ALLIANZ BANK BULGARIA AD

ANNUAL ACTIVITY REPORT

CORPORATE MANAGEMENT DECLARATION

INDEPENDENT AUDITORS' REPORT

ANNUAL FINANCIAL STATEMENT

for the year ended 31 December 2019

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Dear Shareholders,

Welcome to the Annual General Assembly of the Shareholders of Allianz Bank Bulgaria AD.

The past 2019 was another successful year for Allianz Bank Bulgaria AD, during which it continued to function as a loyal and honest partner of its clients and partners on the local and international markets.

Despite serious competition, the bank has achieved good financial performance, driven by its effective management and the excellent work of its employees.

In 2019, the bank reached an amount of assets of BGN 2,884,372 thousand and realized a profit after tax of BGN 33,051 thousand.

Attracted funds

As of the end of 2019, customer deposits with the bank increased by 5.7% to reach BGN 2,587,467 thousand /2018: BGN 2,462,600 thousand).

Sources of financing the bank are deposits of citizens - BGN 1,439,725 thousand and deposits with corporate clients - BGN 1,147,742 thousand .

As of the end of 2019, Allianz Bank Bulgaria serves 25,978 corporate accounts and 194,069 personal accounts.

Capital

The main capital of Allianz Bank Bulgaria AD as at 31 December 2019 and 31 December 2018 was BGN 69,000 thousand, distributed in 69,000 thousand registered voting shares with a nominal value of BGN 1 each.

As at 31.12.2019 the Bank's equity is BGN 235,535 thousand. The total risk component of the bank's balance sheet and off-balance sheet assets is BGN 1,253,093 thousand. The capital base of the Bank, according to the new capital framework of the ECB / Basel 3 / with no annual profit for the end of 2019 is BGN 196 671 thousand.

The Bank prepares quarterly supervisory and monthly internal reports in accordance with the requirements of Ordinance No 8 of the Bulgarian National Bank (BNB) of 24 April 2014 on the capital buffers of banks. The Bank applies a standardized approach with regard to credit and market risk and a basic indicator approach since the beginning of 2007 for operating risk.

According to art. 92 of Regulation 575 of the European parliament and of the Council of Wednesday, June 26, 2013, minimum requirements for the ratios of capital adequacy of Tier 1 capital and of Total capital adequacy are respectively no less than 6% and no less than 8%. According to the Bank's Supervisory Reports prepared for BNB purposes in accordance with Regulation 575 of the European Parliament and of the Council of 31 December 2019, the Bank complies with capital adequacy requirements.

At the end of 2019, Allianz Bank Bulgaria AD complied with the recommendations of BNB (decision of the BNB MB of 20.12.2019 and 160/24.04.2019) for capital stability – that total capital adequacy should be no less than 14.25%, formed based on:

- Minimal capital adequacy ratio requirement for 8% of risk weighted assets in accordance of art. 92 §1 of Regulation 575/2013 and additional requirement for base share capital 0.25% of risk weighted assets, or 8.25% total capital requirement, according to The Supervisory Review and Evaluation Process (SREP; EBA/GL/2014/13).
- systemic risk buffer of 3% of risk weighted assets,
- safety capital buffer of 2.5% of risk weighted assets,
- countercyclical capital buffer of 0.5%, applicable for credit risk exposures in Bulgaria as of end of 2019.

Assets

The bank's assets at the end of 2019 amounted to BGN 2,884,372 thousand, increasing by 4.7% for one year and accounting for 2.53% of the banking system assets as of 31.12.2019. The Bank's assets growth for the banking system 2019 was 8.2%.

There is no significant change in the structure of the assets and the main increase in total assets is due to increase in Cash and cash equivalents and Loans and advances to clients, with growth of 9.64% and 4.91% compared to 2018. A decrease is observed in Financial assets at fair value through other comprehensive income by 8.12% still keeping its share in total assets to 7.27% (compared to 2018 – 8.28%).

The loans and advances to customers as of December 31 may be presented as follows:

In BGN thousand	**2019**	**2018**
Loans and advances to clients at amortized cost	1,142,517	1,155,601
Factoring receivables	38,293	27,366
Claims from a cash pool	185,406	175,911
Receivables under a finance lease	65,819	48,717
Minus losses from impairment	(64,526)	(104,047)
Total loans and advances to clients	**1,367,509**	**1,303,548**

Under the new Basel III financial reporting framework (FINREP), loans over 90 days in arrears amounted to BGN 69,200 thousand (117,814 thousand in 2018)) and account for 4.83% of the Bank's loan portfolio (8.37% in 2018), with the analogous indicator for the entire banking system being 6.48% and 5.827% for the 2nd group of banks (as of 31.12.2019).

Net financial revenue

In the past 2018, the Bank retained the proportions in the structure of net financial income, with net interest income and net fee and commission income remaining the main factor in profit formation.

The highest relative share of interest income is interest income on loans and advances to clients - BGN 43,089 thousand, which represents 67.76% of the total interest income, compared to 75.27% in the previous year. Interest income from investments is BGN 15,161 thousand and has a relative share of 23.84% (against 22.59% at the end of 2018).

Net fee and commission income amounted to BGN 15,324 thousand, accounting for a slight decrease compared to the end of 2018 – 15,425 thousand . Gross revenue from fees and commissions on cash and cash transfers for the same period decreased by 1.31%. Revenues from fees and commissions on loans, guarantees and letters of credit increase by 4.63%.

Net income from forex trading amounted to BGN 2,554 thousand, registering decrease of 24.82% compared to the end of the previous year.

Administrative costs

The operating expenses of the Bank for 2019 amounted to BGN 43,425 / 2018 BGN 42,542 thousand/, increasing by 2.08% compared to 2018.

Administrative Expenses (continued)

As a result of the restructuring in the Bank's branch network and implementation of the new IFRS 16 - Leases, rental costs decreased by 95.80% but he depreciation expense increased by 157.99% compared to 2018. The personnel and wage costs decreased by 3.90% compared to the end of 2018.

The volume of funds intended to cover the contribution to the Deposit Insurance Fund of individuals was increased by 4.91% to BGN 3,737 thousand. (2018 - BGN 3,562 thousand). The contribution to the Bank Restructuring Fund paid in 2019 amounts to BGN 5,615 thousand (2018 (BGN 4,588 thousand), marking a significant annual growth of 22.38%.

The operating expenses for external services (including audit) and materials amounted to BGN 7,354 thousand and decreased by 0.46% compared to 2018.

Management, marketing and other expenses decreased by 0.41% to BGN 2,493 thousand.

In BGN thousand	**2019**	**2018**	**Growth**
Expenses for inventory	453	540	-11.16%
Expenditure on external services, incl. Audit	6,901	6,848	0.77%
Management, marketing and other costs	2,493	2,503	-0.40%
Rental costs	157	3,736	-95.80%
Expenses for right of use depreciation	3,234	-	*157.99%
Expenses for depreciation	2,139	2,154	
Staff expenses	17,830	18,554	-3.90%
Bank restructuring costs	5,615	4,588	22.38%
Expenses for deposit guarantee	3,737	3,562	4.91%
Other expenses	866	57	1,419.30%
Total administrative costs	**43,425**	**42,542**	2.08%

*Calculated considering the Expenses for right of use depreciation in 2019.

The Cost /Income ratio (Administrative costs/Gross operating result) at the end of 2019 was 56.59% compared to 54.59 in 2018. The 2020 plan is CIR 47.3%.

Information on services provided by independent auditors

The amounts accrued in 2019 for services provided by registered auditors for statutory independent financial audit are as follows: for PricewaterhouseCoopers Audit OOD – BGN144,000 excluding VAT and for HLB Bulgaria OOD - BGN 21,000 excluding VAT. In 2019 the Bank has not charged amounts for other non-statutory audit services provided by registered auditors or members of the relevant network.

The amounts accrued in 2018 for services provided by registered auditors for statutory independent financial audit are as follows: for KPMG Audit Ltd. - BGN 5 thousand excluding VAT, for PricewaterhouseCoopers Audit OOD - BGN 120,000 excluding VAT and for HLB Bulgaria OOD - BGN 16,000 excluding VAT. In the indicated amounts are included BGN 5 thousand, excluding VAT, relating to the audit of the Bank's financial statements for the year ended 31 December 2017 carried out by KPMG Audit OOD (formerly KPMG Bulgaria OOD).

Information on services provided by independent auditors (continued)

For the audited period and on the date of this report PricewaterhouseCoopers Audit OOD provided, is in the process of providing or negotiating with the Bank, the following services:

- Joint mandatory statutory financial audit of the Bank's financial statements prepared for the year ended 31 December 2019, in accordance with IFRS adopted by the EU;
- Issuance of a report to the regulator for review of the organization of the Bank's internal control systems as at 31 December 2019, as required by Art. 76, para. 7, item 1 of the Credit Institutions Act and BNB Ordinance 14 of 4 February 2010 on the content of the audit report for supervisory purposes.

For the audited period and at the date of this report, HLB Bulgaria Ltd provided or is in the process of providing the following services:

- Joint mandatory statutory financial audit of the Bank's financial statements prepared for the year ended 31 December 2019, in accordance with IFRS adopted by the EU;
- Issuance of a report to the regulator for review of the organization of the Bank's internal control systems as at 31 December 2019, as required by Art. 76, para. 7, item 1 of the Credit Institutions Act and BNB Ordinance 14 of 4 February 2010 on the content of the audit report for supervisory purposes.

Financial goals for 2020

The Bank's financial targets for 2020 are based on the expected market situation and the Bank's approved plan by the Supervisory Board and the Allianz CEE Planning Dialogue.

The Bank has set high targets for the performance of the Gross Loan Portfolio. This volume of business should generate a profit after tax of BGN 34.44 million, which would ensure a return on equity (ROE) of 14%.

The strategic plan of Allianz Bank Bulgaria AD covers 3 years period and its approval is on Board of Directors of Allianz CEE level, subsidiary of Allianz SE, managing the Allianz Group business in Central and East Europe countries.

The strategic goals of the Bank and the planned values of the main indicators of capital adequacy, liquidity and profitability reflect the vision of the shareholders and the management for the sustainable development of the Bank in the conditions of stable economic environment.

Allianz Group sets four major strategic development goals for the Bank:

- Growth;
- Productivity;
- Technical excellence;
- Meritocracy: management of the knowing and the able. Priority on human resources and company employees.

In 2020, Allianz Bank Bulgaria AD plans to focus on meeting the following goals:

- Transformation of the Bank - digitalization and customer service;
- Retail business - increasing the retail banking share, sustainable growth in mortgage lending, improving the quality of the loan portfolio;

- Corporate Banking - restoring corporate lending share, improving loan portfolio quality.

Financial goals for 2020, (continued)

In order to achieve its goals, the Bank plans to focus on:

- Implementation of digital banking platform
- Increase of market share in the Retail Banking business line;
- Further develop their sales and service channels and explore alternatives;
- Further optimization of infrastructure and processes;
- Providing high quality of service and customer satisfaction through experienced and well-motivated employees in accordance with their goals;
- Achieving stable growth of the loan portfolio by maintaining a good risk profile of the new business;
- Supporting its corporate clients as a key partner of their business;
- Increase primary customers through various initiatives to attract new and retain existing customers.

New products and services

In 2019, the Bank continued to maintain and optimize its product range in Retail Banking in order to consolidate the positions achieved.

In 2019, the cost of attracted resources in the banking system remained low, and the credit price for the same segment kept its downward trend, but now at a slower pace.

Over the past year, the competition in lending has deepened and loan conditions have been revised several times, both for mortgage and credit products for current consumption, in order to ensure their competitiveness.

In the Corporate banking business line, the focus was on active sales and the purity of the corporate credit portfolio. We have been working to increase revenue from fees and commissions and create new lending opportunities.

The excess liquidity of the Bank, the tendency to increase the attracted funds from corporate clients, the pressure for low interest loans was noticeably visible in 2019, which forced the Bank to pursue its restrictive interest rate policy on the current account resource.

In 2019, Allianz Bank grew in customer operations, with transactions carried out remotely accounting for 87%.

The Bank continued its active partnership with international card operators. In the course of the year, with the cooperation of MasterCard, joint campaigns were organized for offering debit and credit cards to new clients for the bank.

Sales network

In 2019, the process of optimization of the branch network of Allianz Bank Bulgaria AD continued as in the previous year.

Continuous monitoring and analysis of efficiency, workload and, last but not least, the potential for development of the sales points of the Bank are carried out. On the basis of the results of this process were closed Nova Zagora FC and Gotce Delchev FC.

As at 31 December 2019, the Bank has 67 structural units, incl. Headquarters, 32 banking centers, 307 financial centers, 4 small financial centers located in 37 settlements in the country.

Information Technology

In 2019 the Bank launched a long-term digital transformation project, which is currently one of the major challenges in the banking sector. This project involves aligning the bank with new technologies and new business models to more effectively engage customers through all channels. As part of this project, in 2019, the so-called "In-depth identification" of mobile and internet banking. A third party and external providers (TPP) portal has also been set up in connection with the requirements of the latest EU Payment Services Directive (PSD2). In addition, a digital transformation project has developed a product that will allow bank employees to sell insurance to the company.

A number of improvements related to changes in the Bank's tariff and some products have been implemented. All newly updated reporting forms of the BNB and the ECB were developed in the Bank's reporting system, related to changes in their requirements.

In the coming year, we will continue to develop information technologies implemented at the Bank to respond promptly to all changes in the country's regulatory and legal framework, business challenges and customer satisfaction through a secure, reliable and high-performance information system that meets world standards in the area. Our focus will be on prioritizing the digitalization of processes and services within the bank. This will facilitate customers both in terms of transactions and in the client-bank relationship as a whole.

The AML project will be finalized in the first half of 2020.

We expect a migration project for the existing ERP system of the bank to be launched.

In addition, we will continue to work towards ensuring business continuity by expanding the backup datacenter to meet the high demands of the business environment.

Staff

At the end of 2019 Allianz Bank Bulgaria AD employs 640 employees on an employment contract (2018: 675 employees).

A key point during the past year was the restructuring of a branch network and the optimization of the number of employees in the bank. During the year internal trainings were conducted by managers at the Allianz Bank Bulgaria Headquarters, as well as trainings by external consultants and training companies.

The employees of Allianz Bank Bulgaria AD play a key role in the development of the Bank. They are the basis for the quality service of the clients and their satisfaction. The Bank pursues a policy of supporting the balance between work and private life, aiming at creating a productive and efficient work environment. It is appreciated and supported employees' willingness to develop and improve their qualifications and skills.

In order to successfully achieve its business strategy and goals, the Bank is dependent on keeping its best employees and keeping them motivated and committed. Its approach is based on managing and evaluating talent, promoting inclusion and empowering employees and supporting well-being and commitment, backed by strategic HR frameworks, principles and tools built on the principles of excellent customer service, joint leadership, entrepreneurship and trust. The Bank values the commitment of its employees with high priority and works to build a customer-centric workforce.

The Bank uses a specific IMEX index to measure the development of the company culture in which people and work matter, and the “Work Well Index” WWI to analyze the underlying causes of work-related stress to identify effective solutions and make changes to the work environment so that employees can reach their full potential.

Staff, (continued)

IMIX includes 10 indicators covering areas of leadership, performance, and corporate culture.

The Bank supports social inclusion through diversity and well-being programs, supporting groups such as women in management and people with disabilities.

Credit, market, liquidity, and operating risk

The Bank manages the credit risk through rules and procedures related to the characteristics of the credit transactions concluded by it, the order, terms and manner of their research, analysis, evaluation, authorization, coordination, management and provision approved by the Bank's Management Board. actively manages its credit risk.

With regard to application of IFRS 9, the Bank replaced the model of “occurred loss” in IAS 39 with the model of “expected credit loss” (ECL). In this regard, the Bank applies substantial judgment on the way changes in economic factors are reflected in ECL, which is determined on a likelihood-weighted basis.

The new impairment model is applied to the following financial assets which are not assessed by Fair value in profit and loss (FVPL):

- financial assets comprising debt instruments;
- lease receivables; and
- issued loan commitments and contracts for financial guarantee.

According to IFRS 9, impairment losses are not recognized for equity securities.

IFRS 9 requires recognition of a correction of losses amounting to ECL for 12 months and ECL for the entire duration of the instrument. ECL for the entire duration of the instrument is ECL arising from all possible cases of non-performance throughout the expected duration of a financial instrument, and ECL for 12 months is the part of ECL derived from cases of non-performance which may occur within 12 months after the reporting date.

According to the new standard, when recognizing the amount of ECL for a financial instrument, the Bank shall adhere to one of the following approaches:

General approach

The general approach to measuring of impairment is applied to all financial assets, credit commitments, and financial guarantees, lease receivables within the scope of impairment of IFRS 9, unless the simplified approach is applied.

According to the general approach, ECL is measured as 12-month expected credit losses or expected credit losses throughout the life depending on whether substantial increase of credit risk is present after initial recognition. More specifically:

According to the General approach, the Bank calculates 12-month or expected credit loss for the entire financial instrument (ECL) depending on the severity of change in the financial instrument's credit risk after initial recognition.

To this end, the Bank applies three Phases as described below:

Credit, market, liquidity, and operating risk, (continued)

- Phase 1 encompasses all new financial assets upon initial recognition and instruments which have not deteriorated substantially in credit quality after initial recognition;

- Phase 2 encompasses financial instruments which have deteriorated substantially in credit quality after their initial recognition, but which have no objective proof of event of credit loss;

- Phasee 3 encompasses financial assets which have objective proof of impairment at the reporting date. And finally, transfer of a financial instrument to Phase 3 is required if an impairment signal arises and is confirmed.

The Bank has defined in its rules and practice total correspondence between the definition of "non-performance", "impaired", and "non-performing" to ensure a homogeneous approach to practices for categorization of loans for supervisory and reporting purposes. As a result:

- Phase 1 and 2 include only performing financial assets,
- Phase 3 includes only non-performing financial assets.

Expected credit loss for 12 months is recognized for assets classified in Phase 1. Expected credit losses throughout their entire lifetime are recognized for financial assets classified in Phase 2. Expected credit losses throughout their entire lifetime are recognized for financial assets classified in Phase 2 and interest income is calculated based on net book value. For financial assets classified in Phase 3, the Bank stops recognizing balance-sheet interest.

Simplified approach

The simplified approach to measuring impairment is applied to all commercial receivables (including the factoring portfolio) and all cash funds.

As of 31.12.2019, non-performing exposures classified in Phase 3 amounted to BGN 69,200 thousand or 5.73% of the loan portfolio. The impairments accrued on them amount to BGN 48,167 thousand.

Applying the principle of full coverage of the risk of loss, the Bank charged as at 31.12.2018 provisions for exposures classified as serviced in Phase 1 and Phase 2 totaling BGN 15,963 thousand. The provisions based on the applicable accounting standards are determined on the basis of the adopted Provisioning Policy.

In order to limit the counterparty credit risk, the Bank uses a system of limits to local and foreign banks/ financial institutions/ corporate clients – established according to the definitions and logic embedded in the methodology for their calculation of the CRisP system. Limits are updated monthly and are available daily through the CRisP system. Disbursement of limits is monitored on a daily basis.

In addition to the system of limits and in order to minimize counterparty credit risk, when concluding repo transactions, the Bank also applies additional limits established in Minimum standards for repo transactions of companies within the Allianz SE group as follows:

Credit, market, liquidity, and operating risk, (continued)

Acceptable collaterals:

- Primary: State securities of countries and international development banks and organizations with minimum credit rating AAA, deposit with one-day maturity;
- Secondary: State securities of countries with a minimum credit rating of AA, A, and BBB, corporate (senior) securities with a minimum rating of A, deposit certificates from banks with a minimum rating of A, deposit with maturity up to three months, state guaranteed securities;
- Tertiary: Regular stock (with established requirements for free float, listed on established exchanges within the G7 and EU countries), convertible investment-grade bonds.

The following shall not be accepted as collateral: Commodities, loans, structured products such as (CDOs; CLOs; ABSs); properties, as well as shares of CIS investing in properties; variants; issued own issues of securities; any type of assets on emerging markets; exchange-traded funds (ETF), preference shares, subordinated term debt, collateral from issuers classified in “Watch” and “Restricted” lists in the CRisP system.

As at 31.12.2019, the majority of receivables from local and foreign banks are short-term (mostly overnight and up to 7-day deposits). Distribution of exposures to banks (deposits, repos, currency transactions, securities, and guarantees), according to credit rating from ECAA is as follows:

%	**Deposits**	**Nostro accounts**	**Securities**	**Repo transactions**	**Spot currency transactions (gross value)**
Investment grade	92.77%	100%	100%	-	100%
Speculative grade	7.23%	-	-	-	-
Without rating	-	-	-	-	-
Total	100%	100%	100%	-	100%

As of 31.12.2019 86.53% of the total allocated capital is for credit risk under regulatory framework Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms.

The Bank manages market risk through an appropriate organizational structure for identification, measurement, monitoring and management. The processes are documented and informationally secured. The assigned capital for operational risk at the end of 2019, calculated according to a standardized approach - basic indicator approach, according to Article 315 of the EU Regulation No 575/2013, is 13.47% of the total capital. There is also an administrative organization for recording and measuring potential operational risk losses.

The Bank owns a portfolio of liquid assets at the end of 2019 (in accordance with Ordinance No. 11 of the BNB on Liquidity Management in Banks) amounting to BGN 1,126,174 thousand, which allows it to maintain an appropriate balance between the maturity of the borrowed resource ongoing financing of its activities. Given that the secondary liquidity ratio recommended by BNB is no less than 20% (Liquid assets/ Attracted funds), the Bank had a secondary liquidity ratio of 42.82% at the end of 2019 and 42.80% on average for 2019.

Ecological issues

In the framework of the Corporate Responsibility Bank's strategy, the "low carbon economy" pillar addresses climate change and the environment as one of the three most significant risks and mega-trends. As part of a group that deals with this risk, environmental impact management is an important

Ecological issues (continued)

part of the Bank's approach. Climate change continues to be the greatest risk to the environment and, at the same time, to the whole value chain, which covers both the Bank's internal operations and all its investment and insurance products. “Allianz Bank Bulgaria” is committed to tackling the climate challenges and related health risks by managing its emissions from its operations as it strives to remain a carbon neutral company.

Allianz Bank Bulgaria PLC is committed to managing its most significant environmental impacts, including pollution prevention, and strives to continuously improve the environmental performance of its operations. We also take into consideration different environmental factors in our supply and delivery processes. In this way, we strive to raise our suppliers' awareness of our environmental commitments by encouraging them to take appropriate action.

The Bank as an Investment Intermediary

Allianz Bank Bulgaria AD is a primary dealer of government securities, an investment intermediary with full license, member of BSE-Sofia AD and Central Depository AD.

Investment intermediation activities include transactions with financial instruments for own account or for the account of clients of the bank. The main set of financial instruments that are traded are government and corporate bonds, shares and related rights, compensatory instruments, and shares in collective investment schemes. In 2017. considerable efforts have been made to meet the requirements of the new regulatory frameworks imposed by key European and local legislative initiatives such as MiFIDII, MIFIR and MFIA.

Under the conditions of super-liquidity and negative interest rates on the money markets in BGN and EUR in 2019, ABB sought to optimize its investments in fixed income instruments in terms of risk and profitability. In addition, the Bank served its clients' orders both on local and international financial markets.

Of the total volume of transactions in financial instruments realized in 2019 over 90% of them are from government securities transactions.

Other information

In the past 2019, the Bank did not have any R&D activities.

Events that occurred after the date of preparation of the financial statements and the activity report

At the end of 2019, news from China about COVID-19 (Coronavirus) first appeared, when a limited number of unknown virus cases were reported to the World Health Organization. During the first few months of 2020, the virus spread globally and its negative effects gained power.

On March 11, 2020, the World Health Organization declared a pandemic regarding the spread of COVID-19, and on March 13, 2020, the National Assembly voted in a state of emergency in Bulgaria, resulting in a number of restrictive measures.

Management considers this to be a material non-adjusting event after the reporting period.

Negative effects of the crisis and their nature

At national, European and global level, there is no clarity as to how long and how this situation will continue. The spread of COVID-19 has an impact on global demand and supply, with significant

Events that occurred after the date of preparation of the financial statements and the activity report, (continued)

uncertainty in economic activity, which can have a direct negative impact on credit activity, quality of loans already granted, liquidity position, increase in liquidity risk, decrease in revenues , capital adequacy and other indicators.

Description of identified potential risks and existing uncertainties for the Bank

Main assumptions:

- Decrease of the new lending demand leading;
- Increase of NPLs loans;
- No big repayment or refinancing. Massive restructuring of affected industries and customers;
- Keeping current level of transactional and cards business=

Most affected business areas and products:

- Decrese of the new business leading to flat or negative growth of the credit portfolio;
- Negative growth of companies' loans based on tightening of lending standards and requarements;
- Deterioration of the retail portfolio quality due to expected mass dismissal in companies operating in the affected industries;
- Deterioration of corporate portfolio quality followed by the businness interruption in the sectors such as transport, accommodation and food service activities (hotels, restaurants).

Effect on operations - processes at risk:

- Operations on foreign interbank market will face difficulties due to impaired rating and interrelatedness with other market participants;
- No impact on card operations, FX transactions, cash transfers, corporate and retail lending;
- Increase of workflow in monitoring and restructuring.

Additional risks and opportunities:

- The impact of macroeconomic crisis on the Bulgarian economy manifests as a drop of foreign demand for Bulgarian goods and services, increased unemployment and inflation;
- Expected drop in private consumption and investments in the Bulgarian economy, reduction of real estate prices and increased cost of financing for companies reflecting the increased risk premium in the country;
- Outflow of deposits in the banking system as a result of inability to obtain external sources of financing on the market, as well as increased discount for redemption of state securities.

Measures taken by the Managament of the Bank to address the crisis:

In accordance with the measures taken by the Government of the country and the Management Board of the Bulgarian National Bank, the Bank's management has taken a number of actions and measures related to:

- Organization for ensuring the continuity of services and processes;
- Working conditions and a protected environment appropriate to the situation, the focus being on healthy and safe working conditions;
- Communication and status monitoring of the COVID-19 situation;
- Information technology and infrastructure;

Events that occurred after the date of preparation of the financial statements and the activity report, (continued)

- Customer service and compliance;
- Key indicators for the performance and performance of the Bank have been defined.

Measures to mitigate the effects of the crisis and protect the business

- Introducing credit limits for specific sectors, industries and products;
- Identification of critical business activities and alternative substitutes;
- Measures to cover the credit risk - supervisory regulations, daily monitoring of early deterioration signals, monitoring of sources for repayment of loans, monitoring of defined critical indicators in the credit portfolio, collateral and additional analyzes;
- Market risk cover measures - strict monitoring, calculation of Value ar risk, stress tests, asset and liability management;
- Active communication with clients with exposures in excess of BGN 500 thousand, in anticipation of operational and liquidity problems.

The Bank's liquidity will be mainly influenced by the moratorium on repayment of loans and other claims on legal and natural persons, as well as on the continuing health and social situation, which could lead to the eventual withdrawal of customer deposits. It is not possible to predict exactly how much the decrease in cash flows will be, but Management believes that the Bank's significant investments in securities can be used to support its liquidity needs.

The Bank analyzes the quality of its credit portfolio and, in particular, its exposure to the industries that will potentially be most affected by the COVID-19 situation. While it is impossible to quantify the impact of the crisis on portfolio quality, management believes that there is sufficient buffer for capital adequacy.

Notes 6, 20 and 33 provide details of the management's sensitivity analysis, liquidity and credit risk exposure analysis, analysis of the quality of the Bank's credit portfolio, capital adequacy.

As the situation is very dynamic, management believes that the potential financial impact of the crisis cannot be assessed at this stage. The management believes that the disclosed circumstances do not create significant uncertainty about the Bank's ability to continue in the foreseeable future and to apply the going concern principle in the preparation of its financial statements.

No other significant events occurring after the date of the financial statements that require additional disclosure or adjustment in the financial statements.

Management and supervisory boards

The total remuneration received in 2019 by the members of the Management and Supervisory Board of ALIANZ BANK BULGARIA AD amounted to BGN 1,538 thousand (2018 – 1,744 thousand)=

In 2019 there are no acquired, owned and transferred shares and bonds of the Bank by the members of the Supervisory and Management Boards. The Bank's Articles of Association do not provide for any restrictions or preferential arrangements for the members of the Management Board and the Supervisory Board when acquiring shares and bonds issued by the Bank.

The shares in the capital of ALIANZ BANK BULGARIA AD are not traded on a regulated market and therefore the provisions of Directive 2004/25 / EC of the European Parliament and of the Council of 21.04.2004 on takeover bids are not applicable.

Management and supervisory boards (continued)

Participation of the members of the Management and Supervisory Board in commercial companies:

1. DIMITAR ZHELEV - does not participate in commercial companies as an unlimited liability partner; owns more than 25% of the capital of BULLS AD, Sofia and DZH AD, Bankya; Administrator of ALLIANZ BULGARIA HOLDING AD, Sofia, UNICREDIT BULBANK AD, city of Sofia; "DZH" AD, city of Sofia; "BULLS" AD, city of Sofia, REAL ESTATE DEVELOPMENT EAD, city of Sofia; ZAD ALLIANZ BULGARIA, city of Sofia; and ZAD ALLIANZ BULGARIA LIFE, city of Sofia;
2. CHRISTOPH PLEIN - does not participate in commercial companies as an unlimited liability partner; does not hold more than 25% of the capital of another company;
3. RAYMOND SEAMER - does not participate in commercial companies as an unlimited liability partner; does not hold more than 25% of the capital of another company;
4. REINER FRANZ - does not participate in commercial companies as an unlimited liability partner; holds more than 25% of the capital of Communication sro, Bratislava; is an administrator of Communication sro, Bratislava.
5. KAI MUELLER - does not participate in commercial companies as an unlimited liability partner; does not hold more than 25% of the capital of another company;
6. EDUARD GOOS – starting 07.05.2019 does not participate in commercial companies as an unlimited liability partner; does not hold more than 25% of the capital of another company.

Members of the Management Board as at December 31, 2019:

1. Alexander Protsenko - does not participate in commercial companies as an unlimited liability partner; does not hold more than 25% of the capital of another company; Administrator of ALLIANZ HUNGARY,.
2. Georgi Zamanov - does not participate in commercial companies as an unlimited liability partner; does not hold more than 25% of the capital of another company; is not an administrator of commercial companies.
3. Hristina Martsenkova - does not participate in commercial companies as an unlimited liability partner; does not hold more than 25% of the capital of another company, city of Sofia (until 11.01.2017). Registered is a sole trader - ET with company "HM - Hristina Hristova".
4. Marieta Petrova - does not participate in commercial companies as an unlimited liability partner; does not hold more than 25% of the capital of another company; is not an administrator of commercial companies.
5. Rosen Stanimirov - does not participate in commercial companies as an unlimited liability partner; does not hold more than 25% of the capital of another company; is not an administrator of commercial companies. ; Aadministrator of ALLIANZ LEASING BULGARIA AD

There is no information on the conclusion in 2019 of contracts under Art. 240b of the Commercial Act between the members of the Boards and the Bank, which go beyond the normal activity of the Company or materially deviate from the market conditions.

No transferred own shares or acquired shares in 2019 under Article 187e of the Commerce Act. “ALIANZ BANK BULGARIA" AD does not hold its own shares.

Internal control

The audit work of the Bank's Specialized Internal Audit Service is regulated by the Credit Institutions Act, Ordinance No. 10 on Internal Control of the BNB and the Internal Rules for its Organization and Activities. Internal Audit assesses the efficiency and effectiveness of the internal control framework the bank.

Internal control, (continued)

The internal audit assesses the compliance of the bank processes and activities of the Bank's units with the legal framework and with the internal banking rules and procedures, performing methodological functions to unify the good practices in the Bank's system. Through an independent and objective assessment of the quality of the internal control system, the Specialized Internal Audit Service seeks to add value and improve the effectiveness of ABB.

In 2019, with 28 planned, the Internal Audit Department has carried out 29 audit engagements, incl. 5 unscheduled and thematic ones, of which 13 in the units of the Headquarters and 16 in the Bank's business centers. Detailed information on the results of the audits is contained in the Annual Report on the Activities of the Bank.

The Bank's management reacts in a timely manner and takes adequate measures to implement the recommendations proposed by the Internal Audit to improve internal control in the main banking processes and activities. In general, the control procedures introduced are adequate, the internal control system is reliable and sufficiently limits the inherent risks to the business.

Dear Shareholders,

By the end of 2019, the Bank is stable and will continue to respond adequately to unforeseen risks and fluctuations in the marketplace.

The institution carries the name of a world-famous financial leader and enjoys an excellent reputation in professional circles and among its clients. We are confident that offering integrated banking, insurance and pension insurance products, quality customer service and sustainable business growth will deliver even better results.

This Activity Report was adopted by the Bank's Management Board on March 30th 2020 and was signed on its behalf by:

Georgi Zamanov	Hristina Martsenkova
Chief Executive Officer	*Executive Director*

CORPORATE MANAGEMENT DECLARATION
of Allianz Bank Bulgaria AD
for 2018

Allianz Bank Bulgaria AD views good corporate management as a part of contemporary business practice, an aggregate of balanced relations between the Management bodies of the Company, its shareholders and all stakeholders – employees, clients, partners and the community as a whole. The bank implements appropriate practices for good corporate management, which result from the current Bulgarian legislation and the requirements of Allianz Group for good corporate management. The upper management of the Bank believes the effective implementation of good corporate management practices contribute to achieving sustainable growth and the long-term goals of the Company, as well as establishing transparent and honest relation to all stakeholders. *(information under Article 100m, paragraph 8, item 1b) of the Public Offering of Securities Act)*.

Allianz Bank Bulgaria AD adopts and implements a Business Ethics Code of Conduct / Ethical Code of Conduct of Allianz Group *(information under Article 100m, paragraph 8, item 1c) of the Public Offering of Securities Act)*:
Allianz Bank Bulgaria AD adopts and implements the group policy for stress management in the bank for the continuous improvement of occupational health and safety. *(information under Article 100m, paragraph 8, item 1c) of the Public Offering of Securities Act).*

When appointing people to managerial positions, Allianz Bank Bulgaria AD applies the principles underlying in the Qualification and Reliability Policy of Allianz Group.

In compliance with the above policies, Allianz Bank Bulgaria AD declares their commitment to the application of the principles of transparency, independence and responsibility of the managerial and supervisory bodies of the Bank (Supervisory and Management Board) in compliance with the established vision, goals, strategies of the companies and the interests of the shareholders. *(information under Article 100m, paragraph 8, item 5 of the Public Offering of Securities Act)* **application of the Diversity policy regarding administrative, managerial and supervisory bodies** *(information under Article 100m, paragraph 8, item 6 of the Public Offering of Securities Act).*

1.1. The Supervisory board of Allianz Bank Bulgaria AD consists of 6 (six) members, who are appointed by the General assembly of the shareholders for a set term.

1.2. The Supervisory board performs their activity in compliance with the Bank Statute and the Supervisory Board Working Regulations, as well as the applicable legislation.

1.3. The Management board of Allianz Bank Bulgaria AD consists of 5 (five) members, appointed by the Management board.

1.4. The Management board performs their activity in compliance with the Bank Statute and the Management Board Working Regulations, as well as the applicable legislation.

1.5. In the performance of their functions and powers the Supervisory and Management boards are governed by the current legislation, by internal regulations and the standards for integrity and competence.

1.6. The members of the managerial bodies can only be competent individuals, without restrictions as to age, gender, nationality or education.

1.7. The members of the Management board and Supervisory board include individuals with good reputation, professional experience and managerial skills. Forming the composition of the managerial and supervisory bodies aims a balance between experience, professionalism, knowledge of the activity as well as independence and objectivity in expressing opinions and decision-making.

1.8. The members of the Management and Supervisory boards can be reappointed without limitation.

Application of the Diversity policy regarding administrative, managerial and supervisory bodies *(information under Article 100m, paragraph 8, item 6 of the Public Offering of Securities Act).*

1.9. The managerial bodies are assisted in their activities by internal bank bodies (committees and commissions) with particular powers, regulated by legislation or internal bank rules and procedures.

1.10.Specialized bodies to the Management and Supervisory Board of the Bank

1.10.1.RiskCommittee / RiCo /

The Risk Committee is an independent body to the Management Board of the Bank, whose main objective is to establish and maintain control over risk management activities. Creates, develops and approves the risk strategy in line with business strategy and risk appetite. Controls the risk capital allocation. Ensures appropriate monitoring and risk control at the individual and portfolio levels. The risk management structure covers systems, processes, organizational units and individuals whose main purpose is to implement the function independent of the operational units in identifying, monitoring and managing the risk assumed by the bank.

Risk management at the bank ensures identification, measurement and reporting of all material risks. The respective responsible persons performing risk management functions in the bank participate in the design of the risk management strategy when making all decisions related to the management of significant risks and are able to present a full overview of the risks to which it is exposed or may be exposed to the bank.

The risk committee is chaired by the Chief Risk Officer and meets at least once a month on a proposed agenda. The Risk Committee's work is defined in detail in the "Operating Rules of the ABB Risk Management Committee". The members of the Committee are the Chief Operating Officer, Chief Financial Officer, Head of the Problem Loans and Collecting Division, Head of the Planning and Controlling Division, Head of Credit Risk Division, Director Strategic Risk and Controlling Directorate.

A Risk Committee at the Supervisory Board level is a subsidiary body of the Supervisory Board that monitors and oversees the management and control of risks. The approval of transactions with gross exposures of more than 5% of the capital base must be approved by that committee before being submitted for approval to the Supervisory Board. Members are two members of the Supervisory Board. The Chief Executive Officer and Chief Risk Officer are "permanent guests". They meet quarterly.

1.10.2. Asset and Liability Management Committee (ALMC)

The Asset and Liability Management Committee supports the Management Board's business strategy, policies and the overall asset and liability management system as well as management of the Bank's liquidity. It approves investment policy for new products. The main purpose of asset and liability management is to ensure stable earnings and optimize the return on capital of the Bank while maintaining acceptable levels of risk and capital adequacy in the implementation of the development strategy and the assigned tasks in the plan for the respective financial year.

The Committee shall be chaired by the Chief Financial Officer and shall meet at least once a month. Members of the Committee are the Chief Executive Officer, Chief Business Officer, Chief Risk Officer, Head of Liquidity and Markets Division and Head of Planning and Controlling Division. The Chief Risk Officer has veto right in liquidity management decisions.

Application of the Diversity policy regarding administrative, managerial and supervisory bodies *(information under Article 100m, paragraph 8, item 6 of the Public Offering of Securities Act). (continued)*

1.10.3. Credit council

The Credit council of Allianz Bank Bulgaria AD, hereinafter referred to as the "CB", is a standing internal bank collective body for making decisions on credit transactions, restructuring of problematic credit exposures for the purpose of their reorganization, approval of an action plan for collection / , as well as the approval of out-of-court agreements for the collection / recovery of the bank's claims.

The activities within the competence of the Credit council of Allianz Bank Bulgaria AD are:

Any undertaking of credit risk in the portfolio, renegotiation and review of existing exposures in the three segments - Retail Banking, Corporate Banking and Investment Banking, whereby a net credit exposure of the client and its affiliates on the relevant business line is formed in excess of the specified competences.

Restructuring of credit transactions, approval of an action plan / proposal on problematic claims, incl. decision on early claims, incl. determining how to recover the claim and making an out-of-court settlement; taking a decision for the Bank to foreclose on collateral assets for sale or management; making a cession decision; write-off of the claim at the expense of provisions, termination of balance sheet or off-balance sheet exposures, etc. for the net credit exposure of the client and related parties in the respective business line.

The Credit council is chaired by the Chief Executive Officer. Members of the Board are the Chief Business Officer, Deputy Officer in Business Division ,the Chief Risk Officer, Head of Credit Risk Division, Head of the Problem Loans and Collecting Division.

1.10.4. Problem Loans Credit Committee

The Problem Loans Credit Committee of Allianz Bank Bulgaria AD, is a standing internal bank collective body for making decisions on restructuring of problematic credit exposures for the purpose of their reorganization, approval of an action plan for collection / , as well as the approval of out-of-court agreements for the collection / recovery of the bank's claims.

The activities within the competence of the Problem Loans Credit Committee are:

Termination of balance sheet or off-balance sheet exposures,

Restructuring of credit transactions, approval of an action plan / proposal on problematic claims, incl. decision on early claims, incl. determining how to recover the claim and making an out-of-court settlement; taking a decision for the Bank to foreclose on collateral assets for sale or management; making a cession decision; write-off of the claim at the expense of provisions, etc.

Other functions deriving from domestic banking regulations approved in the appropriate order - Procurement Policy; Rules and procedures regarding the activity of managing the bank's problematic claims; as well as regulatory documents of the Allianz Group.

The Problem Loans Credit Committee is chaired by the Head of the Problem Loans and Collecting Division and meets regularly every Tuesday at 2 pm and on the last working day of the current month.

Application of the Diversity policy regarding administrative, managerial and supervisory bodies *(information under Article 100m, paragraph 8, item 6 of the Public Offering of Securities Act). (continued)*

The members of the Committee are the Manager of Restructuring and Centralization Department with Problem Loans and Collection Division, the Director of Judicial Debt Collection Directorate, Manager of department with Judicial Debt Collection Directorate, and the Legal Advisor in Legal Services Division.

2. Description of the main characteristics of the internal control system and of the risk management system of the issuer in connection with the financial reporting process *(information under Article 100m, paragraph 8, item 3 of the Public Offering of Securities Act)*

Internal control system

2.1. Allianz Bank Bulgaria AD has established an internal control system, for the purpose of protecting the interests and the rights of shareholders and clients, as well as contributing to lowering the risks, ensuring reliability and authenticity of reporting in compliance with the regulatory requirements.

2.1.1. Audit Committee

The Audit Committee of the Bank is established and acts in accordance with the requirements of the Independent Financial Audit Act (prom. SG 95/29.11.2016), Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and Directive 2006/43 / EC of the European Parliament and of the Council Of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts.

The Audit Committee is an independent permanent body, the members of which are elected and dismissed by the General Assembly of Shareholders on the proposal of the Chairperson of the Supervisory Board of the Bank. The Audit Committee's organization and operation are regulated in the Audit Committee's Rules of Procedure adopted by the General Assembly of Shareholders.

The Audit Committee assists the Bank's governing bodies in the performance of their duties relating to the supervision of financial reporting, internal audit, internal control and compliance with legal and regulatory provisions as well as the Allianz Group Business Ethics and Compliance Code of Conduct (Ethical Code).

2.1.2. The Bank's Specialized Internal Audit Service (SIAS)

The Specialized Internal Audit Service was established on the grounds of Art. 74 of the Credit Institutions Act under the requirements of BNB Ordinance No. 10 on Internal Control in Banks and the Statute of the Bank. The primary objective of the SIAS is to improve the Bank's operations and achieve its objectives by implementing a systematic and disciplined approach to assessing and improving the Bank's risk management, control and management processes. It assists the Bank's governing bodies in taking decisions of a financial and organizational nature in order to protect the interests of the Bank, its shareholders and depositors and monitor their implementation.

2. Description of the main characteristics of the internal control system and of the risk management system of the issuer in connection with the financial reporting process *(information under Article 100m, paragraph 8, item 3 of the Public Offering of Securities Act) (continued)*

The internal audit carried out by the SIAS is an independent and objective valuation of bank transactions and control operations and systems that is being verified and evaluated as follows:

- the legality of operations, compliance with internal rules and procedures and the implementation of management decisions;
- internal control procedures for conducting transactions;
- risk management systems, risk assessment methods and capital adequacy;
- performance of contracts and commitments;
- the compliance of banking practices with the Bank's operational and strategic policy;
- protection of assets and bank records from negligence and abuse;
- a reporting and information system, the usefulness of analyzes, electronic information systems and data loyalty;
- the efficiency and the results of the bank transactions and operations carried out;
- the selection and qualification of staff, and the relevance of job descriptions and competences;
- the reliability and timeliness of the supervisory reports.

2.2. Regulatory control

The compliance management function is limited to preventing and limiting the occurrence of regulatory discrepancies, violations and conflicts of interest **.** The ultimate goal is to preserve the Bank's reputation and customer loyalty.

Risk management system

2.3. The management of the Bank strives to develop active management of all types of risks arising from the specifics of banking activity - market, liquid, credit, operational and reputational.

2.4. The risk management system determines the powers and responsibilities in the separate structural divisions of the Bank, the organization and order of cooperation in risk management, analysis and assessment of information, related to risk, preparing periodic reports of risk management.

2.5. The organization and activity of officials and units related to risk management in the Bank are fully compliant with the requirements of the Credit Institutions Act, the issued Ordinance № 7 of the BNB dated 24 April 2014 on the organization and risk management in banks, and all other relevant legislation, rules and policies.

2. Description of the main characteristics of the internal control system and of the risk management system of the issuer in connection with the financial reporting process *(information under Article 100m, paragraph 8, item 3 of the Public Offering of Securities Act) (continued)*

2.2. Regulatory control (continued)

2.6. Risk Committee / RiCo /

The Risk Committee is an independent body to the Management Board of the Bank, whose main objective is to establish and maintain control over risk management activities. Creates, develops and approves the risk strategy in line with business strategy and risk appetite. Controls the risk capital allocation. Ensures appropriate monitoring and risk control at the individual and portfolio levels. The risk management structure covers systems, processes, organizational units and individuals whose main purpose is to implement the function independent of the operational units in identifying, monitoring and managing the risk assumed by the bank.

Risk management at the bank ensures identification, measurement and reporting of all material risks. The respective responsible persons performing risk management functions in the bank participate in the design of the risk management strategy when making all decisions related to the management of significant risks and are able to present a full overview of the risks to which it is exposed or may be exposed to the bank.

Detailed risk management in the Bank is described in the Annual Financial Statement and Activity Report.

Components and main characteristics of internal control system and of the risk management system in connection with the financial reporting process of the Bank

2.7. Controlled environment. The controlled environment includes the following elements:

Communication and imposition of integrity and ethical values. Imposing integrity and ethical values includes, but is not limited to, action by the management for elimination or mitigation of stimuli or temptation which could induce the staff to engage in dishonest, illegal or unethical conduct. The policy of integrity and ethical values of the Bank includes communication of ethical standards to the staff via following the Business Ethics Code of Conduct / Ethical Code of Conduct of Allianz Group.

Commitment to competence. Competence means the knowledge and skills, necessary for performance of the tasks included in the job description of the respective person.

Participation of those charged with governance via monitoring of the model design and the effective functioning of the alert procedures and efficiency review procedures of the internal Bank control.

Philosophy and operational style of the management.

Established proper organizational structure, including taking into consideration the main areas of powers and responsibilities and the proper hierarchy levels of reporting.

Assigning appropriate powers and responsibilities.

2. Description of the main characteristics of the internal control system and of the risk management system of the issuer in connection with the financial reporting process *(information under Article 100m, paragraph 8, item 3 of the Public Offering of Securities Act) (continued)*

2.2. Regulatory control (continued)

2.7. Controlled environment. The controlled environment includes the following elements (continued)

Policy and practice, related to human resources, including high standards of recruiting qualified personnel – focused on , education level and former professional experience, with accent on continued education.

2.8. Risk Assessment Process of the Bank. For the purpose of financial reporting, the Bank's risk assessment process includes the manner in which the management identifies business risks, material for the preparation of a financial statement in compliance with the financial reporting framework applicable to the enterprise, assesses their significance, assesses the probability of their occurrence and decides on the best response to these risks and the way to manage them and to assess the results. The risks, material to reliable financial reporting include internal and external events, transactions and circumstances, which can occur and negatively impact the ability of the Bank to initiate, register, process and report financial information, in compliance with the assertions made by the management in the financial statement.
Risks can occur or change due to circumstances like the ones listed below:

- Changes in the regulatory environment;
- New staff;
- New or updated information systems;
- Rapid growth;
- New technologies;
- New business models, products or activities;
- Corporate restructuring; and
- New accounting standards and clarifications.

2.9. Information system, including the related business processes, relevant to financial reporting and communications. The information system includes infrastructure (physical and hardware components), software, people, procedures and data. The information system of the Bank, related to the purposes of financial reporting, which includes the financial reporting system, includes methods and documentation which:

Identify and reflect all valid deals and operations;

Describe promptly the deals and operations with enough detail, allowing their proper classification for the purposes of financial reporting;

Assess the value of the deals and operations in a manner which allows the reflection of their proper monetary value in the Bank's financial statement.

2. Description of the main characteristics of the internal control system and of the risk management system of the issuer in connection with the financial reporting process *(information under Article 100m, paragraph 8, item 3 of the Public Offering of Securities Act) (continued)*

2.2. Regulatory control *(*continued)

Determine the time period during which the deals and operations in order to allow their recording in the proper reporting period;

Properly represent the deals and operations and the related disclosures in the financial statement.

2.10. Control activities. The Bank has adopted a number of policies and procedures regarding the following:

Performance and results reviews;

Information processing;

Physical controls (asset security, approval of access to computer programs and data files; periodic counting and comparison of amounts in the accounting registers); and

Separation of duties.

2.11. Current monitoring of controls . An important responsibility of the management is to establish and maintain continuous internal control. The current monitoring of controls by the management includes assessment whether they work as intended and whether they are modified appropriately to reflect changes in the circumstances. Internal auditors and other staff with similar functions contribute to the current monitoring of controls thought separate assessments.

3. Information on the existence of takeover or merger bids in 2019 *(information under Article 100m, paragraph 8, item 4 of the Public Offering of Securities Act – respectively under Article 10, paragraph 1, letters "c", "d", "f", "h" and "i" of Directive 2004/25/EC of the European Parliament and the Council of 21 April 2004 on takeover bids)*

3.1. As at 31.12.2019 Allianz Bank Bulgaria AD has not received any takeover or merger bids from other companies.

Allianz Bank Bulgaria AD, cognizant of the public significance of their performance results, observes the principle of transparency of information regarding their activity, strives to achieve and maintain stable, constructive relations with the BNB, FSC, NSSI, NRA and other state bodies and institutions, which are related or have control over their activity. These relations are based on the principles of responsibility, good faith, professionalism, partnership, trust, and also respect and observance of commitments.

The Bank carries out their activity in strict compliance with the laws and other regulations of Republic of Bulgaria.

3. Information on the existence of takeover or merger bids in 2019, (continued)

This Declaration of corporate management is prepared in accordance with Article 40 of the Accountancy Act and was approved by the Management Board for issuing on March 30th 2020, and in an integral part of the annual report for 2019 by Allianz Bank Bulgaria AD, together with the annual financial statement and the Management activity report.

On behalf of the Management Board of Allianz Bank Bulgaria AD:

Georgi Zamanov	Hristina Martsenkova
CEO	Executive director

For the year ended 31 December

In BGN thousand	**App.**	**2019**	**2018.**
Interest income	9	63,586	61,473
Interest expenses	9	(2,917)	(1,931)
Net interest income	9	**60,669**	**59,542**
Revenue from fees and commissions	10	23,321	22,991
Expenses for fees and deductions	10	(7,997)	(7,566)
Net income from fees and commissions	10	**15,324**	**15,425**
Net income from trade operations	11	713	2,948
Income from investment operations	12	34	17
Total income from banking operations		**76,740**	**77,932**
Other operating income	14	5,378	2,788
Net loss on impairment of financial assets, measured at impaired cost and FVOCI	20	(1,554)	(5,207)
Net impairment losses on other assets	20	(369)	(99)
Administrative and other expenses	13	(43,425)	(42,542)
Profit before tax on profit		**36,770**	**32,872**
Tax expenses	15	(3,719)	(3,360)
Profit for the year		**33,051**	**29,512**

The profit or loss account should be read in conjunction with the appendices on page 30 to 137 that are an integral part of the financial statements. The financial statement was approved by the Management Board of the Bank for publishing on March 30th 2020.

Georgi Zamanov	Hristina Martsenkova	Lyuba Pavlova
CEO	*Executive director*	*Prepared by*

According to the independent auditors' report

PricewaterhouseCoopers Audit OOD — "HLB Bulgaria" OOD

Jock Nunan	Anna Boteva	Veronica Revalska	Svetlana Pavlova
	Registered Auditor, responsible for the audit	*Manager*	*Registered Auditor, responsible for the audit*

According to the independent auditors' report

For the year ended 31 December *In BGN thousand*	**App.**	**2018**	**2018**
Profit for the year		**33,051**	**29,512**
Other components of comprehensive income: ***Components that can be reclassified in profit or loss:***			
Net change in the fair value reserve		(585)	(1,382)
Income tax related to components of other comprehensive income that can be reclassified		59	157
		(526)	**(1,225)**
Components that will not be reclassified in profit or loss:			
Net change in the fair value reserve of capital instruments		1,554	366
Income tax related to components of other comprehensive income that will not be reclassified		(155)	(37)
Subsequent measurement of obligations under a defined benefit plan	27	(64)	(36)
Income tax related to subsequent measurement of obligations under a defined benefit plan		6	4
Other adjustments from previous year		(11)	431
		1,330	**728**
Other comprehensive income, net of taxes		**804**	**(497)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**33,855**	**29,015**

The statement of comprehensive income should be read in conjunction with the appendices on page 30 to 137 that are an integral part of the financial statements. The financial statement was approved by the Management Board for publishing on March 30th 2020.

Georgi Zamanov
CEO

Hristina Martsenkova
Executive director

Lyuba Pavlova
Prepared by

According to the independent auditors' report

PricewaterhouseCoopers Audit OOD

"HLB Bulgaria" OOD

Jock Nunan

Anna Boteva
Registered Auditor, responsible for the audit

Veronica Revalska
Manager

Svetlana Pavlova
Registered Auditor, responsible for the audit

ALLIANZ BANK BULGARIA AD
STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2019

In BGN thousand	**App.**	**31 Dec 2019**	**31 Dec 2018**
Assets			
Cash and cash equivalents	16	760,076	693,224
Financial assets at fair value through profit and loss	17	4	4,573
Loans and advances to banks	18	19,541	39,074
Loans and advances to clients	20	1,367,509	1,303,548
Financial assets at fair value through other comprehensive income	19.1	209,712	228,247
Financial assets measured at amortized cost	19.2	494,573	462,632
Property, plant and equipment	21	6,399	6,612
Right of use assets	22	7,889	-
Intangible assets	23	6,641	6,208
Other financial assets	24	5,511	3,916
Other assets	25	6,517	6,933
Total assets		**2,884,372**	**2,754,967**
Liabilities			
Deposits from banks	27	31,601	45,322
Deposits from clients	26	2,587,467	2,462,600
Other borrowed funds	27	7,021	14,985
Lease liabilities	28	7,876	-
Provisions for guarantees		3,041	3,136
Current tax liabilities		373	13
Deferred tax liabilities	29	137	99
Other financial liabilities	30	7,583	3,996
Other liabilities	31	3,738	3,136
Total liabilities		**2,648,837**	**2,533,287**
Equity			
Share capital	33	69,000	69,000
Statutory reserves	33	9,850	9,850
Retained earnings		148,086	135,099
Fair value reserve		8,599	7,731
Total equity		**235,535**	**221,680**
Total liabilities and equity		**2,884,372**	**2,754,967**

The statement of financial position should be read in conjunction with the appendices on page 30 to 137 that are an integral part of the financial statements. The financial statement was approved by the Management Board for publishing on March 30th 2020.

Georgi Zamanov	Hristina Martsenkova	Lyuba Pavlova
CEO	*Executive director*	*Prepared by*

According to the independent auditors' report

PricewaterhouseCoopers Audit OOD		"HLB Bulgaria" OOD	
Jock Nunan	Anna Boteva *Registered Auditor, responsible for the audit*	Veronica Revalska *Manager*	Svetlana Pavlova *Registered Auditor, responsible for the audit*

ALLIANZ BANK BULGARIA AD
STATEMENT OF CASH FLOWS
31 DECEMBER 2019

For the year ended 31 December

In BGN thousand	**App.**	**2019**	**2018**
Cash flows from operating activity			
Profit for the year		33,051	29,512
Adjustments for non-cash transactions:			
Net impairment losses on financial assets		1,554	5,207
Net impairment losses on other assets		369	99
Depreciation	21,23	2,139	2,154
Depreciation for Right of use assets	22	3,234	-
Revenue from dividends	12	(34)	(17)
Interest income	9	(63,586)	(61,473)
Interest expense	9	2,917	1,931
Net (gains) on financial asset transactions, including currency revaluation	11	(2,559)	(3,489)
Net (profits)/ losses from remeasurement of financial assets measured at fair value through profit or loss	11	1,846	541
Income tax expenses	15	3,719	3,360
Cash flows used in operating activities before changes in operating assets and liabilities		**(17,350)**	**(22,175)**
Changes in assets and liabilities in operating activities:			
Financial assets reported at fair value through profit or loss		7,035	29,018
Loans and advances to banks		19,568	(2,614)
Loans and advances to clients		(69,008)	(206,087)
Other assets		2,408	(2,201)
Deposits from banks		(13,718)	45,145
Deposits from clients		124,768	190,211
Other borrowed funds		(7,964)	(44,357)
Other liabilities		803	2,831
		46,542	**(7,513)**
Dividends received			17
Interest received	12	34	54,227
Paid interest		71,021	(1,357)
Tax paid on profit		(3,553)	(2,600)
Net cash flows from financial activities		**111,403**	**42,774**
Cash flows from investment activities			
Purchase of property, plant and equipment		(982)	(359)
Purchase of intangible assets		(1,377)	(1,940)
Purchase of investment securities		(103,588)	(216,713)
Proceeds from sale and maturity of investment securities		83,133	77,862
Net cash flows from/ (used in) investment activities		**(22,814)**	**(141,150)**

For the year ended 31 December

In BGN thousand	**App.**	**2019**	**2018**
Cash flows from financial activity			
Principal payments on leases		(3,620)	-
Interest payments on leases		(180)	-
Dividend paid		(20,000)	(20,000)
Net cash flows used in financial activities		**(23,800)**	**(20,000)**
Net increase in cash and cash equivalents		64,789	(118,376)
Cash and cash equivalents at 1 January		693,224	812,888
Effect of currency revaluation of cash and cash equivalents		2,063	(1,288)
Cash and cash equivalents at 31 December	16	**760,076**	**693,224**

The statement of cash flows should be read in conjunction with the appendices on page 30 to 137 that are an integral part of the financial statements. The financial statement was approved by the Management Board for publishing on March 30th 2020.

Georgi Zamanov	Hristina Martsenkova	Lyuba Pavlova
CEO	*Executive director*	*Prepared by*

According to the independent auditors' report

PricewaterhouseCoopers Audit OOD		"HLB Bulgaria" OOD	
Jock Nunan	Anna Boteva	Veronica Revalska	Svetlana Pavlova
	Registered Auditor, responsible for the audit	*Manager*	*Registered Auditor, responsible for the audit*

In BGN thousand	**App.**	**Share capital**	**Statutory reserves**	**Retained earnings**	**Fair value reserve**	**Total**
Balance as at 1 January 2018		**69,000**	**9,850**	**125,192**	**8,623**	**212,665**
Total comprehensive income for the year						
Profit for the year		-	-	29,512	-	29,512
Other components of comprehensive income, net of taxes		-	-	431	(892)	(461)
Defined benefit plans		-	-	(36)	-	(36)
Total comprehensive income for the year		**-**	**-**	**29,907**	**(892)**	**29,015**
Transactions with shareholders						
Distribution of profits for dividends		-	-	(20,000)	-	(20,000)
Balance as at 31 December 2018	28	**69,000**	**9,850**	**135,099**	**7,731**	**221,680**
Balance as at 1 January 2019	28	**69,000**	**9,850**	**135,099**	**7,731**	**221,680**
Total comprehensive income for the year						
Profit for the year		-	-	33,051	-	33,051
Other components of comprehensive income		-	-	-	868	868
Defined benefit plans		-	-	(64)	-	(64)
Total comprehensive income for the year		**-**	**-**	**32,987**	**868**	**33,855**
Transactions with shareholders						
Distribution of profits for dividends		-	-	(20,000)	-	(20,000)
Balance as at 31 December 2019	28	**69,000**	**9,850**	**148,086**	**8,599**	**235,535**

The statement of changes in equity should be read in conjunction with the appendices on page 30 to 137 that are an integral part of the financial statements. The financial statement was approved by the Management Board for publishing on March 30th 2020.

Georgi Zamanov	Hristina Martsenkova	Lyuba Pavlova
CEO	*Executive director*	*Prepared by*

According to the independent auditors' report

PricewaterhouseCoopers Audit OOD

Jock Nunan

Anna Boteva
Registered Auditor, responsible for the audit

"HLB Bulgaria" OOD

Veronica Revalska
Manager

Svetlana Pavlova
Registered Auditor, responsible for the audit

1. (a) Legal status and ownership

Allianz Bank Bulgaria AD (the "Bank") is registered in the Republic of Bulgaria and has its registered office in Sofia and address of management: Sofia, Vazrazhdane municipality, 79, Maria Louisa Blvd.

The Bank is a universal commercial bank and has a full banking license issued by the Bulgarian National Bank (BNB), on the basis of which it operates in all areas of banking in the country.

The ultimate parent and controlling entity of the Bank is Allianz SE, Germany. Direct majority owner of the Company is Allianz Bulgaria Holding AD.

(b) Management

As at 31 December 2019, the management of the Bank, namely the Management Board, consists of five members, namely: Alexander Procenko, Georgi Zamanov, Rosen Stanimirov, Hristina Martsenkova and Marieta Petrova.

As of December 31, 2019, the Bank's Supervisory Board consists of the following members: Dimitar Zhelev, Christoph Plain, Raymond Seamer, Rainer Franz, Kay Müller and Eduard Goos.

The Bank has an Audit Committee that monitors the work of its external auditors, internal auditing, risk management and accounting and financial reporting.

As at 31 December 2019, the Audit Committee has the following composition: Stefan Stefanov, Kay Müller and Maxim Sirakov.

(c) Structure of the Bank

As at 31 December 2019, the Bank has 67 structural units, incl. Headquarters, 32 banking centers. 30 financial centers, 4 small financial centers located in 37 settlements in the country.

2. Preparation basis

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the Interpretation Committee (IFRIC) adopted by the European Union (EU). IFRS adopted by the EU is the generally accepted designation of a generic framework for fair presentation equivalent to the definition of the framework introduced in § 1 (8) of the Additional Provisions of the Accounting Act - International Accounting Standards (IAS)

The financial statement was approved by the Management Board of the Bank for publishing on March 30th 2020.

The Bank presents comparative information in this financial statement for one year back.

When necessary, comparative data are reclassified (and recalculated) to achieve comparability with changes in performance in the current year. In addition, as set out in Annexes 9, 20 and 24, the Bank applies its accounting policies consistently.

The Bank presents its statement of financial position in the order of liquidity of the assets and liabilities.

3 Measurement Basis

The financial statements are prepared on a historical cost basis, except for financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and defined benefit plans.

The preparation of financial statements in conformity with IFRS requires the use of certain critical and accounting estimates. It also requires management of the Company to execute its judgment and assumptions. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 7.

4. Functional currency and currency of presentation

This financial statement is presented in Bulgarian currency (BGN), which is the functional currency of the Bank. All amounts are and rounded up to thousand, unless otherwise stated.

5. Significant accounting policies

(a) Recognition of interest revenue and expense

Interest revenue and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the one that accurately discounts the expected future cash payments and proceeds over the life of the financial asset or liability to the carrying amount of the asset or liability.

The calculation of the effective interest rate includes all fees and commissions received or paid which are an integral part of the effective interest rate. Transaction costs are intrinsic costs directly attributable to the acquisition and issue of a financial asset or liability.

Interest revenue and expense presented in profit or loss include:

- interest on financial assets and liabilities at amortized cost calculated using the effective interest method;
- interest on financial assets at fair value through other comprehensive income (FVOCI) and financial assets at fair value through profit and loss (FVPL).

(b) Foreign currency transactions

Transactions in a foreign currency are stated in functional currency at the exchange rate ruling on the date of the transaction. Monetary assets and liabilities denominated in a foreign currency are stated in the functional currency at the closing exchange rate on the financial position statement drafting date.

Exchange rate differences arising from monetary items are the difference between the amortized cost in a functional currency at the beginning of the period, adjusted for effective interest and payments over the period, and the amortized cost in foreign currency translated at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are reported at fair value are translated into the functional currency at the rate at the date that the fair value was determined.

Exchange differences arising on the translation in the functional currency are recognized in profit or loss except for differences arising on the translation of available-for-sale equity instruments.

Since 1998 the exchange rate of the Bulgarian lev (BGN) has been fixed to Euro (EUR). The exchange rate is BGN 1.95583 / EUR 1.0.

5. Significant accounting policies (continued)

(c) Fees and commissions

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. The tandard is based on the principle that revenue is recognized when the control of the good or service is transferred to the client.

IFRS 15 is only applicable to contracts where a contract counterparty is a party that can be identified as a customer in accordance with the requirements of the Standard.

Additionally, the new revenue standard provides guidance on accounting for certain costs of obtaining / performing the contract. Under IFRS 15, these costs are capitalized and should be recognized as an asset under contracts with customers only if they: (a) are made in relation to and pertain to a client contract that is within the scope of IFRS 15; (b) are not included in other IFRSs; and (c) are directly related to the contract, help generate resources for use in the course of the contract and are expected to be recovered.

Revenue from fees and commissions

The Bank realizes revenue from fees and commissions that are formed from performance and asset management. Fee and commission revenue arises from:

- Cash transactions and cash transfers
- Guarantees and letters of credit
- Loans
- Bank cards
- Other.

The current accounting policy provides for the management fees mentioned above to be recognized when providing the services. Performance fees are recognized as revenue after the end of the respective reference period.

(d) Net income from trade operations

Net trading income consists of gains less losses on assets and liabilities in trading portfolio and includes all realized and unrealized changes in fair value, interest, dividends and exchange differences.

(e) IFRS 9 Financial Instrument

(i) Recognition, classification and assessment – financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed, as well as their cash flow characteristics.

IFRS 9 includes three principal classification categories of financial assets: at amortized cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). The Standard eliminates the existing categories in IAS 39 - held to maturity, loans and receivables and financial assets available for sale.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not classified under FVPL:

5. Significant accounting policies (continued)

(e) IFRS 9 Financial Instrument (continued)

(i) Recognition, classification and assessment – financial assets (continued)

- the financial assets is held within a business model whose purpose is to hold assets in order to collect the contractual cash flows; and

- according to the contractual terms of the financial asset, cash flows arise at specific dates, which are only payments on principal and interest on the outstanding amount of the principal.

A financial asset is measured at FVOCI if it meets both conditions and is not classified under FVPL:

- the financial asset is held within a business model that targets both the collection of contractual cash flows and the sale of financial assets; and

- according to the contractual terms of the financial asset, cash flows arise at specific dates, which are only payments on principal and interest on the outstanding amount of the principal.

Upon the initial recognition of an equity instrument that is not held for trading, the Bank may take an irrevocable decision to present subsequent changes in fair value in other comprehensive income. This decision is made for each particular investment. All financial assets that are not classified as measured at amortized cost or at FVOCI as described above are measured at FVPL. In addition, upon initial recognition, the Bank may take an irrevocable decision and designate a financial asset that otherwise qualifies for measurement at amortized cost or at FVOCI, as measured at FVPL. if this would remove or reduce substantially the accounting mismatch, would have arisen.

Financial assets are classified in one of these categories at initial recognition.

Assessment of business model

The Bank will assess the purpose of the business model within which the financial asset is held at the portfolio level as it provides the best insight into how business is managed and how information is provided to management. The information to be considered includes:

- the policies and goals for the portfolio and the impact of these policies in practice, including whether the management strategy focuses on earning interest on contractual interest by maintaining a certain interest profile by comparing the term of the financial assets with the maturity of the liabilities that finance these assets , or on the realization of cash flows through the sale of assets;

- how the portfolio's performance is evaluated and reported to the management of the Bank;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how these risks are managed;

- how the compensation of managers is determined - eg. whether the it is based on the fair value of the assets under management or the contractual cash flows collected; and

- the frequency, volume and moment of sales of financial assets in prior periods, the reasons for such sales and expectations of future sales. Sales information is not considered in itself, but as part of the overall assessment of how the entity's stated objective of managing financial assets and how cash flows are being met.

5. Significant accounting policies (continued)

(e) IFRS 9 *Financial instruments*, continued

(i) Recognition, classification and assessment – financial assets (continued)

Assessment of business model(continued)

Financial assets held for trading and those that are managed and whose results are measured at fair value will be measured at FVPL because they are neither held for the purpose of collecting contractual cash flows nor for the purpose of both collecting contractual cash flows and sales of financial assets.

Estimating whether contractual cash flows are only principal and interest payments

For the purposes of this estimate, the "principal" is determined as the fair value of the financial asset at initial recognition. “Interest" includes the remuneration for the value of money over time and for credit risk associated with the outstanding principal amount over a certain period of time and for other major credit risks and costs (eg. liquidity risk and administrative costs) and a margin of profit.

In assessing whether contractual cash flows are only principal and interest payments, the Bank examines the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual clause that could change the time or value of the contractual cash flows so that they do not meet this condition. In this assessment, the Bank examined:

- contingency events that would change the amount or timing of cash flows;

- characteristics of leverage;

- conditions for extension and early repayment;

- conditions that restrict the Bank's claims to cash flows from certain assets (such as non-regression features).

- characteristics that alter the return for the value of money over time - e.g. periodic recalculation of interest rates.

The interest rates of certain loans to individuals granted by the Bank are based on standard floating rates (SFRs), which are determined at the Bank's discretion.

The Bank will assess whether the SFR meets the IASB criterion by examining a number of factors, including:

- whether the borrower can repay early loans without significant penalties;

- whether market competition guarantees comparable interest rates between banks; and

- whether regulatory frameworks or consumer protection frameworks are in place that oblige banks to treat their customers fairly.

All loans provided by the Bank contain early redemption features. The early amortization feature meets the IASB criterion if the amount of early repayment is essentially the sum of the principal outstanding and the interest on the principal outstanding amount that may include reasonable compensation for early termination of the contract.

5. Significant accounting policies (continued)

(e) IFRS 9 *Financial instruments*, continued

(i) Recognition, classification and assessment – financial assets (continued)

Estimating whether contractual cash flows are only principal and interest payments (continued)

In addition, the early repayment feature is deemed to meet this criterion if the financial asset is acquired or created at a premium or a discount on the contractual nominal amount, the amount of the early repayment is essentially the contractual nominal amount plus the accrued (but not paid) contractual interest which may also include reasonable compensation for early termination), and the fair value of the early amortization provision is insignificant on initial recognition.

Impact assessment

The standard will affect the classification and measurement of financial assets held by the Bank as of 1 January 2018 as follows:

- the assets for trading that, according to IAS 39, are measured at FVPL according to IFRS 9 will also be measured at FVPL;

- loans and advances to banks and clients which are classified as loans and receivables, and according to IAS 39 are measured at amortized cost, according to IFRS 9 in general will be measured by the Bank at amortized cost.

- financial assets held until maturity, which according to IAS 39 are measured at amortized cost, according to IFRS 9 in general will be measured by the Bank at amortized cost.

- investment debt securities which according to IAS 39 are classified as available for sale may be measured according to IFRS 9 by the Bank at amortized cost, at FVOCI or FVPL, depending on the circumstances.

- loans and advances for clients and investment securities which according to IAS 39 are defined as measured by fair value in profit or loss will generally according to IFRS 9 continue to be measured at FVPL.

- most investment equity securities which according to IAS 39 are classified as available for sale will continue to be measured at FVPL according to IFRS 9. However, some of these investment capital securities are held for long-term strategic purposes and will be designated as measured at FVOCI on 1 January 2018.

The Bank estimates that, when applying IFRS 9 on 1 January 2018, these changes will not materially affect the cost of equity.

(ii) Impairment - financial assets, loan commitments and financial guarantee contracts

IFRS 9 replaces the model of “occurred loss” in IAS 39 with the model of “expected credit loss” (ECL). This will require substantial judgment on the way changes in economic factors are reflected in ECL, which is determined on a probability-weighted basis. The new impairment model is applied to the following financial assets which are not measured at FVPL:

- financial assets comprising debt instruments;

- lease receivables; and

- loan commitments and financial guarantee contracts (previously the impairment was determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

5. Significant accounting policies (continued)

(e) IFRS 9 *Financial instruments*, continued

(ii) Impairment - financial assets, loan commitments and financial guarantee contracts (continued)

According to IFRS 9, impairment losses are not recognized for equity securities.

IFRS 9 requires recognition of a correction of losses amounting to 12-month ECL and lifetime ECL of the instrument. Lifetime ECL for the instrument is ECL arising from all possible cases of non-performance throughout the expected duration of a financial instrument, and 12-month ECL is the part of ECL derived from cases of non-performance which may occur within 12 months after the reporting date.

The Bank will recognize a correction for lifetime ECL except in the following cases where the recognized amount will be a 12-month ECL:

- debt investment securities that have low credit risk as of the reporting date. The Bank believes that a debt security has a low credit risk when the credit risk is equivalent to the globally accepted definition of "investment grade"; and.

- other financial instruments (other than leases) for which the credit risk has not increased significantly since initial recognition.

Loss adjustments for lease receivables are always valued at an amount equal to ECL over the expected life of the instrument.

The impairment requirements of IFRS 9 are complex and require management appraisals, estimates and assumptions, especially in the following areas, which are discussed in detail below:

- assessing whether the instrument's credit risk has increased significantly since initial recognition; and

- inclusion of information for future periods in the evaluation of the ECL.

Evaluation of ECL

ECL is the probability-weighted estimated credit loss and will be determined as follows:

- *financial assets that do not have credit impairment at the reporting date:* the present value of the entire cash deficit - ie. the difference between the cash flows due under the contract and the cash flows that the Bank expects to receive;

- *financial assets that have credit impairment at the reporting date:* the difference between the gross carrying amount and the present value of the expected future cash flows;

- *unutilized credit commitments:* the present value of the difference between the contractual cash flows payable to the Bank if the commitment is utilized and the cash flows that the Bank expects to receive; and

- *financial guarantee contracts:* the present value of the expected payments of compensation to the holder minus any amount the Bank expects to repay.

Financial assets that have credit impairment are determined using IFRS 9 similar to those that are impaired under IAS 39.

Definition of default

Under IFRS 9, the Bank will assume a financial asset is in default when:

5. Significant accounting policies (continued)

(e) IFRS 9 *Financial instruments*, continued

(ii) Impairment - financial assets, loan commitments and financial guarantee contracts (continued)

Definition of default (continued)

- the borrower is unlikely to fulfill its credit obligations to the Bank in its entirety, without recourse by the Bank to actions such as the realization of the collateral (if any); or

- the borrower is over 90 days in arrears for any credit liability to the Bank. Overdrafts are considered overdue when the customer exceeds the specified limit or has a limit lower than the current amount due.

The definition largely corresponds to the definition of regulatory objectives.

In assessing whether the borrower is in default, the Bank will report indicators that are:

- qualitative: e.g. breach of clauses;

- quantitative: e.g. overdue status and non-payment of other liabilities by the same issuer to the Bank;

- based on data received internally or externally.

Input information in the assessment of whether a financial instrument is defaulted and its significance may change over time to reflect changes in circumstances.

Significant increase in credit risk

Under IFRS 9, when assessing whether a credit risk (e.g. a default risk) of a financial instrument has increased significantly since initial recognition, the Bank will consider reasonable and reasoned information that is relevant and available without undue expense or effort, including qualitative and quantitative information; an analysis based on past experience, expert credit assessment and future information.

The Bank will determine whether there has been a significant increase in the credit risk of a particular exposure mainly by comparing:

- the probability of default (PD) for the remaining term of the instrument at the reporting date; and

- the probability of default for the remaining duration of the instrument that was determined at the initial recognition of the exposure.

Assessing whether credit risk has increased significantly since the initial recognition of the financial instrument requires the determination of the date of initial recognition of the instrument. For certain revolving products (eg credit cards and overdraft), it may have been a long time since the date they were concluded. Modification of the contractual terms of the financial instrument may also influence this assessment as described below.

Credit risk levels

The Bank will determine the level of credit risk for each exposure based on a variety of data that is determined to predict the risk of default and applying credit based on experience. The Bank will use these levels in determining the existence of significant credit risk increases under IFRS 9. Credit risk levels are defined by qualitative and quantitative factors that are indicative of the risk of default. These factors may vary according to the nature of the exposure and the type of borrower.

5. Significant accounting policies (continued)

(e) IFRS 9 *Financial instruments*, continued

(ii) Impairment - financial assets, loan commitments and financial guarantee contracts (continued)

Credit risk levels (continued)

Credit risk levels are determined and calibrated so that the risk of default increases exponentially with the credit risk deterioration - eg. the difference in default risk between credit risk level 1 and 2 is less than the difference between credit risk level 2 and 3.

For each exposure, a credit risk level at initial recognition will be determined on the basis of available information about the borrower. Exposures are subject to constant monitoring, which may lead to a shift of exposure to another level.

Credit risk levels are the main input in determining the time structure of the probability of default. The Bank will collect information on the performance and non-performance of its exposures to credit risk, analyzed by jurisdiction, by product type and by the borrower, and by the level of credit risk. For some portfolios, information purchased from external credit information agencies can also be used.

The bank will use statistical models to analyze the collected data and generate estimates of default probability for the remaining exposure period and how it is expected to change over time.

Generating a term structure for probability of default

This analysis involves identifying and calibrating the relationship between changes in default rates and changes in key macroeconomic factors as well as an in-depth analysis of the impact of certain other factors (eg, the existence of restructuring) on the risk of default. For most exposures, key macroeconomic factors include:

- CPI – Inflation measured using the harmonized consumer price index, average annual change, (%).
- GDP - production method
- Unemployment – Unemployment rate, seasonally weighted data, monthly
- 6m SOFIBID - Index (SOFIBID: Sofia interbank bid rate) quotations 6 m.

For exposures to certain industries and / or regions, the analysis expands to the relevant commodity and / or real estate prices. The Bank's approach to the inclusion of future information in this assessment is described below.

Determining whether credit risk has increased significantly

The Bank has defined a framework that includes both qualitative and quantitative information to determine whether the credit risk of a particular financial instrument has increased significantly since initial recognition. The framework is in line with the Bank's internal credit risk management process. The criteria for determining whether the credit risk has increased significantly varies according to the portfolio and includes a default mechanism.

The Bank will consider the credit risk of a particular exposure substantially increased after initial recognition if, based on quality modeling performed by the Bank, the probability of default for the remaining time is determined to be increased after initial recognition under the accounting policy adopted. When assessing the increase in the credit risk, the ECLs are adjusted against the changes in maturity.

5. Significant accounting policies (continued)

(e) IFRS 9 *Financial instruments*, continued

(ii) Impairment - financial assets, loan commitments and financial guarantee contracts (continued)

Determining whether credit risk has increased significantly (continued)

In certain cases, relying on expert judgment and, where possible, relevant past experience, the Bank may determine that a particular exposure has suffered a significant increase in credit risk if specific qualitative factors indicate this and these indices cannot be fully and timely covered by the quantitative analysis. As a safeguard mechanism and in line with IFRS 9, the Bank will accept in advance that there is a significant increase in credit risk when the asset was past due for no more than 30 days. The Bank sets the days past due by counting the days after the earliest expired term against which no payment was received.

The Bank monitors the effectiveness of the criteria used to identify significant credit risk increases through regular reviews confirming that:

- the criteria are capable of identifying significant increases in credit risk before exposures are defaulted;

- the criteria do not coincide with the time at which the asset becomes past due by 30 days;

- the average period between identifying a significant increase in credit risk and default seems reasonable;

- exposures in general are not transferred directly from the 12-month ECL to credit impairment;

there is no unjustified volatility in the correction of losses from transfers between 12-month ECL and lifetime ECL of the instrument.

Modified financial assets

The contractual terms of credit may be modified for many reasons, including changes in market conditions, customer retention, and other factors that are not related to current or potential deterioration in the client's solvency. An existing credit, the terms for which it has been modified, may be derecognized and the renegotiated credit recognized as a new credit at fair value.

Under IFRS 9, when the condition of the financial asset is modified and the modifications do not lead to write-off, determining whether the credit risk of the asset has increased significantly reflects a comparison between:

- the probability of default for the remaining duration of the instrument on the basis of the modified conditions; with

- the probability of default for the remaining duration of the instrument on the basis of the data at initial recognition and the original contractual terms

5. Significant accounting policies (continued)

(e) IFRS 9 *Financial instruments*, continued

(ii) Impairment - financial assets, loan commitments and financial guarantee contracts (continued)

Modified financial assets, continued

The Bank renegotiates loans to clients who have financial difficulties (called "restructuring practices") in order to maximize the possibilities for collecting claims and to minimize the risk of default. Under the Bank's Restructuring Policy, this is allowed selectively if the debtor is currently in default or if there is a high risk of default if there is evidence that the debtor has made all reasonable efforts to pay according to the original contractual terms and conditions expects the debtor to be able to comply with the revised terms.

Renegotiated terms typically include extending maturity, changing interest payment times, and changing loan terms. Both corporate and corporate loans are subject to restructuring. The Bank's Credit Committee frequently reviews the restructuring reports.

For financial assets modified as part of the Bank's Restructuring Policy, the probability of default will reflect the extent to which the modification has improved or restored the Bank's ability to collect interest and principal and prior experience with the Bank in respect of such restructuring activities. As part of this process, the Bank will assess the performance of the borrower's payments under the modified contractual terms and consider different behavioral indicators.

Overall, restructuring is a qualitative indicator of default and credit impairment, and expectations of restructuring are relevant in assessing whether there is a significant increase in credit risk. After the restructuring, the client must demonstrate a regular payer's behavior for a certain period of time before the exposure ceases to be considered a default / credit impairment, or the probability of default has declined so that the loss correction is again measured in the 12-month ECL.

Input information for the estimation of ECL

The key input to the estimation of ECL includes the term structure of the following variables:

- Probability of default (PD)
- Loss given Default (LGD); and
- Exposure at Default (EAD).

These parameters will be derived from internally developed statistical models and other background data that affect regulatory models. They will be adjusted to reflect future information as described below.

PD estimates are estimates at a certain date that will be calculated based on statistical rating models and will be evaluated using rating instruments tailored to different categories of counterparties and exposures. These statistical models will be based on internally compiled data containing qualitative and quantitative factors. Where available, market data can also be used to determine PD for large corporate counterparties. If a counterparty or exposure migrates between categories, this leads to a change in the PD estimate. PDs are calculated in terms of contractual maturities of the exposures and the expected repayment rates.

The LGD is the amount of the alleged loss given default. The Bank determines the parameters of LGD based on the history of the level of recovery of receivables from non-performing counterparties. LGD models take into account the structure, collateral, order of receivables, counterparty industry, and collateral security costs that are part of the financial asset. For loans.

5. Significant accounting policies (continued)

(e) IFRS 9 *Financial instruments*, continued

(ii) Impairment - financial assets, loan commitments and financial guarantee contracts (continued)

Input information for the estimation of ECL, continued

secured by commercial property, the credit value / collateral value coefficients will be a key parameter in the determination of LGD. LGD estimates are calibrated for different economic scenarios and for real estate loans to reflect possible changes in property prices. They are calculated on the basis of discontinued cash flows using the effective interest rate for the discount rate. EAD is the expected exposure in the event of a default.

The Bank determined the EAD from the current exposure to the counterparty and the potential changes in the current amount authorized under the contract, including amortization and early repayment. The EAD of the financial asset will be the gross carrying amount at the default date. For credit commitments and financial guarantees, the EAD recognizes the amount utilized, as well as potential future amounts that may be utilized or repaid under the contract that will be provided on the basis of past and forward looking observations. For some financial assets, the Bank may designate an EAD by modeling the set of possible exposure outcomes at different times in time using scenarios and statistical techniques.

As described above, and provided that maximum 12 month PD is used for financial assets whose financial risk has not increased significantly, the Bank assesses the ECL by considering the default risk for the maximum duration of the contract (including the possibility of prolongation on the part of the borrower) for which he is exposed to credit risk, even if the Bank considers a longer period for the purposes of risk management. The maximum term of the contract extends to the date on which the Bank is entitled to request repayment of the advance or to terminate a credit commitment or guarantee.

For consumer overdraft and credit cards and certain corporate revolving products that include credit and commitment for undrawn amounts, the Bank assesses the ECL for a period longer than the maximum term of the contract if the Bank's contract law requires repayment or cancellation of the uncommitted commitment limits the exposure of the Bank to credit losses up to the contractual period of notice. These products do not have a fixed term or repayment structure and are managed collectively. The Bank may cancel them with immediate effect, but this right does not apply to normal day-to-day management, but only when the Bank becomes aware of an increase in credit risk at the product level. The longer period will be assessed taking into account the credit risk management measures that the Bank intends to undertake to reduce the ECL. These include lowering the limit and canceling the product.

When modeling a particular parameter is done collectively, the financial instruments will be grouped on the basis of common risk characteristics that include:

- instrument type
- credit risk level;
- type of collateral;
- value of the loan / collateral value;
- date of initial recognition,
- remaining time to maturity;
- branch; and - geographical location of the borrower.

5. Significant accounting policies (continued)

(e) IFRS 9 *Financial instruments*, continued

(ii) Impairment - financial assets, loan commitments and financial guarantee contracts (continued)

Input information for the estimation of ECL, continued

Grouping is subject to regular review in order to ensure that exposures in a given group remain homogeneous.

For portfolios for which the Bank has limited past performance data, external reference information will be used to supplement available internal data.
Portfolios for which the external reference information represents a significant input in the evaluation of the ECL are:

	External reference benchmarks used	
	PD	**LGD**
measured at amortized cost (AMORTCOST)	Studies by Fitch, S&P and other licensed agencies on default	Studies by Fitch, S&P and other licensed agencies on default
Reported at fair value in other comprehensive income (FVOCI);	Studies by Fitch, S&P and other licensed agencies on default	Studies by Fitch, S&P and other licensed agencies on default

Information for future periods

Under IFRS 9, the Bank will include future-time information, both in its assessment of whether the credit risk of a particular instrument has increased significantly after initial recognition and in the evaluation of the ECL. The Bank will formulate a "baseline scenario" for the future development of the relevant economic variables and a representative set of other possible scenarios based on an opinion from the Bank's Risk Committee and economic experts and a variety of up-to-date and forecasted external information. This process will involve developing two or more additional economic scenarios and considering the relative probabilities of each result.

External information may include economic data and forecasts published by state and monetary authorities, superstate organizations such as the Organization for Economic Cooperation and Development and the International Monetary Fund, and selected experts from the private and academic sector.

The baseline scenario will represent the most probable outcome and will be consistent with the information used by the Bank for other purposes, such as strategic planning and budgeting. Other scenarios will be more optimistic and more pessimistic. The Bank will also perform periodic stress tests for more extreme shocks to calibrate the determination of these different representative scenarios.

The Bank has identified and documented key credit risk factors and credit losses for each portfolio of financial instruments, and using historical data analysis, has roughly estimated the relationship between macroeconomic variables and credit risk and credit losses. These key factors include interest rate, unemployment rates and GDP projections. The projected relationships between key indicators and default and loss levels of different portfolio of financial assets have been developed on the basis of data analysis for the past 5 years.

The economic scenarios used were approved by the Bank's Management Board.

5. Significant accounting policies (continued)

(e) IFRS 9 *Financial instruments*, continued

(ii) Impairment - financial assets, loan commitments and financial guarantee contracts (continued)

Impact assessment

The most significant impact on the Bank's financial statements from the application of IFRS 9 is expected to arise from the new impairment requirements. Impairment losses will increase and become more volatile for financial instruments within the scope of the IFRS 9 impairment model. The Bank estimates that with the application of IFRS 9 on 1 January 2018, the impact of the increase in loss allowances (pre-tax) will amount to approximately BGN 6,425 thousand. The most significant effect of impairment losses is expected from long-term unsecured products such as overdrafts and credit cards.

Impairment of assets - policy, valid until 31 December 2017

At each date of preparation of the statement of financial position, a review of financial assets not reported at fair value through profit or loss is made for the existence of impairment indications. Financial assets are impaired when objective evidence demonstrates that an event has occurred that results in a loss after initial recognition and that the event is relevant to the future cash flows of the asset that can be measured reliably.

(iii) Classification - Financial Liabilities

According to IFRS 9 changes in the fair value of the liabilities measured at FVPL will be presented as follows:

- the portion of the change in fair value that is due to changes in the credit risk of the liability is reflected in other comprehensive income,

- the rest of the change is reflected in profit or loss.

(iv) Deletion and modification of contracts

The Bank derecognizes a financial liability when its contractual obligations are fulfilled, canceled or when they expire.

The Bank carries out transactions that transfer assets recognized in the statement of financial position but retain all or all of the material risks and rewards of the transferred assets or part of them. If some or all of the material risks and rewards are retained, the transferred assets are not derecognised from the statement of financial position. Transferring assets with retaining some or all of the material risks and gains are, for example, securities lending or repurchase transactions.

When a third party sells swap assets with a uniform total return on the transferred assets, the transaction is accounted for as a secured financial transaction similar to a repurchase transaction.

For transactions in which the Bank neither retains nor transfers all material risks and gains from the possession of a financial asset, it derecognises the asset if it does not retain control over it. Rights and obligations retained in the transfer are separately recognized as assets and liabilities respectively.

For transactions that retain control of the asset, the Bank continues to recognize the asset to the extent of its interest, depending on how exposed it is to changes in the value of the transferred asset.

In certain transactions, the Bank retains its obligation to service the transferred financial asset for consideration. The transferred asset is derecognized entirely if it meets the derecognition criteria.

5. Significant accounting policies (continued)

(e) IFRS 9 *Financial instruments*, continued

(iv) Deletion and modification of contracts (continued)

The asset or liability is recognized in the service contract depending on whether the service charge is more than sufficient (asset) or less than sufficient (liability) to perform the service.

(v) Offset

Financial assets and liabilities are offset and the net amount is recognized in the statement of financial position when and only when the Bank has a legally enforceable right to offset the recognized amounts and intends to settle the asset and liability on a net basis.

Revenue and expense are presented in net only in the cases permitted by accounting standards or by gains and losses that arise from a group of similar transactions such as those arising from the Bank's operations.

(vi) Impact on capital planning

The main impact on the Bank's regulatory capital s from the application of IFRS 9 will arise from the new impairment requirements.

Under the current regulatory requirements, impairment losses are treated differently depending on whether a particular portfolio falls within the IRB or Standardized Approach.

The Bank applies a standardized approach. The capital requirement is calculated on the basis of the gross exposure, net of specific provisions - ie. net exposure. IFRS 9 is expected to increase write-downs related to individual assets, therefore the net exposure and the capital requirement will be reduced. However, this reduction in the capital requirement will be exceeded by the increased loss adjustments under IFRS 9 of the capital resources.

- If a debt security has a low risk on 1 January 2018, then the Bank will determine that the credit risk of the asset has not increased significantly since the initial recognition

The Bank accounts for financial asset at FVPL (financial assets held for trading until 31 December 2017), financial assets at FVOCI (until 31 December 2017 - financial assets available for sale), financial assets at amortized cost (until 31 December 2017 (financial assets held to maturity), loans and receivables at the settlement date.

All other financial assets and financial liabilities are reported on a trading date when the Bank becomes a party to the financial instruments contracts. From that point on, the Bank recognizes all income and expenses associated with a change in fair value.

Financial assets and liabilities are initially recognized at fair value, and financial instruments that are not carried at fair value through profit or loss include transaction costs.

(vii) Measured at amortized cost

The amortized cost of a financial asset or liability is the amount by which a financial asset or liability is measured at initial recognition minus principal repayments plus or minus cumulative amortization using an effective interest rate for the difference between the initially recognized amount and the amount of the maturity minus the cost for impairment.

5. Significant accounting policies (continued)

(e) IFRS 9 *Financial instruments*, continued

(viii) Principles of fair value measurement

Fair value is the price that would be received from the sale of an asset or be paid to transfer a liability in an orderly transaction between market participants at the measurement date on the main market for the Bank or in the absence thereof, in the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects the risk of breach of an obligation.

Whenever possible, the Bank shall measure the fair value of an instrument using quoted prices in an active market for that instrument. The market is considered as active when the transactions for the asset or liability are executed with enough frequency and volume so that it allows the provision of actual information on prices.

If there is no stock market price in an active market, the Bank uses valuation techniques (such as discounted cash flows and comparison with similar instruments) by maximally using appropriate observable incoming data and minimizing the use of observable ones. The chosen valuation technique covers all the factors that market participants would take into account when pricing the deal.

The best evidence of a fair value of a financial instrument at initial recognition is the price of the transaction (i.e. the fair value of the remuneration received or given). If the Bank determined that the fair value at initial recognition differs from the transaction price and there is no evidence of fair value through stock exchange price of a similar asset or liability, either it is based on a valuation technique that uses data from observable markets, then the financial instrument initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, the difference is recognized in profit and loss rescheduled of an appropriate basis for the life of the instrument, but no later than the time when the assessment can be entirely supported by observable market data or transaction is completed.

The fair value of a call deposit is not less than the amount due on demand deducted from the original date on which the deposit may become chargeable. The Bank shall disclose the transfer between the levels in the fair value hierarchy at the end of the reporting period of the change occurrence.

f) Financial assets measured at amortized cost:

A financial asset is measured at amortized cost if compliant with the requirements:

- the financial asset is held in a business model whose purpose is to hold assets in order to collect the contractual cash flows; and
- under the contractual terms of the financial asset at specific dates cash flows arise, which are only principal payments and interest on the outstanding amount of the principal.

This group includes loans, purchased bonds, deposits with banks and other forms of debt financing held by the bank that are held for the purpose of obtaining the contractual cash flows.

g) Financial assets reported at fair value in other comprehensive income

Financial assets are held within a business model that targets both the collection of contractual cash flows and sales of financial assets, and according to the contractual terms of financial assets at specific dates, cash flows arise, which are only principal and interest payments on the outstanding principal amount.

5. Significant accounting policies, (continued)

g) Financial assets reported at fair value in other comprehensive income (continued)

This group includes debt instruments measured at fair value in other comprehensive income and equity instruments without subsequent reclassification of changes in the deferred income statement=

h) Financial assets reported at fair value through profit and loss.

All other financial assets that are not classified in the above two categories are measured at fair value through profit or loss of debt instruments measured at fair value through profit or loss.

Depending on the classification of the financial assets, for the purpose of their subsequent measurement, the differences arising from the change in their value are recognized in profit or loss or other comprehensive income. Recognition of differences from the subsequent evaluation is performed only on assets that are measured at fair value. In summary, the subsequent evaluation of financial assets is presented in the following table

Categories of financial assets	Subsequent evaluation	Recognition of differences of subsequent evaluation
Financial assets, measured at amortized cost	Amortized cost	The value of the asset is sequentially brought to its amortized cost at cost
Financial assets measured by fair value in other comprehensive income	Fair value	In other comprehensive income

The Bank has not reclassified financial assets reported at fair value through profit and loss in other categories during the reporting period.

(i) IFRS 16 Lease

The Bank has adopted IFRS16 Leases from 1 January 2019, which has resulted in changes in the accounting policies and adjustments to the amounts recognised in the financial statements.

IFRS 16 Leases was issued in January 2016. It resulted in almost all leases being recognized on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

In accordance with the transitional provisions in IFRS 16 the new rules have been adopted retrospectively with the cumulative effect of initially applying the new standard recognized on 1 January 2019. Comparatives for the 2018 financial year have not been restated.

(i) The effect from adoption of IFRS 16 on the Bank's financial statements

On adoption of IFRS 16, the company recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Bank's incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate of the Company applied to the lease liabilities on 1 January 2019 was 0.45%.

5. Significant accounting policies, (continued)

(i) IFRS 16 Lease, (continued)

(i) The effect from adoption of IFRS 16 on the Bank's financial statement, (continued)

In BGN thousand	**1 January 2019**
Operating lease commitments disclosed as at 31 December 2018	9,215
Discounted using the Bank's incremental borrowing rate of 0.45%	8,976
Add: Effect of reassessment of lease contracts term as at 31 December 2018	2,981
Less: Short-term and low-value leases recognized on a straight-line basis	(115)
Lease liability recognized as at 1 January 2019	**11,842**
Of which are:	
Current lease liabilities	**3,661**
Non-current lease liabilities	**8,181**

Right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The initial value of the right-of-use assets is determined as follows:

In BGN thousand	**1 January 2019**
Lease liability as at 1 January 2019 under IFRS16	11,842
Adjusted for:	
Lease prepayments recognised as of 31 December 2018	-
Accrued lease payments as of 31 December 2018	-
Right of use asset as at 1 January 2019	**11,842**

The first-time application of IFRS 16 affected the following balance sheet items as at 1 January 2019:

- Right of use assets – increase by BGN 11,842 thousand
- Lease liabilities – increase by BGN 11,842 thousand

There was no impact on retained earnings on 1 January 2019.

Practical expedients applied:

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics,
- reliance on previous assessments on whether leases are onerous, according to IAS 37,
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases,
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

5. Significant accounting policies, (continued)

(i) IFRS 16 Lease, (continued)

(ii) Leases – the Bank as a Lessee

Accounting policies applied from 1 January 2019

From 1 January 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated for the lease term on a straight-line basis.

The right-of-use asset is presented separately on the statement of financial position, except for right-of-use assets that meet the definition of investment property which is presented on the statement of financial position as a separate line item – "investment property".

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable lease payment that are based on an index or a rate,
- amounts expected to be payable by the lessee under residual value guarantees,
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Each lease payment is allocated between the liability and finance cost. Lease liabilities are subsequently measured using the effective interest method. The carrying amount of liability is remeasured to reflect any reassessment, lease modification or revised in-substance fixed payments.

The lease term is a non-cancellable period of a lease, periods covered by options to extend and terminate the lease are only included in the lease term if it is reasonably certain that the lease will be extended or not terminated.

Right-of-use assets are measured initially at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Subsequently, the right-of-use assets,are measured at cost less accumulated depreciation and any accumulated impairment losses, and adjusted for remeasurement of the lease liability due to reassessment or lease modifications.

5. Significant accounting policies, (continued)

(i) IFRS 16 Lease, (continued)

(ii) Leases – the Bank as a Lesse, (continued)

The right-of-use assets are depreciated over the lease term on a straight-line basis.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. The Bank applies the exemption for low-value assets on a lease-by-lease basis. For the leases where the asset is sub-leased, a right-of-use asset is recognised with corresponding lease liability. For all other leases of low value asset, the lease payments associated with those leases will be recognised as an expense on a straight-line basis over the lease term.

Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise parking areas, ATM areas, IT-equipment and other.

Accounting policies applied until 31 December 2018

Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

The minimum lease payments under a finance lease are apportioned between interest expense and the repayment of the residual liability to the lessor. Interest expense is recognized for the period of the contract so as to represent a constant interest rate on the residual liability. A finance lease is recognized when, under the lease agreement, a significant portion of the risks and rewards of ownership of an asset are transferred to the Bank. The leased asset is initially recognized at the lower of its fair value and the present value of the minimum lease payments. Subsequently, the asset is accounted for in accordance with the accounting policies applicable to the respective asset category.

Assets that the Bank uses under leasing contracts that do not transfer a significant portion of the rights and benefits of ownership of an asset are not recognized in the statement of financial position of the Bank.

(iii) The Bank's leasing activities

The Bank leases various types of assets - administrative offices and buildings, IT equipment, vehicles, and other small equipment. Leases are negotiated on an individual basis and contain a wide range of different terms and conditions (incl. termination and renewal rights). The main lease features are summarised below:

- Aadministrative offices and buildings are rented for a fixed period of 1 to 10 years and the terms are individualy defined. The contracts contain an option to renew the lease. The lease payments are usually fixed and in some cases there are clauses for annual review and update of payments, related to a defined index. Chanes in contract terms are duly signed with Annex.

rented out to the related party (see further information in the Note 5).

- The vehicles are leased for a fixed period of 1 year, with an extension option.
- IT equipment is leased for a fixed period of 2 years.

The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

5. Significant accounting policies, (continued)

(i) IFRS 16 Lease, (continued)

(iv) Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Bank. These are used to maximise operational flexibility in terms of managing the assets used in the Bank's operations. For critical judgements in determining the lease term, please refer to Note 7.

(v) Short-term leases

Leases of administrative offices and buildings, IT equipment, vehicles are short-term leases and the costs are recognised on a straight-line basis during the reporting period. The total cost of short-term leases is disclosed in Note 38. The total amount of Bank's lease commitments for short-term leases equals to BGN 165 thousand.

(vi) Leases – th Bank as lessor

When the Bank is a lessor in lease contract, transfering substantially all the risks and rewards from the right-of-use asset, then a finance lease is recognized amounting the net investment made by the Bankта and presented as loans and advances to clients.

In 2019 the Bank has recognized the revenue from sublease contracts as operating lease on straight line basis in orher comprehensive income. That revenue is considered immaterial and has no impact in current financial statement.

(j) Loans and advances

Loans and advances are non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market and which the Bank does not intend to sell immediately or in the near future.

Loans and advances to banks are classified as loans and receivables.

Loans and advances to clients include:

- those classified as loans and receivables;
- receivables under a finance lease
- receivables under factoring contracts;
- receivables under cash pool agreements.

Loans and advances are initially recognized at fair value, including the initial direct cost of acquiring the assets. Upon subsequent evaluation, loans and advances are stated at amortized cost on an effective interest rate basis.

When a bank acquires a financial asset and simultaneously concludes a reverse repurchase agreement (or similar instrument) at a fixed price at a future date (reverse repurchase agreement), the agreement is accounted for as a loan or advance and the asset subject to collateral is not recognized in the statement of financial position.

(k) Receivables under factoring contracts

Factoring is a transfer of one-off or recurring claims arising from the supply of goods or the provision of services. Receivables arising from factoring include non-derivative financial assets with fixed or determinable payments that are not traded on an active market.

5. Significant accounting policies, (continued)

(k) Receivables under factoring contracts, (continued)

The Bank recognizes its receivables on factoring depending on the extent of the risks and rewards of ownership of the transferred asset.

In the case of a factoring contract without regression, the contract client transfers substantially all the risks and rewards of ownership of the financial asset to the Bank. In this case, the Bank recognizes and reports in the financial statements the transferred receivable in its entirety as a financial asset.

Under a factoring agreement with regression, the risk of the transferred asset is retained by the client under the contract. The transfer of the claim in this case is not a sufficient condition for the derecognize \the financial instrument sold to the client under a factoring contract. At the Bank, receivables under factoring agreements with regression are recognized and recognized in the financial statements up to the amount of the amount paid, representing an advance to the clients with whom factoring contracts have been concluded. Upon initial recognition of the receivables, the Bank assesses them at their fair value, including the costs directly attributable to the acquisition of the financial asset. In the reporting year 2019, the Bank has concluded domestic and export factoring contracts with and without regression.

The subsequent evaluation of claims depends on the original term of the factoring contract. If it is greater than a year, the receivable is measured at amortized cost using the effective interest method. For factoring contracts with a term of up to one year, as is customary practice, no amortized cost is applied, as this method has no significant effect in shorter terms.

At each reporting date, receivables are impaired on a simplified basis.

Undrawn limits on factoring contracts with regression are not recognized as a financial asset in the Bank's financial statements and are reported off-balance sheet.

(l) Property, plant and equipment

Property, plant and equipment are reported in the statement of financial position at their cost less accumulated depreciation and impairment losses.

Profit and losses from sale of property, plant and equipment are recognized in profit or loss.

Depreciation is accrued based on the straight line method, according to set norms for the purpose of the full depreciation of the value of property, plant and equipment for the expected period of use. The following are the annual depreciation rates used:

Assets	**%**
Buildings	4
Plant and equipment	20-30
Computers and computer equipment	20-50
Fixtures and fittings	10
Motor vehicles	25

Assets are not depreciated until they are put into operation and / or transferred from the cost of acquiring fixed assets in the relevant asset category.

The depreciation methods, the useful life and the residual values of property plant and equipment are reassessed at each reporting date and should be corrected if appropriate.

5. Significant accounting policies, (continued)

(m) Intangible assets

Intangible assets acquired by the Bank are presented at cost, less the accrued depreciation and impairment loss.

Expenditure on internally generated intangible assets is recognized as an asset when the Bank demonstrates the ability to complete the asset, its use results in future economic benefits, and its value can be reliably measured.

Subsequent costs are capitalized only when they increase the future economic benefit of the specific asset to which they relate. All other future expenses are recognized as expenses as they are incurred.

Depreciation is calculated on the basis of the straight-line method over the expected useful life.

The following are the annual depreciation rates used:

Intangible assets	%
Software and licenses	10-50
Other fixed intangible assets	10

The depreciation methods, the useful life and the residual values of intangible assets are reassessed at each reporting date and should be corrected if appropriate.

(n) Impairment of non-financial assets

The reporting amounts of the Bank's non-financial assets are reviewed at each reporting date in order to determine whether there are indications of impairment. If such indications exist, an estimate of the recoverable amount of the asset is made.

For the purpose of the impairment test, assets that cannot be tested individually are grouped together into the smallest possible group of assets generating cash proceeds from continuing use that are largely independent of the cash receipts from other assets or cash-generating unit (CGU).

The recoverable amount of an asset or a CGU is the higher of its value in use and its fair value less costs to sell. When assessing the value in use, future cash flows are discounted to their present value using a pre-tax discount rate reflecting current market assessments, time money, and asset- or CGU-specific risk.

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

The impairment losses are recognized in profit and loss. They are allocated first to reduce the value of the goodwill allocated to the CGU and subsequently to reduce the carrying amount of the assets part of the CGU.

(o) Deposits and other borrowed funds

Deposits from customers and banks and attracted funds from public funds are the sources of the Bank to finance loans and advances. When the Bank sells a financial asset and simultaneously concludes a repurchase agreement for that (or similar) asset at a fixed price at a future date ("repo"), the agreement is accounted for as a deposit and the principal asset continues to be recognized in the Bank's financial statements.

Deposits and other borrowings are initially measured at fair value, including directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest method.

5. Significant accounting policies, (continued)

(p) Provisions

A provision is recognized in the statement of financial position when there is a present legal or constructive obligation as a result of past events and it is probable that an outflow of cash that can be reliably measured will be required to repay it. Provisions are determined by discounting future cash flows at a pre-tax discount rate that reflects the current market valuation of the time value of money and the specific risks for the respective liability.

(q) Income tax

The tax expense includes current and deferred taxes. It is recognized in profit or loss except when it pertains to items recognized directly in equity or in other comprehensive income.

Interest and penalties on income tax, including uncertain tax procedures, are reported in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

(i) Current taxes

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and all correction to tax liabilities or receivables for previous years. The amount of the current tax liability or receivable is the best estimate of the amount of tax that is expected to be paid or received that reflects the income tax uncertainties.

(ii) Deferred taxes

Deferred tax are recognized on temporary differences between the amounts of assets and liabilities recognized in the financial statements and the amounts used for taxation purposes. Deferred tax are not recognized for:

- temporary differences on initial recognition of assets and liabilities in a transaction that is not a business combination and that affects profit or loss, neither accounting nor taxable;

- temporary differences related to investments in subsidiaries and jointly controlled entities, insofar as the Bank may control the timing of the reverse manifestation of the temporary differences and it is likely that they will not have a reversal in the foreseeable future

Deferred tax assets shall be recognized for unused tax losses, unused tax credits and deductible temporary differences, to the extent that it is probable future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and reduced as long as future profits are unlikely to be realized and such rebates are restored when the probability of future taxable profits improves.

In the determination of current and deferred tax the Bank takes into account the impact of uncertain tax positions and whether additional taxes and interest may have been due. The Bank believes that the accruals for taxation liabilities are adequate for all open tax years based on the assessment of many factors, including interpretations of tax law and prior experience. This assessment is based on estimates and assumptions and may involve judgments about future events. It is possible new information becomes available whereby the Bank to change its judgment on the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination be made.

5. Significant accounting policies, (continued)

(q) Income tax, (continued)

(ii) Deferred taxes, *(continued)*

Deferred tax is measured at the tax rates expected to apply to temporary differences when they occur back, based on laws that were in force or were essentially the reporting date.

The deferred tax assets and liabilities are compensated only if there is a legal basis for deduction of current tax assets and liabilities, and they relate to income taxes imposed by the same taxation authority.

(r) Staff benefits

(i) Short-term employee benefits

Payables for short-term employee benefits are recognized as an expense when related services are provided. A liability is recognized for the amount that is expected to be paid if the Bank has a legal or constructive obligation to pay that amount as a result of past service provided by an employee and the liability can be measured reliably.

(ii) Defined contribution plans

Contributions to defined contribution plans include contributions to government institutions and statutory pension funds managed by private management companies according to legal requirements or individual choice. The obligation to transfer contributions to defined contribution plans is recognized as an expense when the related services are provided.

(iii) Defined income plans

The Bank's obligation for defined benefit plans is limited to the statutory requirements for paying employees between two and six months of retirement depending on their length of service. The amount of the liability that the employee will receive is determined by his remuneration in previous and current periods, this amount being discounted at an appropriate discount rate, which represents the yield of bonds that have an appropriate credit rating and a maturity approximating the term of the Bank's obligation; which are denominated in the currency of the liability.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected credit unit method. The Bank sets the net interest rate on the net defined benefit obligation net of the defined benefit plan using the discount rate used at the beginning of the period to discount the liability to a net defined benefit plan liability.

Revaluations arising from defined benefit plans are actuarial gains and losses that are recognized in other comprehensive income. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

(s) Assets acquired from collateral

Assets acquired from collateral are reported at their lower cost and net realizable value. Costs include costs of acquiring the asset, state fees for private enforcement agents, etc.

Net realizable value is the presumed selling price less the estimated costs necessary to realize the sale.

5. Significant accounting policies, (continued)

(t) New and amended standards adopted by the Bank

The Bank has applied the following standards and amendments for the first time for its annual reporting period beginning on January 1, 2019:

IFRS 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019)

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019)

Prepayment Features with Negative Compensation - Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).

The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in a gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification.

Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019)

Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019)

Plan Amendment, Curtailment or Settlement - Amendments to IAS 19 (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019)

The Company has changed its accounting policies following the adoption of IFRS 16.

The effect of IFRS 16 on the Financial Statements of the Bank

The Bank decided to apply the Simplified Transitional Approach as at 1 January 2019 and will not recalculate the comparative figures for a year prior to the initial recognition. All rights of use will be measured at the amount of lease receivables, adjusted for any prepaid or accrued lease expenses, recognized s of 31 December 2018. This means that 2018 and 2019 amounts are not comparable as they are based on the different accounting policies described in the notes. The adoption of IFRS 16 did not have an effect on equity (retained earnings) as at 1 January 2019.

As at 1 January 2019, the Bank recognized assets with a right of use amounting to BGN 11,842 thousand and lease liabilities amounting to BGN 11,842 thousand (after adjustments for prepayments and accrued lease payments recognized as at 31 December 2018.)

The Bank's activity as a lessor is not significant and the Bank does not expect significant impact on the financial statements.

All other changes of the adopted standards listed above have no impact on the amounts recognized in previous periods and it is not expected to have a significant effect on current or future periods.

5. Significant accounting policies, (continued)

(u) New standards and interpretations which have not been applied yet

Certain new accounting standards and interpretations that are not mandatory for the reporting period at 31 December 2019 and have not been previously adopted by the Bank have been published.

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020)

Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020)

Interest rate benchmark reform – Amendments to **IFRS 9, IAS 39 и IFRS 7** (issued on 26 September 2019 г. and effective for annual periods beginning on or after 1 January 2020 г.).

There are no other standards that are not yet adopted, and which are expected to have a significant impact on the Company during the current or future reporting period as well as in the foreseeable future transactions.

(v) New standards, clarifications and amendments not yet adopted by the EU

IFRS 14, Regulatory deferral accounts (issued on January 30, 2014 and effective for periods beginning on or after January 1, 2016)

Amendment to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued on September 11, 2014 and effective for annual periods beginning on or after the date specified by IASB)

IFRS 17 Insurance Contracts (issued on 18 May 2017) effective from 1 January 2021.

Amendments to IFRS 3 Definition of a Business (issued on 22 October 2018) effective from 1 January 2020.

Amendments to IAS 1 „Classification of short and long term liabilities - (effective for reporting periods, starting from rom 1 January 2020).

6. Disclosure of the financial risk management policy

(a) Introduction and general

The Bank is exposed to the following types of risk in its operations with financial instruments:

- credit Risk
- liquidity risk
- market risk
- compliance with capital adequacy requirements

This appendix provides information about the Bank's exposures to each of the financial risks, the Bank's purposes, policies, and processes to measure and manage these risks.

6. Disclosure of the financial risk management policy (continued)

(a) Introduction and general (continued)

General provisions of risk management

The Management Board is responsible for the preparation and implementation of the Bank's risk management general position. The Management Board selects the Asset and Liability Management Committee and the Risk Committee (RICO), which are responsible for the preparation and monitoring of the Bank's risk management policies in their specific areas.

The Bank's risk management policies are designed to identify and analyze the risks faced by the Bank to provide appropriate risk and control limits and to observe compliance with these limits. The policies and systems for risk management are reviewed periodically in order to reflect changes on the market conditions, products and services offered.

The Specialized Internal Audit Service division monitors whether applied risk management policies are in compliance with the Bank's risk management policies, and also the extent to which the general principles of management match the acceptable risk for management.

(b) Credit Risk

When performing commercial operations, credit and investment activity, and also in cases where it plays the role of an intermediary on behalf of clients or other organizations and in its capacity as guarantor, Allianz Bank Bulgaria AD is exposed to credit risk.

Concentration of credit risk arises mainly depending on the sector of activity and the type of clients. There is also a risk of significant concentration of credit risk on financial instruments in counterparties with similar economic characteristics for the Bank, and therefore changes in economic and other conditions would have a similar effect on their ability to meet their contractual obligations .

Credit risk management

The Management Board of the Bank delegates the responsibility for managing the credit risk of the Executive Directors of the Bank, Credit Risk Division, Problem Loans and Collecting Division, Large Corporate Clients Division,Corporate Banking Division , Retail Banking Division, Sales Control Division, and the Credit council of the Bank.

The Management Board of the Bank formulates credit policies with the support of business units, taking into account the collateral, credit risk, valuation and legal requirements for documentary and legal justification. The Bank's Management Board determines the amount of competence to approve and renew credit transactions. Credit Risk Division prepares an opinion with a credit risk assessment for all credit exposures that exceed certain limits.

After issuing a credit risk assessment opinion, credits are submitted for review and approval by the Bank's competent authority.

Qualitative assessment is based on evaluation of indicators such as company history and ownership, management, credit history, professional experience, sectoral analysis, environmental assessment, etc. The Bank implements specialized software (Litis-POD) to generate a behavioral scoring model based on the borrower's credit history for corporate clients and individuals. Behavioral scoring is prepared for every individual and legal entity. As a factor in the specialized software of the bank was implemented the internal corporate rating model (MicroCap) and application scoring (Critesis).

6. Disclosure of the financial risk management policy, (continued)

(b) Credit Risk, (continued)

Credit risk management, (continued)

The application rating is established based on a quantitative assessment (financial scoring) and a qualitative assessment of the borrower and his/her related persons. Financial scoring is calculated based on the latest available annual financial statements and calculation of the main financial ratios for the respective reporting period.

The Strategic Risk and Controlling Directorate performs "back testing" of the impairment model at least once a year. The distribution, the significance of the Kolmogorov-Smirnov coefficient and the Gini coefficient, as well as the achieved levels of default rates, are compared with the predictions (limits of the rating intervals). Any change in the structure of the model that results in a change in the individual credit ratings of the borrowers is approved by the Bank's RICO.

The Bank has implemented a dedicated Product Delivery System (PD) that covers the entire business process of the Retail Banking business, from the submission of the loan application, the processing of the request, the decision making, the signing of the loan agreement to the loan utilization. The system is designed to have separate modules for each product (mortgage loans, consumer credits, credit cards, etc.), with a separate set of indicators for each module. The system calculates a rating for credit risk assessment.

The Bank's Management board approves at the beginning of each calendar year and reviews the concentration of exposures by credit programs, sectors, sectors, types of clients, loan amount, maturity, etc., as well as issuers, credit rating, liquidity and state (for investment securities books).

The Credit Monitoring Department and the Restructuring - Centralization Department are responsible for managing the Bank's credit risk in respect of the review, assessment and classification of the Bank's risk exposures, depending on the allowed delay of due liabilities, according to the terms set in the Bank legislation and assessment of the debtor's financial condition and the sources of payment of his obligations, focusing the management's attention on the risk under consideration.

The aforementioned departments report to the Bank's Credit council.

The Credit Monitoring Department performs a periodic review of the compliance of the business centers / financial centers with their credit limits, in compliance with the Bank's Rules and Procedures for Credit Activity. Periodic reports on the results of inspections and the quality of local portfolios are provided to the Executive Directors of the Bank. The Bank carries out ongoing monitoring, including an analysis of the debtor's financial position, depending on the amount of the total credit exposure of the borrower and the related parties, as follows: at least once a year for exposures up to BGN 500 thousand and twice a year for exposures exceeding BGN 500 thousand. and extraordinary monitoring in case of change in risk.

The bank monitors the value of accepted collateral real estate periodically - for commercial real estate at least once a year, and for residential real estate once every three years. The Bank also monitors more frequently when significant changes occur in market conditions. Accepted collateral for risk exposures in default are reassessed at least once a year. The collateral is revalued by an independent valuer by determining net realizable value. For loans exceeding EUR 3 million or 5% of the Bank 's equity, assessment of Real Estate is subject to review by a valuer at least once per year.

The Bank classifies the risk exposures according to the degree of credit risk in the following classification groups, in accordance with the adopted "Provisioning policy" - servicing exposures and default risk exposures.

6. Disclosure of the financial risk management policy, (continued)

(b) Credit Risk, (continued)

Credit risk management, (continued)

The Credit council approves exposures of over BGN 0.5m, as well as restructuring of exposures above 0.25m BGN.

Services exposures

A risk exposure is classified as serviced if it meets the following conditions at the same time: the principal and interest are paid in accordance with the terms of the contract or with a delay of up to 90 days and there is no recorded default event.

Defaulting risk exposures

It is considered that a default has occurred in respect of a particular debtor where at least one of the following conditions is met:

- It is unlikely that the borrower will pay his/her credit liabilities to the Bank in full without taking of actions by the Bank, e.g. Realization of collateral, regardless of the size of overdue payment and days overdue;
- the borrower is over 90 days overdue for a substantial part of his/her credit liability to the Bank.

The classification of the risk groups is as follows:

“Regular" are risk exposures on loans and other receivables that are serviced and for which the debtor's financial statements do not give reason to doubt that he will fully settle his obligations.

“Under Supervision" exposures are risk exposures on loans and other receivables where there are minor breaches in their servicing or there is a possibility for a deterioration in the debtor's financial condition that may call into question the full repayment of the obligation.

“Non-performing” exposures are risk exposures on loans and other receivables where there are significant breaches in their service, or there is evidence that the debtor's financial position is not stable, its current and expected receipts are insufficient to fully pay off its debts to the Bank and to other creditors, as well as when there are identified weaknesses with a clear possibility for the Bank to suffer a loss.

“Loss" exposures are risk exposures where, owing to a deterioration in the financial condition of the obligor, it is probable that its liabilities will become irrecoverable, even though they have a partial recoverable amount that can be realized in the future.

Risk exposures in default are classified as "non-performing" and "loss".

The Bank assesses individually all individually significant risk exposures in default. If a debtor has more than one exposure, the highest risk class is assigned to all of his exposures.

6. Disclosure of the financial risk management policy, (continued)

(b) Credit Risk, (continued)

Credit risk analysis

The table below provides information on maximum exposure to credit risk:

Credit risk exposure

In BGN thousand	**App.**	**2019**	**2018**
Cash and cash equivalents (excluding cash at hand)	16	723,834	655,816
Financial assets at fair value through profit and loss (w/o equity instruments)	17	1	4,568
Loans and advances to banks	18	19,541	39,074
Financial assets at fair value through other comprehensive income (w/o equity instruments)	19.1	203,154	223,245
Financial assets at amortized cost	19.2	494,573	462,632
Loans and advances to clients	20	1,367,509	1,303,548
incl. Cash pool		*185,406*	*175,911*
Total balance sheet credit risk exposure		**2,808,612**	**2,688,883**
Off-balance sheet items			
Unutilized overdrafts and credit lines	34	123,986	108,783
Guarantees	34	40,556	41,893
Letter of credits	34	2,486	2,384
Total off-balance sheet credit risk exposure		**167,028**	**153,060**
Total credit risk exposure		**2,975,640**	**2,841,943**

The table below provides information on the distribution of loans in the loan portfolio of Allianz Bank Bulgaria AD by type of loan for each of the products offered by the Bank. Securities and promissory notes are not included in the collateral.

Loan type	**Consumer loans**	**Mortgage loans**	**Corporate loans and loans to SMEs**	**Financial Institutions**	**Total gross carrying amount**
Unsecured Loans	258,752	26,787	80,555	426	366,520
Loans secured by:	23,321	426,724	399,650	30,414	880,109
Residential Properties	*28*	*426,453*	-	-	*426,481*
Commercial properties	-	-	*179,620*	*1,092*	*180,712*
Cash	*1,587*	*30*	*9,162*	-	*10,779*
Other collateral	*21,706*	*241*	*210,868*	*29,322*	*262,137*
Total loans at 31.12.2019	**282,073**	**453,511**	**480,205**	**30,840**	**1,246,629**

6. Disclosure of the financial risk management policy, (continued)

(b) Credit Risk, (continued)

Credit risk analysis

Loan type	**Consumer loans**	**Mortgage loans**	**Corporate loans and loans to SMEs**	**Financial Institutions**	**Total gross carrying amount**
Unsecured Loans	223,873	42,053	126,956	576	393,458
Loans secured by:	30,759	370,092	406,190	31,185	838,226
Residential Properties	*42*	*369,938*	-	-	*369,980*
Commercial properties	-	-	*176,007*	*1,010*	*177,017*
Cash	*2,058*	*79*	*28,741*	*1*	*30,879*
Other collateral	*28,659*	*75*	*201,442*	*30,174*	*260,350*
Total loans at 31.12.2018	**254,632**	**412,145**	**533,146**	**31,761**	**1,231,684**

6. Disclosure of the financial risk management policy, (continued)

(b) Credit Risk, (continued)

Credit Risk analysis, (continued)

The analysis of loans and advances to clients, banks and investment securities classified by risk is presented below:

In BGN thousand	Loans and advances to clients		Loans and advances to banks		Investment securities (less equity instruments)		Off-balance sheet commitments	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Regular	1,289,311	1,220,823	19,558	39,079	698,231	686,470	41,046	42,515
Under supervision	73,524	68,958	-	-	-	-	2,431	2,169
Non-performing	69,200	117,814	-	-	-	-	300	401
Total	**1,432,035**	**1,407,595**	**19,558**	**39,079**	**698,231**	**686,470**	**43,777**	**45,085**
Impairment losses	(64,526)	(104,047)	(17)	(5)	(504)	(593)	(735)	(808)
Carrying amount	**1,367,509**	**1,303,548**	**19,541**	**39,074**	**697,727**	**685,877**	**43,042**	**44,277**
W/o arrears or impairment								
Regular	1,289,311	1,220,823	19,558	39,079	698,231	686,470	41,046	42,515
Under supervision	73,524	68,958	-	-	-	-	2,431	2,169
including restructured	*1,134*	*1,375*	-	-	-	-	-	-
	1,362,835	**1,289,781**	**19,558**	**39,079**	**698,231**	**686,470**	**43,477**	**44,684**

6. Disclosure of the financial risk management policy, (continued)

(b) Credit Risk, (continued)

Credit Risk analysis, (continued)

Individually impaired								
Non-performing	13,726	77,489	-	-	-	-	300	401
Loss	47,013	31,060	-	-	-	-	-	-
including restructured	*30,320*	*37,614*	-	-	-	-	-	-
	60,739	**108,549**	**-**	**-**	**-**	**-**	**300**	**401**
Overdue, but not impaired								
1≥ 30 days	4,212	2,333	-	-	-	-	-	-
> 30 days ≥ 60 days	1,035	1,013	-	-	-	-	-	-
> 60 days ≥ 90 days	753	1,515	-	-	-	-	-	-
> 90 days ≥ 180 days	1,182	1,973	-	-	-	-	-	-
> 180 days	1,279	2,431	-	-	-	-	-	-
including restructured	*4,773*	*7,272*	-	-	-	-	-	-
	8,461	**9,265**	**-**	**-**	**-**	**-**	**-**	**-**
Impairment losses								
Individually impaired	(48,167)	(88,049)	(17)	(5)	(504)	(593)	(279)	(576)
Collectively impaired	(16,359)	(15,998)		-		-	(456)	(232)
	(64,526)	**(104,047)**	**(17)**	**(5)**	**(504)**	**(593)**	**(735)**	**(808)**

6. Disclosure of the financial risk management policy, (continued)

(b) Credit Risk, (continued)

Credit Risk analysis, (continued)

The analysis of loans and advances to clients for 2019, classified by Phases is presented below:

In BGN thousand	**Mortgage loans**	**Consumer loans**	**Credit cards individuals**	**Other loans**	**Working capital loans**	**Investment loans**	**Credit cards entities**	**Total**
Phase 1 (Regular)	392,720	181,734	8,059	51,751	458,493	196,287	267	1,289,311
Phase 2 (Unser supervision)	24,698	12,452	1,989	14,808	9,906	9,641	30	73,524
Phase 3 (Non-performing)	36,092	9,995	625	660	14,906	6,751	171	69,200
Total Gross value before impairment	**453,510**	**204,181**	**10,673**	**67,219**	**483,305**	**212,679**	**468**	**1,432,035**
Phase 1 (Regular)	2,643	2,424	71	267	3,686	2,634	17	11,742
Phase 2 (Unser supervision)	2,369	972	98	203	424	547	4	4,617
Phase 3 (Non-performing)	20,773	9,290	607	661	13,610	3,098	128	48,167
Impairment losses	**25,785**	**12,686**	**776**	**1,131**	**17,720**	**6,279**	**149**	**64,526**
Carrying amount	**427,725**	**191,495**	**9,897**	**66,088**	**465,585**	**206,400**	**319**	**1,367,509**

6. Disclosure of the financial risk management policy, (continued)

(b) Credit Risk, (continued)

Credit Risk analysis, (continued)

W/o arrears or impairment	**424,711**	**194,326**	**10,065**	**66,559**	**469,354**	**206,366**	**340**	**1,371,721**
Phase 1 (Regular)	392,720	181,734	8,059	51,751	458,493	196,287	267	1,289,311
Phase 2 (Unser supervision)	24,698	12,452	1,989	14,808	9,906	9,641	30	73,524
Phase 3 (Non-performing)	7,293	140	17	-	955	438	43	8,886
including restructured	*4,616*	*14*	-	-	*243*	*438*	-	*5,311*
	424,711	**194,326**	**10,065**	**66,559**	**469,354**	**206,366**	**340**	**1,371,721**
Individually impaired	**23,991**	**9,528**	**608**	**660**	**13,780**	**3,157**	**128**	**51,852**
Phase 3 (Non-performing)	23,991	9,528	608	660	13,780	3,157	128	51,852
including restructured	*16,761*	*1,428*	-	-	*5,870*	*2,064*	*20*	*26,143*
	23,991	**9,528**	**608**	**660**	**13,780**	**3,157**	**128**	**51,852**
Overdue, but not impaired	**4,808**	**327**	**-**	**-**	**171**	**3,156**	**-**	**8,462**
1≥ 30 days	1,465	92	-	-	-	2,655	-	4,212
> 30 days ≥ 60 days	980	23	-	-	-	32	-	1,035
> 60 days ≥ 90 days	319	53	-	-	1	380	-	753
> 90 days ≥ 180 days	997	33	-	-	152	-	-	1,182
> 180 days	1,047	126	-	-	18	89	-	1,280
including restructured	*1,480*	*12*	-	-	*152*	*3,129*	-	*4,773*
	453,510	**204,181**	**10,673**	**67,219**	**483,305**	**212,679**	**468**	**1,432,035**
Impairment losses	**25,785**	**12,686**	**776**	**1,131**	**17,720**	**6,279**	**149**	**64,526**
Individually impaired	**20,773**	**9,290**	**607**	**661**	**13,610**	**3,098**	**128**	**48,167**
Collectively impaired	**5,012**	**3,396**	**169**	**470**	**4,110**	**3,181**	**21**	**16,359**
	427,725	**191,495**	**9,897**	**66,088**	**465,585**	**206,400**	**319**	**1,367,509**

6. Disclosure of the financial risk management policy, (continued)

(b) Credit Risk, (continued)

Credit Risk analysis, (continued)

The analysis of loans and advances to clients for 2018, classified by Phases is presented below:

In BGN thousand	**Mortgage loans**	**Consumer loans**	**Credit cards individuals**	**Other loans**	**Working capital loans**	**Investment loans**	**Credit cards entities**	**Total**
Phase 1 (Regular)	331,356	166,128	8,273	38,371	471,853	204,502	340	1,220,823
Phase 2 (Unser supervision)	22,921	10,628	2,534	11,502	10,119	11,203	51	68,958
Phase 3 (Non-performing)	57,868	12,838	3,267	1,092	25,292	16,474	983	117,814
Total Gross value before impairment	**412,145**	**189,594**	**14,074**	**50,965**	**507,264**	**232,179**	**1,374**	**1,407,595**
Phase 1 (Regular)	2,256	1,906	48	132	4,263	2,679	12	11,296
Phase 2 (Unser supervision)	2,578	916	163	143	263	634	5	4,702
Phase 3 (Non-performing)	36,226	12,363	3,246	1,092	24,600	9,538	984	88,049
Impairment losses	**41,060**	**15,185**	**3,457**	**1,367**	**29,126**	**12,851**	**1,001**	**104,047**
Carrying amount	**371,085**	**174,409**	**10,617**	**49,598**	**478,138**	**219,328**	**373**	**1,303,548**

6. Disclosure of the financial risk management policy, (continued)

(b) Credit Risk, (continued)

Credit Risk analysis, (continued)

W/o arrears or impairment								
Phase 1 (Regular)	331,356	166,128	8,273	38,371	471,853	204,502	340	1,220,823
Phase 2 (Unser supervision)	22,921	10,628	2,534	11,502	10,119	11,203	51	68,958
Phase 3 (Non-performing)	8,245	110	21	-	234	1 304	-	9,914
including restructured	*1,359*	*1,319*	*5,830*	-	*34*	*4*	-	*8,546*
	362,522	**176,866**	**10,828**	**49,873**	**482,206**	**217,009**	**391**	**1,299,695**
Individually impaired								
Phase 3 (Non-performing)	41,720	12,512	3,246	1,092	24,755	14,327	983	98,635
including restructured	*16,039*	*2,050*	*1*	-	*7,493*	*7,373*	*22*	*32,978*
	41,720	**12,512**	**3,246**	**1,092**	**24,755**	**14,327**	**983**	**98,635**
Overdue, but not impaired								
1≥ 30 days	2,182	52	-	-	-	99	-	2,333
> 30 days ≥ 60 days	897	48	-	-	-	68	-	1,013
> 60 days ≥ 90 days	851	26	-	-	-	638	-	1,515
> 90 days ≥ 180 days	1,912	61	-	-	-	-	-	1,973
> 180 days	2,061	29	-	-	302	39	-	2,431
including restructured	*4,174*	*304*	-	-	*200*	*39*	*20*	*4,737*
	7,903	**216**	**-**	**-**	**302**	**844**	**-**	**9,265**
Impairment losses								
Individually impaired	**36,226**	**12,363**	**3,246**	**1,092**	**24,600**	**9,538**	**984**	**88,049**
Collectively impaired	**4,833**	**2,821**	**210**	**277**	**4,526**	**3,313**	**18**	**15,998**
	41,059	**15,184**	**3,456**	**1,369**	**29,126**	**12,851**	**1,002**	**104,047**
Carrying amount	**371,085**	**174,409**	**10,617**	**49,598**	**478,138**	**219,328**	**373**	**1,303,548**

6. Disclosure of the financial risk management policy, (continued)

(b) Credit Risk, (continued)

Credit Risk analysis, (continued)

The analysis of loans and advances to clients for 2019 (Cash pool and Factoring receivables are not included in this analysis) in Phase 1 according to the Internal Rating Assessment is presented below:

Gross carrying amount

Rating	Other loans	Investment loans	Mortgage loans	Credit cards	Working capital loans	Consumer loans	Finance lease	Total
A+	-	-	-	-	1,986	-	-	**1,986**
A	-	-	-	-	618	-	-	**618**
BBB+	-	-	-	-	-	5	-	**5**
BBB	-	-	-	-	19,605	7	-	**19,612**
BBB-	290	-	16,281	242	29,425	2,526	-	**48,764**
BB+	2,914	1,787	25,658	2,506	743	6,728	11	**40,347**
BB	779	3,853	47,931	2,090	1,242	12,011	617	**68,523**
BB-	161	45,010	67,827	1,111	6,353	22,752	3,622	**146,836**
B+	8,191	64,410	136,624	1,795	68,883	54,699	14,831	**349,433**
B	5,686	62,463	77,811	466	53,532	49,820	13,224	**263,002**
B-	147	17,468	13,567	51	34,051	16,740	877	**82,901**
CCC+	-	1,030	5,100	28	11,602	11,803	109	**29,672**
CCC	-	266	1,396	25	1,512	4,215	92	**7,506**
CCC-	-	-	320	12	5,083	366	187	**5,968**
Total	**18,182**	**196,287**	**392,719**	**8,326**	**234,794**	**181,734**	**33,570**	**1,065,612**

6. Disclosure of the financial risk management policy, (continued)

(b) Credit Risk, (continued)

Credit Risk analysis, (continued)

Expected credit loss:

Rating	Other loans	Investment loans	Mortgage loans	Credit cards	Working capital loans	Consumer loans	Finance lease	Total
A+	-	-	-	-	-	-	-	-
A	-	-	-	-	-	-	-	-
BBB+	-	-	-	-	-	-	-	-
BBB	-	-	-	-	21	-	-	21
BBB-	-	-	14	1	38	3	-	56
BB+	6	4	34	6	1	12	-	63
BB	3	13	103	9	4	33	-	165
BB-	-	238	234	21	33	99	13	638
B+	20	523	723	29	628	353	45	2,321
B	36	1,279	1,047	16	1,096	831	84	4,389
B-	2	530	260	1	991	420	7	2,211
CCC+	-	33	140	1	572	428	1	1,175
CCC	-	14	58	1	86	229	2	390
CCC-	-	-	16	1	192	11	4	224
CC	-	-	13	-	26	5	-	44
Общо	**67**	**2,634**	**2,642**	**86**	**3,688**	**2,424**	**156**	**11,697**
Carrying amount	**18,115**	**193,653**	**390,077**	**8,240**	**231,106**	**179,310**	**33,414**	**1,053,915**

6. Disclosure of the financial risk management policy, (continued)

(b) Credit Risk, (continued)

Credit Risk analysis, (continued)

The analysis of loans and advances to clients for 2018 (Cash pool and Factoring receivables are not included in this analysis) in Phase 1 according to the Internal Rating Assessment is presented below:

Rating	Other loans	Investment loans	Mortgage loans	Credit cards	Working capital loans	Consumer loans	Finance lease	Total
A+	-	-	-	-	1,996	-	-	1,996
A	-	-	-	-	594	-	-	594
BBB	-	-	-	-	39,197	5		39,202
BBB-	-	-	19,695	251	9,828	4,381	664	34,819
BB+	43	2,090	27,894	2,659	944	9,774	5,153	48,557
BB	195	4,507	47,035	2,236	2,492	12,013	2,386	70,864
BB-	140	48,956	54,224	1,183	7,510	21,671	5,283	138,967
B+	481	71,434	110,622	1,563	76,396	48,141	13,558	322,195
B	495	57,469	53,524	532	66,667	40,955	8,965	228,607
B-	95	17,768	11,949	120	46,700	14,576	689	91,897
CCC+	-	2,000	4,363	29	14,825	10,879	172	32,268
CCC	-	253	1,299	26	1,120	3,287	29	6,014
CCC-	-	26	498	14	12	108	-	658
CC	-	-	253	-	294	338	23	908
Общо	**1,449**	**204,503**	**331,356**	**8,613**	**268,575**	**166,128**	**36,922**	**1,017,546**

6. Disclosure of the financial risk management policy, (continued)

(b) Credit Risk, (continued)

Credit Risk analysis, (continued)

Expected credit loss:

Rating	Other loans	Investment loans	Mortgage loans	Credit cards	Working capital loans	Consumer loans	Finance lease	Total
A+	-	-	-	-	-	-	-	-
A	-	-	-	-	-	-	-	-
BBB	-	-	-	-	46	-	-	46
BBB-	-	-	20	-	24	5	-	49
BB+	-	5	43	5	1	18	4	76
BB	-	14	110	9	8	30	3	174
BB-	-	259	198	6	40	79	13	595
B+	1	571	614	13	631	263	37	2,130
B	3	1,217	778	16	1,210	634	61	3,919
B-	1	538	252	6	1,487	333	5	2,622
CCC+	-	61	136	2	709	365	2	1,275
CCC	-	12	58	1	25	158	1	255
CCC-	-	2	27	1	1	7	-	38
CC	-	-	22	-	45	14	1	82
Total	**5**	**2,679**	**2,258**	**59**	**4,227**	**1,906**	**127**	**11,261**
Carrying amount	**1,444**	**201,824**	**329,098**	**8,554**	**264,348**	**164,222**	**36,795**	**1,006,285**

6. Disclosure of the financial risk management policy, (continued)

(b) Credit Risk, (continued)

Credit Risk analysis, (continued)

Expected credit lose

IFRS 9 change the model of „incurred lose in IAS 39 with model of „Expected credit lose (ECL). It requires significant judgments haw the changed in the economic factors having an effect on ECL
The new impairment model applies to the following financial assets that are not valued under the ECL GCC:
- financial assets that are debt instruments;
- leasing receivables; and
- credit commitments and financial guarantee contracts (before impairment was determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets

Evaluation of ECL

The ECl is the probability-weighted credit loss estimate and will be determined as follows:

- financial assets that do not have credit impairment at the reporting date: the present value of the entire cash deficit - ie. the difference between the cash flows due under the contract and the cash flows that the Bank expects to receive
- financial assets that have credit impairment at the reporting date: the difference between the gross carrying amount and the present value of the expected future cash flows;
- undrawn credit commitments: the present value of the difference between the contractual cash flows payable to the Bank if the commitment is utilized and the cash flows that the Bank expects to receive;

The full description of the judgments and the manner of estimating the expected credit loss are described in paragraph 5 (e)

W/o arrears or impairment

Loans without arrears or impairment are serviced exposures that have no objective impairment indicators and for which the Bank allocates collective provisions for losses incurred but unrecorded at the exposure level. For the purpose of monitoring, the Bank groups the risk exposures on a portfolio basis in separate sub-portfolios on the basis of similar characteristics, according to their type, purpose and risk profile.

The Bank considers exposures subject to collective impairment for unrated exposures.

Individually impaired

Individually impaired loans are those for which the Bank considers that it will not be able to collect all principal and interest under the contractual terms of the transaction.

Overdue, but not impaired

Loans where the agreed principal and / or interest are overdue, but the Bank considers that it is not necessary to set aside uncollectible impairment on the basis of the collateral available or the collection stage of the amounts owed by the borrower.

6. Disclosure of the financial risk management policy, (continued)

(b) Credit Risk, (continued)

Credit Risk analysis, (continued)

Restructured loans

Restructured loans are risk exposures whose original terms of the agreement have been altered by the Bank's concession to the debtor, caused by a deterioration in the latter's financial condition, leading to the inability to repay the full amount of the debt, which concessions the Bank would not consider in other circumstances.

A concession means any of the following actions:

a) modification of the previous duration and contractual terms, which the borrower is not able to comply with due to his/her financial difficulties ("problematic debt") leading to an inability to service the debt, whereas such modifications would not have been made, had the debtor not experienced financial difficulties.

(b) Full or partial refinancing of a problematic debt contract that would not have been provided to a debtor if he had no financial difficulties.

The concession may lead to a loss for the Bank.

Exposures are not treated as exposures with renegotiated terms when the Bank has reason to believe that it will collect principal and interest and there are no circumstances showing a deterioration in the debtor's financial position.

The table below presents an analysis of gross and net (after deduction of impairment losses) carrying amounts of the individually impaired assets by risk groups:

	Loans and advances to clients		
In BGN thousand	**Gross**	**Net**	**% of impairment**
2019			
Non-performing	15,787	8,512	46%
Loss	53,413	12,481	77%
Total	**69,200**	**20,993**	**70%**
2018			
Non-performing	16,620	11,160	33%
Loss	101,194	18,605	82%
Total	**117,814**	**29,765**	**75%**

6. Disclosure of the financial risk management policy, (continued)

(b) Credit Risk, (continued)

Credit Risk analysis, (continued)

The table below shows the amounts of derecognised loans and advances to customers:

In BGN thousand	**2019**	**2018**
Derecognized loans	41,219	31,518
Impairment losses	(41,219)	(31,518)
Value after impairment	**-**	**-**

The table below presents an analysis of restructured loans and advances to customers as of 31.12.2019 and 31.12.2018:

In BGN thousand	**2019**	**2018**
Restructured loans and advances to clients	**36,227**	**46,261**
Impairment losses	24,269	23,614
Carrying amount	11,958	22,647

6. Disclosure of the financial risk management policy, (continued)

(b) Credit Risk, (continued)

Credit Risk analysis, (continued)

	Provisions				Gross carrying amount			
Loans	**Phasee 1**	**Phase 2**	**Phase 3**	**Total**	**Phase 1**	**Phase 2**	**Phase 3**	**Total**
01 January 2019	11,296	4,702	88,049	**104,047**	1,220,823	68,958	117,814	**1,407,595**
Changes that affected the provisioning expense over the period	446	(85)	(39,882)	**(39,521)**	68,488	4,566	(48,614)	**24,440**
Changes due to migration from Phase 1 to Phase 2	(266)	266	-	-	(27,810)	27,810	-	-
Changes due to migration from Phase 1 and Phase 2 to Phase 3	(43)	(535)	578	-	(5,466)	(5,026)	10,492	-
Changes due to migration from Phase 2 and Phase 3 to Phase 1	2	(2)	-	-	21	(21)	-	-
Increases due to occurrence and acquisition	4,790	1,885	17,201	**23,876**	392,073	12,998	6,418	**411,489**
Changes due to modification without derecognition	-	-	-	-	-	-	-	-
Changes due to updating the institution's valuation methodology	-	-	-	-	-	-	-	-
Decrease of the correction due to derecognition	-	-	(41,219)	**(41,219)**	-	-	(41,219)	**(41,219)**
Changes in accrued interest	-	-	-	-	-	-	-	-
Changes due to repayments	(4,037)	(1,699)	(16,442)	**(22,178)**	(290,330)	(31,195)	(24,305)	**(345,830)**
	11,742	**4,617**	**48,167**	**64,526**	**1,289,311**	**73,524**	**69,200**	**1,432,035**
Movements with an impact on loan provision for the period 31.12.2019	**11,742**	**4,617**	**48,167**	**64,526**	**1,289,311**	**73,524**	**69,200**	**1,432,035**

6. Disclosure of the financial risk management policy, (continued)

(b) Credit Risk, (continued)

Credit Risk analysis, (continued)

Loans	Provisions Phase 1	Phase 2	Phase 3	Total	Gross carrying amount Phase 1	Phase 2	Phase 3	Total
01 January 2018	10,904	5,277	113,649	**129,830**	1,011,056	71,830	160,178	**1,243,064**
Changes that affected the provisioning expense over the period	392	(575)	(25,600)	**(25,783)**	209,767	(2,872)	(42,364)	**164,531**
Changes due to migration from Phase 1 to Phase 2	(162)	162	-	-	(17,456)	17,456	-	-
Changes due to migration from Phase 1 and Phase 2 to Phase 3	(237)	(544)	781	-	(8,041)	(4,334)	12,375	-
Changes due to migration from Phase 2 and Phase 3 to Phase 1	-	-	-	-	22	(22)	-	-
Increases due to occurrence and acquisition	4,436	1,629	18,810	**24,875**	516,081	8,593	3,183	**527,857**
Changes due to modification without derecognition	-	-	-	-	-	-	-	-
Changes due to updating the institution's valuation methodology	-	-	-	-	-	-	-	-
Decrease of the correction due to derecognition	-	-	(31,508)	**(31,508)**	-	-	(31,508)	**(31,508)**
Changes in accrued interest	-	-	-	-	-	-	-	-
Changes due to repayments	(3,645)	(1,822)	(13,683)	**(19,150)**	(280,839)	(24,565)	(26,414)	**(331,818)**
	11,296	**4,702**	**88,049**	**104,047**	**1,220,823**	**68,958**	**117,814**	**1,407,595**
Movements with an impact on loan provision for the period 31.12.2018	**11,296**	**4,702**	**88,049**	**104,047**	**1,220,823**	**68,958**	**117,814**	**1,407,595**

6. Disclosure of the financial risk management policy, (continued)

(b) Credit Risk, (continued)

Credit Risk analysis, (continued)

Guarantees	**Phase 1**	**Phase 2**	**Phase 3**	**Total provisions**	**Gross carrying amount**
Provisions for financial guarantees as at 01.01.2019	**370**	**114**	**324**	**808**	**45,085**
Changes that affected the provisioning expense for financial guarantees over the period	40	(69)	(44)	**(73)**	(1,308)
Transfer					
Changes due to migration from Phase 1 to Phase 2	(6)	6	-	**-**	-
Changes due to migration from Phase 1 and Phase 2 to Phase 3	-	-	-	**-**	-
Changes due to migration from Phase 2 and Phase 3 to Phase 1	-	-	-	**-**	-
Guarantees issued and change in ECL without phase change	177	8	6	**191**	18,698
Change from tax depreciation	-	-	-	**-**	-
Changes due to modification without derecognition	-	-	-	**-**	-
Changes due to updating the institution's valuation methodology	-	-	-	**-**	-
Decrease of the correction due to derecognition	-	-	-	**-**	-
Changes resulting from cancellation of bank guarantees or change in ECL without phase change	(131)	(83)	(50)	**(264)**	(20,006)
Total cost of provisions on financial guarantees	**40**	**(69)**	**(44)**	**(73)**	**(1,308)**
Provisions for financial guarantees as at 31.12.2019	**410**	**45**	**280**	**735**	**43,777**

6. Disclosure of the financial risk management policy, (continued)

(b) Credit Risk, (continued)

Credit Risk analysis, (continued)

Guarantees	**Phase 1**	**Phase 2**	**Phase 3**	**Total provisions**	**Gross carrying amount**
Provisions for financial guarantees as at 01.01.2018	**473**	**-**	**712**	**1,185**	**45,398**
Changes that affected the provisioning expense for financial guarantees over the period	(103)	114	(388)	**(377)**	(313)
Transfer					
Changes due to migration from Phase 1 to Phase 2	(1)	1	-	**-**	-
Changes due to migration from Phase 1 and Phase 2 to Phase 3	(4)	-	4	**-**	-
Changes due to migration from Phase 2 and Phase 3 to Phase 1	-	-	-	**-**	-
Guarantees issued and change in ECL without phase change	114	113	50	**277**	17,875
Change from tax depreciation	-	-	-	**-**	-
Changes due to modification without derecognition	-	-	-	**-**	-
Changes due to updating the institution's valuation methodology	-	-	-	**-**	-
Decrease of the correction due to derecognition	-	-	-	**-**	-
Changes resulting from cancellation of bank guarantees or change in ECL without phase change	(212)	-	(442)	**(654)**	(18,188)
Total cost of provisions on financial guarantees	**(103)**	**114**	**(388)**	**(377)**	**(313)**
Provisions for financial guarantees as at 31.12.2018	**370**	**114**	**324**	**808**	**45,085**

6. Disclosure of the financial risk management policy, (continued)

(b) Credit Risk, (continued)

Credit Risk analysis, (continued)

	Provisions				Loan Commitments			
	Phase 1	**Phase 2**	**Phase 3**	**Total**	**Phase 1**	**Phase 2**	**Phase 3**	**Total**
1.01.2019	**1,696**	**81**	**550**	**2,327**	**105,907**	**4,569**	**634**	**111,110**
Changes that affected the provisioning expense over the period	(37)	(14)	31	**(20)**	15,639	(467)	11	**15,183**
Changes due to migration from Phase 1 to Phase 2	(18)	18	-	-	(2,341)	2,341	-	-
Changes due to migration from Phase 1 and Phase 2 to Phase 3	(2)	(2)	4	-	(210)	(116)	326	-
Changes due to migration from Phase 2 and Phase 3 to Phase 1	3	(3)	-	-	115	(115)	-	-
Increases due to occurrence and acquisition	627	28	277	**932**	47,390	883	194	**48,467**
Changes due to modification without derecognition	-	-	-	-	-	-	-	-
Changes due to updating the institution's valuation methodology	-	-	-	-	-	-	-	-
Decrease of the correction due to derecognition	-	-	-	-	-	-	-	-
Changes in accrued interest								
Changes due to repayments	(647)	(55)	(250)	**(952)**	(29,315)	(3,460)	(509)	**(33,284)**
Movements with an impact on provision for the period 31.12.2019	**1,659**	**67**	**581**	**2,307**	**121,546**	**4,102**	**645**	**126,293**

6. Disclosure of the financial risk management policy, (continued)

(b) Credit Risk, (continued)

Credit Risk analysis, (continued)

		Provisions				**Loan Commitments**		
	Total	**Phase 1**	**Total**	**Phase 1**	**Total**	**Phase 1**	**Total**	**Phase 1**
1.01.2018	**1,697**	**89**	**388**	**2,174**	**105,502**	**3,676**	**440**	**109,618**
Changes that affected the provisioning expense over the period	(1)	(8)	162	**153**	405	893	194	**1,492**
Changes due to migration from Phase 1 to Phase 2	(17)	17	-	-	(1,498)	1,498	-	-
Changes due to migration from Phase 1 and Phase 2 to Phase 3	(3)	(10)	13	-	(242)	(146)	388	-
Changes due to migration from Phase 2 and Phase 3 to Phase 1	-	-	-	-	28	(28)	-	-
Increases due to occurrence and acquisition	845	50	286	**1,181**	43,057	1,391	175	**44,623**
Changes due to modification without derecognition	-	-	-	-	-	-	-	-
Changes due to updating the institution's valuation methodology	-	-	-	-	-	-	-	-
Decrease of the correction due to derecognition	-	-	-	-	-	-	-	-
Changes in accrued interest	-	-	-	-	-	-	-	-
Changes due to repayments	(826)	(65)	(137)	**(1,028)**	(40,940)	(1,822)	(369)	**(43,131)**
Movements with an impact on provision for the period 31.12.2018	**1,696**	**81**	**550**	**2,327**	**105,907**	**4,569**	**634**	**111,110**

6. Disclosure of the financial risk management policy, (continued)

(b) Credit Risk, (continued)

Credit Risk analysis, (continued)

The table below presents the concentration of credit risk by economic sectors.

In BGN thousand	**2019**	**2018**
Concentration by sector		
State government	45,693	45,553
Administrative and auxiliary activities	16,982	17,346
Operations with Real Estate	43,563	27,581
Manufacturing	41,952	45,501
Production and distribution of electricity and heat energy	56,998	72,122
Professional activities and research	3,021	4,218
Agriculture, forestry and fishery	47,658	52,852
Construction	22,540	43,487
Creation and dissemination of information and creative products; telecommunications	2,195	1,157
Transport, storage and mail	21,113	26,032
Trade, repair of motor vehicles and motorcycles	116,548	132,519
Financial and insurance services	218,909	214,755
Hospitality and restaurant business	53,750	52,326
Other	5,530	5,369
	696,452	**740,817**
Loans to the population		
Mortgage	453,510	410,673
Consumer	282,073	256,104
	735,583	**666,778**
Impairment losses	(64,526)	(104,047)
	1,367,509	**1,303,548**

Collateral and other credit facilities

The Bank's policy includes consideration of the need to provide collateral before granting approved loans. The degree of collateral of each specific risk exposure is established against the amount of collateral accepted by the Bank for the application of specific security margins.

Collaterals on loans, guarantees and letters of credit, excluding credit cards, include cash, property, plant and equipment, exchange-traded government securities, or other property, a pledge of receivables, a pledge of a commercial enterprise, and others.

6. Disclosure of the financial risk management policy, (continued)

(b) Credit Risk, (continued)

Credit Risk analysis, (continued)

Collateral and other credit facilities, (continued)

The Bank holds collateral and other credit facilities against certain credit exposures. The table below lists the major types of collateral held against different types of financial assets.

Credit exposure type	Main type of collateral	Percentage of the exposure subject to an agreement requiring collateral 2019	2018
Loans and advances to banks			
Sale and redemption agreements	Tradeable securities	100	100
Loans and advances to individuals			
Home loans	Residential Properties	100	100
Consumer lending	Guarantee, pledge of receivables originating from salary and other remuneration	100	100
Credit cards	None	-	-
Loans and advances to corporate clients			
Other lending to corporate clients	Commercial property, Commercial property rights	100	100

The Bank requires valuers to measure net realizable value, which is the sale price of the asset on a liquid market, less the additional costs directly associated with the realization (sale) of the asset

6. Disclosure of the financial risk management policy, (continued)

(b) Credit Risk, (continued)

Credit Risk analysis, (continued)

Collateral and other credit facilities continued

The Bank requires valuers to measure net realizable value, which is the sale price of the asset on a liquid market, less the additional costs directly associated with the realization (sale) of the asset.

The table below shows the total amount before deduction of impairment of loans and advances to customers provided by the Bank:

In BGN thousand	**2019 г.**	**2018**
Cash	**10,779**	**30,879**
Regular	9,075	21,784
Under supervision	701	8,818
Non-performing	758	277
Loss	245	-
Mortgage on Real Estate	**607,193**	**546,997**
Regular	554,445	489,203
Under supervision	33,425	28,708
Non-performing	7,417	29,086
Loss	11,906	
Other collateral	**262,137**	**260,350**
Regular	250,514	254,515
Under supervision	10,956	5,391
Non-performing	337	444
Loss	330	-
Secured loans	**880,109**	**838,226**
Unsecured loans	**366,520**	**393,458**
Total loans and advances to clients	**1,246,629**	**1,231,684**

Other collateral includes pledges on current assets - inventories, receivables from third parties as well as bets on commercial enterprises.

Mortgage lending (individuals and corporate clients)

The tables below provide credit exposures from mortgage loans and advances to customers - corporate clients and corporate clients - depending on the value of the loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross loan amount (or the corresponding amount of credit commitment) to the value of the collateral. Gross value does not include accrued impairment. The valuation of the collateral includes future costs for the acquisition and realization of the collateral. The value of mortgage collateral is based on the latest valuation made by an independent expert assessor.

6. Disclosure of the financial risk management policy, (continued)

(b) Credit Risk, (continued)

Credit Risk analysis, (continued)

Mortgage lending (individuals and corporate clients,(continued)

In BGN thousand	**2019**	**2018**
Loan to value (LTV) ratio		
Less than 50%	128,028	215,324
51% to 70%	156,492	165,301
71% to 90%	149,343	144,939
91% to 100%	10,291	7,819
More than 100%	9,357	23,513
Total	**453,511**	**556,896**

As at 31 December 2019, the book value of the assets acquired from collaterals - real estate amounts to BGN 331 thousand. (as at 31.12.2018) BGN 213 thousand)

Financial assets at fair value through profit and loss

Below is an analysis of the credit quality of financial assets measured at fair value through profit or loss based on ratings of Standard & Poor's rating agency:

In BGN thousand	**2018**	**2018**
Government securities		
BBB+	-	3,993
BBB-	-	571
Corporate bondss		
Without rating	3	4
Compensatory instruments		
Without rating	1	1
	4	**4,569**

6. Disclosure of the financial risk management policy, (continued)

(b) Credit Risk, (continued)

Credit Risk analysis, (continued)

The tables below set out the financial assets of the Bank by country of registration of the issuer at 31 December 2019 and 31 December 2019 (less capital instruments).

2019

In BGN thousand	Bulgaria	Nederland	Spain	Macedonia	Poland	Portugal	Romania	Hungary	France	Croatia	Czech Republic	Sweden	Australia	Total
Financial assets at fair value through profit and loss														
Compensatory instruments	1	-	-	-	-	-	-	-	-	-	-	-	-	1
	1	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**
Financial assets at fair value through other comprehensive income														
Government securities	52,099	-	36,006	-	-	4,242	37,900	2,690	-	5,458	-	-	-	138,395
Corporate bonds	4,273	8,892	-	-	24,973	-	-	2,667	7,927	6,198	-	7,830	1,999	64,759
	56,372	**8,892**	**36,006**	**-**	**24,973**	**4,242**	**37,900**	**5,357**	**7,927**	**11,656**	**-**	**7,830**	**1,999**	**203,154**
Financial assets measured at amortized cost														
Government securities	357,870	-	17,983	8,868	9,609	-	30,542	-	-	15,039	17,881	-	-	457,792
Corporate bonds	15,815	-	-	-	13,934	-	-	2,041	-	-	-	-	4,991	36,781
	373,685	**-**	**17,983**	**8,868**	**23,543**	**-**	**30,542**	**2,041**	**-**	**15,039**	**17,881**	**-**	**4,991**	**494,573**
Total	**430,058**	**8,892**	**53,989**	**8,868**	**48,516**	**4,242**	**68,442**	**7,398**	**7,927**	**26,695**	**17,881**	**7,830**	**6,990**	**697,728**

6. Disclosure of the financial risk management policy, (continued)

(b) Credit Risk, (continued)

Credit Risk analysis, (continued)

2018

In BGN thousand	**Bulgaria**	**Spain**	**Macedonia**	**Poland**	**Portugal**	**Romania**	**Hungary**	**France**	**Croatia**	**Czech Republic**	**Sweden**	**Total**
Financial assets at fair value through profit and loss												
Government securities	571	-	-	-	-	-	-	-	-	-	-	571
Corporate bonds	3,997	-	-	-	-	-	-	-	-	-	-	3,997
Compensatory instruments	1	-	-	-	-	-	-	-	-	-	-	1
	4,569	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,569**
Financial assets at fair value through other comprehensive income												
Government securities	65,265	35,704	-	-	4,382	37,376	2,699	-	5,516	-	-	150,942
Corporate bonds	4,265	-	-	7,820	-	-	2,683	16,690	6,481	-	34,364	72,303
	69,530	**35,704**	**-**	**7,820**	**4,382**	**37,376**	**5,382**	**16,690**	**11,997**	**-**	**34,364**	**223,245**
Financial assets measured at amortized cost												
Government securities	342,078	18,256	9,084	9,682	-	31,706	-	-	15,412	18,526	-	444,744
Corporate bonds	15,803	-	-	-	-	- -	2,085	-	-	- -	-	17,888
	357,881	**18,256**	**9,084**	**9,682**	**-**	**31,706**	**2,085**	**-**	**15,412**	**18,526**	**-**	**462,632**
Total	**431,980**	**53,960**	**9,084**	**17,502**	**4,382**	**69,082**	**7,467**	**16,690**	**27,409**	**18.526**	**34,364**	**690,446**

6. Disclosure of the financial risk management policy, (continued)

(c) Liquidity Risk

Liquidity risk occurs with regard to ensuring funds for the Bank's activities and the management of its positions. It has two dimensions – risk that the Bank will be unable to cover its liabilities when they become due; and risk of inability to realize its assets at a suitable price and within an acceptable timeframe.

Liquidity risk management

The Bank's approach to liquidity management is to ensure to the greatest degree possible the ability to always have sufficient liquidity to cover its liabilities when called, both under normal circumstances and in an emergency, without taking extraordinary losses or affecting the Bank's reputation.

The Liquidity and markets Division receives information from other business units regarding the liquidity of financial assets and liabilities and details about other expected cash flows arising from projected future activities. The Liquidity and Markets Division maintains a portfolio of liquid assets which consists mainly of liquid securities, loans and receivables from banks, and other money market instruments. The objective is to maintain sufficient liquidity within the Bank as a whole.

Liquidity is monitored daily, and stress tests are performed periodically according to various scenarios which cover both normal and extraordinary market circumstances. All liquidity policies and procedures are subject to review and approval by the ALMC. Daily reports cover the liquidity position of the Bank. A summary report, including analyzes, plans, reports and actions taken, is reviewed and accepted periodically / monthly by the ALMC.

Funds are attracted through a set of instruments including deposits and current accounts, credit lines, other legally regulated borrowings, and equity. Funds from different types of clients are attracted, most of them from citizens and households, as well as from small and medium-sized enterprises. In addition, there are deposits from non-bank financial institutions and credit lines from development banks. An insignificant part of the funds is attracted from the interbank money market. In this way, the opportunity for flexibility when financing the activities of Allianz Bank Bulgaria AD is increased, the dependence on one source of funds is reduced, and the value of attracted resource is decreased. The Bank aims to maintain balance between term and attracted resource, and flexibility in the use of funds with different maturity structure.

The Bank performs current assessments of liquidity risk by identifying and tracking changes with regard to the need for funds to achieve the aims embedded in the overall strategy of Allianz Bank Bulgaria AD. In addition, the Bank owns and maintains a portfolio of liquid assets as part of its liquidity risk management system .

6. Disclosure of the financial risk management policy, (continued)

(c) Liquidity Risk, (continued)

Liquidity risk exposure

For liquidity risk monitoring and management, the Bank calculates various indicators such as the secondary liquidity ratio, LCR, NSFR, and survival period. Available cash and cash equivalents, funds in current accounts with banks, and interbank deposits up to 7 days, state securities of the Bulgarian government, gold, debt securities suitable for trading issued by international development banks and international organizations are considered liquid assets. The calculation of the ratios is used in order to measure the Bank's compliance with liquidity indicators recommended by BNB.

The ratios of net liquid assets to client deposits at the reporting date and during the reporting period is as follows:

	2019	**2018.**
as at 31 December	42.82%	42.52%
Average over the period	42.80%	43.24%
Maximum for the period	45.26%	46.81%
Minimum for the period	40.88%	39.18%

Residual maturity of financial assets and liabilities

The table below presents the undiscounted cash flows of the Bank's financial liabilities and unrecognized credit commitments based on the earliest possible maturity date. Gross Nominal incoming (outgoing) Cash Flow is the agreed undiscounted cash flow from the financial liability or commitment. Interest income or interest expense, respectively, is included in the respective financial asset or liability from the date of the last interest payment until the end of the maturity.

The imbalance observed in the first period of less than a month is mainly due to the inclusion of current accounts for customers in this time period. The Bank's experience shows that customer deposits are expected to maintain a steady or growing balance, and not all unrecognized credit commitments are expected to be absorbed immediately.

6. Disclosure of the financial risk management policy, (continued)

(c) Liquidity Risk, (continued)

Residual maturity of financial assets and liabilities , (continued)

31 December 2019 *In BGN thousand*	**Carrying amount**	**Gross nominal incoming / (outgoing) cash flow**	**Less than 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**More than 5years**
Cash and cash equivalents	760,076	760,088	760,088	-	-	-	-
Financial assets measured at FVPL	4	4	-	-	-	-	4
Loans and advances to banks	19,541	19,546	9,767	-	9,779	-	-
Investment securities	704,285	704,789	19,415	11,686	93,561	513,189	66,938
Loans and advances to clients	1,367,509	1,811,638	269,588	15,576	142,176	347,690	1,036,608
Other financial assets	5,511	5,511	5,511	-	-	-	-
	2,856,926	**3,301,576**	**1,064,369**	**27,262**	**245,516**	**860,879**	**1,103,550**
Deposits from banks	31,601	(32,950)	(135)	-	-	-	(32,815)
Deposits from clients	2,587,467	(2,588,353)	(1,897,760)	(140,271)	(414,386)	(135,936)	-
Lease liabilities	7,876	(8,228)	-	-	(2,588)	(5,019)	(621)
Other long-term borrowed funds	7,021	(7,021)	(582)	(20)	(742)	(4,906)	(771)
Other liabilities	7,583	(7,583)	(7,583)	-	-	-	-
	2,641,548	**(2,644,135)**	**(1,906,060)**	**(140,291)**	**(417,716)**	**(145,861)**	**(34,207)**
Guarantees and letters of credit	43,777	(43,777)	(3,699)	(8,395)	(9,532)	(10,552)	(11,599)
Unutilized credit commitments	126,293	(126,293)	(35,677)	(16,706)	(56,605)	(8,698)	(8,607)
	2,811,618	**(2,814,205)**	**(1,945,436)**	**(165,392)**	**(483,853)**	**(165,111)**	**(54,413)**

6. Disclosure of the financial risk management policy, (continued)

(c) Liquidity Risk, (continued)

Residual maturity of financial assets and liabilities , (continued)

31 December 2019 *In BGN thousand*	**Carrying amount**	**Gross nominal incoming / (outgoing) cash flow**	**Less than 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**More than 5years**
Cash and cash equivalents	693,224	693,224	693,224	-	-	-	-
Financial assets measured at FVPL	4,573	4,579	4,574	-	-	-	5
Loans and advances to banks	39,074	39,074	-	-	39,074	-	-
Investment securities	690,879	741,786	29,627	8,752	35,253	523,219	144,935
Loans and advances to clients	1,303,548	1,718,587	331,205	23,490	122,838	328,700	912,354
Other financial assets	3,916	3,916	3,916	-	-	-	-
	2,735,214	**3,201,166**	**1,062,546**	**32,242**	**197,165**	**851,919**	**1,057,294**
Deposits from banks	45,322	(46,876)	(10,364)	-	-	-	(36,512)
Deposits from clients	2,462,600	(2,463,601)	(1,769,635)	(120,382)	(431,619)	(141,965)	-
Other long-term borrowed funds	14,985	(14,986)	(4,864)	(14)	(445)	(6,571)	(3,092)
Other liabilities	3,996	(3,996)	(3,996)	-	-	-	-
	2,526,903	**(2,529,459)**	**(1,788,859)**	**(120,396)**	**(432,064)**	**(148,536)**	**(39,604)**
Guarantees and letters of credit	45,085	(45,085)	(3,282)	(7,326)	(12,845)	(13,132)	(8,500)
Unutilized credit commitments	111,110	(111,110)	(25,876)	(14,038)	(55,963)	(6,543)	(8,690)
	2,683,098	**(2,685,654)**	**(1,818,017)**	**(141,760)**	**(500,872)**	**(168,211)**	**(56,794)**

6. Disclosure of the financial risk management policy, (continued)

(d) Market risk

Market risk is the risk that a change in market conditions or parameters affecting market conditions such as interest rates, equity prices, or exchange rates for foreign currencies will affect the income or value of financial instruments held by the Bank. The market risk management policy aims to manage and control market risk exposures within the allowable limits, optimizing the risk / return ratio.

Exposure to market risk

All marketable instruments are subject to market risk as a result of future changes in market conditions. Instruments are measured at fair value and any changes in market conditions directly affect net trading income.

Allianz Bank Bulgaria AD manages its tradable instruments under the changing market conditions. Exposure to market risk is managed in accordance with exposure limits, concentration on instrument types and VaR limits.

The method used to measure and manage market risk is the so-called Value at Risk (VaR). VaR is an indicator of the expected loss from trading portfolio for a certain period of time (holding period) and a certain probability level (confidence level). The VaR model used by the Bank is based on a 99% confidence level and a ten-day holding period. The VaR model is based on historical data from a minimum of 250 day observation period.

Although VaR is an important tool in measuring market risk, the assumptions on which the model is based lead to some constraints:

- The ten-day holding period suggests that it is possible to hedge or release positions in that period. This is considered a real assumption in almost all cases except in situations where there is low market liquidity over a prolonged period of time.
- The 99% confidence level does not account for any losses that may arise beyond that level. Even within the model, there is a 1% probability that losses may exceed VaR.
- VaR is calculated at the end of each day and does not take account of the risks that may arise during the trading day / trading session.
- VaR depends on the position of the Bank and the volatility of market prices. The VaR in unchanged position decreases when the volatility of market prices decreases and vice versa.

Exposure to market risk - Financial assets at fair value through profit and loss

The financial assets at fair value through profit and loss as of 31.12.2019 does not include instruiments measurable for market riskq according to the adopted by the Bank policy to invest in financial assets from other class.

The 10-day VaR of the Bank's financial assets at fair value through profit and loss as of 31.12.2018 and the one-year period are as follows:

In BGN thousand	**As at 31.12**	**Average**	**Maximum**	**Minimum**
Financial assets at fair value through profit and loss				
2018				
Currency Risk	39.33	38.24	40.00	36.21
Interest Risk	0.1	2.41	26.82	0.1
Other price risk	22.57	4.30	13.64	0.04
Correlation	(4.79)	(3.49)	(21.48)	(0.37)
	57.21	**41.46**	**58.98**	**35.98**

6. Disclosure of the financial risk management policy, (continued)

(d) Market risk, (continued)

Exposure to market risk - Financial assets at fair value through other comprehensive income

The 10-day VaR of the Bank's financial assets at fair value through through other comprehensive income as of 31.12.2019 and 31.12.2018 and the one-year period are as follows:

In BGN thousand	**As at 31.12**	**Average**	**Maximum**	**Minimum**
Financial assets at fair value through other comprehensive income				
2019				
Currency Risk	178	182	185	178
Interest Risk	205	172	215	141
Other price risk	-	-	-	-
Correlation	(115)	(103)	(115)	(90)
	268	**251**	**285**	**229**

In BGN thousand	**As at 31.12**	**Average**	**Maximum**	**Minimum**
Financial assets at fair value through other comprehensive income				
2018				
Currency Risk	181	18	184	-
Interest Risk	196	204	248	146
Other price risk	-	-	-	-
Correlation	(112)	(11)	-151	-
Total	**265**	**211**	**281**	**146**

The interest rate levels in the current year are gradually decreasing, reaching their minimum values at the end of the reporting period, reflecting declining portfolio duration and low volatility of bond market yields. The share of currency risk in the total value at risk at the end of the reporting period remained relatively unchanged compared to 2016.

The 1-day VaR of the Monte Carlo simulation at 99% confidence interval as at 31 December and during the reporting period is as follows:

In BGN thousand	**2019**	**2018**
As at 31 December	847	1,021
Minimum for the period	847	1,021

Interest risk sensitivity analysis

For the management of interest rate risk and interest rate changes, observations are made on the sensitivity of the Bank's financial assets and liabilities in applying scenarios to the movement of interest rates.

Sensitivity analysis is based on the scenario of 100 basis points parallel increase of all profitability curves of all currencies simultaneously.

6. Disclosure of the financial risk management policy, (continued)

(d) Market risk, (continued)

Interest risk sensitivity analysis, (continued)

The model for the measuring of market risk is based on the analysis of imbalance (GAP analysis). It is used to measure the Bank's potential loss arising from projected changes in market interest rates under the hypothesis of parallel movement of interest curves.

The model is applied to the banking and trading book at the end of the year.

Bank performs calculations for 6 scenarios, the results of which are shown in the table below, while parallel shock hypotheses are at 200 Bps, for a short-term shock of 250 bps, and a long-term shock of 100 Bps, according to Annex II Interest rate risk in banking book (EBA):

Scenarios 2019	**Sensitivity to interest of the value of equity (EVE)**		**Net interest income**
	%	BGN thousand	BGN thousand
parallel upward shock;	-9.49%	(17,589)	(11,281)
parallel downward shock;	9.49%	17,589	11,281
short-term interest downward and long-term upward (steepener);	-9.02%	(16,723)	
short-term interest upward and long-term downward (flattener);	1.91%	3,532	
short-term interest upward; and	-2.03%	(3,759)	
short-term interest downward	0.81%	1,504	

Scenarios 2018	**Sensitivity to interest of the value of equity (EVE)**		**Net interest income**
	%	BGN thousand	BGN thousand
parallel upward shock;	-10.56%	(19,582)	(9,837)
parallel downward shock;	10.56%	19,582	9,837
short-term interest downward and long-term upward (steepener);	-12.51%	(23,192)	
short-term interest upward and long-term downward (flattener);	4.59%	8,506	
short-term interest upward; and	-0.50%	(918)	
short-term interest downward	0.20%	367	

Currency Risk

The Bank is exposed to currency risk in transactions with financial instruments denominated in foreign currency .

As a result of the introduction of a Currency Board in Bulgaria, the Bulgarian lev is fixed to the EUR. As the currency in which the Bank compiles its accounts is the Bulgarian lev, the movements in the exchange rates of the lev against the non-euro area currencies affect the accounts.

Transactions in foreign currencies result in income and expenses from foreign exchange transactions that are reported in the income statement. Such exposures are the Bank's cash assets and liabilities denominated in a currency other than the Bank's presentation currency . These exposures in foreign currency are presented in the table below.

6. Disclosure of the financial risk management policy, (continued)

(d) Market risk, (continued)

Currency risks, (continued)

In BGN thousand	**31 December 2019**				
	BGN	**EUR**	**USD**	**Other currencies**	**Total**
Assets					
Cash and cash equivalents	521,734	75,075	149,388	13,879	760,076
Financial assets measured at FVPL	4	-	-	-	4
Loans and advances to banks	-	19,541	-	-	19,541
Financial assets measured at FVOCI	20,846	180,803	8,063		209,712
Financial assets measured at AC	96,212	398,361	-	-	494,573
Loans and advances to clients	842,405	514,436	10,668		1,367,509
Total assets	**1,481,201**	**1,188,216**	**168,119**	**13,879**	**2,851,415**
Liabilities					
Deposits from banks	112	31,489	-	-	31,601
Deposits from other clients	1,678,957	713,717	181,065	13,728	2,587,467
Other borrowed funds	-	7,021	-	-	7,021
Leased liabilities	7,876	-	-	-	7,876
Total liabilities	**1,686,94**	**752,227**	**181,065**	**13,728**	**2,633,965**
Net currency position	**(205,744)**	**435,989**	**(12,946)**	**151**	**217,450**

6. Disclosure of the financial risk management policy, (continued)

(d) Market risk, (continued)

Currency risks, (continued)

In BGN thousand **31 December 2018**

	BGN	EUR	USD	Other currencies	Total
Assets					
Cash and cash equivalents	490,545	81,024	108,899	12,756	693,224
Financial assets measured at FVPL	5	4,380	188	-	4,573
Loans and advances to banks	-	39,074	-	-	39,074
Financial assets measured at FVOCI	24,239	197,797	6,211	-	228,247
Financial assets measured at AC	77,595	385,037	-	-	462,632
Loans and advances to clients	799,567	488,506	15,475	-	1,303,548
Total assets	**1,391,951**	**1,195,818**	**130,773**	**12,756**	**2,731,298**
Liabilities					
Deposits from banks	71	34,999	10251	1	45,322
Deposits from other clients	1,597,513	712,917	139,494	12,676	2,462,600
Other borrowed funds	-	14,985	-	-	14,985
Total liabilities	**1,597,584**	**762,901**	**149,745**	**12,677**	**2,522,907**
Net currency position	**(205,633)**	**432,917**	**(18,972)**	**79**	**208,391**

(e) Compliance with capital adequacy requirements

The Bank determines its risk-taking capacity on the basis of available capital resources available to cover losses arising from the Bank's risk profile. The Bank manages its venture capital, observing the regulatory requirements and its own strategy.

The minimum requirements applicable to Bulgaria under the requirements of Directive 2013/36 / EC and Regulation (EU) No 575/2013 introduced in 2014 include the maintenance of a Total Capital Adequacy ratio of not less than 13.5% and Tier 1 Capital Adequacy ratio of not less than 11.5%. These levels include 8% of total capital adequacy and 6% of Tier 1 capital adequacy respectively, as well as 2.5% Capital Maintaining Buffer and 3% Systemic Risk Buffer.

The Bank complies with the Minimum Capital Adequacy Regulatory Requirements.

6. Disclosure of the financial risk management policy, (continued)

(e) Compliance with capital adequacy requirements, (continued)

In accordance with the regulatory framework, the Bank distributes capital to cover the capital requirements for credit risk, market risk and operational risk, using the Standardized Approach.

Capital base (equity)

The capital base (equity) includes Tier 1 and Tier 2 capital, in accordance with the applicable regulatory requirements.

The Bank prepares quarterly supervisory and monthly internal reports in accordance with the requirements of Ordinance No 8 of the Bulgarian National Bank (BNB) of 24 April 2014 on the capital buffers of banks and Implementation Regulation (EU) No 680 of 2014

on an individual basis.

The Bank complies with the regulatory capital adequacy requirements and discloses its annual data to the BNB according to Regulation (EU) No 575/2013 (Eighth part) and the Credit Institutions Act (Article 70 (3)).

The Bank has selected the Basic indicator approach to calculate operational risk, according to Regulation (EU) No 575/2013.

The Bank monitors changes in major exposure classes, capital base, and total capital adequacy on a monthly basis, and reports the levels of regulatory and internal capital to the Management and Supervisory Board, and prepares quarterly reports, which it presents to the BNB within the timeframe set out in Regulation 680/2014. According to art. 92 of Regulation 575 of the European parliament and of the Council of 26 June 2013, minimum requirements for the ratios of capital adequacy of Tier 1 capital and of Total capital adequacy are respectively no less than 6% and no less than 8%.

At the end of 2019, Allianz Bank Bulgaria AD complied with the recommendations of BNB (decision of the BNB MB of 20.12.2019 and 160/24.04.2019) for capital stability – that total capital adequacy should be no less than 14.25%, formed based on:

- the requirement for 8% capital adequacy,
- - systemic risk buffer of 3%,
- safety capital buffer of 2.5%q
- countercyclical capital buffer of 0.5%

7. Use of estimates and assumptions

The presentation of a financial statement in accordance with International Financial Reporting Standards requires management to make the best estimates, accruals and reasonable assumptions that have an effect on the reported amounts of assets and liabilities, income and expense, and the disclosure of contingent liabilities and contingent liabilities at the reporting date. These estimates, accruals and assumptions are based on the information available at the date of the financial statements, so the future factual results could be different from them.

Estimates and the underlying assumptions are reviewed on an ongoing basis. Revised accounting estimates are recognized in the period in which the measurement is reviewed and in all future periods.

7. Use of estimates and assumptions, (continued)

Uncertainty in the assumptions and estimates

The Bank makes assumptions and assessments of uncertain events, including assumptions and assessments of the future. Such accounting assumptions and assessments are reviewed on an ongoing basis and are based on historical experience and other factors such as the expected flow from a future event that can reasonably be assumed under the circumstances but is nevertheless required to constitute a source of suspected uncertainty. The assessment of impairment of the portfolio by credit risk groups and, as a part, the assumptions about the realizable value of collateral - real estate - represents the main source of uncertainty in the valuation. This and other major sources of uncertainty in the estimates that carry a significant risk of a possible material adjustment of the carrying amount of assets and liabilities in subsequent reporting periods are described below and in the following notes.

Assessment of Expected credit lose ECL

Calculation of expected credit lose for financial assets at amortized cost and financial assets thru other comprehensive income requires the use of models and significant accounting judgments and assumptions about future economic conditions and the change in the credit quality of assets (for example, the probability of a client not meeting its obligations under the credit exposures and the losses to which it would result).

Significant accounting estimates and assumptions that IFRS 9 requires when calculating the expected credit loss are:

- Determining the criteria for a significant increase in credit risk
- Selection of appropriate models and for the calculation of ECL
- Selecting appropriate economic variables for preparing future information
- Determining the weight of each scenario for the future development of the selected economic variables

The full description of the judgments and the manner of estimating the expected credit loss are described in paragraph 5.

The specific component of the total provision for impairment for a single counterparty relates to financial assets that are individually assessed for impairment and is based on the management's best estimate of the present value of the cash flows expected to be received. When assessing these cash flows, the management makes judgments about the counterparty's financial position and the net realizable value of the collateral. Each impaired asset is measured individually, the strategy for recovering the impaired asset and the estimated cash flows that are considered recoverable are approved regardless of the credit risk assessment function.

Collectively assessed impairment losses cover losses on loans inherent in loan portfolios and receivables with similar credit risk characteristics when there is objective evidence that they contain impaired loans and receivables but individual impaired assets can not be identified. When assessing the need for portfolio impairment losses, management takes into account factors such as loan quality, portfolio size, concentrations and economic factors. In order to assess the necessary provision for impairment, assumptions are made to determine how inherent losses are based on historical experience and current economic conditions. The accuracy of the provisions depends on the estimates of future cash flows for the impairment losses of a particular counterparty as well as on the assumptions and parameters of the models used to determine the impairment losses on a portfolio basis.

7. Use of estimates and assumptions, (continued)

Uncertainty in the assumptions and estimates, (continued)

Determining the fair value of financial instruments

The determination of the fair value of financial assets and liabilities for which there is no observable market price requires the use of valuation techniques described in accounting policy 5 (e) (vi). For financial instruments that are rarely traded and whose price is not available or observed on the market, fair value is less objective and requires a range of ratings depending on liquidity, concentration, uncertainty of market factors, price assumptions and other risks affecting the specific instrument.

Evaluation of financial instruments

The Bank measures fair value using the following hierarchy of methods:

- Level 1: the level 1 incoming data are the quoted (unadjusted) prices of instruments at active markets for identical financial instruments;
- Level 2- the level 2 incoming data are the incoming data for an asset or a liability different from the quoted prices included at level 1 which are directly or indirectly accessible for observation. This category includes instruments, measured using: quoted prices of similar assets or liabilities at active markets; quoted prices of identical or similar assets or liabilities at markets which are not considered active; other valuation techniques where all the significant incoming data are directly or indirectly accessible for observation using market data;
- Level 3: the level 3 incoming data are non-observable incoming data for an asset or a liability. This category includes all the instruments whereupon the valuation technique does not include observable incoming data, and the non-observable incoming data have a significant impact on the instrument valuation. This category includes instruments valuated on the basis of quoted prices of similar instruments where significant non-observable adjustments or assumptions are required to reflect the differences among the instruments.

The fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices on stock or dealer markets. For all other financial instruments The Bank defines fair values using other valuation techniques.

Other valuation techniques include models based on present value and discounted cash flows compared to similar instruments for which observable market prices, option pricing models and other models exist. Assumptions and incoming data used in assessment techniques include risk-free and reference interest rates, credit spreads and other premiums used in determining discount rates, prices of debt and equity securities, exchange rates and prices of equity indices and expected fluctuations and correlation of prices.

The purpose of valuation techniques is to determine fair value, which reflects the price that would be received to sell an asset or to be paid to transfer a liability in an orderly transaction between market participants at the measurement date.

7. Use of estimates and assumptions, (continued)

Uncertainty in the assumptions and estimates, (continued)

Determining the fair value of financial instrument, (continued)

Financial instruments measured at fair value – hierarchy

The following table analyzes financial instruments measured at fair value through the fair value hierarchy.

In BGN thousand	**Level 1- Announced Market Prices in Active Markets**	**Level 2 - Evaluation techniques - using market data**	**Level 3 - Evaluation techniques - without market data**	**Total**
2019				
Financial assets measured at FVPL	-	4	-	4
Financial assets measured at FVOCI	208,423	-	1,289	209,712
Total:	**208,423**	**4**	**1,289**	**209,716**

In BGN thousand	**Level 1- Announced Market Prices in Active Markets**	**Level 2 - Evaluation techniques - using market data**	**Level 3 - Evaluation techniques - without market data**	**Total**
2018				
Financial assets measured at FVPL	4,568	5	-	4,573
Financial assets measured at FVOCI	223,350	3,507	1,390	228,247
Total:	**227,918**	**3,512**	**1,390**	**232,820**

7. Use of estimates and assumptions, (continued)

Uncertainty in the assumptions and estimates, (continued)

Determining the fair value of financial instrument, (continued)

Financial instruments measured at fair value – hierarchy, (continued)

(i) Transfers between Levels 1 and 2

The transfer of fair values at Level 1 to Level 2 for 2019 is due to sale of financial instruments from the related category.

(ii) Reconciliation of Level 3 fair value

The following table presents a reconciliation of the movement from the opening to the closing balance of the Level 3 fair values

In BGN thousand	**Equity securities available for sale**
Balance as at 1 January 2019	1,390
Profit included in other comprehensive income	
Net change in fair value (unrealized)	(101)
Balance as at 31 December 2019	**1,289**
Balance on 1 January 2018	**1,376**
Profit included in other comprehensive income	
Net change in fair value (unrealized)	14
Balance as at 31 December 2018	**1,390**

7. Use of estimates and assumptions, (continued)

Determining the fair value of financial instrument, (continued)

Financial instruments not measured at fair value - hierarchy

The table below analyzes the fair values of financial instruments not measured at fair value through a fair value hierarchy where the fair value is categorized. In the table is not included information about the fair values of financial assets and liabilities that are not measured at fair value if the carrying value is approximately equal the fair value.

31 DECEMBER 2019 *In BGN thousand*	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Total carrying amount**
Assets					
Cash and cash equivalents	-	760,076	-	760,076	760,076
Loans and advances to banks	-	19,541	-	19,541	19,541
Financial assets measured by amortized cost	494,573	-	-	494,573	494,573
Loans and advances to clients	-	-	1,367,509	1,367,509	1,367,509
Total assets	**494,573**	**779,617**	**1,367,509**	**2,641,699**	**2,641,699**
Liabilities					
Deposits from banks	-	-	31,601	31,601	31,601
Deposits from clients	-	-	2,587,467	2,587,467	2,587,467
Other borrowed funds	-	-	7,021	7,021	7,021
Total liabilities	-	-	**2,626,089**	**2,626,089**	**2,626,089**

7. Use of estimates and assumptions, (continued)

Determining the fair value of financial instrument, (continued)

Financial instruments not measured at fair value – hierarchy, (continued)

31 December 2017 *In BGN thousand*	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Total carrying amount**
Assets					
Cash and cash equivalents	-	693,224	-	693,224	693,224
Loans and advances to banks and other financial institutions	-	39,074	-	39,074	39,074
Financial assets held to maturity	462,632	-	-	462,632	462,632
Loans and advances to clients	-	-	1,303,548	1,303,548	1,303,548
Total assets	**462,632**	**732,298**	**1,303,548**	**2,498,478**	**2,498,478**
Liabilities	-	-			
Deposits from banks	-	-	45,322	45,322	45,322
Deposits from clients	-	-	2,462,600	2,462,600	2,462,600
Other borrowed funds	-	-	14,985	14,985	14,985
Total liabilities	-	-	**2,522,907**	**2,522,907**	**2,522,907**

The fair value of cash and cash equivalents, loans and advances to banks and other financial institutions, deposits from banks and other borrowed funds is approximately equal to their book value because they are short-term.

The fair value of loans granted to customers is based on observable market transactions. In cases where market information is not available, fair value measurement is based on valuation models, such as discounted cash flow techniques, applying interest rates to the reporting date for loans with similar terms and conditions, and accrued impairment.

The fair value of customer deposits is calculated using discounted cash flow techniques applying the interest rates currently available in the country for deposits with similar maturities and conditions.

7. Use of estimates and assumptions, (continued)

Critical accounting estimates and judgments for lease contracts

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The authenticity of accounting estimates and judgments is monitored regularly.

The Bank makes estimates and judgments for the purposes of the accounting and disclosure. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Extension and termination options and critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of offices, vehicles and equipment, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Bank is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Bank is typically reasonably certain to extend (or not terminate).
- When the above mentioned conditions are not met the Bank considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset. Most extension options in offices and vehicles leases have not been included in the lease liability, because the Bank could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Bank becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

As at 31 December 2019, potential future cash outflows of BGN 2,849 thousand (undiscounted) have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated).

During the current financial year, the financial effect of revising lease terms to reflect the effect of exercising extension and termination options was an increase in recognised lease liabilities and right-of-use assets of BGN 488 thousand.

8. Classification of financial assets and liabilities

In BGN thousand	**Reported at FVPL**	**Reported at AC**	**Loans and advances**	**Reported at FVOCI**	**Liabilities at amortized cost**	**Gross carrying amount**
31 December 2019						
Cash and cash equivalents	-	-	760,076	-	-	760,076
Financial assets reported at fair value through profit and loss.	4	-	-	-	-	4
Loans and advances to banks	-	-	19,541	-	-	19,541
Investment securities	-	494,573	-	209,712	-	704,285
Loans and advances to clients	-	-	1,367,509	-	-	1,367,509
Total financial assets	**4**	**494,573**	**2,147,126**	**209,712**	**-**	**2,851,415**
Deposits from banks	-	-	-	-	31,601	31,601
Deposits from clients	-	-	-	-	2,587,467	2,587,467
Other borrowed funds	-	-	-	-	7,021	7,021
Total financial liabilities	**-**	**-**	**-**	**-**	**2,626,089**	**2,626,089**

In BGN thousand	**Held for trading**	**Held to maturity**	**Loans and advances**	**Available for sale**	**Liabilities at amortized cost**	**Gross carrying amount**
31 December 2018						
Cash and cash equivalents	-	-	693,224	-	-	693,224
Financial assets reported at fair value through profit and loss.	4,573	-	-	-	-	4,573
Loans and advances to banks	-	-	39,074	-	-	39,074
Investment securities	-	462,632	-	228,247	-	690,879
Loans and advances to clients	-	-	1,303,548	-	-	1,303,548
Total financial assets	**4,573**	**462,632**	**2,035,846**	**228,247**	**-**	**2,731,298**
Deposits from banks	-	-	-	-	45,322	45,322
Deposits from clients	-	-	-	-	2,462,600	2,462,600
Other borrowed funds	-	-	-	-	14,985	14,985
Total financial liabilities	**-**	**-**	**-**	**-**	**2,522,907**	**2,522,907**

9. Net interest income

In BGN thousand	**2019**	**2018**
Net interest income		
Income from interest		
Interest income arising from:		
Loans and advances to banks	2,905	705
Loans and advances to clients	44,875	46,268
Bborrowed funds from clients	645	614
Investments	15,161	13,886
	63,586	**61,473**
Interest expenses		
Interest expense arising from:		
Deposits from banks	(454)	(277)
Deposits of clients and other borrowed funds	(2,283)	(1,654)
Other	(180)	-
	(2,917)	**(1,931)**
Net interest income	**60,669**	**59,542**

10. Net income from fees and commissions

In BGN thousand	**2019**	**2018**
Revenue from fees and commissions		
Revenue from fees and commissions, arising from:		
Cash transactions and cash transfers	12,243	12,405
Guarantees and letters of credit	636	574
Loans	3,923	4,080
Bank cards	6,292	5,717
Other	227	215
	23,321	**22,991**
Expenses for fees and deductions		
Expenses for fees and deductions, arising from:		
Servicing of current accounts	(43)	(36)
Bank card transactions	(2,769)	(2,697)
Transfers through RINGS	(179)	(204)
Other	(5,006)	(4,629)
	(7,997)	**(7,566)**
Net income from fees and commissions	**15,324**	**15,425**

11 Net income from trade operations

In BGN thousand	**2018**	**2017**
Net income from operations arising from:		
Financial assets reported at fair value through profit and loss	5	(541)
Financial assets at fair value through other comprehensive income	(1,846)	92
Currency trading	2,554	3,397
Net income from trade operations	**713**	**2,948**

12. Net income from investment operations

In BGN thousand	**2019**	**2018**
Income from operations arising from:		
Revenue from dividends	34	17
Income from investment operations	**34**	**17**

13. Administrative and other costs

In BGN thousand	**2019**	**2018**
Expenses for inventory	(453)	(540)
Expenditure on external services, incl. Audit	(6,901)	(6,848)
Management, marketing and other costs	(2,493)	(2,503)
Rental costs	(157)	(3,736)
Expenses for depreciation	(2,139)	(2,154)
Expenses for right of use depreciation	(3,234)	-
Staff expenses	(17,830)	(18,554)
Bank restructuring costs	(5,615)	(4,588)
Expenses for deposit guarantee	(3,737)	(3,562)
Other costs	(866)	(57)
Total administrative costs	**(43,425)**	**(42,542)**

The amounts accrued in 2019 for services provided by registered auditors for statutory independent financial audit are as follows: for PricewaterhouseCoopers Audit OOD – BGN144,000 excluding VAT and for HLB Bulgaria OOD - BGN 21,000 excluding VAT. In 2019 the Bank has not charged amounts for other non-statutory audit services provided by registered auditors or members of the relevant network

The amounts accrued in 2018 for services provided by registered auditors for statutory independent financial audit are as follows: for KPMG Audit Ltd. - BGN 5 thousand excluding VAT, for PricewaterhouseCoopers Audit OOD - BGN 120,000 excluding VAT and for HLB Bulgaria OOD - BGN 16,000 excluding VAT. In the indicated amounts are included BGN 5 thousand, excluding VAT, relating to the audit of the Bank's financial statements for the year ended 31 December 2017 carried out by KPMG Audit OOD (formerly KPMG Bulgaria OOD).

13. Administrative and other costs, (continued)

Personnel expenses amount to BGN 17.830 thousand. (2018: BGN 18,554 thousand) and includes salaries, social security contributions and health insurance under local law. At the end of 2019 Allianz Bank Bulgaria AD employs 640 employees on an employment contract (2018: 675 employees).

14. Other operating income

In BGN thousand	**2019**	**2018**
Tariff tax revenue, subject to VAT	1,547	1,415
Other income, net	3,831	1,375
Other operating income, net	**5,378**	**2,788**

15. Tax expenses

a) Taxes recognized in profit and loss

In BGN thousand	**2019**	**2018**
Current taxes	(3,681)	(3,405)
Deferred taxes	(38)	45
Total profits tax recognized in profit or loss	**(3,719)**	**(3,360)**

In BGN thousand		**2019**	
	Before taxes	Tax (expense)/ income	Net of taxes
Change in reserve from subsequent measurement of fair value of financial assets	958	(96)	862
Subsequent measurement of obligations under a defined benefit plan	(64)	6	(58)
	894	**(90)**	**804**

In BGN thousand		**2018**	
	Before taxes	Tax (expense)/ income	Net of taxes
Change in reserve from subsequent measurement of fair value of financial assets	(1,016)	120	(896)
Subsequent measurement of obligations under a defined benefit plan	(36)	4	(32)
	(1,052)	**124**	**(928)**

15. Income tax expenses, (continued)

***b)** Explanation of effective tax rate*

In BGN thousand	**2019**	**2018**
Profit before taxation	36,770	32,872
Nominal tax rate	10%	10.00%
Expected tax	3,677	3,287
Taxable permanent differences	45	75
Exempt revenue from dividends	3	(2)
	3,719	**3,360**
Effective tax rate	10.1%	10.2%

16. Cash and cash equivalents

In BGN thousand	**2019**	**2018**
Cash in hand	36,242	37,408
Balances with the Central Bank	539,757	510,046
Current accounts and deposits with banks with original maturity of up to 3 months	184,089	145,776
Impairment	(12)	(6)
Total cash and cash equivalents	**760,076**	**693,224**

Below are presented the funds under credit ratings. The rating agency Standard & Poor's has been used:

In BGN thousand	**2019**	**2018**
Cash in hand	36,242	37,408
The central bank BBB-	539,757	510,046
Current accounts and deposits with banks with original maturity of up to 3 months	**184,089**	**145,776**
AA	41	126
AA-	53,893	-
A+	47,439	13,952
A	20,118	51,884
A-	26,114	47,015
BBB+	16,856	5,923
BBB	39	26,873
Total	19,589	3

Balances with the Central Bank include a current account with the BNB and minimum required reserves. The current account with the BNB is used for payments on the money market and the government securities market (GS) as well as for the purposes of settlement. The minimum required reserves with the BNB are interest-free and regulated on a monthly basis. Daily fluctuations are allowed. The shortage of funds on a monthly basis is sanctioned with penalty interest.

17. Financial assets at fair value through profit and loss

In BGN thousand	**2019**	**2018**
Financial assets at FVPL		
Debt government securities	-	4,568
Corporate bonds	3	4
Other	1	1
Total financial assets at FVPL/ held for trading	**4**	**4,573**

Financial assets, at fair value through profit and loss as of 31.12.2018 include debt government securities, held by the Bank till their maturity date in 2019.

18. Loans and advances to banks and other financial institutions

In BGN thousand	**2019**	**2018**
Loans and advances to local banks	-	19,534
Loans and advances to foreign banks	19,541	19,540
Total loans and advances to bank	**19,541**	**39,074**

19. Investment securities

19.1. Financial assets reported at fair value in other comprehensive income

In BGN thousand	**2019**	**2018**
Government securities issued or guaranteed by Bulgaria	52,099	65,265
Government securities issued or guaranteed by Spain	36,006	35,704
Government securities issued or guaranteed by Portugal	4,242	4,382
Government securities issued or guaranteed by Romania	37,900	37,376
Government securities issued or guaranteed by Hungary	2,690	2,699
Government securities issued or guaranteed by Croatia	5,458	5,516
Corporate bonds	64,759	72,303
Equity securities	6,558	5,002
Financial assets at FVOCI	**209,712**	**228,247**

19.2. Financial assets reported at amortized cost

In BGN thousand	**2019**	**2018**
Government securities issued or guaranteed by Bulgaria	357,870	342,078
Government securities issued or guaranteed by Spain	17,983	18,256
Government securities issued or guaranteed by Macedonia	8,868	9,084
Government securities issued or guaranteed by Poland	9,609	9,682
Government securities issued or guaranteed by Romania	30,542	31,706
Government securities issued or guaranteed by Croatia	15,039	15,412
Government securities issued or guaranteed by Czech republic	17,881	18,526
Corporate bonds	36,781	17,888
Total financial assets at amortized cost / held to maturity	**494,573**	**462,632**
Total investment securities	**704,285**	**690,879**

20. Loans and advances to clients

In BGN thousand	**2019**	**2018**
Loans and advances to clients at amortized cost	1,142,517	1,155,601
Factoring receivables	38,293	27,366
Claims from a cash pool	185,406	175,911
Receivables under a finance lease	65,819	48,717
Minus losses from impairment	(64,526)	(104,047)
Total loans and advances to clients	**1,367,509**	**1,303,548**

(a) Credit product analysis

	2019	**2018**
Individuals		
Mortgage loans	453,510	412,145
Consumer loans	204,181	189,594
Credit cards	10,673	14,074
Other loans	67,219	50,965
	735,583	**666,778**
Entities		
Working capital loans	483,305	507,264
Investment loans	212,679	232,179
Credit cards	468	1,374
	696,452	**740,817**
Total loans and advances to clients at amortized cost	**1,432,035**	**1,407,595**
Impairment losses	(64,526)	(104,047)
Total loans and advances to clients, net of impairment	**1,367,509**	**1,303,548**

Individuals	**Phase 1**	**Phase 2**	**Phase 3**	**Total**
Other loans	51,751	14,808	660	67,219
Mortgage loans	392,720	24,698	36,092	453,510
Credit cards	8,059	1,989	625	10,673
Consumer loans	181,734	12,452	9,995	204,181
Total	**634,264**	**53,947**	**47,372**	**735,583**
Entities				
Investment loans	196,287	9,642	6,750	212,679
Working capital loans	458,493	9,906	14,906	483,305
Credit cards	267	29	172	468
Total	**655,047**	**19,577**	**21,828**	**696,452**
Total loans and advances to clients at amortized cost	**1,289,311**	**73,524**	**69,200**	**1,432,035**
Impairment losses	**(11,742)**	**(4,617)**	**(48,167)**	**(64,526)**
Total loans and advances to clients, net of impairment	**1,277,569**	**68,907**	**21,033**	**1,367,509**

20. Loans and advances to clients, (continued)

(a) Credit product analysis, (continued)

Individuals

	Phase 1	Phase 2	Phase 3	Total
Other loans	38,371	11,502	1,092	50,965
Mortgage loans	331,356	22,921	57,868	412,145
Credit cards	8,273	2,534	3,267	14,074
Consumer loans	166,128	10,628	12,838	189,594
Total	**544,128**	**47,585**	**75,065**	**666,778**

Entities

	Phase 1	Phase 2	Phase 3	Total
Investment loans	204,502	11,203	16,474	232,179
Working capital loans	471,853	10,119	25,292	507,264
Credit cards	340	51	983	1,374
Total	**676,695**	**21,373**	**42,749**	**740,817**

	Phase 1	Phase 2	Phase 3	Total
Total loans and advances to clients at amortized cost	**1,220,823**	**68,958**	**117,814**	**1,407,595**
Impairment losses	(11,296)	(4,702)	(88,049)	(104,047)
Total loans and advances to clients, net of impairment	**1,209,527**	**64,256**	**29,765**	**1,303,548**

(b) Receivables under a finance lease

A detailed description of the finance lease receivables is presented in the table below.

In BGN thousand	2019	2018
Gross investment in finance leases, receivables:		
Less than one year	7,219	6,128
Between one and five years	54,978	41,206
More than five years	2,250	221
	64,447	**47,555**
Unearned financial revenue	1,372	1,162
Net investment in finance lease	**65,819**	**48,717**
Minus losses from impairment	(1,010)	(588)
	64,809	**48,129**
Net investment in finance leases, receivables:		
Less than one year	6,989	5,967
Between one and five years	55,503	41,934
More than five years	2,317	228
	64,809	**48,129**

20. Loans and advances to clients, (continued)

(c) Impairment losses on loans and advances to clients

Individual provisions for impairment losses

In BGN thousand	**2019**	**2018**
Status as at 01 January	88,049	113,654
Accrued costs of impairment	17,863	24,448
Reintegrated	(16,526)	(18,535)
Written off	(41,219)	(31,518)
Status as at 31 December	**48,167**	**88,049**

Collective provisions for impairment losses

In BGN thousand	**2019**	**2018**
Status as at 01 January	15,998	16,182
Accrued costs of impairment	6,012	6,227
Reintegrated	(5,651)	(6,411)
Written off	-	-
Status as at 31 December	**16,359**	**15,998**
Total	**64,526**	**104,047**

Impairment expense

In BGN thousand	**2019**	**2018**
Loans and advances	(1,698)	(5,729)
Securities	51	(89)
Off-balance and loan commitments	93	576
Receivables and cash equivalent	(369)	(64)
Total	**(1,923)**	**(5,306)**

20. Loans and advances to clients, (continued)

(c) Impairment losses on loans and advances to clients, (continued)

Loans and advances to customers during the year before impairment 2019

	Initial Balance 01/01/2019	Changes due to migration from Phase 1 to Phase 2	Changes due to migration from Phase 1 and Phase 2 to Phase 3	Changes due to migration from Phase 2 and Phase 3 to Phase 1	Increases due to occurrence and acquisition	Changes due to updating the institution's valuation methodology	Decrease of the correction due to derecognition	Changes due to repayments	Balance at the end of the period
Phase 1									
Cash pool and factoring	203,277	-	-	-	20,422	-	-	-	223,699
Loans and advances	**1,017,545**	**(27,810)**	**(5,466)**	**21**	**371,652**	**-**	**-**	**(290,330)**	**1,065,612**
Retail	**517,558**	**(13,121)**	**(4,453)**	**21**	**233,788**	**-**	**-**	**(133,099)**	**600,694**
Other loans	1,448	(100)	-	-	596	-	-	(690)	1,254
Mortgage loans	331,356	(7,614)	(2,719)	-	135,801	-	-	(64,104)	392,720
Credit cards	8,273	(206)	(66)	17	2,835	-	-	(2,793)	8,060
Consumer loans	166,128	(4,605)	(1,668)	4	82,881	-	-	(61,006)	181,734
Finance lease	10,353	(596)	-	-	11,675	-	-	(4,506)	16,926
Phase 1 Corporate	**499,987**	**(14,689)**	**(1,013)**	**-**	**137,864**	**-**	**-**	**(157,231)**	**464,918**
Investment loans	26,570	(5,876)	(113)	-	22,616	-	-	(9,627)	33,570
Credit cards	204,502	(2,488)	(207)	-	59,941	-	-	(65,461)	196,287
Working capital loans	340	(2)	(91)	-	131	-	-	(111)	267
Finance lease	268,575	(6,323)	(602)	-	55,176	-	-	(82,032)	234,794
Phase 2									
Loans and advances	**68,957**	**27,810**	**(5,025)**	**(21)**	**12,998**	**-**	**-**	**(31,195)**	**73,524**
Retail	**39,992**	**13,121**	**(3,777)**	**(21)**	**6,200**	**-**	**-**	**(13,082)**	**42,433**
Other loans	25	100	-	-	-	-	-	(48)	77
Mortgage loans	22,921	7,614	(1,962)	-	2,031	-	-	(5,906)	24,698
Credit cards	2,534	206	(168)	(17)	393	-	-	(960)	1,988
Consumer loans	10,628	4,605	(1,619)	(4)	3,145	-	-	(4,303)	12,452
Finance lease	3,884	596	(28)	-	631	-	-	(1,865)	3,218

20. Loans and advances to clients, (continued)

(c) Impairment losses on loans and advances to clients, (continued)

Loans and advances to customers during the year before impairment 2019, (continued)

Phase 2									
Corporate	**28,965**	**14,689**	**(1,248)**	**-**	**6,798**	**-**	**-**	**(18,113)**	**31,091**
Investment loans	11,203	2,488	(847)	-	1,438	-	-	(4,641)	9,641
Credit cards	51	2	(13)	-	9	-	-	(19)	30
Working capital loans	10,119	6,323	(235)	-	1,892	-	-	(8,192)	9,907
Finance lease	7,592	5,876	(153)	-	3,459	-	-	(5,261)	11,513
Phase 3									
Loans and advances	**117,868**	**-**	**10,491**	**-**	**6,417**	**-**	**(41,271)**	**(24,305)**	**69,200**
Retail	**74,792**	**-**	**8,230**	**-**	**3,813**	**-**	**(26,099)**	**(13,932)**	**46,804**
Other loans	775	-	-	-	55	-	(727)	(32)	71
Mortgage loans	57,868	-	4,681	-	2,186	-	(17,743)	(10,899)	36,093
Credit cards	3,267	-	234	-	172	-	(2,780)	(269)	624
Consumer loans	12,873	-	3,287	-	1,398	-	(4,849)	(2,714)	9,995
Finance lease	9	-	28	-	2	-	-	(18)	21
Phase 3									
Corporate	**43,076**	**-**	**2,261**	**-**	**2,604**	**-**	**(15,172)**	**(10,373)**	**22,396**
Investment loans	16,474	-	1,054	-	28	-	(4,218)	(6,587)	6,751
Credit cards	983	-	104	-	28	-	(898)	(46)	171
Working capital loans	25,309	-	837	-	2,241	-	(10,047)	(3,434)	14,906
Finance lease	310	-	266	-	307	-	(9)	(306)	568
Total	**1,407,647**	**-**	**-**	**-**	**411,489**	**-**	**(41,271)**	**(345,830)**	**1,432,035**

20. Loans and advances to clients, (continued)

(c) Impairment losses on loans and advances to clients, (continued)

Loans and advances to customers during the year before impairment 2018

	Initial Balance 01/01/2018	Changes due to migration from Phase 1 to Phase 2	Changes due to migration from Phase 1 and Phase 2 to Phase 3	Changes due to migration from Phase 2 and Phase 3 to Phase 1	Increases due to occurrence and acquisition	Changes due to updating the institution's valuation methodology	Decrease of the correction due to derecognition	Changes due to repayments	Balance at the end of the period
Phase 1									
Cash pool and factoring	33,143	-	-	-	170,134	-	-	-	203,277
Loans and advances	**959,925**	**(17,456)**	**(8,041)**	**22**	**363,936**	**-**	**-**	**(280,839)**	**1,017,546**
Retail	**464,443**	**(10,708)**	**(2,670)**	**22**	**191,335**	**-**	**-**	**(124,864)**	**517,558**
Other loans	1,724	(1)	-	-	582	-	-	(857)	1,448
Mortgage loans	295,030	(5,167)	(1,410)	-	102,230	-	-	(59,327)	331,356
Credit cards	8,353	(372)	(35)	18	2,991	-	-	(2,683)	8,273
Consumer loans	147,994	(4,252)	(1,226)	3	82,352	-	-	(58,744)	166,128
Finance lease	11,341	(915)	-	-	3,179	-	-	(3,253)	10,353
Corporate	**495,482**	**(6,748)**	**(5,371)**	**-**	**172,600**	**-**	**-**	**(155,975)**	**499,988**
Investment loans	201,332	(3,027)	(4,708)	-	65,947	-	-	(55,042)	204,502
Credit cards	435	(22)	(11)	-	102	-	-	(164)	340
Working capital loans	271,356	(1,417)	(481)	-	92,183	-	-	(93,065)	268,576
Finance lease	22,360	(2,282)	(172)	-	14,368	-	-	(7,704)	26,570
Phase 2									
Loans and advances	**71,830**	**17,456**	**(4,334)**	**(22)**	**8,592**	**-**	**-**	**(24,566)**	**68,958**
Retail	**41,156**	**10,708**	**(3,504)**	**(22)**	**5,241**	**-**	**-**	**(13,586)**	**39,993**
Other loans	98	1	-	-	-	-	-	(75)	25
Mortgage loans	25,390	5,167	(2,401)	-	1,709	-	-	(6,944)	22,921
Credit cards	2,579	372	(99)	(18)	590	-	-	(890)	2,534
Consumer loans	9,228	4,252	(988)	(3)	2,251	-	-	(4,111)	10,628
Finance lease	3,861	915	(17)	-	691	-	-	(1,566)	3,884

20. Loans and advances to clients, (continued)

(c) Impairment losses on loans and advances to clients, (continued)

Loans and advances to customers during the year before impairment 2018, (continued)

Phase 2									
Corporate	**30,674**	**6,748**	**(829)**	**-**	**3,351**	**-**	**-**	**(10,979)**	**28,965**
Investment loans	9,855	3,027	(192)	-	795	-	-	(2,282)	11,203
Credit cards	43	22	-	-	7	-	-	(22)	51
Working capital loans	13,055	1,417	(512)	-	930	-	-	(4,771)	10,119
Finance lease	7,721	2,282	(125)	-	1,619	-	-	(3,905)	7,592
Phase 3									
Loans and advances	**160,178**	**-**	**12,375**	**-**	**3,184**	**-**	**(31,508)**	**(26,413)**	**117,814**
Retail	**99,205**	**-**	**6,175**	**-**	**2,479**	**-**	**(18,711)**	**(14,392)**	**74,756**
Other loans	1,323	-	0	-	9	-	(482)	(76)	775
Mortgage loans	81,045	-	3,811	-	1,170	-	(16,708)	(11,450)	57,868
Credit cards	4,071	-	133	-	122	-	(792)	(266)	3,267
Consumer loans	12,743	-	2,214	-	1,178	-	(728)	(2,570)	12,838
Finance lease	22	-	17	-	0	-	0	(29)	9
Phase 3									
Corporate	**60,973**	**-**	**6,200**	**-**	**705**	**-**	**(12,797)**	**(12,022)**	**43,058**
Investment loans	28,216	-	4,900	-	53	-	(9,174)	(7,521)	16,474
Credit cards	1,257	-	11	-	17	-	(243)	(59)	983
Working capital loans	31,260	-	993	-	581	-	(3,380)	(4,161)	25,292
Finance lease	239	-	297	-	54	-	0	(281)	308
Total	**1,225,076**	**-**	**-**	**-**	**545,844**	**-**	**(31,508)**	**(331,818)**	**1,407,595**

20. Loans and advances to clients, (continued)

(c) Impairment losses on loans and advances to clients, (continued)

Impairment movement of Loans and advances to clients in 2019

	Initial Balance 01/01/2019	Changes due to migration from Phase 1 to Phase 2	Changes due to migration from Phase 1 and Phase 2 to Phase 3	Changes due to migration from Phase 2 and Phase 3 to Phase 1	Increases due to occurrence and acquisition	Changes due to updating the institution's valuation methodology	Decrease of the correction due to derecognition	Changes due to repayments	Balance at the end of the period
Phase 1									
Cash pool and factoring	**35**	**-**	**-**	**-**	**10**	**-**	**-**	**-**	**45**
Loans and advances	**11,261**	**(267)**	**(83)**	**2**	**4,781**	**-**	**-**	**(3,997)**	**11,697**
Retail	**4,228**	**(116)**	**(59)**	**2**	**2,367**	**-**	**-**	**(1,218)**	**5,204**
Other loans	5	-	-	-	4	-	-	(2)	7
Mortgage loans	2,256	(58)	(31)	-	1,071	-	-	(595)	2,643
Credit cards	47	(5)	-	2	46	-	-	(19)	71
Consumer loans	1,906	(52)	(28)	-	1,192	-	-	(594)	2,424
Finance lease	14	(1)	-	-	54	-	-	(8)	59
Corporate	**7,033**	**(151)**	**(24)**	**-**	**2,414**	**-**	**-**	**(2,779)**	**6,493**
Investment loans	2,679	(26)	(1)	-	1,117	-	-	(1,135)	2,634
Credit cards	14	-	(1)	-	12	-	-	(8)	17
Working capital loans	4,227	(111)	(22)	-	1,154	-	-	(1,562)	3,686
Finance lease	113	(14)	-	-	131	-	-	(74)	156
Phase 2									
Кредити и аванси	4,702	267	(535)	(2)	1,885	-	-	(1,700)	4,617
Retail	3,692	116	(482)	(2)	1,400	-	-	(1,248)	3,476
Other loans	1	-	-	-	-	-	-	-	1
Mortgage loans	2,578	58	(282)	-	861	-	-	(846)	2,369
Credit cards	163	5	(18)	(2)	56	-	-	(106)	98
Consumer loans	915	52	(182)	-	462	-	-	(275)	972
Finance lease	35	1	-	-	21	-	-	(21)	36

20. Loans and advances to clients, (continued)

(c) Impairment losses on loans and advances to clients, (continued)

Impairment movement of Loans and advances to clients in 2019, (continued)

	Initial Balance 01/01/2019	Changes due to migration from Phase 1 to Phase 2	Changes due to migration from Phase 1 and Phase 2 to Phase 3	Changes due to migration from Phase 2 and Phase 3 to Phase 1	Increases due to occurrence and acquisition	Changes due to updating the institution's valuation methodology	Decrease of the correction due to derecognition	Changes due to repayments	Balance at the end of the period
Phase 2									
Corporate	**1,010**	**151**	**(53)**	**-**	**485**	**-**	**-**	**(452)**	**1,141**
Investment loans	634	26	(44)	-	171	-	-	(240)	547
Credit cards	5	-	(1)	-	1	-	-	(1)	4
Working capital loans	263	111	(5)	-	194	-	-	(139)	424
Finance lease	108	14	(3)	-	119	-	-	(72)	166
Phase 3									
Кредити и аванси	**88,049**	**-**	**618**	**-**	**17,202**	**-**	**(41,220)**	**(16,482)**	**48,167**
Retail	**52,619**	**-**	**541**	**-**	**13,096**	**-**	**(26,065)**	**(9,431)**	**30,760**
Other loans	775	-	-	-	54	-	(727)	(33)	69
Mortgage loans	36,226	-	313	-	9,025	-	(17,744)	(7,047)	20,773
Credit cards	3,246	-	18	-	340	-	(2,780)	(217)	607
Consumer loans	12,363	-	210	-	3,656	-	(4,814)	(2,125)	9,290
Finance lease	9	-	-	-	21	-	-	(9)	21
Corporate	**35,430**	**-**	**77**	**-**	**4,106**	**-**	**(15,155)**	**(7,051)**	**17,407**
Investment loans	9,538	-	45	-	1,445	-	(4,218)	(3,712)	3,098
Credit cards	983	-	2	-	82	-	(898)	(41)	128
Working capital loans	24,600	-	26	-	2,130	-	(10,030)	(3,116)	13,610
Finance lease	309	-	4	-	449	-	(9)	(182)	571
Total	**104,047**	**-**	**-**	**-**	**23,878**	**-**	**(41,220)**	**(22,179)**	**64,526**

20. Loans and advances to clients, (continued)

(c) Impairment losses on loans and advances to clients, (continued)

Impairment movement of Loans and advances to clients in 2018

	Initial Balance 01/01/2019	Changes due to migration from Phase 1 to Phase 2	Changes due to migration from Phase 1 and Phase 2 to Phase 3	Changes due to migration from Phase 2 and Phase 3 to Phase 1	Increases due to occurrence and acquisition	Changes due to updating the institution's valuation methodology	Decrease of the correction due to derecognition	Changes due to repayments	Balance at the end of the period
Phase 1									
Cash pool and factoring	**10,904**	**(162)**	**(237)**	**-**	**4,436**	**-**	**-**	**(3,646)**	**11,296**
Loans and advances	**3,193**	**(98)**	**(30)**	**-**	**2,119**	**-**	**-**	**(956)**	**4,228**
Retail	5	-	-	-	3	-	-	(3)	**5**
Other loans	1,854	(42)	(15)	-	883	-	-	(425)	**2,256**
Mortgage loans	37	(3)	(0)	-	23	-	-	(10)	**48**
Credit cards	1,288	(53)	(15)	-	1,201	-	-	(516)	**1,906**
Consumer loans	9	(1)	-	-	9	-	-	(3)	**14**
Finance lease	**7,711**	**(64)**	**(207)**	**-**	**2,317**	**-**	**-**	**(2,690)**	**7,068**
Corporate	3,238	(29)	(198)	-	702	-	-	(1,034)	**2,679**
Investment loans	7	-	-	-	10	-	-	(3)	**14**
Credit cards	4,396	(27)	(8)	-	1,522	-	-	(1,621)	**4,262**
Working capital loans	70	(8)	-	-	83	-	-	(32)	**113**
Finance lease	**10,904**	**(162)**	**(237)**	**-**	**4,436**	**-**	**-**	**(3,646)**	**11,296**
Phase 2									
Кредити и аванси	**5,277**	**162**	**(544)**	-	**1,629**	-	-	**(1,822)**	**4,702**
Retail	**4,090**	**98**	**(489)**	-	**1,266**	-	-	**(1,273)**	**3,692**
Other loans	1	-	-	-	-	-	-	(1)	**1**
Mortgage loans	3,216	42	(379)	-	625	-	-	(926)	**2,578**
Credit cards	29	3	(2)	-	142	-	-	(10)	**163**
Consumer loans	814	53	(108)	-	480	-	-	(324)	**916**
Finance lease	30	1	-	-	18	-	-	(14)	**35**

20. Loans and advances to clients, (continued)

(c) Impairment losses on loans and advances to clients, (continued)

Impairment movement of Loans and advances to clients in 2018, (continued)

	Initial Balance 01/01/2018	Changes due to migration from Phase 1 to Phase 2	Changes due to migration from Phase 1 and Phase 2 to Phase 3	Changes due to migration from Phase 2 and Phase 3 to Phase 1	Increases due to occurrence and acquisition	Changes due to updating the institution's valuation methodology	Decrease of the correction due to derecognition	Changes due to repayments	Balance at the end of the period
Phase 2									
Corporate	**1,188**	**64**	**(55)**	**-**	**363**	**-**	**-**	**(549)**	**1,010**
Investment loans	591	29	(9)	-	195	-	-	(173)	**634**
Credit cards	3	-	-	-	2	-	-	(1)	**5**
Working capital loans	508	27	(45)	-	102	-	-	(329)	**263**
Finance lease	85	8	(2)	-	64	-	-	(46)	**108**
Phase 3									
Кредити и аванси	**113,648**	-	**781**	-	**18,810**	-	**(31,508)**	**(13,683)**	**88,049**
Retail	**66,862**	**-**	**519**	**-**	**12,232**	**-**	**(18,711)**	**(8,284)**	**52,619**
Other loans	1,324	-	-	-	9	-	(482)	(76)	**775**
Mortgage loans	49,108	-	394	-	9,289	-	(16,708)	(5,858)	**36,226**
Credit cards	4,037	-	2	-	219	-	(792)	(221)	**3,246**
Consumer loans	12,371	-	122	-	2,705	-	(728)	(2,107)	**12,363**
Finance lease	22	-	-	-	9	-	-	(22)	**9**
Corporate	46,786	-	262	-	**6,578**	-	**(12,797)**	(5,399)	**35,430**
Investment loans	19,806	-	207	-	1,758	-	(9,174)	(3,058)	**9,538**
Credit cards	1,257	-	-	-	24	-	(243)	(55)	**983**
Working capital loans	25,506	-	52	-	4,599	-	(3,380)	(2,177)	**24,600**
Finance lease	218	-	2	-	197	-	-	(108)	**308**
Total	**129,836**	-	-	-	**24,875**	-	**(31,508)**	**(19,151)**	**104,047**

21. Property, plant and equipment

In BGN thousand	**Lands and buildings**	**Plant and equipment**	**Fixtures and fittings**	**Motor vehicles**	**Expenditure on acquisition of tangible fixed assets**	**Total**
Carrying amount						
As at 1 January 2018	7,968	14,241	7,474	931	461	31,075
Additions	-	621	80	-	600	1,301
Discontinued	(381)	(622)	(482)	(107)	(656)	(2,248)
As at 31 December 2018	**7,587**	**14,240**	**7,072**	**824**	**405**	**30,128**
As at 1 January 2019	7,968	14,240	7,072	824	405	30,128
Additions	-	869	291	-	1,324	2,484
Discontinued	-	(678)	(521)	(84)	(1,401)	(2,684)
As at 31 December 2019	**7,587**	**14,431**	**6,842**	**740**	**328**	**29,928**
Depreciation						
As at 1 January 2018	(3,600)	(12,413)	(6,538)	(924)	-	(23,475)
Depreciation costs for the year	(244)	(845)	(251)	(7)	-	(1,347)
Depreciation of out of use	134	608	457	107	-	1,306
As at 31 December 2018	**(3,710)**	**(12,650)**	**(6,332)**	**(824)**	**-**	**(23,516)**
As at 1 January 2019	(3,710)	(12,650)	(6,332)	(824)	-	(23,516)
Depreciation costs for the year	(245)	(751)	(199)	-	-	(1,195)
Depreciation of out of use	-	594	504	84	-	1,182
As at 31 December 2019	**(3,955)**	**(12,807)**	**(6,027)**	**(740)**	**-**	**(23.529)**
Carrying amount	**1**					
31 December 2018	**3,877**	**1,590**	**740**	**-**	**405**	**6,612**
31 DECEMBER 2019	**3,632**	**1,624**	**815**	**-**	**328**	**6,399**

22. Right of use assets

Right-of-use assets (by class of assets)

In BGN thousand	**31 December 2019**	**1 January 2019**
Buildings	7,444	11,294
Vehicles	331	401
IT equipment	114	147
At the end of the period	**7,889**	**11,842**

22. Right of use assets, (continued)

Right-of-use assets (by class of assets), (continued)

In BGN thousand	Buildings	Vehicles	IT equipment	**Total**
Cost:				
As at 1 January 2019	11,294	401	147	11,842
Additions – new lease contracts	502	78	48	628
Termibation of lease contracts	(1,311)	(36)	-	(1,347)
As at 31 December 2019	**10,485**	**443**	**195**	**11,123**
Depreciation:				
As at 1 January 2019	-	-	-	-
Depreciation for the year	(3,041)	(112)	(81)	(3,234)
As at 31 December 2019	(3,041)	(112)	(81)	(3,234)
Net Book Value as at 1 January 2019	**11,294**	**401**	**147**	**11,842**
Net Book Value as at 31 December 2019	**7,444**	**331**	**114**	**7,889**

The following amounts are recognised in profit or loss:

Depreciation of Right of use assets (by class of assets)

In BGN thousand	**IFRS 16 2019**	**IAS 17 2018**
Buildings	3,041	-
Vehicles	112	-
IT equipment	81	-
Total depreciation charge	**3,234**	-
Interest expense on lease liabilities (included in finance cost)	180	-
Expense relating to short-term leases (included in administrative expenses)	157	-
Loss on termination of lease contract	(6)	
Operating lease expense (IAS17) (included in administrative and distribution expenses)	-	3,736
Total expenses related to leases	**331**	**3,736**

The following amounts are recognised in the cash flow statement:

In BGN thousand	**IFRS16 2019**	**IAS 17 2018**
Cash outflow for IFRS 16 leases – financing activity		
Principal	3,620	-
Interest	180	-
Termination penalty	-	-
	3,800	-
Cash outflow for leases – operating activity	172	3,736
Total cash outflows	**3,972**	**3,736**

23. Intangible assets

In BGN thousand

	Intangible assets	Expenditure on acquisition of intangible assets	Total
Carrying amount			
As at 1 January 2018	**17,043**	**1,587**	**18,630**
Additions	2,916	2,023	4,939
Discontinued	(1,333)	(2,845)	(4,178)
Transfer	-	-	-
As at 31 December 2018	**18,626**	**765**	**19,391**
As at 1 January 2019	**18,626**	**765**	**19,391**
Additions	1,225	1,747	2,972
Discontinued	(1,888)	(986)	(2,874)
Transfer	-	-	-
As at 31 December 2019	**17,963**	**1,526**	**19,489**
Depreciation			
As at 31.12.2018	**(13,555)**	**-**	**(13,555)**
Depreciation costs for the year	(807)	-	(807)
Depreciation of scrap during the year	1,179	-	1,179
As at 31 December 2018	**(13,183)**	**-**	**(13,183)**
		-	
As at 1 January 2019	**(13,183)**	**-**	**(13,183)**
Depreciation costs for the year	(944)		(944)
Depreciation of scrap during the year	1,279		1,279
As at 31 December 2019	**(12,848)**	**-**	**(12,848)**
Carrying amount			
31 December 2018	**5,443**	**765**	**6,208**
31 DECEMBER 2019	**5,115**	**1,526**	**6,641**

24. Other financial assets

In BGN thousand	**2019**	**2018**
Transfers for execution	5,511	3,916
Total other assets	**5,511**	**3,916**

25. Other assets

In BGN thousand	**2019**	**2018**
Expenses for future periods	3,794	3,612
Materials in stock	510	716
Receivables from customers	519	1,223
Reeivables for fees and commissions	417	829
Other assets	1,277	553
Total other assets	**6,517**	**6,933**

26. Deposits from clients

In BGN thousand	**2019**	**2018**
Individuals		
Current accounts	745,053	688,086
Deposits	694,672	681,443
Total	**1,439,725**	**1,369,529**
Private enterprises		
Current accounts	997,940	905,925
Deposits	130,952	158,688
Total	**1,128,892**	**1,064,613**
State-owned enterprises		
Current accounts	18,643	24,286
Deposits	207	4,172
Total	**18,850**	**28,458**
Total client deposits	**2,587,467**	**2,462,600**

27. Other borrowed funds

In BGN thousand	**2019**	**2018**
Payable to the European Investment Fund under the JEREMIE Initiative	7,021	14,985
Payable to the European Investment Bank on a credit line received	31,466	34,986
Received from credit institutions	135	10,336
Total other borrowed funds	**38,622**	**60,307**

27. Other borrowed funds, (continued)

As at 31 December 2019, the borrowed funds payable to banks on received credit lines included funds for lending to small and medium-sized enterprises received by the European Investment Bank at the amount of BGN 31,466 thousand (2018 - 34,986 thousand).

The Bank has concluded a contract with the European Investment Fund (JEREMIE), which is part of the Operational Program "Development of the Competitiveness of the Bulgarian Economy 2007-2013", providing a resource for the support of small and medium-sized enterprises, with the provided resources amounting to BGN 7,021 thousand (2018 - 14,985 thousand).

28. Пасиви по договори за лизинг

В хиляди лева	**31 декември 2019 г.**	**1 януари 2019 г.**
Краткосрочни пасиви по лизинга	2,449	3,661
Дългосрочни пасиви по лизинга	5,427	8,181
Общо пасиви по лизинга	**7,876**	**11,842**

	31 декември 2019 г.	
В хиляди лева	**Минимални лизингови плащания**	**Настояща стойност на лизинговите плащания**
До 1 година	2,588	2,449
Между 1 и 5 години	5,019	4,819
Над 5 години	621	608
Общо минимални лизингови вноски	**8,228**	**7,876**
Намалени със сумите, представляващи финансови разходи	(352)	
Настояща стойност на минималните лизингови вноски	**7,876**	

Таблицата по-долу представя движението на пасивите по лизинг за конкретния период:

(*В хиляди лева*)	**Пасиви по лизинги**
Баланс към 01 януари 2019 г.	**(11,842)**
Плащания на главници по договори за лизинг	3,620
Начислена и платена лихва по договори за лизинг	180
Общо изходящи парични потоци от договори за лизинг	**3,800**
Нови лизингови договори	(627)
Прекратени лизингови договори	793
Баланс към 31 декември 2019 г.	**(7,876)**

29. Deferred taxes

Deferred income taxes are calculated on all temporary differences using the balance sheet liability method by applying a 2019 tax rate of 10% (2018: 10%).

The deferred income tax expense is attributable to the following balance sheet items:

In BGN thousand	**Assets**		**Liabilities**		**Net (assets)/ liabilities**	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Property, plant and equipment	-	-	357	272	357	272
Other liabilities	(220)	(173)	-	-	(220)	(173
Net tax (assets)/ liabilities	**(220)**	**(173)**	**357**	**272**	**137**	**99**

The movement of temporary tax differences during the year arises from:

In BGN thousand	**Balance 2018**	**In profit and loss**	**Balance 2019**
Property, plant and equipment	272	85	357
Other liabilities	(173)	(47)	(220)
Net deferred tax (assets)/ liabilities	**99**	**38**	**137**

In BGN thousand	**Balance 2017**	**In profit and loss**	**Balance 2018**
Property, plant and equipment	286	(14)	272
Other liabilities	(142)	(31)	(173)
Net deferred tax (assets)/ liabilities	**144**	**(45)**	**99**

30. Other financial liabilities

In BGN thousand	**2019**	**2018**
Transfers for execution	7,583	3,996
Total other assets	**7,583**	**3,996**

31. Other liabilities

In BGN thousand	**2019**	**2018**
Payables to personnel	1,179	1,065
Payables under defined benefit plans	400	367
Tax and social security obligations	397	386
Payables to suppliers	804	752
Other payables	958	566
Total other liabilities	**3,738**	**3,136**

32. Payables under defined benefit pension plans

The Bank has the obligation to pay to those of its resigning employees who retire in compliance with the requirements of Article 222, § 3 of the Labor Code (LC) in Bulgaria. By virtue of these provisions of the LC, upon termination of the labor contracts with employees who have acquired the right to retire, their employer pays a compensation at the amount of two gross salaries. Provided the employee has completed 10 and more years of service at retirement, the compensation is at the amount of 6 gross salaries.

The approximate amount of payables for defined benefit plans ar retirement as of every accounting period and the expenses recognized in profit and losses are based on actuarial reports (the information about the parameters and assumptions used is disclosed below).

The defined benefit plan (liability for retirement income) is unfunded.

Movements in the present value of payments under defined benefit plans

In BGN thousand	**2019**	**2018**
The present value of payables at 1 January	**367**	**376**
Expenses for hired services	57	31
Interest expenses	2	3
Amounts paid during the period	(90)	(66)
Actuarial (gains) / losses from changes in demographic and financial assumptions	64	36
The present value of the payable at 31 December	**400**	**363**

Actuarial assumptions

The main actuarial assumptions at the reporting date (presented as averages) are presented as follows:

	2019.	**2018**
Discount percentage at 31 December	0.4506%	0.905%
Gross wage growth	3.0%	3.0%

33. Capital and reserves

(a) Fixed capital

As at 31 December 2019, Allianz Bank Bulgaria's registered capital amounted to BGN 69,000 thousand. (2018 - BGN 69,000 thousand), which includes registered capital amounting to BGN 69,000 thousand. The registered capital of the Bank is fully paid and consists of 69,000,000 registered shares with voting rights, each with a nominal value of 1 BGN.

The share capital structure as at 31 December 2019 and 31 December 2018 is as follows:

Shareholders	**2019** *% holding:*	**2018** *% holding:*
Allianz Bulgaria Holding	99.891	99.891
Other	0.109	0.109
	100.000	100.000

Ultimate owner, who exercise ultimate effective control is Allianz SE.

33. Capital and reserves, (continued)

b) Retained earnings

As at December 31, 2019, the balance of retained earnings amounted to BGN 148,086 thousand and includes past profit of BGN 115,035 thousand. (2018: BGN 105,587 thousand) and profit for the year amounting to BGN 33,051 thousand (2018: BGN 29,512 thousand).

(c) Statutory reserves

Legal reserves are created in accordance with local law requirements. Under the Commerce Act, the Bank should set aside from its profit statutory reserves until it reaches 10% of its capital. At 31 December 2019 the statutory reserves amount to BGN 9.850 thousand. (2018 - BGN 9.850 thousand)

(d) Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of financial assets at fair value through other comprehensice income until the investments are derecognized or impaired. At 31 December 2019 the statutory reserves amount to BGN 8,413 thousand. (2018 - BGN 7,502 thousand)

(e) The capital base

The Bank applies a standardized approach with regard to credit and market risk, and a basic indicator approach for operating risk. The Bank monitors changes in major exposure classes, capital base, and total capital adequacy on a monthly basis, and reports the levels of regulatory and internal capital to the Management and Supervisory Board, and prepares quarterly reports, which it presents to the BNB within the timeframe set out in Regulation 680/2014. According to art. 92 of Regulation 575 of the European parliament and of the Council of 26 June 2013, minimum requirements for the ratios of capital adequacy of Tier 1 capital and of Total capital adequacy are respectively no less than 6% and no less than 8%.

At the end of 2019, Allianz Bank Bulgaria AD complied with the recommendations of BNB (decision of the BNB MB of 20.12.2019 and 160/24.04.2019) for capital stability – that total capital adequacy should be no less than 14.25%, formed based on:

- Minimal capital adequacy ratio requirement for 8% of risk weighted assets in accordance of art. 92 §1 of Regulation 575/2013 and additional requirement for base share capital 0.25% of risk weighted assets, or 8.25% total capital requirement, according to The Supervisory Review and Evaluation Process (SREP; EBA/GL/2014/13).
- systemic risk buffer of 3% of risk weighted assets,
- safety capital buffer of 2.5% of risk weighted assets,
- countercyclical capital buffer of 0.5%, applicable for credit risk exposures in Bulgaria as of end of 2019.

33. Capital and reserves, (continued)

In BGN thousand	**Equity/ Capital base 2019**	**Equity/ Capital base 2018**
Registered and paid-in capital	69,000	69,000
Retained earnings from past year	115,035	105,587
Other reserves	9,850	9,850
Total other comprehensive income	8,413	7,502
Total capital and reserves	**202,298**	**191,939**
Reductions		
Intangible assets	(5,114)	(5,443)
Other Transitional Adjustments	(512)	(1,112)
Total capital reductions *	(5,626)	(6,555)
Tier 1 capital	196,672	185,384
Tier 2 capital		
Total equity/ Capital base	**196,672**	**185,384**

*the capital reductions ate based on corrections for specific credit risk in the regulatory capital (Regulations 183/2014 and 241/2014), and the prudential assessment of assets and liabilities assessed at fair value, introduced at the end of 2018 (Regulation 680/2014 of the EU, via Delegated regulation of the EU 2016/101).

Capital requirements and ratios

As of December 31, 2019, the Bank meets the supervisory requirements as follows:

In BGN thousand	**Capital requirements and ratios**
Risk exposures for credit risk, counterparty credit risk, risk of dispersion, and free supplies in TBGN	
Central governments and central banks	136,471
Regional governments or local authorities	1,284
Institutions	65,718
Companies	348,171
Retail exposures	301,739
Exposures secured by real estate	137,198
Non-performing exposures	21,078
Capital Exposures	6,558
Other positions	66,113
Total risk exposures for credit risk, counterparty credit risk, risk of dispersion, and free supplies in TBGN	**1,084,330**
Risk exposures for position, currency, and commodity risk	-
Risk exposures for operating risk	**168,763**
Total risk exposures in TBGN	**1, 253,093**
Total Capital adequacy ratio (%)	15,69%
Tier 1 capital adequacy ratio (%)	15,69%
Surplus (+) /deficit (-) of regulatory capital before buffers	96,424
Safeguard capital buffer / 2.5% of total risk assets /	31,327
Systemic risk buffer (3% of total risk assets)	37,593
Specific countercyclical capital buffer for the institution	6,140
Capiatl requirements, according to Tier 2 corrections	3,133
Available capital after deducting buffers	**18,231**

33. Capital and reserves, (continued)

The described indicators demonstrate the Bank's main aim – maintaining optimum capital adequacy, i.e., optimum capital adequacy of bank risks to achieve its strategic aims, while complying with individual bank regulations.

34. Off-balance sheet commitments

Bank guarantees and letters of credit

The Bank provides bank guarantees and letters of credit in order to guarantee the execution of commitments of its clients to third parties. These agreements have fixed limits and usually have a validity period of up to two years.

Amounts under agreements to issue guarantees and letters of credit are shown in the table below according to the relevant category. It is considered that the values reflected in the commitment table are fully translated. Amounts reflected in the table as guarantees and letters of credit represent the maximum amount of accounting loss that will be reflected in the statement of financial position in the event that counterparties fail to meet their obligations.

In BGN thousand	**2019**	**2018**
Uunutilized credit commitments:	126,293	111,110
Letters of credit	2,495	2,389
Guarantees	41,282	42,696
Impairment losses	(3,042)	(3,135)
Total off-balance sheet commitments	**167,028**	**153,060**

These commitments and contingent liabilities only bear off-balance-sheet credit risk, with only engagement fees and deductions for eventual losses being recognized in the statement of financial position until the engagement expires or is executed. Many of the contingent liabilities are expected to close without incurring partial and full payments. Therefore, the amounts do not represent future cash flows.

35. Assets provided as collateral

As at 31 December 2019, the Bank has pledged government securities with a nominal value of BGN 43,143 thousand. (2018: BGN 41,973 thousand) and market value BGN 45,756 thousand. (2018: BGN 40,099 thousand) as collateral for attracted funds from the State Budget, Government Securities with a nominal value of BGN 45,053 thousand. (2018: BGN 50,738 thousand) and market value BGN 51,083 thousand. (2018 BGN 44,358 thousand) as collateral for loans from the European Investment Bank under a program for targeted refinancing of commercial banks and a program for providing a targeted credit line for financing of agricultural producers.

36. Trust asset management

The Bank offers asset management trust services to Allianz Bulgaria Holding Group companies by holding and managing government securities on behalf of the Bank. For these services, the Bank receives revenue from fees. The trust assets are not assets of the Bank and are not reflected in the Bank's statement of financial position. The Bank is not exposed to credit risk related to the management of these assets because it does not guarantee them.

Fees and commissions from trust management of Allianz Bulgaria Securities are BGN 252 thousand for 2019 (2018: BGN 231 thousand)

37. Deals with related parties

(a) Parent and ultimate controlling entity

Identification of related parties
The Bank deems that it is a related party in accordance with the definitions contained in International Accounting Standard 24 "Related Party Disclosures" (IAS 24) with:

- The parent company, Allianz Bulgaria Holding AD, from which 66.16% are controlled by Allianz SE (ultimate controlling party) and group companies of Allianz CE;
- An investor with significant influence, holding directly or indirectly (with/or immediate family) 33.84% of the capital of Allianz Bulgaria Holding AD, companies and non-profit entities under its direct or indirect control;
- Key management personnel and companies and legal persons on non purpose under their direct and indirect control.

The table below shows the remuneration of key management personnel:

Remuneration of key management personnel		
In BGN thousand	**2019**	**2018**
Short-term earnings	1,538	1,744
Total	**1,538**	**1,744**

The related party transactions are described below.

Banking service

The Bank opens and keeps current accounts of related parties, accepts deposits from them, accrues interest charges, grants them loans from which it receives interest income. The Bank also receives income from fees and commissions from bank services provided to related parties.

Leases

The Bank acquires a financial lease from a related party. The value of the acquired lease receivables during the period amounted to BGN 42,424 thousand. (2018: BGN 25,448 thousand) The Bank provides credit risk management services to the related party and the risk to the lessee of the related party.

37. Deals with related persons, (continued)

Other financial services

The Bank receives income from fees and commissions from the sale of insurance and retirement benefits at the expense of related parties, which presents in the financial statements other operating income.

Other related party transactions include income and expense from / rents from leased or leased premises in own buildings, staff training costs, and insurance costs related to the Bank's operations.

(b) Transactions and balances

Related parties	**Reason for relationship**	**Type of transaction**	**Value of transactions for the year ended**		**Final balances as at 31 December**	
In BGN thousand			**2019**	**2018**	**2019**	**2018**
Allianz Bulgaria Holding AD	Controls directly or indirectly the Bank's activities	Current accounts	-	-	2,973	8,318
		Deposits	-	-	3,000	-
		Interest expenses	32	2	-	-
		Dividend paid	19,978	19,978	-	-
		Revenue from fees and commissions	2	2	-	-
ZAD Allianz Bulgaria AD	Company under common control	Current accounts	-	-	44,756	24,884
		Interest expenses	226	24	-	-
		Revenue from fees and commissions	248	128	-	-
		Insurance expenses	603	546	-	-
		Rental costs	392	415	-	-
		Other income	150	205	-	-
		Other expenses	96	97	-	-
		Revenues from rent	-	-	-	-
		Guarantees	-	-	1,173	1,173
ZAD Energia AD	Company under common control	Current accounts	-	-	10,020	3,660
		Deposits	-	-	1,210	2,143
		Interest payable on deposits			-	1
		Interest expenses	10	1	-	-
		Revenue from fees and commissions	42	26	-	-
		Rental costs	5	5	-	-
		Guarantees	-	-	1,173	2,073

37. Deals with related persons, (continued)

(b) Transactions and balances, (continued)

Related parties	**Reason for relationship**	**Type of transaction**	**Value of transactions for the year ended**		**Final balances as at 31 December**	
In BGN thousand			**2019**	**2018**	**2019**	**2018**
ZAD Allianz Bulgaria Life AD	Company under common control	Current accounts	-	-	6,927	5,795
		Interest expenses	30	2	-	-
		Revenue from fees and commissions	291	253	-	-
		Other income	429	434	-	-
		Rental costs	287	294	-	-
		Revenues from rent	-	-	-	-
		Insurance expenses	1,587	1,600	-	-
		Obligation on invoices	-	-	2	2
PIC Allianz Bulgaria AD	Company under common control	Current accounts	-	-	19,747	12,120
		Deposits	-	-	6	6
		Interest expenses	113	2	-	-
		Revenue from fees and commissions	22	13	-	-
		Other income	259	244	-	-
		Revenues from rent	-	-	-	-
		Rental costs	11	11	-	-
		Receivables on invoices	-	2	-	-
		Guarantees	-	-	5	5
Allianz Leasing Bulgaria AD	Company under common control	Current accounts	-	-	3,281	198
		Deposits	-	-	1	-
		Commercial credit	-	-	17,602	17,602
		Income from interest	286	286	-	-
		Interest expenses	-	1	-	-
		Revenue from fees and commissions	9	5	-	-
		Rental costs	102	125	-	-
		Costs for a transfer of receivables contract	80	80	-	-
		Revenue from a transfer of receivables contract	80	80	-	-
		Cession cost	1,304	1,108	-	-
		Transferred receivables	42,424	25,448	-	-
		Other income	6	4	-	-

37. Deals with related persons, (continued)

(b) Transactions and balances, (continued)

Related parties	**Reason for relationship**	**Type of transaction**	**Value of transactions for the year ended**		**Final balances as at 31 December**	
In BGN thousand			**2019**	**2018**	**2019**	**2018**
Allianz SE	Ultimate Controlling Owner	Receivables under cash pool	-	-	185,406	175,911
		Marketing expenses	182	169	-	-
		Expenses related to staff management	127	13	-	-
		IT expenses	13	55	-	-
		Interest expenses	284	114	-	-
Shareholders and related parties	Companies under the control and joint control of an investor with significant influence and members of his family					
		Current accounts	-	-	8,213	24,916
		Deposits	-	-	17,470	-
		Interest payable on deposits	2	-	-	-
		Interest receivable	-	-	28	30
		Interest expenses	39	1	-	-
		Income from interest	316	399	-	-
		Revenue from fees and commissions	70	69	-	-
		Credits and credit commitments	-	-	7,239	9,275
		Impairment losses	-	-	38	53
		Guarantees	-	-	12	-
		Expenses related to staff management	18	-	-	-
		IT expenses	1,370	717	-	-
		Rental costs	791	783	-	-
		Rental receivables	-	-	66	66

As at 31 December 2019, loans and credit commitments had a residual maturity of between 3 months and 3 years. The interest rate varies between 3.19% and 13.75%. Loans and credit commitments are fully secured. Current accounts are not blocked and allow for free payments.

37. Deals with related persons, (continued)

(b) Transactions and balances, (continued)

Key management personnel	**Value of transactions for the year ended**		**Final balances as at 31 December**	
In BGN thousand	**2019**	**2018**	**2019**	**2018**
Current accounts	-	-	1,003	1,173
Deposits	-	-	564	710
Interest expenses	3	4	-	-
Income from interest	13	23	-	-
Revenue from fees and commissions	2	3	-	-
Remuneration	1,538	1,744	-	-
Credits and credit commitments	-	-	473	683
Impairment losses	-	-	3	2
Guarantees under Art. 240, para. 1 of the Commercial Code	-	-	14	15

As of December 31, 2019, loans and loan commitments to key management personnel have a residual maturity of less than one year and up to twenty seven years, respectively. The interest rate varies between 2.53% and 13.75%. Loans and credit commitments are fully secured. Deposits and current accounts are not blocked and payments are made freely. Deposits have a residual maturity of up to three years. The interest rate on deposits varies between 0.15% and 0.30%.

38. Commitments under operating leases

The Bank has entered into contracts for the operating lease of buildings, cars and equipment. Contracts are of different duration, depending on the needs of the Bank.

In 2019, the amount of BGN 172 thousand was recognized as an expense in profit and loss in respect of operating leases (2018: BGN 3,736 thousand)

Irrevocable lease payments for operating lease are due as follows

In BGN thousand	**2019**	**2018**
Less than one year	165	3,032
Between one and five years	-	5,057
For than five years	-	887
	165	**8,976**

39. Capital commitments

The contractual commitments for acquiring property, plant and equipment amounted to BGN 654 thousand (2018: BGN 526 thousand)

40. Events that occurred after the date of preparation of the financial statements

At the end of 2019, news from China about COVID-19 (Coronavirus) first appeared, when a limited number of unknown virus cases were reported to the World Health Organization. During the first few months of 2020, the virus spread globally and its negative effects gained power.

40. Events that occurred after the date of preparation of the financial statements, (continued)

On March 11, 2020, the World Health Organization declared a pandemic regarding the spread of COVID-19, and on March 13, 2020, the National Assembly voted in a state of emergency in Bulgaria, resulting in a number of restrictive measures.

Management considers this to be a material non-adjusting event after the reporting period.

Negative effects of the crisis and their nature

At national, European and global level, there is no clarity as to how long and how this situation will continue. The spread of COVID-19 has an impact on global demand and supply, with significant uncertainty in economic activity, which can have a direct negative impact on credit activity, quality of loans already granted, liquidity position, increase in liquidity risk, decrease in revenues , capital adequacy and other indicators.

Description of identified potential risks and existing uncertainties for the Bank

Main assumptions:

- Decrease of the new lending demand leading;
- Increase of NPLs loans;
- No big repayment or refinancing. Massive restructuring of affected industries and customers;
- Keeping current level of transactional and cards business=

Most affected business areas and products:

- Decrese of the new business leading to flat or negative growth of the credit portfolio;
- Negative growth of companies' loans based on tightening of lending standards and requarements;
- Deterioration of the retail portfolio quality due to expected mass dismissal in companies operating in the affected industries;
- Deterioration of corporate portfolio quality followed by the businness interruption in the sectors such as transport, accommodation and food service activities (hotels, restaurants).

Effect on operations - processes at risk:

- Operations on foreign interbank market will face difficulties due to impaired rating and interrelatedness with other market participants;
- No impact on card operations, FX transactions, cash transfers, corporate and retail lending;
- Increase of workflow in monitoring and restructuring.

Additional risks and opportunities:

- The impact of macroeconomic crisis on the Bulgarian economy manifests as a drop of foreign demand for Bulgarian goods and services, increased unemployment and inflation;
- Expected drop in private consumption and investments in the Bulgarian economy, reduction of real estate prices and increased cost of financing for companies reflecting the increased risk premium in the country;
- Outflow of deposits in the banking system as a result of inability to obtain external sources of financing on the market, as well as increased discount for redemption of state securities.

40. Events that occurred after the date of preparation of the financial statements, (continued)

Measures taken by the Managament of the Bank to address the crisis:

In accordance with the measures taken by the Government of the country and the Management Board of the Bulgarian National Bank, the Bank's management has taken a number of actions and measures related to:

- Organization for ensuring the continuity of services and processes;
- Working conditions and a protected environment appropriate to the situation, the focus being on healthy and safe working conditions;
- Communication and status monitoring of the COVID-19 situation;
- Information technology and infrastructure;
- Customer service and compliance;
- Key indicators for the performance and performance of the Bank have been defined.

Measures to mitigate the effects of the crisis and protect the business

- Introducing credit limits for specific sectors, industries and products;
- Identification of critical business activities and alternative substitutes;
- Measures to cover the credit risk - supervisory regulations, daily monitoring of early deterioration signals, monitoring of sources for repayment of loans, monitoring of defined critical indicators in the credit portfolio, collateral and additional analyzes;
- Market risk cover measures - strict monitoring, calculation of Value ar risk, stress tests, asset and liability management;
- Active communication with clients with exposures in excess of BGN 500 thousand, in anticipation of operational and liquidity problems.

The Bank's liquidity will be mainly influenced by the moratorium on repayment of loans and other claims on legal and natural persons, as well as on the continuing health and social situation, which could lead to the eventual withdrawal of customer deposits. It is not possible to predict exactly how much the decrease in cash flows will be, but Management believes that the Bank's significant investments in securities can be used to support its liquidity needs.

The Bank analyzes the quality of its credit portfolio and, in particular, its exposure to the industries that will potentially be most affected by the COVID-19 situation. While it is impossible to quantify the impact of the crisis on portfolio quality, management believes that there is sufficient buffer for capital adequacy.

Notes 6, 20 and 33 provide details of the management's sensitivity analysis, liquidity and credit risk exposure analysis, analysis of the quality of the Bank's credit portfolio, capital adequacy.

As the situation is very dynamic, management believes that the potential financial impact of the crisis cannot be assessed at this stage. The management believes that the disclosed circumstances do not create significant uncertainty about the Bank's ability to continue in the foreseeable future and to apply the going concern principle in the preparation of its financial statements.

No other significant events occurring after the date of the financial statements that require additional disclosure or adjustment in the financial statements.

Independent Auditors' Report

To the Shareholders of Allianz Bank Bulgaria AD

Report on the audit of the financial statements

Our opinion

We have audited the financial statements of Allianz Bank Bulgaria (the "Bank") which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 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 financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) and the ethical requirements of the Independent Financial Audit Act that are relevant to our audit of the financial statements in Bulgaria. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Independent Financial Audit Act.

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Our audit approach

Overview

Materiality	Overall Bank materiality: BGN 1,839 thousand, which represents 5% of profit before tax.
Key audit matters	Estimation uncertainty with respect to the impairment allowance for loans and advances to customers.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Bank materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

Overall Bank materiality	BGN 1,839 thousand
How we determined it	Approximately 5% of the profit before tax for the year.
Rationale for the materiality benchmark applied	We applied profit before tax as a benchmark because, in our view, it is the benchmark against which the performance of the Bank is commonly measured by the users of the financial statements and it is a generally accepted benchmark.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Estimation uncertainty with respect to the impairment allowance for loans and advances to customers Refer to Note 20 “Loans and advances to customers”) The appropriateness of the impairment allowance for loans and advances to customers requires significant judgement by management. Measuring impairment allowance for loans and advances to customers under IFRS 9 requires an assessment of the 12-month and lifetime expected credit losses and assessment of significant increases in credit risk or whether loans and advances to customers are in default. The identification of significant increase in credit risk and default and the measurement of 12-minth or life time expected credit loss are part of the Bank’s estimation process and are, amongst others, based on credit risk models, triggers indicating significant increase in credit risk and default, the financial condition of the counterparty, the expected future cash flows or the value of collateral. The use of different modelling techniques, scenarios and assumptions could lead to different estimates of impairment charges on loans and advances to customers. As this position represents a substantial part of Bank’s total assets and given the related estimation uncertainty, we consider this as a key audit matter.	Our audit procedures included an assessment of the overall governance of the credit and impairment process of the Bank, including 12-month and lifetime expected loss modelling processes. We have assessed and tested the design and operating effectiveness of the controls within the lending and provisioning processes. For individually impaired loans, we have performed, for a sample of credit exposures, a detailed review of loans files. We challenged the assumptions related to impairment identification and quantification of expected future cash-flows (recoverable amounts) determined based on either valuation of underlying collateral or other recoveries. For the 12-month and lifetime expected credit losses, we challenged the significant increase in credit risk triggers and tested the underlying models, including the Bank’s model approval and validation process. We also assessed the completeness and accuracy of the disclosures and whether the disclosures are in compliance with the International Financial Reporting standards as adopted by the European Union.

Information other than the financial statements and auditors’ report thereon

Management is responsible for the other information. The other information comprises Annual Activity Report and the Corporate Governance Statement, prepared by the management in accordance with Chapter Seven of the Accountancy Act, but does not include the financial statements and our auditors’ report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Additional matters to be reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, in relation to the Annual Activity Report and the Corporate Governance Statement, we have also performed the procedures added to those required under ISAs in accordance with the "Guidelines regarding the new and enhanced auditor reporting and communication by the auditor" of the professional organisation of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming an opinion on whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and where applicable art. 100(m) paragraph 8 of Public Offering of Securities Act, applicable in Bulgaria.

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

Based on the procedures performed, in our opinion:

a) the information included in the Annual Activity Report referring to the financial year for which the financial statements have been prepared is consistent with those financial statements.
b) the Annual Activity Report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.
c) the Corporate Governance Statement for the financial year, for which the financial statements have been prepared, presents the information required by Chapter Seven of the Accountancy Act and where applicable Art. 100(m), paragraph 8 of the Public Offering of Securities Act.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Bank reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

We are jointly and severally responsible for the performance of our audit and for the audit opinion expressed by us in accordance with the requirements of the Independent Financial Audit Act, applicable in Bulgaria. In accepting and performing the engagement for the joint audit, in connection to which we report, we have also been guided by the Guidelines for the implementation of joint audit, issued on 13 June 2017 by the Institute of Certified Public Accountants, Bulgaria and the Commission for Public Oversight of Statutory Auditors in Bulgaria.

Report on other legal and regulatory requirements

Statement in relation to Art. 33 of Ordinance 38/2007 issued by the Financial Supervisory Commission (FSC) in relation to the requirements on the activity of investment intermediaries and Art. 11 of Ordinance 58/2018 issued by FSC in relation to the requirements for protection of the clients' financial instruments and cash, for product management, and for the providing or receiving of remuneration, commissions and other monitory or non-monetary benefits.

Based on the audit procedures performed and the understanding of the Bank's activity, in the course and context of our audit of the financial statements as a whole, we identified that the established organization implemented for safeguarding of customers' accounts is in accordance with the requirements of Art. 28-31 of Ordinance 38 and Art. 3-10 of Ordinance 58 of the FSC in relation to the activities of the Bank in its capacity as an investment intermediary.

Additional reporting on the audit of the financial statements in connection with art. 10 of Regulation (EU) 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) 537/2014, we hereby additionally report the information stated below:

- PricewaterhouseCoopers Audit OOD was appointed as a statutory auditor of the financial statements of the Bank for the year ended 31 December 2019 by the general meeting of shareholders, held on 23 October 2019 for a period of one year. PricewaterhouseCoopers Audit OOD was first appointed as auditors of the Bank on 28 September 2018.
- HLB Bulgaria OOD was appointed as a statutory auditor of the financial statements of the Bank for the year ended 31 December 2019 by the general meeting of shareholders held on 23 October 2019 for a period of one year. HLB Bulgaria OOD was first appointed as auditors of the Bank on 28 September 2018.
- The audit of the financial statements of the Bank for the year ended 31 December 2019 represents the second of total uninterrupted statutory audit engagements for that entity carried out by PricewaterhouseCoopers Audit OOD.
- The audit of the financial statements of the Bank for the year ended 31 December 2019 represents second of total uninterrupted statutory audit engagements for that entity carried out by HLB Bulgaria OOD.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report provided to the Bank's audit committee in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We hereby confirm that we have not provided the prohibited non-audit services referred to in Art.64 of the Independent Financial Audit Act.

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

For PricewaterhouseCoopers Audit OOD:	For HLB Bulgaria OOD
Jock Nunan Procurist	Veronika Revalska Managing partner
Anna Boteva Registered Auditor responsible for the audit 9-11, Maria Luiza blvd. 1000 Sofia, Bulgaria	Svetlana Pavlova Registered Auditor responsible for the audit 149-151, Konstantin Velichkov blvd., 1309 Sofia, Bulgaria
Date: 3 April 2020	Date: 3 April 2020