Bulgarian Leva	1 231 659	158 140
In foreign currencies	8 411 345	3 625 674
	9 643 004	**3 783 814**
Other	2 596	2 061
Total	**12 486 971**	**5 419 541**

Off balance sheet liabilities on forward and spot sells include currency exchange deals and securities deals.

An overdraft of BGN 1 600 thousand has granted on a current account of OTP Bank. As of 31 December 2019 and 31 December 2018 the overdraft is not used.

(b) Contingent liabilities on guarantees and letters of credit

The Group provides financial guarantees and letters of credit to guarantee the performance of commitments of its customers to third parties. These agreements have fixed limits and fixed term of validity.

These commitments and contingent liabilities carry an off-balance sheet credit risk, with a provision for the proportion of the uncommitted commitment that is likely to be funded based on a credit conversion factor (Note 33).

(c) Legal claims and other contingent liabilities connected with claims against the Group

The Legal claims against the Group and other commitment liabilities connected with legal proceedings amount to BGN 41 460 thousand (principal and accrued interest) as of December 31, 2019. For part of these legal claims the Group's management believes that there is a probability of unfavourable outcome. The Group considers probability of future cash outflows on other contingent liabilities as well as probabilty for increase of customers' claims against the Group connected with payments on contracts for products and services provided by the Group. Based on these assessments provisions at the total amount of BGN 36 004 thousand (Note 33) are allocated as at the end of 2019.

(d) Assets pledged as collateral

As of 31 December 2019 the Group has pledged Government bonds to the amount of BGN 246 476 thousand as collaterals for funds due to the State Budget. The pledge is registered in the Central Bank in favour of Ministry of Finance under the Public Finance Act.

As of 31 December 2019 the Group has pledged deposits collateralising derivative deals with OTP Bank amounting to BGN 391 thousand and with other foreign banks amounting to BGN 1 623 thousand.

38. Cash and cash equivalents

In thousands of BGN	**31-Dec-2019**	**31-Dec-2018**
Cash on hand	639 809	466 441
Balances with Central Bank	1 938 099	2 709 168
Receivables from banks with maturity up to 3 months	399 397	34 762
Total	**2 977 305**	**3 210 371**

39. Group Entities

Control of the Group

The Group's parent company is DSK Bank EAD.

Subsidiaries

	Ownership interest %	
	31-Dec-2019	**31-Dec-2018**
DSK Tours EOOD	100,00%	100,00%
DSK Rodina Pension Company AD	99,75%	99,75%
DSK Assets Management AD	66,00%	66,00%
DSK Trans Security EAD *	100,00%	100,00%
DSK Leasing AD **	60,02%	60,02%
DSK Mobile EAD	100,00%	100,00%
DSK Dom EAD	100,00%	100,00%
OTP Factoring Bulgaria EAD ***	100,00%	0,00%
Expressbank AD****	99,74%	0,00%
OTP Leasing EOOD	99,74%	0,00%
Express Factoring EOOD	99,74%	0,00%
Regional Urban Development Fund AD	51,86%	0,00%

* DSK Bank owns indirectly DSK Trans Security EAD which is 100% owned by DSK Tours EOOD.

** DSK Leasing AD owns 100 % of the share capital of: DSK Auto Leasing EOOD, OTP Insurance Broker EOOD and DSK Operative Leasing.

*** DSK Bank owns indirectly Project Company Complex Banya EOOD which is 100% owned by OTP Factoring Bulgaria EAD.

**** DSK Bank owns indirectly through Expressbank AD shares from: 99.74 % of Express Factoring EOOD, 99,74 % of OTP Leasing EOOD and 51,86 % of Regional Urban Development Fund AD.

Associates

	31-Dec-2019	**31-Dec-2018**
Cash Services Company AD	25,00%	20,00%

Net asset value

In thousands of BGN	**31-Dec-2019**	**31-Dec-2018**
Cash Services Company AD	15 090	13 783

The following table analyses, in aggregate the carrying amount and share of profit and OCI of these associates.

In thousands of BGN	**31-Dec-2019**	**31-Dec-2018**
Carrying amount of interests in associates	3 773	2 757
Share of:		
Profit from continuing operations	541	168

40. Acquisition of subsidiaries

On January 15, 2019 DSK Bank finalized the transaction for acquisition of 99.74% of the capital of Societe Generale Expressbank AD and indirect control over its subsidiaries Societe Generale Factoring EOOD, Sogeliz-Bulgaria EOOD and Regional Fund for Urban Development AD by the French banking group Société Générale.

General information	
Percentage of shares bought	99,74%
Deal date	January 2019
Financial results recognised in the group result as from:	1 January 2019

Fair value of assets or liabilities recognised

In thousands of BGN

Cash and current accounts with the Central Bank and other banks	723 910
Financial assets at fair value through profit or loss	92 449
Derivative financial assets	29 286
Loans and advances to banks	683 448
Loans and advances to customers	4 804 055
Financial assets at fair value through other comprehensive income	706 943
Current tax assets	6 560
Investments in associates	4 858
Right-of-use assets	29 284
Property, plant and equipment	116 089
Intangible assets	95 601
Other assets	25 728
Deposits from banks	228 381
Derivative financial liabilities	21 167
Loans from banks	617 589
Deposits from customers	5 296 116
Provisions	18 564
Lease liabilities	29 284
Deferred tax liabilities	19 166
Other liabilities	63 749
Subordinated debt	23 470
Net assets acquired	**1 000 725**
Goodwill	**77 372**
Non-controlling interest	2 795
Purchase price	**1 075 302**

Cash consideration	1 075 302
Less: cash snd cash equivalent balances acquired	(763 903)
Net cash outflow arising on acquisition:	**311 399**

On January 15, 2019 DSK Bank finalized the transaction for the acquisition of Express Life Insurance AD (former Sogelife Bulgaria AD) through the indirect acquisition of 41.55% of the capital of Sogelife Bulgaria AD, owned Expressbank AD, and the direct acquisition of the remaining 58.45% of the capital from Sogecap SA. Express Life Insurance AD is classified as a subsiary with a view for resale at acquisition date. The company is sold to Groupama Life Insurance in October 2019.

General information	
Percentage of shares bought	58,45%
Purchase price	6 700
Indirect share acquired	41,55%
Purchase date	January 2019
Sale date	October 2019

In thousands of BGN	
Cash and cash equivalents	4 505
Advances to banks	11 090
Financial assets at fair value through profit or loss	133
Financial assets at fair value through other comprehensive income	7 520
Financial assets in investment funds	5 695
Insurance and re-insurance assets	1 521
Property, plant and equipment	49
Intangible assets	603
Other assets	123
Insurance and re-insurance liabilities	16 327
Provisions	181
Other liabilities	3 099
Net assets acquired	**11 632**

41. Related party transactions

The Group has a controlling related party relationship with its parent company OTP Bank.

The Group has a related party relationship with its subsidiaries and associates and with its directors and executive officers and other companies within OTP Bank Group.

The related party transactions and balances as of and for the year ended 31 December 2019 are as follows:

In thousands of BGN

Related party	Type of transaction	2019	2018
Directors and executive officers	Loans extended	12 806	9 856
OTP Bank	Current and deposit accounts in OTP Bank	2 940 685	1 589 897
OTP Bank	Bond issued by OTP Bank	174 164	173 366
OTP Bank	Current and deposit accounts in DSK Bank	2 250	1 543
OTP Bank	Fair value of derivatives	(19 757)	(16 855)
OTP Bank	Other liabilities	6	6
OTP Bank	Interest income	39 200	5 541
OTP Bank	Interest expense	34 330	3 104
OTP Bank	Services income	1 100	-
OTP Bank	Fees paid	481	437
OTP Bank	Fees received	2	1
OTP Bank	Gains (losses) on trading activities	30 954	19 654
OTP Bank	Gains (losses) on bond issued by OTP Bank	819	(4 321)
OTP Bank	Liabilities for currency exchange contracts	3 021 961	2 694 309
OTP Bank	Receivables for currency exchange contracts	3 001 641	2 654 892
OTP Bank	Off balance liability on unutilised overdraft	1 600	1 600
Other OTP Group members	Current and deposit accounts in Group members	2 504	670
Other OTP Group members	Current and deposit accounts in DSK Bank	3	-
Other OTP Group members	Loans received	78 234	-
Other OTP Group members	Interest income	2	1
Other OTP Group members	Interest expense	2 469	1 523
Other OTP Group members	Fees received	19	19
Other OTP Group members	Services income	15	-
Other OTP Group members	Gains (losses) on derivative deals	-	-
Other OTP Group members	Loans received	15	187 901
Other OTP Group members	Liabilities for currency exchange contracts	48 013	-
Other OTP Group members	Receivables for currency exchange contracts	47 700	-

The remuneration of the key management personnel for 2019 includes current income amounting to BGN 7 989 thousand (2018: BGN 4 738 thousand).

42. Events after the reporting period

On February 27, 2020, the Management Board of the Bulgarian National Bank decided to authorize the transformation of Expressbank AD by merger under Art. 262 of the Commercial Law at DSK Bank EAD.

The merger process is expected to be completed by May 2020.

The COVID-19 spreading has an impact on global demand and supply, with considerable uncertainty in economic activity, which will have a direct negative impact on credit activity and on the quality of the credit portfolio, which may lead to material adjustments to the carrying value of assets and liabilities within the next financial year.

At this stage of virus spreading and the dynamics of its development, it is difficult to estimate the realistic impact on economic development of the Group. In accordance with the measures undertaken by the

Government of the country and by the Governing Council of the Bulgarian National Bank, the management of the Group has undertaken actions by organizing a crisis headquarter for actions plan and preventions.

The longer term impact may also affect trading volumes, cash flows, and profitability. Nevertheless at the date of these financial statements the Group continues to meet its obligations as they fall due, maintain liquidity and meet capital requirements and therefore continues to apply the going concern basis of preparation.

There are no other significant events identified after the end of the reporting period.