Annual Consolidated Management Report
Annual Consolidated Report on Payments to Governments
Independent Auditor's Report
Consolidated Financial Statements

CHIMIMPORT AD

31 December 2018

Contents

Consolidated statement of financial position as at 31 December

	Note	31.12.2018 BGN '000	31.12.2017 BGN '000
Assets			
Property, plant and equipment	9	420 897	423 178
Investment property	11	422 174	405 502
Goodwill	12	28 425	32 307
Other intangible assets	13	157 731	171 741
Deferred tax assets	14	8 035	6 720
Investments accounted for using the equity method	7	35 126	34 420
Loans and advances to bank clients	15	2 417 517	2 319 809
Financial assets at fair value through profit or loss	16	1 685 078	1 430 323
Debt instruments at fair value through other comprehensive income	17	422 916	-
Equity instruments at fair value through other comprehensive income	18	70 983	-
Available-for-sale financial assets	19	-	664 195
Held-to-maturity financial assets	20	-	36 469
Other financial assets at amortized cost	21	1 105 426	780 823
Insurance and reinsurance receivables	23	51 071	43 645
Reinsurance assets	32	87 218	81 280
Tax receivables	22	1 854	1 756
Other receivables	24	93 471	161 069
Inventories	25	45 923	47 175
Cash and cash equivalents	26	2 045 224	2 204 904
Total assets		**9 099 069**	**8 845 316**

Prepared by: ______________________ **Executive director:** ______________________

/A. Kerezov/ **/I. Kamenov/**

Date: 30 April 2019

Audited according to the auditor's report dated 01.07.2019

Mariy Apostolov
Managing Partner

Grant Thornton OOD, Audit firm

Zornitza Djambazka
Registered auditor responsible for the audit

ХИМИМПОРТ АД София

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 032 ГРАНТ ТОРНТОН ООД

Consolidated statement of financial position at 31 December (continued)

Equity and liabilities	Note	31.12.2018 BGN '000	31.12.2017 BGN '000
Equity			
Share capital	27.1	227 191	227 236
Premium reserve	27.2	247 070	247 129
Other reserves	27.3	145 477	124 926
Retained earnings		660 715	736 953
Profit for the period		70 309	69 598
Equity attributable to the shareholders of Chimimport AD		**1 350 762**	**1 405 842**
Non-controlling interest		293 931	282 955
Total equity		**1 644 693**	**1 688 797**
Liabilities			
Liabilities to depositors	28	5 259 602	5 052 941
Other financial liabilities	29	502 819	512 615
Payables to insured individual	30	1 295 894	1 195 555
Pension and other employee obligations	31.2	18 478	18 211
Deferred tax liabilities	14	23 841	28 210
Insurance technical reserves	32	269 782	262 969
Liabilities to insurance and reinsurance contracts	33	28 490	25 356
Finance lease liabilities	10.1	5 349	3 939
Tax liabilities	34	4 530	6 489
Other liabilities	35	45 591	50 234
Total liabilities		**7 454 376**	**7 156 519**
Total equity and liabilities		**9 099 069**	**8 845 316**

Prepared by: ____________________
/A. Kerezov/

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/I. Kamenov/

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Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December

	Note	2018 BGN '000	2017 BGN '000
Revenue from non-financial activities	36	461 437	433 039
Change in fair value of investment property	11	2 803	2 108
Gain/(loss) on sale of non-current assets	37	1 106	(6 133)
Revenue from non-financial activities		**465 346**	**429 014**
Insurance income	38	377 484	352 019
Insurance expense	39	(349 685)	(318 475)
Net insurance result		**27 799**	**33 544**
Interest income	40	189 607	199 468
Interest expense	41	(34 234)	(39 189)
Net interest income		**155 373**	**160 279**
Result from transactions with financial instruments, net	42	20 916	100 721
Operating and administrative expenses	43	(636 787)	(633 233)
Gains from investments under equity method	7	5 300	5 741
Other financial income, net	44	65 515	36 451
Allocation of income to secured persons		(10 544)	(45 021)
Profit before tax		**92 918**	**87 496**
Income tax (expense)/income	45	(8 566)	771
Net profit for the period		**84 352**	**88 267**
Other comprehensive (loss)/income:			
Revaluation of financial assets, net of taxes		(4 407)	6 245
Remeasurement of defined benefit liability, net of taxes		(48)	-
Other comprehensive (loss)/income		(4 455)	6 245
Total comprehensive income for the year		**79 897**	**94 512**
Net profit for the year attributable to:			
The shareholders of Chimimport AD		70 309	69 598
Non-controlling interests		14 043	18 669
Total comprehensive income attributable to:			
The shareholders of Chimimport AD		66 598	73 845
Non-controlling interests		13 299	20 667
Basic earnings per share in BGN	46	0.31	0.31

Prepared by: ____________________ **Executive director:** ____________________

/A. Kerezov/ /I. Kamenov/

Date: 30 April 2019

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Managing Partner

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София

ОДИТОРСКО ДРУЖЕСТВО
София
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Consolidated statement of changes in equity for the year ended 31 December

All amounts are presented in BGN'000	Equity attributable to the shareholders of Chimimport AD					Non-controlling interests	Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Total		
Balance at 1 January 2018	227 236	247 129	124 926	806 551	1 405 842	282 955	1 688 797
Adjustments from the adoption of IFRS 9 and other adjustments, note 5	-	-	(7 047)	(79 447)	(86 494)	(16 686)	(103 180)
Balance at 1 January 2018 (restated)	227 236	247 129	117 879	727 104	1 319 348	266 269	1 585 617
Increase in share capital and reserves resulting from change in own shares held by subsidiaries	(45)	(59)	-	-	(104)	-	**(104)**
Business combinations	-	-	(4 442)	(16 325)	(20 767)	16 793	**(3 974)**
Dividends	-	-	-	(14 313)	(14 313)	(2 430)	**(16 743)**
Transactions with owners	**(45)**	**(59)**	**(4 442)**	**(30 638)**	**(35 184)**	**14 363**	**(20 821)**
Profit for the year	-	-	-	70 309	70 309	14 043	**84 352**
Other comprehensive loss	-	-	(3 711)	-	(3 711)	(744)	**(4 455)**
Total comprehensive income for the year	-	-	(3 711)	70 309	66 598	13 299	**79 897**
Transfer of retained earnings to other reserves	-	-	36 641	(36 641)	-	-	**-**
Change in specialized reserves	-	-	(890)	890	-	-	**-**
Balance at 31 December 2018	**227 191**	**247 070**	**145 477**	**731 024**	**1 350 762**	**293 931**	**1 644 693**

Prepared by: ______________________ **Executive director:** ______________________

/A. Kerezov/ **/I. Kamenov/**

Date: 30 April 2019

Audited according to the auditor's report dated 01.07.2019

Mariy Apostolov
Managing Partner

Grant Thornton OOD, Audit firm

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Registered auditor responsible for the audit

ХИМИМПОРТ АД СОФИЯ

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 032 ГРАНТ ТОРНТОН ООД

Consolidated statement of changes in equity for the year ended 31 December (continued)

All amounts are presented in BGN'000	Equity attributable to the shareholders of Chimimport AD					Non-controlling interests	Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Total		
Balance at 1 January 2017	**226 914**	**246 838**	**85 174**	**783 064**	**1 341 990**	**261 170**	**1 603 160**
Effect of changes in accounting policy, Note 5	-	-	4 852	3 260	8 112	4 836	12 948
Balance at 1 January 2017 (restated)	226 914	246 838	90 026	786 324	1 350 102	266 006	1 616 108
Increase in share capital and reserves resulting from change in own shares held by subsidiaries	322	291	-	-	613	-	**613**
Business combinations			3 639	(10 749)	(7 110)	134	**(6 976)**
Dividends	-	-	-	(11 608)	(11 608)	(3 852)	**(15 460)**
Transactions with owners	**322**	**291**	**3 639**	**(22 357)**	**(18 105)**	**(3 718)**	**(21 823)**
Net profit for the year	-	-	-	69 598	69 598	18 669	**88 267**
Other comprehensive income	-	-	4 247	-	4 247	1 998	**6 245**
Total comprehensive income for the year	**-**	**-**	**4 247**	**69 598**	**73 845**	**20 667**	**94 512**
Transfer of retained earnings to other reserves	-	-	25 384	(25 384)	-	-	**-**
Change in specialized reserves	-	-	1 630	(1 630)	-	-	**-**
Balance at 31 December 2017	**227 236**	**247 129**	**124 926**	**806 551**	**1 405 842**	**282 955**	**1 688 797**

Prepared by: /A. Kerezov/
Executive director: /I. Kamenov/

Date: 30 April 2019

Audited according to the auditor's report dated 30.04.2019

Mariy Apostolov
Managing Partner

Zornitza Djambazka
Registered auditor responsible for the audit

Grant Thornton OOD, Audit firm

ХИМИМПОРТ АД СОФИЯ

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 032 ГРАНТ ТОРНТОН ООД

Consolidated statement of cash flows for the year ended 31 December

	Note	2018 BGN '000	2017 BGN '000
Proceeds from short-term loans		65 802	56 758
Payments for short-term loans		(69 167)	(78 951)
Proceeds from sale of short-term financial assets		229 965	229 568
Purchase of short-term financial assets		(218 699)	(239 424)
Cash receipt from customers		422 129	414 620
Cash paid to suppliers		(359 589)	(369 454)
Proceeds from insured persons		146 716	136 737
Payments to insured persons		(37 921)	(23 689)
Payments to employees and social security institutions		(120 502)	(118 139)
Cash receipts from banking operations		47 913 910	43 827 219
Cash paid for banking operations		(47 730 991)	(43 389 214)
Cash receipts from insurance operations		187 004	201 596
Cash paid for insurance operations		(160 582)	(161 068)
Income taxes paid		(5 272)	(2 137)
Other cash outflows		(22 992)	(5 258)
Net cash flow from operating activities		**239 811**	**479 164**
Investing activities			
Sale of associates and subsidiaries, net of cash		2 170	-
Dividends from financial assets received		7 370	2 739
Sale of property, plant and equipment		1 626	3 957
Purchase of property, plant and equipment		(20 292)	(8 484)
Purchase of intangible assets		(2 453)	(1 719)
Sale of investment property		7 710	10 983
Purchase of investment property		(19 021)	(72 035)
Sale of non-current financial assets		787 288	875 880
Purchase of non-current financial assets		(1 209 706)	(921 175)
Interest payments received		48 007	52 324
Proceeds from loans granted		38 119	13 189
Payments for loans granted		(50 293)	(8 375)
Other cash outflows		(4 061)	(29 191)
Net cash flow from investing activities		**(413 536)**	**(81 907)**
Financing activities			
Dividends paid		(3 269)	(4 860)
Sale of own shares		(104)	613
Proceeds from loans received		42 029	78 766
Payments for loans received		(10 762)	(16 287)
Interest paid		(4 299)	(7 451)
Payments for finance leases		(1 733)	(1 416)
Other cash outflow		(8 545)	(6 038)
Net cash flow from financing activities		**13 317**	**43 327**
Net change in cash and cash equivalents		(160 408)	440 584
Cash and cash equivalents, beginning of period		**2 204 904**	**1 767 126**
Exchange gain/(loss) on cash and cash equivalents		728	(2 806)
Cash and cash equivalents, end of period	26	**2 045 224**	**2 204 904**

Prepared by: ______________________ **Executive director:** ______________________
/A. Kerezov/ **/I. Kamenov/**

Date: 30 April 2019
Audited according to the auditor's report dated 01.07.2019
Mariy Apostolov
Managing Partner

Grant Thornton OOD, Audit firm

Zornitza Djambazka
Registered auditor responsible for the audit

ХИМИМПОРТ СОФИЯ

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 032 ГРАНТ ТОРНТОН ООД

Notes to the consolidated financial statements

1. Nature of operations

Chimimport AD (the Group) includes the parent company and all subsidiaries, presented in note 6.1. Information about the names, country of incorporation and percent of the shares of the subsidiaries, included in the consolidation, is provided in note 6.1.

The main activities of the Group include the following sectors:

- Acquisition, management and sale of shares in Bulgarian and foreign companies;
- Financing of companies in which interest is held;
- Bank services, finance, life and non-life insurance and pension insurance;
- Extraction of oil and natural gas;
- Construction of output capacity in the area of oil-processing industry, production of biodiesel and production of rubber items;
- Production and trading with oil, chemical products and natural gas;
- Production of vegetable oil, purchasing, processing and trading with grain foods;
- Aviation transport and ground activities on servicing and repairing of aircrafts and aircraft engines;
- River and sea transport and port infrastructure;
- Commercial agency and brokerage;
- Commission, forwarding and warehouse activity.

Chimimport AD was registered as a joint-stock company at Sofia city court on 24 January 1990 with UIC 000627519. The address of the Company's headquarters and registered office is 2 St. Karadzha Str., Sofia, Bulgaria. The Company is registered on the Bulgarian Stock Exchange - Sofia on 30 October 2006 with emission numbers 6C4 for ordinary shares.

The parent company has a two-tier management structure consisting of Supervisory Board and Managing Board.

The members of the Supervisory Board of the parent company are as follows:

- Invest Capital AD
- CCB Group EAD
- Mariana Bazhdarova

The members of the Managing Board of the parent company are as follows:

- Alexander Kerezov
- Ivo Kamenov
- Marin Mitev
- Nikola Mishev
- Miroliub Ivanov
- Tzvetan Botev

The parent company is represented by its executive directors Ivo Kamenov and Marin Mitev, together and separately.

As at 31 December 2018 the Group has a total of 5 442 (2017: 5 316).

The ultimate owner of the Group that prepares the consolidated financial statements is Invest Capital AD registered in Bulgaria, which equity instruments are not listed on a stock exchange.

2. Basis for the preparation of the consolidated financial statements

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and approved by the EU. The term "IFRS, as adopted by the EU" has the meaning of paragraph 1, subparagraph 8 of the Additional provisions of Bulgarian Accountancy Act, which is International Accounting Standards (IAS) adopted in accordance with Regulation (EC) 1606/2002 of the European Parliament and of the Council.

The parent company Chimimport AD published separate financial statements on 1 April 2019.

In order to achieve a presentation in the financial statements giving more relevant information about the nature of the Group's banking and insurance activities and the effect of operations and other events or conditions on the Group's financial position, the statement of financial position is presented in a different manner compared to the financial statements for 2017. The change refers to the presentation of assets and liabilities based on liquidity. An analysis of the recovery of asset or settlement of liabilities within twelve months after the statement of financial position (current) and more than 12 months after the date of the financial statements (non-current) is presented in the notes.

The separate items of the Group's consolidated financial statements are measured in the currency of the primary economic environment in which the Group's entities operate (the "functional currency"). The consolidated financial statements are presented in Bulgarian leva (BGN), which is the functional currency of the parent company. This is the functional currency of the parent company and its subsidiaries, except for the subsidiaries operating in Germany and Slovakia whose functional currency is euro; subsidiary operating in Macedonia whose functional currency is Macedonian denar and subsidiaries in Russia whose functional currency is Russian ruble.

All amounts are presented in thousand Bulgarian leva (BGN '000) (including comparative information for 2017) unless otherwise stated.

The consolidated financial statements are prepared under the going concern principle.

At the date of preparation of these consolidated financial statements the management has assessed the ability of the Group to continue as a going concern on the basis of the available information for the foreseeable future. Following a review of the activities of the Group, the management anticipates that the Group has sufficient financial resources to continue its operational activities in the near future and continues to apply the going concern assumption in preparing the consolidated financial statements.

3. Changes in accounting policy

3.1. New and revised standards that are effective for annual periods beginning on or after 1 January 2018

The Group has adopted the following new interpretations, revisions and amendments to IFRS issued by the International Accounting Standards Board, which are relevant to and effective for the Group's consolidated financial statements for the annual period beginning 1 January 2018:

IFRS 9 "Financial instruments" replaces IAS 39 "Financial Instruments: Recognition and Measurement". It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets.

When adopting IFRS 9, the Group has applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of IFRS 9 in relation to classification, measurement, and impairment are recognised in retained earnings.

The adoption of IFRS 9 has impacted the following areas:

- **Classification and measurement of the Group's financial assets**

Management holds most financial assets to collect the associated cash flows.

Financial statement position	Category according to IAS 39	Category according to IFRS 9	Business model
Long-term financial assets	Financial assets available for sale	• Equity instruments at fair value through other comprehensive income	Other different from held to collect and trading
		• Debt instruments at fair value through other comprehensive income	• held to collect and trading
		• Financial assets at fair value through profit or loss	• Other different from held to collect and trading

Financial statement position	Category according to IAS 39	Category according to IFRS 9	Business model
Short-term financial assets	Financial assets held for trading	Financial assets at fair value through profit or loss	Held to collect and for sale of financial assets
Related party receivables	Loans and receivables	Debt instruments measured at amortised cost	Held to collect
Loans granted, including loans and advances provided by the Bank to customers and other banks	Loans and receivables	Debt instruments measured at amortised cost	Held to collect
Trade and other receivables	Loans and receivables	Debt instruments measured at amortised cost	Held to collect
Cash and cash equivalents, including cash in Central Bank	Loans and receivables	Debt instruments measured at amortised cost	Held to collect
Repurchase agreements on securities	Loans and receivables	Debt instruments measured at amortised cost	Held to collect
Derivatives	Financial assets held for trading	Financial assets at fair value through profit or loss	Held for sale

Under IFRS 9, a portfolio of financial assets that is managed and measured at fair value is held neither within a business model for collecting contractual cash flows nor within a business model for collecting contractual cash flows and sale of financial assets. The Group's management focuses primarily on fair value information and uses it for assessment of Group's performance and decision-making. In addition, a portfolio of assets that meets the definition of a held for trading cannot be managed for collecting contractual cash flows nor for collecting contractual cash flows and sale of financial assets. For such portfolios, the collection of contractual cash flows is incidental to the achievement of the objective of the business model. Accordingly, such portfolios should be measured at fair value through profit or loss in accordance with IFRS 9.

- **Impairment of financial assets applying the expected credit loss model**

The main effects that the Group recognizes in the application of IFRS 9 Financial Instruments are related to the application of the effect of the recognition of a corrective for credit losses accrued in accordance with the requirements of the expected credit loss model. The scope of the model includes the debt instruments managed by the Group with a business model held for collection.

The Group applies an individual approach for impairment of the granted loan, taking into account the respective risks related to the counterparty, collateral, conditions, methods of utilization and repayment.

For contract assets arising from IFRS 15 and trade receivables, the Group applies a simplified approach for recognition of expected credit losses as they do not have a significant financial component. In applying the methodology for expected credit losses of trade receivables, the Group takes into account the nature and specifics of the respective activity and environment in which they operate, including the conditions under which trade receivables arise and are settled. Based on historical experience, the aging structure, the collection rate and the repayment terms of the Group's trade receivables were analysed. As a result, expected credit losses were identified as follows:
The net effect of the initial application of IFRS 9 amounts to BGN 103 180 thousand and is presented in the consolidated statement of change in equity.

- **Measurement of equity investments at cost less impairment**

As of the date of application of IFRS 9, the Group has made an irrevocable choice to determine some of its investments in equity instruments of Bulgarian and foreign companies, as financial instruments at fair value through other comprehensive income. The Group intends to hold the investments after 1 January 2018. The fair value of investments is determined on the basis of valuations of licensed experts or expert of the Group. The assessments take into account the financial situation, the development forecasts, the economic environment in which the issuer of the instrument operates and possible other indicators that could have an impact on the instrument's credit risk.

IFRS 15 "Revenue from Contracts with Customers" effective from 1 January 2018, adopted by the EU

IFRS 15 "Revenue from Contracts with Customers" and the related Clarifications to IFRS 15 "Revenue from Contracts with Customers" (hereinafter referred to as IFRS 15) replace IAS 18 "Revenue", IAS 11 "Construction Contracts" and several revenue-related Interpretations. The new Standard has been applied retrospectively without restatement, with the cumulative effect of initial application recognised as an adjustment to the opening balance of retained earnings at 1 January 2018. In accordance with the transition guidance, IFRS 15 has only been applied to contracts that are incomplete as at 1 January 2018.

IFRS 15 is only applicable to contracts where the contractor under the contract is a client, a party that has entered into a contract with the Group to obtain services that are the result of the Group's ordinary activities in exchange for remuneration.

The adoption of IFRS 15 has mainly affected the following areas:

- IT services set-up costs;
- contract costs related to commissions;
- loss contracts;
- multi-component transactions;
- services provided by the Group related to long-term contracts with clients;
- contracts with customers whose price is variable and/ or there is contingent consideration;
- supplies related to licenses/ royalties of the Group;
- guarantees provided by the Group as part of routine sales;
- loyalty/ bonus/ discount programs that are part of the Group's usual business practice.

Additionally, the new standard for revenue provides guidance on accounting for certain contract costs. Under IFRS 15, these costs are capitalized and should be recognized as an asset under contracts with customers only if:

- ✓ incurred in connection with and relate to contract with a client that is within the scope of IFRS 15
- ✓ are not included in the scope of another IFRS, and
- ✓ are directly related to the contract, help to generate resources for use in the actual implementation of the contract and are expected to be recovered.

For carrying out the activity of supplementary pension insurance, the Group has concluded contracts for insurance intermediation with individuals and legal entities and the paid commissions are recognized for a period of 60 months, which corresponds to the period during which the pension insurance company from the Group is expected to generate income from deductions from contributions received by new insured persons. The portion of the expense for commission fees as at 31 December 2018 remaining for recognition in subsequent accounting periods amounts to BGN 417 thousand and is presented as Expenses under contracts with clients in accordance with IFRS 15.

Contracts with multiple performance obligations

These contracts comprise a variety of performance obligations and under IFRS 15, the Group must evaluate the separability of the promised goods or services based on whether they are 'distinct'. A promised good or service is 'distinct' if both:

- the customer benefits from the item either on its own or together with other readily available resources, and
- it is 'separately identifiable' (i.e. the Group does not provide a significant service integrating, modifying or customising it).

While this represents significant new guidance, the implementation of this new guidance did not have a significant impact on the timing or amount of revenue recognised by the Group in any year.

Except for the described change in capitalization and deferral of commission expense, IFRS 15 does not result in a material change in the manner, amount and timing of the Group's revenue reporting. Basically, changes are related to more detailed disclosures as required by the new standard.

The Group has adopted the following new standards, amendments and interpretations to IFRS issued by the International Accounting Standards Board, which are relevant to and effective for the Group's consolidated financial statements for the annual period beginning 1 January 2018 but do not have a significant impact on the Group's financial results or position:

- IFRS 2 "Share Based Payments" (amended) effective from 1 January 2018, adopted by the EU
- IAS 40 "Investment property" (amended) - Transfers of Investment Property effective from 1 January 2018, adopted by the EU
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" effective from 1 January 2018, adopted by the EU
- Annual Improvements to IFRSs 2014-2016 effective from 1 January 2018, adopted by the EU.

3.2. Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued, but are not effective or adopted by the EU for the financial year beginning on 1 January 2018 and have not been adopted early by the Group. Information on those expected to be relevant to the Group's consolidated financial statements is provided below.

IFRS 9 "Financial Instruments" (amended) – Prepayment features with negative compensation, effective from 1 January 2019, adopted by the EU

The amendments allow companies to measure particular prepayable financial assets with negative compensation at amortised cost or at fair value through other comprehensive income – instead of measuring those assets at fair value through profit or loss.

IFRS 16 "Leases" effective from 1 January 2019, adopted by the EU

This standard replaces the current guidance in IAS 17 "Leases" and is a far-reaching change in accounting by lessees in particular.

Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use-asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

For lessors, the accounting stays almost the same.

Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Management is yet to fully assess the impact of the Standard and therefore is unable to provide quantified information. However, in order to determine the impact, the Group is in the process of:

- performing a full review of all agreements to assess whether any additional contracts will now become a lease under IFRS 16's new definition;
- deciding which transitional provision to adopt; either full retrospective application or partial retrospective application (which means comparatives do not need to be restated). The partial application method also provides optional relief from reassessing whether contracts in place are, or contain, a lease, as well as other reliefs. Deciding which of these practical expedients to adopt is important as they are one-off choices.
- assessing their current disclosures for finance leases and operating leases as these are likely to form the basis of the amounts to be capitalised and become right-of-use assets.
- determining which optional accounting simplifications apply to their lease portfolio and if they are going to use these exemptions;
- considering the IT system requirements and whether a new leasing system is needed. This is being considered in line with implementing IFRS 15 and IFRS 9, so the Group only have to undergo one set of system changes;
- assessing the additional disclosures that will be required.

The expected effects of applying the standard can be presented as follows:

Right-of-use assets	**01.01.2019 BGN'000**
Right-of-use assets recognized as:	
- Property, plant and equipment	168 431
incl. aircrafts	140 071
	168 431
Lease liabilities	
Aging analysis of lease liabilities	
Total amount of undiscounted lease liabilities	191 936
Discount	(23 505)
Total amount of present value of lease liabilities	**168 431**

IFRS 17 "Insurance Contracts" effective from 1 January 2021, not yet adopted by the EU

IFRS 17 was issued in May 2017 as replacement for IFRS 4 "Insurance Contracts". It requires a current measurement model where estimates are remeasured each reporting period. Contracts are measured using the building blocks of:

- discounted probability-weighted cash flows;
- an explicit risk adjustment, and
- a contractual service margin ("CSM") representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the income statement or directly in other comprehensive income.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts.

IAS 28 "Investments in associates and joint ventures" (amended) – Long-term interests in associates and joint ventures effective from 1 January 2019, adopted by the EU

The amendment clarifies that companies account for long-term interests in an associate or joint venture – to which the equity method is not applied – using IFRS 9.

Annual Improvements to IFRSs 2015-2017 effective from 1 January 2019, adopted by the EU

These amendments include minor changes to:

- IFRS 3 "Business combinations" – the Group remeasures it's previously held interest in a joint operation when it obtains control of the business.
- IFRS 11 "Joint arrangements" – the Group does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
- IAS 12 "Income taxes" – the Group accounts for all income tax consequences of dividend payments in the same way.
- IAS 23 "Borrowing costs" – the Group treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

The following new standards, amendments and interpretations to existing standards, which have also been issued, but are not yet effective, are not expected to have a material impact on the Group's consolidated financial statements.

The changes are related to the following standards:

- IFRS 14 "Regulatory deferral accounts" effective from 1 January 2016, not yet adopted by the EU
- IAS 19 "Employee benefits" (amended) – Plan amendment, curtailment or settlement - effective from 1 January 2019, adopted by the EU
- IFRIC 23 "Uncertainty over income tax treatments" effective from 1 January 2019, adopted by the EU

4. Summary of accounting policies

4.1. Overall considerations

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarized below.

The consolidated financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used for the preparation of the consolidated financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

4.2. Presentation of consolidated financial statements

The consolidated financial statements are presented in accordance with IAS 1 “Presentation of Financial Statements”. The Group has elected to present the consolidated statement of profit or loss and other comprehensive income as a single statement.

Two comparative periods are presented for the consolidated statement of financial position when the Group:

(i) applies an accounting policy retrospectively,
(ii) makes a retrospective restatement of items in its consolidated financial statements, or
(iii) reclassifies items in the consolidated financial statements.

In 2018 one comparative period is presented, as no restatements to the presentation of the elements of the consolidated financial statements and the corresponding comparative information other than the first-time application of IFRS 9. In case there are adjustments to the classification of the elements of the consolidated financial statements, relevant comparative information has also been reclassified to ensure comparability between reporting periods.

4.3. Basis of consolidation

The consolidated financial statements of the Group have consolidated the financial statements of the parent and subsidiary companies as of 31 December 2018. Subsidiaries are all entities that are under the control of the parent. There is control when a parent is exposed to, or has rights over, the variable return on its participation in the investee and has the potential to impact on that return by virtue of its powers over the investee. All subsidiaries have a reporting period ending on 31 December.

All transactions and balances between Group companies are eliminated on consolidation, including unrealized gains and losses on transactions between Group companies. Where unrealized losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognized from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit and loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

When the Group ceases the control of a subsidiary, any retained interest in the entity is measured to its fair value as at the date of loss of control, with the change in carrying amount recognized in profit or loss. The fair value of any retained interest in the former subsidiary at the date of loss of control is regarded as fair value of initial recognition of financial asset, or where appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs).

The profit or loss on disposal is calculated as the difference between i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interest.

4.4. Business combinations

Business combinations are accounted for using the purchase method. . The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred, and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred.

The purchase method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. On initial recognition, the assets and liabilities of the acquired subsidiary are included in the consolidated statement of financial position at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree that is present ownership interests and entitles their holders to a proportionate share of the entity's net assets in the event of liquidation either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognized amount of any non-controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair value of any identifiable net assets exceeds the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognized in profit or loss immediately.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquire is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have been previously recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if the interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period which cannot exceed one year from the acquisition date or additional assets or liabilities are recognized to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

Any contingent consideration to be transferred by the acquirer is measured at fair value at the acquisition date and included as part of the consideration transferred in a business combination. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, is recognized in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill.

4.5. Transactions with non-controlling interest

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are treated as transactions with equity owners of the Group. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the parent company.

4.6. Investments in associates and joint ventures

Associates are those entities over which the Group is able to exert significant influence, but which are neither subsidiaries nor interests in a joint venture. Investments in associates are initially recognized at cost and subsequently accounted for using the equity method. The cost of the investment includes transaction costs.

Joint ventures are contractual arrangements whereby two or more parties undertake an economic activity that is subject to joint control. They are accounted for using the equity method.

Any goodwill or fair value adjustment attributable to the Group's share in the associate is included in the amount recognized as investment in associates.

All subsequent changes to the Group’s share of interest in the equity of the associate are recognized in the carrying amount of the investment. Changes resulting from the profit or loss generated by the associate are reported within 'Share of profit from equity accounted investments' in profit or loss. These changes include subsequent depreciation, amortization or impairment of the fair value adjustments of assets and liabilities.

Changes resulting from other comprehensive income of the associate or items recognized directly in the associate's equity are recognized in other comprehensive income or equity of the Group, as applicable. However, when the Group's share of losses in an associate equal or exceed its interest in the associate, including any unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has previously not been recognized.

Unrealized gains and losses on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in those entities. Where unrealized losses are eliminated, the underlying asset is also tested for impairment losses from a group perspective.

Amounts reported in the financial statements of associates and jointly controlled entities have been adjusted where necessary to ensure consistency with the accounting policies of the Group.

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the sum of the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

4.7. Foreign currency transactions

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate as published by the Bulgarian National Bank). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year-end exchange rates are recognized in profit or loss.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction (not retranslated). Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

In the Group's consolidated financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than the BGN (the Group's presentation currency) are translated into BGN upon consolidation. The functional currency of the entities in the Group has remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into BGN at the closing rate at the reporting date. Income and expenses have been translated into the Group's presentation currency at the average rate over the reporting period. Exchange differences are charged/credited to other comprehensive income and recognized in the currency translation reserve in equity. On disposal of a foreign operation the cumulative translation differences recognized in equity are reclassified to profit or loss and recognized as part of the gain or loss on disposal. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into BGN at the closing rate.

4.8. Segment reporting

The Group operates in the following operating segments:

- production, trade and services
- finance
- transportation
- real estate and engineering

Each of these operating segments is managed separately as each of these service lines requires different technologies and other resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies the Group uses for segment reporting under IFRS 8 “Operating Segments” are the same as those used in its consolidated financial statements.

Group assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

Information about the results of the separate segments that is regularly reviewed by the chief operating decision maker does not include isolated unrepeated events. Finance income and costs are also not included in the results of operating segments which are regularly reviewed by the chief operating decision maker.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss. No asymmetrical allocations have been applied between segments.

4.9. Revenue

4.9.1. Revenue recognition policy and evaluation of revenue from contracts with customers effective from 01.01.2018

To determine whether to recognise revenue, the Group follows a 5-step process:
1 Identifying the contract with a customer
2 Identifying the performance obligations
3 Determining the transaction price
4 Allocating the transaction price to the performance obligations
5 Recognising revenue when/as performance obligation(s) are satisfied.

Revenue from contracts with customers is recognised when the control over the goods and / or services subject of the contract is transferred to the client in an amount that reflects the remuneration that the Group expects to be entitled to in exchange for those goods or services. Control is transferred to the buyer when he satisfies a performance obligation, under the terms of the contract, by transferring the promised product or service to the buyer. A certain asset (product or service) is transferred when a buyer has control over that asset.

Any promise to transfer goods and / or services that are identifiable (on their own and in the context of the contract) is reported as a performance obligation.
The Group recognizes revenue for each separate performance obligation for an individual contract with a client by analysing the type, term and conditions of each particular contract. For contracts with similar characteristics, revenue is recognized on a portfolio basis only if their grouping in a portfolio would not have a materially different effect on the financial statements.
Typically, contracts with clients of the Group include one performance obligation.

When a transaction falls partly within the scope of IFRS 15 and partly within the scope of other standards, the Group applies the separation and / or initial measurement requirements set out in those standards if the other standards specify how to divide and / or initially evaluate one or more parts of the contract. The Group excludes from the price the value of the part (or parts) of the contract that is initially measured in accordance with other standards and applies the requirements of IFRS 15 to allocate the remaining cost of the transaction.

If other standards do not specify how to separate and / or initially measure one or more parts of the contract, then the Group applies IFRS 15 for the separation and / or initial measurement of the part (or parts) of the contract.

Evaluation

Revenue is measured based on the transaction price specified for each contract.
When determining the transaction price, the Group considers the terms of the contract and its usual business practices.
The transaction price is the amount of the consideration the Group expects to be entitled to in exchange for the transfer of the promised goods or services to the buyer, except for amounts collected on behalf of third parties (e.g. VAT). The price specified in the contract with the buyer may include fixed amounts, variable amounts, or both.
When a performance obligation is satisfied, the Group recognizes revenue at the amount of the transaction cost (which excludes estimates of variable remuneration containing limitations) that is attributable to that performance obligation.

The Group considers whether there are other promises in the contract that represent separate performance obligations for which a portion of the transaction price should be allocated. When determining the transaction price, account is taken of the impact of variable remuneration, the existence of significant financing components, non-monetary remuneration and the remuneration due to the client.

Principal or agent

When a third party participates in the sale of goods or services to a client, the Group determines whether the nature of his promise is a performance obligation related to the sale of the particular goods or services (principal) or by arranging for the third party to provide those goods or services (agent).

The Group is a principal when it controls the promised good or service before transferring it to the customer. However, the Group does not necessarily act as a principal if it receives the ownership of an asset only temporarily before the ownership right is transferred to the client.

The Group is an agent if the Group's performance obligation is to arrange the delivery of the goods or services from a third party. When the agent company satisfies the performance obligation, it recognizes revenue at the amount of a fee or commission it expects to be entitled to in exchange for arranging the goods and services to be provided by another party. The fee or commission of the Group may be the net amount of the remuneration that the Group retains after paying to the other party the consideration received in exchange for the goods or services to be provided by that party.

Trade receivables and contract assets

The receivable is the right of the Group to receive remuneration at a certain amount, which is unconditional (i.e., before the payment of the remuneration becomes due, it is only necessary to expire a certain period of time).

Contract asset is the Group’s right to receive remuneration in exchange for the goods or services it has transferred to the client, but which is not unconditional (charge for the receivable). If, through the transfer of the goods and / or the providing of the services, the Group fulfils its obligation before the client pays the relevant consideration and / or before the payment becomes due, a contract asset is recognized for the earned remuneration (which is conditional). Recognized contract assets are reclassified as a trade receivable when the right to remuneration becomes unconditional.

Contract liabilities

The Group presents as a contracted liability the payments received by the client and/ or an unconditional right to receive payment before fulfilling its obligations to perform the contract. Contract liabilities are recognized as income when the performance obligation has been satisfied.

Contract liabilities include liabilities under sold air tickets for which the actual providing of the service has not occurred as at the date of the financial statement, i.e. the carriage.

Assets and liabilities arising from one contract are presented net in the statement of financial position even if they are a result of different performance obligations in the contract.

After initial recognition, trade receivables and contract assets are reviewed for impairment in accordance with IFRS 9 Financial Instruments.

4.9.1.1. Revenue recognized over time

Rendering of services

The services provided by the Group include a wide range of services of the companies in Group, depending on the nature of their business - banking, consulting, drilling, exploration, hydrogeological, repair, air, river and land transport, warehousing services, designing, technical services, IT support and more. The Group also provides IT services, including payroll processing for a fixed monthly fee. Revenue is recognized on a straight-line basis over the term of each contract. Since the amount of work required to execute these contracts does not differ significantly each month, the straight-line method faithfully reflects the transfer of goods or services.

Fees that are not an integral part of the effective interest rate of financial instruments are accounted for in accordance with IFRS 15.

Typically, the services of the Group consist of one performance obligation.

Revenue from services is recognized when the control over the benefits of the services provided is transferred to the user of the services. Revenue is recognized over time on the basis of performance of individual performance obligations.

Revenue from these services is recognized based on time and materials, when the services are provided. When recognizing the revenue from the provided services, the Group applies stage of completion method taking into account outputs/ method reflecting the inputs.

Revenue from aviation

The main activity of the airline company in the Group is related to providing aviation services both on the territory of the country and abroad.

Revenue from flights includes international and domestic scheduled flights, international charter flights and other flight-related services. The Group transfers control over the service over time and therefore satisfies the performance obligation and recognizes revenue over time. Revenue from the operated flights are recognized after the actual flight.

The cost of the services may be defined as a fixed remuneration. The price of an airline ticket includes the price of the carriage of both the passenger and a different amount of luggage depending on the applicable tariff, on-board food, insurance; airport charges and fuel charges. Allocation of the price to the performance obligations is made on the basis of unit sales prices.

The Group measures its progress towards a full settlement of the performance obligation over time through a confirmation of the operated flight and respectively transportation used the passenger.

In cases where customers have purchased tickets but the usage options and / or the period of validity of the tickets have expired and they are not used by the customer, the Group recognizes revenue from expired tickets. The portion of the fee related to airport charges that the Group typically collects from clients as an agent is also recognized as income from tickets that have expired because they are non-refundable and there is no option for their usage.

4.9.1.2. Revenue recognized at a point in time

Sale of goods and production

Sale of goods and production comprises the sale of oil, crude oil, natural gas, petroleum products and others. Revenue is recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods supplied. Significant risks and rewards are generally considered to be transferred to the buyer when the customer has taken undisputed delivery of the goods.

Revenue from the sale of goods with no significant service obligation is recognized on delivery. Where the goods require significant tailoring, modification or integration the revenue is recognized using stage of completion method taking into account outputs/ method reflecting the inputs.

When the sale of goods includes incentives for loyal customers, they are distributed within the transaction price and are recognized as contract liabilities. The remuneration received is allocated among the individual performance obligations included in the sales contract based on their unit sale prices/ residual value. Revenue from this type of sale is recognized when the customer exchanges the received rewards with products delivered by the Group.

4.9.2. Other revenue of the Group

The major part of the Group's revenue, which is outside the scope of IFRS 15 and is accounted for under other standards, relates to banking activity, insurance activity and activity related to financial asset management and trading. The Group's revenue related to transactions with financial instruments is classified as gains on operations with financial instruments and / or financial income from interest on loans and dividend income.

Revenue from bank fees and commissions that are not an integral part of the effective interest rate of financial instruments, interest on loans granted, gains on trading with financial instruments are recognized under IFRS 9. Revenue related to the Group's insurance activity are reported in accordance with IFRS 4.

The recognition and reporting are as follow:

Bank activity

Interest income and interest expenses

Interest income and expense are recognized using the effective interest method of the relevant financial asset or liability in all material aspects. Interest income and expense includes the amortization of discount, premium or other differences between the initial carrying amount and the maturity of an interest-bearing instrument calculated using an effective interest method. The effective interest rate is the rate at which the estimated future cash flows of the financial instrument for its lifetime are accurately discounted or, where applicable, for a shorter period, to the net carrying amount of the financial asset or financial liability. Future cash flows are approximated, taking into account the contractual terms of the instrument. Calculation of the effective interest rate includes all fees and charges paid or received between the parties to the contract that are directly related to the specific agreement, transaction costs and any other premiums or discounts.

Interest income and interest expense presented in the Statement of Profit or Loss include:

- Interest from financial assets and liabilities at amortized cost calculated on the basis of the effective interest rate;

- Interest from financial assets, at fair value through other comprehensive income (FVTOCI), calculated on the basis of an effective interest rate

- Interest from debt instruments at fair value through profit or loss.

The Group does not accrue any interest income on the statement of financial position from receivables after change of their status to "court". After the date of classification to court status, interest income from court receivables is recognized on the statement of financial position only in case of their payment.

Fees and commissions

All fees and commissions that are not an integral part of the effective interest rate of financial instruments are accounted for in accordance with IFRS 15.

To determine whether to recognise revenue in accordance with IFRS 15, the Group follows a 5-step process:

1 Identifying the contract with a customer
2 Identifying the performance obligations
3 Determining the transaction price
4 Allocating the transaction price to the performance obligations
5 Recognising revenue when performance obligation(s) are satisfied.

Revenue is recognized either at a time or with time when, or until the Group meets its performance obligations, transferring promised services to its clients.

The Group recognizes as contractual obligations remuneration received in respect of outstanding performance obligations and presents them as other liabilities in the statement of financial position. Similarly, if the Group meets a performance obligation before receiving the remuneration, it recognizes in the statement of financial position or contract asset or receivable, depending on whether or not something other than a specified time is required to receive the remuneration.

With regard to the entry into force of IFRS 15 "Revenue from contracts with customers" as of 1 January 2018, the Group has analyzed the types of existing contractual relationships with customers, as a result of which no significant effects have been identified from the application of IFRS 15 to financial statements of the Group.

Fees and commissions consist mainly of bank transfer fees in the country and abroad, account maintenance fees, credit exposures, off-balance sheet and other revenue items disclosed in a note 44.

Commissions arising from foreign currency transactions are reported in the statement of profit or loss and other comprehensive income on their receipt. Fees and commissions for granting and management of loans when considered to be part of the effective income are amortized during the loan term and are recognized as current financial income during the period by applying the effective interest method.

Revenue from insurance activities

Revenue recognition from premiums over insurance contracts is based on the amount, due by the insured (insuring) person for the whole term of the insurance, which the Group has the right to receive according to insurance contracts signed during the accounting period and for insurances with terms covering whole or parts of the next accounting period. The Group recognizes revenue from insurance premiums on an accrual basis as income is recognized at the time the policy is issued when the entire premium or first instalment is paid, unless otherwise agreed.

In case of co-insurance revenue is recognized only for the insurer's part from the whole amount of premiums.
Premiums signed away to reinsurers for common insurance include premiums due to reinsurers according to reinsurance contracts for reinsurance of risks over signed during the period contracts on direct insurance and inward reinsurance. The reinsurance premiums, which are not paid as at reporting date, are accounted for as payables.
The amounts that are subject to reimbursement from the reinsurer in relation to the claims paid during the period by the insurer, are accounted for as reinsurer's share including the case in which the settlement of the relations with reinsurers occurs in following accounting period.
Revenues from the exercise of recourse rights are recognized at the time of their registration.
The reinsurance premiums, which are not paid as of the balance sheet date, are reported as payables.

Revenue from government grants

Revenue from government grants is recognized at fair value when there is reasonable assurance that the Group will comply with the conditions attaching to them and the grant will be received.

Revenue from government grants is recognized over the periods in which the related costs for which the grants are intended to compensate are recognised as expenses.

Government grants related to depreciable assets are recognized as revenue over the useful life of a depreciable asset by reduced depreciation charges.

4.9.3. Revenue recognition policy and evaluation of revenue effective until 31.12.2017

Revenue comprises revenue from the sale of goods and the rendering of services from any of the business segments of the Group.

Revenue is measured at the fair value of the consideration received or receivable considering the amount of any trade discounts and rebates, allowed by the Group. In case of similar assets with similar values are exchanged, the transaction is not recognized as generating income.

Revenue is recognized, provided all of the following conditions are satisfied:

- the amount of the revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group;
- the costs incurred or to be incurred can be measured reliably; and
- when the criteria for each of the Group's different activities has been met. These activity-specific recognition criteria are based on the goods or solutions provided to the customer and the contract conditions in each case and are described below.

Sale of goods

When selling goods revenue is recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods supplied. Significant risks and rewards are generally considered to be transferred to the buyer when the customer has taken undisputed delivery of the goods.

Rendering of services

Revenue from rendering of services is recognized when the outcome of the transaction can be measured reliably.

Bank activity

Interest income and expenses

Interest income and expenses are recognized on a time proportion basis using the effective interest rate method as the difference between the amount at initial recognition of the respective asset or liability and the amount at maturity is amortized.

For loans granted by the Bank and amounts owed to depositors, where the interest is calculated on a daily basis by applying the contracted interest rate to the outstanding balance, the effective interest rate is considered to be approximately equal to the contracted interest rate due to the nature of the contractual terms.

Interest earned as a result of securities held for trade or securities available-for-sale is recognized as interest revenue. Interest revenue includes the amount of amortization of any discount, premium or other difference between the initial cost of debt securities and their amount at maturity.

Upon acquisition of an interest-bearing security, the interest accrued as of the acquisition date is accounted for as interest receivable.

Fees and commissions

Fees and commissions consist mainly of fees for payment transactions in BGN and in foreign currency, fees for granting and management of loans, opening of letters of credit and issuance of guarantees. Fees and commissions are recognized when the service is performed.

Commissions arising from foreign currency transactions are reported in the statement of comprehensive income on their receipt. Fees and commissions for granting and management of loans, when considered to be part of the effective income, are amortized during the loan term and are recognized as current financial income during the period by adjusting the effective interest income.

Revenue from insurance activities

Revenue recognition from premiums over insurance contracts is based on the amount, due by the insured (insuring) person for the whole term of the insurance, which the Group has the right to receive according to insurance contracts signed during the accounting period and for insurances with terms covering whole or parts of the next accounting period.

Reinsurance premiums from inward reinsurance are recognized as revenue based on the premiums due in the accounting period from assignors in connection with reinsurance contracts.

In case of co-insurance revenue is recognized only for the insurer’s part from the whole amount of premiums.

Premiums signed away to reinsurers for common insurance include premiums due to reinsurers according to reinsurance contracts for reinsurance of risks over signed during the period contracts on direct insurance and inward reinsurance. The reinsurance premiums, which are not paid as at reporting date, are accounted for as payables.

The amounts that are subject to reimbursement from the reinsurer in relation to the claims paid during the period by the insurer, are accounted for as reinsurer’s share including the case in which the settlement of the relations with reinsurers occurs in following accounting period.

Premiums signed away to reinsurers include the premiums payable to the reinsurers for the reporting period in relation to reinsurance contracts for reinsurance of risks over signed during the period contracts, as well as reinsurance of risks related to the premium periods starting during the reporting period.

The reinsurance premiums, which are not paid as of the balance sheet date, are reported as payables.

Revenue from aviation activity

Services provided by the Group include the transport of passengers, cargo, baggage and mail their own and hired vehicles, aircraft lease rentals, maintenance of aircraft and engineering, sales and ticket bookings, production and technical and intermediary activities training and qualification of personnel, internal and external trade.

Revenue from sales of airline tickets is recognized when the transportation service is rendered.

When the sale of airplane tickets includes loyalty customers' incentives, the consideration received from the customer is allocated between the components of the arrangement using fair values. Revenue of such sales is recognized when the client exchanges the incentives for goods provided by the Group.

Revenue from government grants

Revenue from government grants is recognized at fair value when there is reasonable assurance that the Group will comply with the conditions attaching to them and the grant will be received.

Revenue from government grants is recognized over the periods in which the related costs for which the grants are intended to compensate are recognised as expenses.

Government grants related to depreciable assets are recognized as revenue over the useful life of a depreciable asset by reduced depreciation charges.

Interest and dividend income

Interest income is reported on an accrual basis using the effective interest method. Dividend income, other than those from investments in associates, is recognized at the time the right to receive payment is established.

4.10. Operating expenses

Operating expenses are recognized in profit or loss upon utilization of the service or as incurred.

The Group recognizes two types of contract costs related to the execution of contracts for the supply of services with customer: incremental costs of obtaining a contract and costs to fulfil a contract. Where costs are not eligible for deferral under IFRS 15, they are recognized as current expenses at the time they arise, such as they are not expected to be recovered, or the deferral period is up to one year.

The following operating expenses are always recognized as current expenses at the time of their occurrence:

- General and administrative costs (unless those costs that are chargeable to the customer);
- Costs of wasted materials;
- Costs that relate to satisfied performance obligation;
- Costs for which the company cannot distinguish whether the costs relate to unsatisfied performance obligation or to satisfied performance obligation.

Expenditure for warranties is recognized and charged against the associated provision when the related revenue is recognized.

With respect to costs associated with non-regularity and / or other compensations due to customers, the airline company part of the Group has retained its current reporting approach as a current expense. IFRS 15 does not provide explicit guidance for reporting this type of compensations. The Group considers that there is no transfer of a separate good or service against which this benefit should be reduced.

Aviation costs are the costs of intermediary commissions and advertising costs and are recognized as current expenses over the term of the respective insurance contracts in full at the time when the revenue is accrued.

Cost of insurance activity

Expenses for paid compensations are recognized for the period in which they arise. These include the cost of paid compensations and the costs of assessing the compensation due (liquidation costs), less income from regress rights and recoverable compensations from reinsurers adjusted by the change in the provision for outstanding claims, net of reinsurance for the financial year.

Acquisition costs are the costs of intermediary commissions and advertising costs and are recognized as current expenses over the life of the respective insurance contracts in full at the time when the revenue is accrued.

Administrative expenses are expenses related to the insurer's personnel, the costs of collecting the premiums and managing the insurance portfolio, including advertising, as well as the depreciation and amortisation of the fixed assets. Administrative expenses are recognized in profit or loss upon use of the services or on the date of their occurrence.

Prepaid expenses are deferred for recognition as current expenses over the period in which the contracts to which they relate are satisfied.

4.11. Interest expenses and borrowing costs

Interest expenses are reported on an accrual basis using the effective interest method.

Borrowing costs primarily comprise interest on the Group's borrowings. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed in the period in which they are incurred and reported in 'Interest expenses'.

4.12. Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognized. See note 4.4 for information on how goodwill is initially determined. For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Goodwill is carried at cost less accumulated impairment losses. Refer to note 4.16 for a description of impairment testing procedures.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

4.13. Intangible assets

Intangible assets include trademarks, licenses and patents, software products, relations with clients, research and development products, assets for research and valuation of mineral resources and other. They are accounted for using the cost model. The cost comprises its purchase price, including any import duties and non-refundable purchase taxes, and any directly attributable expenditure on preparing the asset for its intended use. If an intangible asset is acquired in a business combination, the cost of that intangible asset is based on its fair value at the date of acquisition.

After initial recognition, an intangible asset is carried at its cost less any accumulated amortization and any accumulated impairment losses. Impairment losses are recognized in the consolidated statement of profit or loss and other comprehensive income for the respective period.

Subsequent expenditure on an intangible asset after its purchase or its completion is expensed as incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured reliably and attributed to the asset. If these two conditions are met, the subsequent expenditure is added to the carrying amount of the intangible asset.

Residual values and useful lives are reviewed at each reporting date.

Amortization is calculated using the straight-line method over the estimated useful life of individual assets as follows:

• Software	2-5 years
• Trade marks	6-7 years
• Property rights	5-7 years
• Licenses	7 years
• Certificates	5 years
• Industrial property rights	27 - 30 years
• Other	7 - 10 years

Amortization has been included in the consolidated statement of profit or loss and other comprehensive income within Depreciation, amortization and impairment of non-financial assets, included in item Expenses for non-financial activities and item Administrative expenses.

The gain or loss arising on the disposal of an intangible asset is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in profit or loss and other comprehensive income within Gain from sale of non-current assets.

4.14. Property, plant and equipment

Items of property, plant and equipment are initially measured at cost, which comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use.

After initial recognition, the property, plant and equipment are carried at its cost less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. Impairment losses are recognized in the consolidated statement of profit or loss and other comprehensive income for the respective period.

Subsequent expenditure relating to an item of property, plant and equipment is added to the carrying amount of the asset when it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance. All other subsequent expenditure is recognized as incurred.

Residual values and useful lives of property, plant and equipment are reviewed by the management at each reporting date.

Property, plant and equipment acquired under finance lease agreement, are depreciated based on their expected useful life, determined by reference to comparable assets or based on the period of the lease contract, if shorter.

Depreciation is calculated using the straight-line method over the estimated useful life of individual assets as follows:

• Buildings	25 years
• Machines	3-5 years
• Fixtures and fittings	4 to 25 years
• Vehicles	4 to 10 years
• Aircrafts	20 years
• Engines	12 years
• Marine vessels	30 years
• Equipment	7 years
• Other	7 years

Depreciation has been included in the consolidated statement of profit or loss and other comprehensive income within Depreciation, amortization and impairment of non-financial assets, included in item Expenses for non-financial activities and item Administrative expenses.

Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in profit or loss and other comprehensive income within Gain on sale of non-current assets.

4.15. Leases

Lessee

In accordance with IAS 17 “Leases”, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset.

The related asset is then recognized at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognized as a finance lease liability, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease.

The finance lease liabilities are reduced by subsequent lease payments, which consist of repayment of principal and finance costs.

Assets acquired under the terms of finance lease are depreciated or amortized in accordance with IAS 16 “Property, Plant and Equipment” or IAS 38 “Intangible Assets”.

The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to profit or loss over the period of the lease.

All other leases are treated as operating leases. Payments on operating lease agreements are recognized as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Lessor

Assets subject to operating lease agreements are presented in the consolidated statement of financial position and are depreciated and amortized in accordance with the depreciation and amortization policy of the Group for similar assets and with the requirements of IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets”. Income from operating lease contracts is recognized on a straight-line basis in the consolidated statement of profit or loss and other comprehensive income for the reporting period.

Assets held under a finance lease agreement are presented in the consolidated statement of financial position as a receivable at amount equal to the net lease investment. The sales revenue from assets is recognized in the consolidated income statement for the reporting period. The recognition of the finance income is based on a pattern reflecting a constant periodic rate of return on the lessor’s net investment outstanding.

4.16. Impairment testing of assets

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

All assets and cash-generating units are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganizations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect their respective risk profiles as assessed by management.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment charge is reversed if the cash-generating unit’s recoverable amount exceeds its carrying amount.

4.17. Investment property

The investment property of the Group includes buildings held to earn rentals and/or for capital appreciation and are accounted for using the cost model.

The investment property is initially measured at cost, which comprises the purchase price and any directly attributable expenses, e. g. legal fees, property transfer taxes and other transaction costs.

The investment property is revalued annually and is included in the consolidated statement of financial position at its open market value. This is determined by an independent valuer with professional qualification and significant experience with respect to both the location and the nature of the investment property and supported by sufficient market evidence.

Any gain or loss resulting from either a change in the fair value or the sale of an investment property is immediately recognized in profit or loss within Change in fair value of investment property.

Subsequent expenditure relating to investment property, which is already recognized in the Group's financial statements, is added to the carrying amount of the investment property when it is probable that this expenditure will enable the existing investment property to generate future economic benefits in excess of its originally assessed value. All other subsequent expenditure is recognized as incurred.

The investment property is derecognized upon its sale or permanent withdrawal from use in case that no future economic benefits are expected from its disposal. Gains or losses arising from the disposal of investment properties are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss.

Rental income and operating expenses from investment property are reported within 'Income from non-financial activities' and 'Expenses for non-financial activities' respectively, and are recognized as described in note 4.9 and note 4.10.

4.18. Assets of exploration and evaluation of mineral resources

The exploration and evaluation of the mineral resources of the Group is related to the search and exploration of crude oil and natural gas. After being granted the rights for these activities, all corresponding expenses are capitalized initially in a specific "Block".

The Group recognizes as exploration and evaluation assets all accrued expenses in the process of search of resources, exploration with commercial purpose, expenses that can be related directly to specific exploration area "Block", for which the Group has permission for search and exploration, issued by the state. These expenses include at least the following types:

- Acquisition of exploration rights
- Topographic, geologic, geochemical and geophysical exploration
- Exploration drilling
- Probing for analysis
- Activities related to evaluation of technical execution and commercial applicability of the extraction of mineral resources.

All expenses made before the permission for exploration and evaluation are assigned to the gain or loss for the period, they were incurred in.

Exploration and evaluation assets of mineral resources can be classified as follows:

- Permission for search and exploration, issued by MEW and MEE, in compliance with the Mineral Resources Act and the related taxes;
- All expenses for topographic, geological, geochemical and geophysical exploration, exploration drilling, digging work, probing for an analysis and other activities, related to the evaluation of the technical execution and the commercial applicability of the extracted mineral resources, as well as other expenses for exploration and evaluation, which are made for a specific area, for which the Group has a permission to explore, are also capitalized. These expenses also include employee remuneration, materials and used fuel, expenses for logistics and payments to suppliers.

The exploration and evaluation expenses of mineral resources are capitalized and recognized as intangible assets until the technical feasibility and trade application of the mineral resource are determined. After proving the technical feasibility and trade application of the discovered mineral resource, the cost of exploration and evaluation are transformed in “Property, plant and equipment”.

Assets for exploration and evaluation reviewed technically, financially and on a management level, at least annually, with the purpose of confirmation of the continuation of the exploration activities and benefiting from the discovery, as well as for impairment testing. In case that the Group does not intend to continue the exploration activities or indications for impairment are identified, the expenses are written-off.

The exploration and evaluation assets of the mineral resources are measured at cost at their initial recognition. The elements of their cost include the exploration and evaluation activities.

“Exploration activities” - means activities with the purpose of discovery of oil accumulation. This includes, without being limited to, geological, geophysical, photographic, geochemical and other analyses, studying and explorations, as well as drilling, further deepening, abandonment or besiege and perforation, as well as testing of searching drillings for oil discovery, and the purchase, renting or acquisition of such resources, materials, equipment for such activities, which can be included in the approved annual working projects and budgets.

“Evaluation activities” - means evaluation works (part of the exploration) and working program for evaluation, being done after the discoveries, aiming to outline the natural reservoir, to which the discovery is related, in terms of thickness and lateral distribution, and evaluation of the extractable quantities in it, and should include, without being limited to, geological, geophysical, photographic, geochemical and other analyses.

4.19. Financial instruments under IFRS 9, effective since 1 January 2018

4.19.1. Recognition and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

4.19.2. Classification and initial measurement of financial assets

Financial assets are initially measured at fair value, adjusted for transaction costs, except for financial assets at fair value through profit or loss and trade receivables that do not contain a significant financial component. The initial measurement of financial assets at fair value through profit or loss is not adjusted with transaction costs that are reported as current expenses. The initial measurement of trade receivables that do not contain a significant financial component represents the transaction price in accordance with IFRS 15.

Depending on the method of subsequent measurement, financial assets are classified into the following categories:

- Debt instruments at amortised cost;
- Financial assets at fair value through profit or loss (FVTPL);
- Financial assets at fair value through other comprehensive income (FVOCI) with or without reclassification in profit or loss, depending on whether they are debt or equity instruments

The classification is determined by both:

- the Group’s business model for managing the financial asset;
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses in the consolidated statement of profit or loss and other comprehensive income.

4.19.3. Subsequent measurement of financial assets

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions and are not designated as FVTPL:

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows;
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

This category includes non-derivative financial assets like loans and receivables with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and other receivables fall into this category of financial instruments as well as debt instruments that were previously classified as loans and receivables, held-to-maturity investments or available-for-sale financial assets under IAS 39.

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

Financial assets that are held within a different business model than "hold to collect" or "hold to collect and sell", and financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply (see below).

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

Financial assets at fair value through other comprehensive income (FVOCI)

The Company accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective it is "hold to collect" the associated cash flows and sell; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The financial assets at FVOCI include:

- Equity securities that are not held for trading and which at initial recognition the company irrevocably has chosen to recognize in this category. These are strategic investments and the company considers this classification to be more relevant.
- Debt securities where the contractual cash flows are solely payments of principal and interest and the purpose of the company's business model is achieved both by collecting contractual cash flows and by selling the financial assets.

On disposal of equity instruments of this category, any amount recognized in the revaluation reserve is reclassified to retained earnings.

On disposal of debt instruments of this category, any amount recognized in the revaluation reserve is reclassified to profit or loss for the period.

4.19.4. Impairment of financial assets

IFRS 9's new impairment requirements use more forward-looking information to recognise expected credit losses – the "expected credit loss" (ECL) model. This replaces IAS 39's "incurred loss model".

Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost, trade receivables, contract assets recognised and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the Group first identifying a credit loss event. Instead the Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (Stage 1) and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (Stage 2)
- Stage 3 would cover financial assets that have objective evidence of impairment at the reporting date.

"12-month expected credit losses" are recognised for the first category while "lifetime expected credit losses" are recognised for the second category. Expected credit losses are determined as the difference between all contractual cash flows attributable to the Group and the cash flows it is actually expected to receive ("cash shortfall"). This difference is discounted at the original effective interest rate (or credit adjusted effective interest rate).

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

For the purpose of determining the impairment of financial assets, the Group applies models of calculating the expected credit losses on collective or individual basis. The impairment models for individual measurement of financial assets are applied for debt financial instruments such as debt securities, bank balances, deposits and others. Impairment models for individually measured exposures, are based on discounted cash flows and reflect the different scenarios of expected cash flows, including available reasonable and supportable information without undue cost or effort, which concerns future events /including macroeconomic forecasts/. For the purpose of determining the impairment of the exposure at default /Stage 3/ or credit –impaired financial assets, the Group applies a model for individual impairment of assets above a certain amount.

The impairment model for collectively measured financial assets is based on determining amounts for the probability of default /PD/ and for the loss given default for each collectively measured asset, by applying amortization through the effective interest rate /EIR/ when calculating the exposure at default /EAD/. The impairment models of the financial assets collectively measured are applied for debt securities, bank balances and deposits, repurchase agreements and exposures as a result of the Group's loan activity – loans and off-balance exposures of individuals and legal entities. The models include available reasonable and supportable information, accessible without undue costs or efforts, for external credit rating of the counterparties, as well as 3–year scenarios for the macroeconomic development of the country. The Group updates the values of the forecast indicators used in its model once per year, when the 3-year forecast data is published and disclosed by the respective institutions.

At the end of each reporting period, the Group updates the assessment of the change in the credit risk of the respective financial instrument. The Group estimates the impairment loss for the financial instrument at a value that is equal to the expected credit loss over the whole term of the instrument if the credit risk of the financial instrument has increased significantly since initial recognition. If the credit risk of the financial instrument has not significantly increased from the initial recognition, the Group estimates the impairment loss for the financial instrument at an amount equal to the expected credit loss for 12 months.

Trade and other receivables, contract assets and finance lease receivables

The Group uses its accumulated experience, external indicators, and long-term information to calculate expected credit losses through customer allocation by industry and time structure of receivables and using a provision matrix.

The Group makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using customer allocation by industry and time structure of receivables and a provision matrix.

Financial assets at fair value through other comprehensive income

The Group recognises 12-month expected credit losses for financial assets at FVOCI. As most of these instruments have an outstanding credit rating, the likelihood of default is deemed to be small. However, at each reporting date the Group assesses whether there has been a significant increase in the credit risk of the instrument.

In assessing these risks, the Group relies on readily available information such as the credit ratings issued by the major credit rating agencies for the respective asset. The Group only holds simple financial instruments for which specific credit ratings are usually available. In the unlikely event that there is no or only little information on factors influencing the ratings of the asset available, the Group would aggregate similar instruments into a portfolio to assess on this basis whether there has been a significant increase in credit risk.

In addition, the Group considers other indicators such as adverse changes in business, economic or financial conditions that could affect the borrower's ability to meet its debt obligation or unexpected changes in the borrower's operating results.

Should any of these indicators imply a significant increase in the instrument's credit risk, the Group recognises for this instrument or class of instruments the lifetime ECL.

4.19.5. Reclassification of financial instruments

The Group reclassifies all affected financial assets only when it changes its business model for financial asset management. The Group does not reclassify financial liabilities.

The Group reclassifies financial assets prospectively as of the date of reclassification. The Group does not restate any gains or losses recognized previously (including gain and loss on impairment losses) or interest.

4.19.6. Gain or loss on financial instruments

Gains and losses on a financial asset or financial liability designated at fair value is recognized by the Group in profit or loss, unless:

a) it is part of a hedging relationship

b) it is an investment in an equity instrument and the Group has elected to present the gains and losses on this investment in other comprehensive income.

c) it is a financial liability designated at fair value through profit or loss, and the Group is obliged to present the effect of the changes in the credit risk of the liability in other comprehensive income

d) it is a financial asset measured at fair value through other comprehensive income and the Group is obliged to present some changes in the fair value in other comprehensive income.

Gains and losses on a financial asset measured at amortized cost, which are not part of a hedging relationship are recognized by the Group in profit or loss when the financial asset is derecognized or reclassified through amortization or for recognition of impairment gains and losses.

Gains and losses on a financial asset measured at fair value through other comprehensive income is recognized by the Group in other comprehensive income, with the exception of gains and losses on impairment and foreign exchange gains and losses up to the moment of derecognition or reclassification of the financial asset. When the financial asset is derecognized, the cumulative gain and loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. If the financial asset is reclassified from "measured at fair value through other comprehensive income", the Group takes into consideration the cumulative gain and loss that was previously recognized in other comprehensive income. The interest that is calculated by applying the effective interest method is recognized in profit or loss.

4.19.7. Modification of contractual cash flows of a financial asset

Modification of a contractual cash flow of a financial asset occurs when the contractual cash flows of a financial asset are renegotiated or otherwise altered, and those amendments have not been contracted at the initial recognition of the financial asset. The change in the interest rate on a financial asset due to a change in market conditions is not considered a modification. When determining the existence of a modification of a financial asset, the factors for its occurrence are analysed, as well as the accounting reflection of the effect of modification.

4.19.8. Classification and measurement of financial liabilities

The Group's financial liabilities include borrowings, finance lease payments, trade and other payables and derivative financial instruments.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

4.19.9. Derecognition of financial instruments

Financial assets are derecognized when the Group loses control over the contractual rights and when substantially all the risks and rewards of ownership of the asset are transferred. A financial instrument is derecognized when the rights are realized, they have expired, or they are repurchased. A financial liability is derecognized when it discharged, cancelled or has expired.

4.20. Financial instruments under IAS 39, effective until 31 December 2017

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are measured initially at fair value plus transactions costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value. All financial assets are recognized on their transaction date.

Financial assets and financial liabilities are subsequently measured as described below.

4.20.1. Financial assets

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- loans and receivables;
- financial assets at fair value through profit or loss;
- held-to-maturity investments;
- available-for-sale financial assets.

Financial assets are assigned to the different categories, depending on the purpose for which the investments were acquired. The category determines subsequent measurement and whether any resulting income and expense is recognized in profit or loss or in other comprehensive income. All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognized in profit or loss regardless of the measurement of the financial assets are presented within 'Finance costs', 'Finance income' or 'Other financial items', except for impairment of trade receivables which is presented within Expenses for non-financial activities.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortized cost using the effective interest method, less provision for impairment. Any change in their value is recognized in profit or loss. The Group’s cash and cash equivalents, trade and most other receivables fall into this category of financial instruments. Discounting is omitted where the effect of discounting is immaterial.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other available feature of shared credit risk characteristics. The percentage of the write down is then based on recent historical counterparty default rates for each identified group. Impairment of trade receivables are presented within 'Other expenses', included in line 'Expenses for non-financial activity'.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments. Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The fair values of derivative financial instruments are determined by reference to active market transactions or using a valuation technique where no active market exists.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as held-to-maturity if the Group has the intention and ability to hold them until maturity. Held-to-maturity investments are measured subsequently at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. Financial assets within this category are subsequently measured at fair value, unless there is no market value at active markets present and hence their fair value cannot be measured reliably. Those without quoted market prices are measured at amortized cost using the effective interest method or at cost in cases when they do not have fixed date of payment. Changes in fair value are recognized in other comprehensive income and reported within the available-for-sale reserve within equity, net of income taxes, except for impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognized in other comprehensive income is reclassified from the equity reserve to profit or loss and presented as a reclassification adjustment within other comprehensive income. Interest calculated using the effective interest method and dividends are recognized in profit or loss within 'finance income'. Reversals of impairment losses are recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

Impairment for collectability regarding the banking activity of the Group

The financial assets are impaired in the presence of an indication of impairment: information for financial difficulties; contractual breach; restructuring of the debt; exclusion of the securities from the Stock exchange.
Available-for-sale financial assets measured at their fair value are tested for impairment, regarding the consolidated financial statements, as far as the impairment is not reflected in the revaluation as at the date of the consolidated financial statements. When there are conditions present for impairment, a

recoverable value is determined. If the expected recoverable value is less than the gross carrying amount, an impairment test is performed as follows:

- if no revaluation reserve is formed as at the date of impairment – the difference between the gross carrying amount and the expected recoverable value is reflected as current financial expense and reduction of the value of financial assets;
- if revaluation reserve is formed as at the date of impairment, which has a positive value and is less than the amount of the impairment – in this case the gross carrying amount of the assets and the value of the revaluation reserve (which remains zero) is reduced by the part of the impairment up to the value of the revaluation reserve. The remaining part of the impairment is reflected as current financial expense and reduction of the gross carrying amount of the assets;
- if revaluation reserve is formed as at the date of impairment, which has a negative value – the difference between the carrying amount and the expected recoverable value is reflected as current financial expense and the reduction of the value of the financial asset, and the negative value of the revaluation reserve is transferred, and is reflected on the current financial expenses;
- if revaluation reserve is formed as at the date of impairment, which has a positive value and is larger than the amount of the impairment – in this case the value of the investment is reduced by the value of the revaluation reserve and the part of the impairment.

Financial assets held-to-maturity by the Banks of the Group are tested for impairment in relation to the preparation of the consolidated financial statements. Impairment of collectability for owned by the Bank securities, carried at amortized cost, are defined as difference between the gross carrying amount and the present value of the future cash flows, discounted with the initial effective interest rate. If, the present value of the future cash flows of the securities is lower than the gross carrying amount, impairment is performed. The difference is reflected as current financial expense and reduction of the value of the credits. The reduction of impairment of uncollectibility is recognized in the statement of comprehensive income for the current period. Recoverable amounts previously written-down are recognized as revenue by reduction of the impairment of uncollectibility during the year.

Loans and advance payments, initially recognized within the Banks of the Group with fixed maturity, are tested for impairment in regard to the preparation of the annual consolidated financial statements. Impairment of uncollectibility for loans, granted by the Bank, carried at amortized cost, are defined as difference between the gross carrying amount and the present value of the future cash flows, discounted with the initial effective interest rate, if necessary. The management defines the expected future cash flows after review of the individual client receiving the credit, credit exposure and other influencing factors. In case the present value of the future cash flows of the credits is lower than the gross carrying amount, impairment is performed. The difference is reflected as current financial expense and reduces the value of the credits. The reduction of impairment of uncollectibility is recognized in the statement of profit or loss and other comprehensive income for the current period. Recovered amounts, previously written-down, are recognized as revenue by reduction of the impairment of uncollectibility during the year. The uncollectable credits and advance payments, which cannot be recovered, are written-down and are net from accumulated impairment for uncollectibility. After all legal procedures are concluded, and when the value of the loss is defined, these credits are written-down.

The Banks of the Group have adopted a methodology for the calculation of loans' impairment provisions based on IFRS and in accordance with the bank legislation in Bulgaria, Makedonia and Russia. The Banks of the Group classify loans in a several groups. Percentages that exceed the regulations' minimal requirement are applied for loans out of the group of regular loans. The contracted cash flows are decreased by those percentages to determine future cash flows after which they are discounted by the effective interest rate, as stated above. Other specific regulations' requirements are related to conditions for reclassification of invalid loans as valid and the recognition of liquid collateral for the purpose of determining the loan impairment provisions.

The amount of losses which are not specifically identified but can be expected based on previous experience with loans with similar risk characteristics, is also incurred as a provision expense and the gross carrying amount of the loans is decreased. The losses are evaluated based on historic experience, credit rating of clients and the economic environment of the debtors.

4.20.2. Financial liabilities

The Group's financial liabilities include bank and other loans and overdrafts, trade and other payables and finance lease liabilities.

Financial liabilities are recognized when the Group becomes a party to the contractual agreements for payment of cash amounts or another financial asset to another company or contractual liability for exchange of financial instruments with another company under unfavourable terms. All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within 'Interest expenses', 'Interest income' or 'Other finance income'.

Financial liabilities are measured subsequently at amortized cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through profit or loss, that are carried subsequently at fair value with gains or losses recognized in profit or loss.

Bank and other loans are raised for support of long-term and short-term funding of the Group's operations. They are recognized in the consolidated statement of financial position of the Group, net of any costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the consolidated income statement on an accrual basis using the effective interest method and are added to the carrying amount of the financial liability to the extent that they are not settled in the period in which they arise.

Trade payables are recognized initially at their nominal value and subsequently measured at amortized cost less settlement payments.

Dividends payable to shareholders are recognized when the dividends are approved at the general meeting of the shareholders.

4.21. Derivative financial instruments

Derivatives are carried at fair value and recognized in the consolidated statement of financial position as trading derivatives. The fair value of derivatives is based on the market price or similar models. Derivative assets are presented as part of the financial assets held for trading and derivative liabilities are presented as part of the financial obligations. Change in fair value of derivatives held for trading are recognized as part of net trading income in the consolidated statement of profit or loss and other comprehensive income.

4.22. Receivables and liabilities under repurchase agreements

Receivables and liabilities under repurchase agreements are recognized at cost, which represents the funds placed/obtained by the Bank owned by the Group, secured by the value of the securities. Interest due on the fair value of the funds placed/obtained for the term of the agreement is accounted for and recognized as interest income/expense in the period of its occurrence.

Securities pledged as collateral for repurchase agreements are not derecognized from the statement of financial position of the Group where the risks and rewards of ownership are not transferred.

Securities received as collateral for repurchase agreements are not reported in the statement of financial position of the Group where the risks and rewards of ownership are not transferred.

4.23. Provisions for credit-related contingent liabilities

The amount of provisions for guarantees and other off-balance credit-related commitments is recognized as an expense and a liability when the Group has current legal or constructive obligations, which have occurred as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle that obligation and a reasonable estimate of the amount of the liability can be made. Any loss resulting from recognition of provisions for liabilities is reported in the consolidated statement of profit or loss and other comprehensive income for the respective period.

4.24. inventory

Inventory includes raw materials, finished goods, work in progress and trading goods. Cost of inventories includes all expenses directly attributable to the purchase or manufacturing process, recycling and other direct expenses connected to their delivery as well as suitable portions of related production overheads, based on normal operating capacity. Financing costs are not included in the cost of the inventories. At the end of every accounting period, inventories are carried at the lower of cost and net realizable value. The amount of impairment of inventories to their net realizable value is recognized as an expense for the period of impairment.

Net realizable value is the estimated selling price of the inventories less any applicable selling expenses. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed (i.e. the reversal is limited to the amount of the original write-down) so that the new carrying amount is the lower of the cost and the revised net realizable value. The reversal of the write-down is accounted for as decrease in inventory expenses for the period in which the reversal takes place.

The Group determines the cost of inventories by using the weighted average cost. When inventory is sold, the carrying amount of those inventories is expensed in the period in which the related revenue is recognized.

4.25. Income taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of an asset or liability unless the related transaction affects tax or accounting profit.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred tax liabilities are always provided for in full.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. For management's assessment of the probability of future taxable income to utilize against deferred tax assets, see note 4.37.

Deferred tax assets and liabilities are offset only when the Group has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

4.26. Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, current bank accounts, demand deposits, deposits up to 3 months, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents, for the purpose of preparation of the consolidated statement of cash flows, include cash in hand, balances on accounts of the Bulgarian National Bank (BNB) and nostro accounts, which are unrestricted demand deposits at other banks, as well as placement with loans and advances to other banks with a maturity up to 3 months.

4.27. Equity reserves and dividend payments

Share capital of the Group represents the nominal value of shares that have been issued by the parent company.

Share premium includes any premiums received on the initial and subsequent issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

When the subsidiaries of the Group purchase shares from the parent company of the Group (treasury shares), the paid remuneration, including all inherent taxes, is reduced from the Group’s equity, until the shares are sold outside the Group. In case these shares are sold outside the Group, the received remuneration, net of the necessary inherent taxes, is included in the owner's equity.

Other reserves are formed on the base of the requirements of the Commercial act for the formation of legal reserves.

Retained earnings include all prior period retained profits and uncovered losses.

All transactions with the owners of the Group are presented separately in the consolidated statement of changes in equity.

4.28. Social security and pension contracts

The pension insurance company of the Group manages and represents three pension funds for supplementary pension insurance – Voluntary, Professional and Universal.

Voluntary Pension Fund (VPF) performs supplementary voluntary pension insurance for personal supplementary voluntary pension. The insurance cases covered are: old age, disability and death. Each individual above 16 years of age may insure himself or herself voluntarily.

The pension plans offered are developed upon previously determined insurance instalments. The voluntary insurance payments could be at the expense of the individual itself and/or employer and/ or another insurer.

The types of pension plans are:
- Individual pension plan – based on single or periodical instalments at the expense of the individual;
- Collective pension plan – based on single or periodical instalments at the expense of an employer or other insurer;

The additional pension is for life or over a term period as the chosen type and term of pension is stated in the pension contract when the right to receive the pension is obtained.

The insurance payments are based on:

- Additional pensions for old age and disability;
- Single or periodical disbursement of the funds from individual batches;
- Disbursement if inherited pension;
- Single or periodical disbursements of the remaining funds from an individual batch to the heirs of the insured person or the pensioner.

The amount of the personal supplementary old-age life pension is calculated based on:

- The accumulated funds in the individual batch;
- The technical interest rate;
- Biometric tables.

The right to supplementary pension can be obtained by depositing lump-sum contributions. The amount of the pension is determined based on actuarial reports.

The technical interest rate and the biometric tables are approved by the deputy director of the Financial Supervisory Commission, who is in charge of "Insurance control" department.

The insurance contract is terminated in the following cases:
- when the insured person deceases;
- when the insured person transfers the whole amount of his/her individual batch to a third party or another pension fund;
- when the insured person withdraws the whole amount from his/her individual batch.

Professional Pension Fund (PPF) offers periodic professional pensions for early retirement. The professional pension for early retirement is disbursed until the right to length of service and age pension is acquired under the requirements of part one of the Social Security Code (SSC).

The insured persons of the fund have the right to:
- a periodic pension for early retirement when working under the conditions of I and II category labour, according to the labour category;
- Single disbursement of up to 50% of the amount accumulated in the individual batch in the case of permanent loss of working capacity of over 89.99%;

- Single or periodical disbursement of the accumulated funds from an individual batch to the heirs of a deceased insured person or a pensioner of the fund.

The amount of the professional pension for early retirement is calculated based on:

- The accumulated funds in the individual batch;
- The period for the pension disbursement;
- The technical interest rate approved by the deputy director of the Financial Supervisory Commission.

When acquiring the right to length of service and age pension under requirements of part one of SSC before the period of the professional pension has ended, the remaining funds in the individual batch are disbursed with the last professional pension.

The insurance contract is terminated in the following cases:
- when the insured person deceases;
- When withdraw all accumulated amounts in the individual batch of the insured person after acquiring the right to a length of service and age pension under the requirements of part one of the Social Security Code, if not become entitled to vocational pension under the terms of SSC;
- In case of a transfer of funds of the insured person to a professional pension fund, managed by another insurance company and the insured person has signed a valid insurance contract with a pension fund managed by another pension insurance company for which the change of participation procedure has not been terminated.
- One-time choice of the insured person under the provisions of Art. 4c of SSC to change its insurance in a pension fund to the fund “Pensions” of Government social fund if no contributory-service and retirement-age pension or early-retirement occupational pension has been granted to them.

The insurance is realized with monthly cash insurance contributions, the amount of which is determined in SSC as a percentage of the insurance income.

Universal Pension Fund (UPF): The supplementary life insurance for old age is based on a contract between the Group and in the insured persons. The choice of a Universal Pension Fund is a result of the official allocation done by National Revenue Agency.

An insured person has the right to a personal supplementary length of service and age pension from an universal pension fund, when he/she acquires the right to a length of service and age pension under the requirements of part one of SSC, or 5 years before turning the age for receiving pension under the condition that the accumulated funds allow the disbursements of such a pension, not smaller that the size of the minimal length of service and age pension under article 68, paragraph 1-3.

The insured persons of the fund have the right to:
- supplementary life pension for old age after acquiring the right to a length of service and age pension under the requirements of part one of the Social Security Code;
- single disbursement of up to 50% of the amount accumulated in the individual batch in the case of permanent loss of working capacity of over 89.99%;
- single or periodical disbursement of the accumulated funds from an individual batch to the heirs of a deceased insured person or a pensioner of the fund.

The amount of the personal supplementary old-age life pension is calculated based on:
- the accumulated funds in the individual batch;
- the technical interest rate;
- biometric tables.

The technical interest rate and the biometric tables are approved by the deputy director of the Financial Supervisory Commission, who is in charge of “Insurance control” department.

The social insurance contract is terminated in the following cases:
- when the insured person deceases;
- in the case of a transfer of funds of the insured person to a universal pension fund, managed by another relevant retirement insurance company and the insured person has signed a valid insurance contract with a universal pension fund managed by another pension insurance company for which the change of participation procedure has not been terminated.

- One-time choice of the insured person for transfer of funds from insurance in a universal pension fund to the Pensions Fund for persons under Article 69, but at least 5 years before attaining the age stated in in Article 68 (1), where no contributory-service and retirement-age pension has been granted to them.

The insurance is performed with monthly cash instalments form insured individuals to the Pension funds. Social security code determines their amount as a percentage of the individual's taxable income.

4.29. Specialized reserves for pension insurance activity

In accordance with the provisions of SSC the Group cumulate pension reserves in order to guarantee minimal pay-out from the activity of the supplementary obligator pension insurance. The pension reserves cumulated up 31 December 2018 represents 1.4% of the assets of the funds. The accumulated reserves are invested according to the requirements of SSC.

4.30. Pension reserves

According to the requirements of the SSC, the Group forms pension reserves for the purpose of paying life pensions to individuals who have lived longer than the preliminary actuarial calculations in UPF and VPF. The pension reserve is formed from own funds of the Pension Fund and from funds of deceased insured individuals from VPF and UPF that have no heirs.

The Group annually recalculates the amount of the formed pension reserve as at 31 December. The calculations are made by an actuary.

4.31. Post-employment benefits and short-term employee benefits

The Group reports short-term payables relating to unutilized paid leaves, which shall be compensated in case it is expected that the leaves will occur within 12 months after the end of the accounting period during which the employees have performed the work related to those leaves. The short-term payables to personnel include wages, salaries and related social security payments.

In accordance with Labour Code requirements, in case of retirement, after the employee has gained the legal right of pension due to years of services and age, the Group is obliged to pay him/her compensation at the amount of up to six gross wages.

The liability recognized in the consolidated statement of financial position for defined benefit plans is the present value of the defined benefit obligation at the reporting date.

Management estimates the defined benefit obligation annually with the assistance of independent actuaries. The estimate of its post-retirement benefit obligations is based on standard rates of inflation, medical cost trends and mortality. It also takes into account the Group's specific anticipation of future salary increases. Discount factors are determined close to each year-end by reference to Government bonds.

Actuarial gains and losses are recognized in other comprehensive income. Interest expenses related to pension obligations are included in 'Finance expenses' in profit or loss. All other post-employment benefit expenses are included in 'Expenses on non-financial activity' and 'Administrative expenses'.

Short-term employee benefits, including holiday entitlement, are current liabilities included in 'Pension and other employee obligations', measured at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

4.32. Insurance transactions

The Group applies IFRS 4 Insurance contracts. The standard defines the requirements for disclosure of the accounting policy and representation of the comparative information with respect to the insurance assets and liabilities as well as income and expenses related to insurance activity. The accounting policy of the Group is taken into consideration with respect to the specificity of the insurance services and the respective legal requirements.

4.33. Insurance contracts

Insurance contracts are those that transfer significant insurance risk over to the Group. The Group defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event, which are at least 10% higher than the benefits payable if the insured event had not occurred.

Once classified as insurance contracts at the date of the inception, the Group continues to present them as insurance contracts over their lifetime, even if the insurance risk reduces significantly during this period.

4.34. Reinsurance contracts

The Group assumes and cedes to reinsurers some of the risk undertaken in the normal course of business. The expected benefits arising from reinsurers contracts are recognized as assets in the statement of financial position at the time of their occurrence.

The Group performs an impairment review on all reinsurance assents on a regular basis. Reinsurance assets are impaired only if there is objective evidence that the Group may not receive the entire amount due to it under the term of the contract and that this can be measured reliably. The difference is performed as change in the reinsurers' share into a reserve for outstanding payments in the technical statements for the insurance activity.

The Group also performs active reinsurance. The premiums and the collaterals on active reinsurance are accounted together with the registered insurance premiums and the paid gross collaterals on direct insurance operations.

4.35. Insurance reserves

Insurance reserves are formed by the insurance companies in order to cover present and future liabilities to insured persons or organizations in accordance with the insurance contract and they are not equity element. Insurance reserves are calculated by the actuaries of the Group by the use of actuarial methods, which consist of mathematical and statistical methods and rules. Insurance reserves are presented in gross in the Group's statement of financial position, as well as the reinsurer's portion. When the insurance is denominated in foreign currency, the corresponding reserves are formed in the same currency. The insurance reserves that have been formed during the prior period are recognized as income from released insurance reserves in the current period. The reserves formed at the year-end are recognized as expense for the formation of insurance reserves in the statement of profit or loss and other comprehensive income. The insurance reserves referring to the reinsurers' share formed in the prior period are recognized as expense for released insurance reserves in the current period statement of profit or loss and other comprehensive income and the reserves formed at the year-end are recognized as income from released insurance reserves in the current period statement of profit or loss and other comprehensive income.

4.36. Adequacy test of insurance reserves

An adequacy test is performed by the actuaries to ensure that the reserves, reduced by deferred acquisition costs, are sufficient to meet potential future payments. In accordance with the regulatory requirements the amount of the reserves formed should be completely secured with investments in highly liquid assets (given in percentage, regulated by the applicable acts and regulations).

When performing an adequacy test, the cash flows related to payment of collaterals, cash flows generated by collected premiums, and paid commissions are taken into consideration.

4.37. Provisions, contingent liabilities and contingent assets

Provisions are recognized when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Group and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events. Restructuring provisions are recognized only if a detailed formal plan for the restructuring has been developed and implemented, or management has at least announced the plan's main features to those affected by it. Provisions are not recognized for future operating losses.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset. However, this asset may not exceed the amount of the related provision.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized. Contingent liabilities are subsequently measured at the higher amount of a comparable provision as described above and the amount initially recognized, less any amortization.

Possible inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets.

4.38. Significant management judgment in applying accounting policies

The following are significant management judgments in applying the accounting policies of the Group that have the most significant effect on the consolidated financial statements. Critical estimation uncertainties are described in note 4.39.

4.38.1. Deferred tax assets

The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on the Group's latest approved budget forecast, which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilized without a time limit, that deferred tax asset is usually recognized in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances.

4.38.2. Lack of control over subsidiaries

In cases in which the parent company owns, directly or indirectly, through its subsidiaries more than half of the voting rights in an entity but does not have the power to govern the financial and operating policies in that entity and/or contractual agreement according to which the Group does not control the entity exists, then the investment in shares of that entity is reclassified as financial asset.

The parent company owns 97.32% of the equity in the subsidiary PFK Cherno more AD indirectly through subsidiaries. Equity participation does not lead to the acquisition of control according to management contracts for transfer of voting rights from 2012. Therefore, the investment in PFK Cherno more AD is reclassified as financial asset.

The Group owns 100% of the capital of AO SC Armeec, Russia and Ethyl Med, Russia. In 2016 control over these companies was transferred and therefore the investments in them were reclassified to financial assets.

4.38.3. Revenue from sale of air tickets with expired validity

The Group mainly provides transportation services of passengers in the period the air tickets have been issued for. Revenue from passenger transportation is recognized when the transportation is actually performed. There are cases when the clients do not use their air-tickets and therefore the validity of the ticket expires, and it is no longer available for use. In this case the Group writes-off the existing obligation for transportation service as other income. The amount of other income includes the airport fees and taxes related to the expired air ticket. Revenue recognition of tickets and airport fees with expired validity is based on statistical information extracted from the databases maintained by the Group. The management believes that the expiration of the validity of each ticket, when not being used, gives reason for recognition of revenue. This understanding is based on the basic principle for the recognition of revenue, precisely that it is based on actual services rendered.

4.38.4. Revenue from sale of air tickets when the flight has been interrupted and/or rerouted

As a member of the International Air Transport Association – IATA, the Group should follow the rules for air transportation set forth by IATA. According to IATA resolutions 735d and 735e, in cases of involuntary rerouting and/or flight interruptions, the airline company is obliged to issue a FIM (flight interruption manifest). The FIM is valid for a certain flight of the agent airline company that is different from the airline company that has initially issued the original flight ticket.

According to chapter A2, p. 2.6.1 of RAM (Revenue Accounting Manual), when there is a FIM issued, the accepting side (the agent airline company) charges the issuer of the FIM with the applicable full one-way tariff for the respective pair of cities where the transportation has occurred. A FIM can include number of tickets and the obligation should be recognized using the tariff valid for the travel class of each passenger, applicable for the flight date. After receiving the invoice, the receiving airline company (that has performed the flight) has the right within 6 months to make a reedit based on the prorate value in accordance with chapter A2, p. 2.6.2 and chapter A10, p. 4.1. of RAM. Upon receiving the redebit invoice, the open balance can be closed. After the 6-month period for objections /redebit/ has expired, the amounts that have not been disputed, are recognized as income.

The revenue recognition is based on past experience and the Management considers that 95% of the value of all issued and undisputed FIMs gives basis for the recognition of revenue based on actual services performed.

Both current and prior period approximately 5% from the FIM issued is recognized as other expenses and the remaining amount is recognized as payables (FIM payable).

4.38.5. Revenue from sale of air ticket when customer loyalty incentives are used

The Group has ongoing customer loyalty programs where customers can collect bonus points (award credits), which can be exchanged for free tickets for flights of Bulgaria Air AD, can get free transportation of additional luggage, flight in business class with a ticket for economy class, vouchers for the business lounge at the airport and other incentives for loyal customers.

The Group reports award credits as a separately identifiable component of a sale in which incentives are given. The fair value of the received remuneration or receivable in respect of the initial sale is distributed among the bonus points (award credits) and other components of the sale. The remuneration allocated to the bonus points is measured by reference to their fair value, i.e. amount for which the award credits could be sold separately. The company by itself provides the incentives for loyal customers and recognizes the remunerations allocated to the incentives as revenue when these incentives in the form of bonus points are redeemed and the Company implements its obligation of delivery. The amount of the recognized revenue is based on the number of award credits that are exchanged for prizes in proportion to the total number that is expected to be exchanged.

4.39. Estimation uncertainty

When preparing the consolidated financial statements management undertakes a number of judgments, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses.

The actual results may differ from the judgments, estimates and assumptions made by management, and will seldom equal the estimated results.

Information about significant judgments, estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses are discussed below.

4.39.1. Impairment of non-financial assets and goodwill

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows (see note 4.16). In the process of measuring expected future cash flows management makes assumptions about future operating results. These assumptions relate to future events and circumstances. The actual results may vary and may cause significant adjustments to the Group's assets within the next financial year.

In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

The Group has incurred an impairment loss of BGN 4 088 thousand (2017: BGN 735 thousand), in order to reduce the carrying amount of goodwill to its recoverable amount (see note 12).

4.39.2. Measurement of ECL

Credit losses are the difference between all contractual cash flows due to the Group and all cash flows that the Group expects to receive. Expected credit losses are a probability-weighted estimate of credit losses that require the Group’s judgment. Expected credit losses are discounted at the original effective interest rate (or the credit-adjusted effective interest rate for purchased or initially created financial assets with credit impairment).

4.39.3. Fair value measurement

Management uses valuation techniques in measuring the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible, but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see note 54.1).

4.39.4. Useful life of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date.

At 31 December 2018 management assesses that the useful lives represent the expected utility of the assets to the Group. The carrying amounts are analysed in notes 13 and 9. Actual results, however, may vary due to technical obsolescence.

4.39.5. Inventory

Inventory is measured at the lower of cost and net realizable value. In estimating net realizable values, management takes into account the most reliable evidence available at the times the estimates are made. Future realization of the carrying amounts of inventory assets BGN 45 923 thousand (2017: BGN 47 175 thousand) is affected by the future service providing and market realization of inventories, note 25.

4.39.6. Defined benefit liabilities

Management estimates the defined benefit liability annually with the assistance of independent actuaries; however, the actual outcome may vary due to estimation uncertainties. The estimate of its defined benefit liability is based on standard rates of inflation, medical cost trends and mortality. It also takes into account the Group's specific anticipation of future salary increases. Discount factors are determined close to each year-end by reference to high quality corporate bonds.

4.39.7. Provisions

The Group is currently defending certain lawsuits where the actual outcome may vary from the amount recognized in the financial statements. None of the provisions will be discussed here in further detail so as not to seriously prejudice the Group's position in the related disputes.

4.39.8. Business combinations

On initial recognition, the assets and liabilities of the acquired business are included in the consolidated statement of financial position at their fair values. In measuring fair value management uses estimates about future cash flows and discount rates, however, the actual results may vary. Any measurement changes upon initial recognition would affect the measurement of goodwill. Details of acquired assets and liabilities are given in note 6.

5. Effect of change in accounting policy

As disclosed in a note 3.1, IFRS 9 is applied without restatement of comparative information. Reclassifications and adjustments arising from these changes in the Group's accounting policies are not reflected in the statement of financial position as at 31 December 2017 but are recognized in the statement of financial position as at 1 January 2018.

The following table shows the adjustments recognized for each individual item.

Statement of financial position

	31.12.2017	Reclassification under IFRS 9	Effect of changes in accounting policy according IFRS 9	01.01.2018 restated
	BGN '000	BGN '000	BGN '000	BGN '000
Assets				
Property, plant and equipment	423 178	-	-	423 178
Investment property	405 502	-	-	405 502
Goodwill	32 307	-	-	32 307
Other intangible assets	171 741	-	-	171 741
Deferred tax assets	6 720	-	8 995	15 715
Investments accounted for using the equity method	34 420	-	-	34 420
Loans and advances to bank clients	2 319 809	-	(9 091)	2 310 718
Financial assets at fair value through profit or loss	1 430 323	81 357	-	1 511 680
Debt instruments at fair value through other comprehensive income	-	531 545	(178)	531 367
Equity instruments at fair value through other comprehensive income	-	34 621	-	34 621
Available-for-sale financial assets	664 195	(664 195)	-	-
Held-to-maturity financial assets	36 469	(36 469)	-	-
Other financial assets at amortized cost	780 823	53 141	(96 508)	737 456
Insurance and reinsurance receivables	43 645	-	-	43 645
Reinsurance assets	81 280	-	-	81 280
Tax receivables	1 756	-	855	2 611
Other receivables	161 069	-	(4 343)	156 726
Inventories	47 175	-	-	47 175
Cash and cash equivalents	2 204 904	-	-	2 204 904
Total assets	**8 845 316**	**-**	**(100 270)**	**8 745 046**

Equity and liabilities	31.12.2017	Effect of changes in accounting policy	01.01.2018 restated
	BGN ’000	BGN ’000	BGN ’000
Equity			
Share capital	227 236	-	227 236
Premium reserve	247 129	-	247 129
Other reserves	124 926	(7 047)	117 879
Retained earnings	806 551	(79 447)	727 104
Equity attributable to the shareholders of Chimimport AD	**1 405 842**	**(86 494)**	**1 319 348**
Non-controlling interest	282 955	(16 686)	266 269
Total equity	**1 688 797**	**(103 180)**	**1 585 617**
Liabilities			
Liabilities to depositors	5 052 941	-	5 052 941
Other financial liabilities	512 615	-	512 615
Payables to insured individual	1 195 555	-	1 195 555
Pension and other employee obligations	18 211	-	18 211
Deferred tax liabilities	28 210	-	28 210
Insurance technical reserves	262 969	-	262 969
Liabilities to insurance and reinsurance contracts	25 356	-	25 356
Finance lease liabilities	3 939	-	3 939
Tax liabilities	6 489	-	6 489
Other liabilities	50 234	2 910	53 144
Total liabilities	**7 156 519**	**2 910**	**7 159 429**
Total equity and liabilities	**8 845 316**	**(100 270)**	**8 745 046**

The overall effect on the Group's retained earnings as at 1 January 2018 is presented as follows:

	Equity
	BGN '000
Balance as at 31 December 2017 - IAS 39	**1 688 797**
Adjustments from the adoption of IFRS 9:	
Increase in impairment losses on assets	(110 120)
Increase in impairment losses on loan commitments	(2 910)
Increase in current and deferred tax assets in respect of impairment losses	9 850
	(103 180)
Opening balance as at 1 January 2018 - IFRS 9	**1 585 617**

Effect of restatement of comparative data

Restatement of a reserve to ensure a minimum return

The Social Security Code requires recognition of the cost of deductions for the creation of a minimum return guarantee reserve (SSC, Article 193, paragraph 12). However, the Group identifies that the Conceptual Financial Reporting Framework introduces a treatment under which transfers from statutory reserves should be treated as distributions of retained earnings rather than as expenses in the consolidated financial statements of the Group prepared under IFRS. Accordingly, the comparative data were recalculated to reflect an error correction as follows:

Effect on 2017 **Consolidated statement of financial position**	**01.01.2017**	**Adjustment**	**Restated as at 01.01.2017**
	BGN '000	**BGN '000**	**BGN '000**
Other reserves	85 174	4 852	90 026
Retained earnings	783 064	3 260	786 324
Non-controlling interest	261 170	4 836	266 006
Total adjustment		**12 948**	
Insurance reserves	276 016	(12 948)	263 068

Consolidated statement of profit or loss and other comprehensive income for the year	**2017**	**Adjustment**	**Restated as at 2017**
	BGN '000	**BGN '000**	**BGN '000**
Decrease in the change in special reserves recognise in Operating and administrative expenses	(635 919)	(2 686)	(633 233)
Increase in profit before tax	84 810	2 686	87 496
Increase in net profit	85 581	2 686	88 267

6. Basis for consolidations

6.1. Investments in subsidiaries

The subsidiaries included in the consolidation are as follows:

Name of the subsidiary	Country of incorporation	Main activities	31.12.2018 Percentage of consolidation	31.12.2018 Nominal percentage	31.12.2017 Percentage of consolidation	31.12.2017 Nominal percentage
Central Cooperative Bank AD	Bulgaria	Finance	79.31%	79.31%	79.31%	79.31%
Central Cooperative Bank AD – Skopje	Macedonia	Finance	73.76%	91.83%	73.76%	91.83%
ZAO Investment Corporate Bank	Russia	Finance	86.27%	86.27%	86.27%	86.27%
CCB Group EAD	Bulgaria	Finance	100.00%	100.00%	100.00%	100.00%
CCB Assets Management EOOD	Bulgaria	Finance	79.31%	100.00%	79.31%	100.00%
ZAD Armeec	Bulgaria	Finance	96.26%	96.26%	96.26%	96.26%
ZAED CCB Life	Bulgaria	Finance	100.00%	100.00%	100.00%	100.00%
POAD CCB Sila	Bulgaria	Finance	67.01%	67.01%	56.46%	56.46%
DPF CCB Sila	Bulgaria	Finance	67.01%	67.01%	56.46%	56.46%
UPF CCB Sila	Bulgaria	Finance	67.01%	67.01%	56.46%	56.46%
PPF CCB Sila	Bulgaria	Finance	67.01%	67.01%	56.46%	56.46%
Zarneni Hrani Bulgaria AD	Bulgaria	Production, Trade and Services	68.12%	68.12%	68.12%	68.12%
Oil and Gas Exploration and Production AD	Bulgaria	Production, Trade and Services	49.59%	65.92%	49.59%	65.92%
Bulgarska Petrolna Rafinieria EOOD	Bulgaria	Production, Trade and Services	49.59%	100.00%	49.59%	100.00%
Slanchevi lachi Provadia EOOD	Bulgaria	Production, Trade and Services	68.12%	100.00%	68.12%	100.00%
Asenova Krepost AD	Bulgaria	Production, Trade and Services	47.74%	68.65%	49.96%	71.91%
PDNG Service EOOD	Bulgaria	Production, Trade and Services	49.59%	100.00%	49.59%	100.00%
Izdatelstvo Geologia i Mineralni Resursi OOD	Bulgaria	Production, Trade and Services	34.71%	70.00%	34.71%	70.00%
Bulchimtrade OOD	Bulgaria	Production, Trade and Services	44.96%	66.00%	44.96%	66.00%
Rubber Trade OOD	Bulgaria	Production, Trade and Services	40.87%	60.00%	40.87%	60.00%
Chimceltex EOOD	Bulgaria	Production, Trade and Services	68.12%	100%	40.96%	60.13%
Chimoil BG EOOD	Bulgaria	Production, Trade and Services	49.59%	100.00%	49.59%	100.00%
Zarneni Hrani Grain EOOD	Bulgaria	Production, Trade and Services	68.12%	100.00%	68.12%	100.00%
Pharmimport AD	Bulgaria	Production, Trade and Services	0.00%	0.00%	46.32%	68.00%
National Stokova Borsa AD	Bulgaria	Production, Trade and Services	75.00%	75.00%	75.00%	75.00%
Asela AD	Bulgaria	Production, Trade and Services	24.53%	51.39%	25.67%	51.39%
AK Plastic EOOD	Bulgaria	Production, Trade and Services	47.26%	99.00%	47.26%	99.00%
Prime Lega Consult EOOD	Bulgaria	Production, Trade and Services	100%	100%	100%	100%
AH HGH Consult OOD	Bulgaria	Production, Trade and Services	59.34%	59.34%	59.34%	59.34%
Omega Finance OOD	Bulgaria	Production, Trade and Services	96.00%	96.00%	96.00%	96.00%
IT Systems Consult EOOD	Bulgaria	Production, Trade and Services	68.12%	100.00%	68.12%	100.00%
Technocapital AD	Bulgaria	Production, Trade and Services	86.40%	90.00%	86.40%	90.00%
Dobrich Fair AD	Bulgaria	Production, Trade and Services	40.85%	59.97%	0.00%	0.00%
Bulgarian Shipping Company EAD	Bulgaria	Sea and River Transport	100.00%	100.00%	100.00%	100.00%
Parahodstvo Bulgarsko Rechno Plavane AD	Bulgaria	Sea and River Transport	79.89%	79.89%	79.89%	79.89%

Name of the subsidiary	Country of incorporation	Main activities	31.12.2018 Percentage of consolidation	31.12.2018 Nominal percentage	31.12.2017 Percentage of consolidation	31.12.2017 Nominal percentage
Port Balchik AD	Bulgaria	Sea and River Transport	78.64%	100.00%	78.64%	100.00%
Port Lesport AD	Bulgaria	Sea and River Transport	99.00%	99.00%	99.00%	99.00%
Lesport Project Management EOOD	Bulgaria	Sea and River Transport	99.00%	100.00%	99.00%	100.00%
MAYAK KM AD	Bulgaria	Sea and River Transport	41.04%	51.37%	41.04%	51.37%
Bulgarian Logistic Company EOOD	Bulgaria	Sea and River Transport	100.00%	100.00%	100.00%	100.00%
Port Pristis OOD	Bulgaria	Sea and River Transport	0.00%	0.00%	43.94%	55.00%
Portstroi Invest EOOD	Bulgaria	Sea and River Transport	100.00%	100.00%	100.00%	100.00%
Port Invest EOOD	Bulgaria	Sea and River Transport	79.89%	100.00%	79.89%	100.00%
Interlihter Slovakia	Slovakia	Sea and River Transport	79.89%	100.00%	79.89%	100.00%
Blue Sea Horizon Corp	Seychelles	Sea and River Transport	79.89%	100.00%	79.89%	100.00%
Bulgarian Airways Group EAD	Bulgaria	Aviation Transport	100.00%	100.00%	100.00%	100.00%
Bulgaria Air AD	Bulgaria	Aviation Transport	99.99%	99.99%	99.99%	99.99%
Bulgaria Air Technique EOOD	Bulgaria	Aviation Transport	99.99%	100.00%	99.99%	100.00%
Airport Consult EOOD	Bulgaria	Aviation Transport	100.00%	100.00%	100.00%	100.00%
Trans intercar EAD	Bulgaria	Vehicle Transport	100.00%	100.00%	100.00%	100.00%
Rentintercar EOOD	Bulgaria	Vehicle Transport	0.00%	0.00%	100.00%	100.00%
Energoproekt AD	Bulgaria	Real Estate and engineering	98.69%	98.69%	98.69%	98.69%
Energoproekt Utilities OOD (in liquidation)	Bulgaria	Real Estate and engineering	50.33%	51.00%	50.33%	51.00%
Bulgaria Air Maintanance EAD	Bulgaria	Real Estate and engineering	100.00%	100.00%	100.00%	100.00%
Golf Shabla AD	Bulgaria	Real Estate and engineering	32.23%	65.00%	32.23%	65.00%
Sporten Complex Varna AD	Bulgaria	Real Estate and engineering	65.00%	65.00%	65.00%	65.00%
Sporten management EOOD	Bulgaria	Real Estate and engineering	65.00%	100.00%	65.00%	100.00%
TI AD	Bulgaria	Real Estate and engineering	87.66%	87.66%	87.66%	87.66%
Bulchimex GmBH	Germany	Real Estate and engineering	100.00%	100.00%	100.00%	100.00%
Invest Capital Consult AD	Bulgaria	Real Estate and engineering	100.00%	100.00%	100.00%	100.00%
Sitniakovo Project Estate EOOD	Bulgaria	Real Estate and engineering	49.59%	100.00%	49.59%	100.00%

The Group includes non-controlling interest (NCI), broken down by segments as follows.

Name of the segment	Accumulated non-controlling interest 2018 BGN'000	2017 BGN'000
Financial sector	119 302	101 512
Production, trade and services	134 047	129 139
Transport	16 411	21 107
Real estate and engineering	24 171	31 197
	293 931	**282 955**

In 2018 dividends paid to non-controlling interest amount to BGN 2 430 thousand (2017: BGN 3 852 thousand)

Summary of financial information of the assets and liabilities before intragroup eliminations is disclosed in note 8 Segment reporting.

6.2. Acquisition of non-controlling interest in POAD CCB Sila

In 2018, the Group acquired additional 10.55% of the equity of the subsidiary company POAD CCB Sila for the total amount of BGN 11 956 thousand, increasing its controlling interest to 67.01% (consolidated).

The carrying amount of the newly acquired net assets of the subsidiary POAD CCB Sila, recognized at the date of acquisition in the consolidated financial statements amounts to BGN 2 987 thousand. The Group has recognized a reduction in non-controlling interest amounting to BGN 2 987 thousand and a decrease of the retained earnings of BGN 8 969 thousand.

	2018 BGN'000
Total transferred remuneration	(11 956)
Additional acquired share in the net assets of POAD CCB Sila	2 987
Decrease in retained earnings	**(8 969)**

6.3. Acquisition of controlling interest in Dobrich Fair AD

In 2018, the Group acquired additional share of the equity of Dobrich Fair AD amounting to nominal 22.05% (2.93% consolidated) for the total amount of BGN 923 thousand, increasing the controlling interest to 59.97% (40.85% - consolidated).

The carrying amount of the newly acquired net assets of the subsidiary Dobrich Fair AD, recognized at the date of acquisition in the consolidated financial statements amounts to BGN (717) thousand. The Group has recognized an increase in the non-controlling interest amounting to BGN 959 thousand.

	2018 BGN'000
Total transferred remuneration	923
Share in net assets of Dobrich Fair AD	(717)
Goodwill	**206**
Impairment of goodwill recognized in the statement of profit or loss	**(206)**

6.4. Acquisition of non-controlling interest in Prime Lega Consult EOOD

In 2018, the Group acquired additional 30% of the equity of the subsidiary Prime Lega Consult, increasing the controlling interest to 100% (consolidated).

The carrying amount of the newly acquired net assets of the subsidiary Prime Lega Consult EOOD, recognized at the date of acquisition in the consolidated financial statements amounts to BGN 36 thousand. Group has recognized a reduction in non-controlling interest amounting to BGN 36 thousand and an increase in the retained earnings at the amount of BGN 36 thousand.

	2018 BGN'000
Total transferred remuneration	-
Additional acquired share in the net assets of Prime Lega Consult EOOD	36
Increase in retained earnings at the expense of non-controlling interest	**36**

6.5. Acquisition of non-controlling interest in Chimceltex EOOD

In 2018 the Group acquired additional 39.87% nominal (27.16% consolidated) share in the equity of the subsidiary Chimceltex EOOD, for the total amount of BGN 0 thousand, increasing the controlling interest to 100% (68.12% consolidated).

The carrying amount of the newly acquired net assets of the subsidiary Chimceltex EOOD, recognized at the date of acquisition in the consolidated financial statements amounts to BGN (197) thousand. The Group has recognized an increase in the non-controlling interest at the amount of BGN 197 thousand and a decrease in the retained earnings at the amount of BGN 197 thousand.

	2018 BGN'000
Total transferred remuneration	-
Additional acquired share in the net assets of Chimceltex EOOD	(197)
Decrease in retained earnings at the expense of non-controlling interest	**(197)**

6.6. Sale of part of the controlling interest in Asenova Krepost AD without loss of control

In 2018, the Group sold 3.26% nominal (2.22% consolidated) share interest of the subsidiary Asenova Krepost AD for the total remuneration of BGN 1 001 thousand, decreasing the controlling nominal interest to 68.65% (47.74% consolidated).

The carrying amount of the net assets of the subsidiary Asenova Krepost AD, recognized at the date of the sale in the consolidated financial statements as increase of the non-controlling interest, amounts to BGN 613 thousand. The Group recognized an increase in retained earnings at the amount of BGN 388 thousand.

	2018 BGN'000
Total transferred remuneration	1 001
Sold share of the net assets of Asenova Krepost AD	(613)
Increase in retained earnings at the expense of non-controlling interest	**388**

6.7. Transfer of the controlling interest in Pharmimport AD

In 2018, the Group sold the shares owned in its subsidiary Pharmimport AD amounting to nominal share of 68.00% (46.32% consolidated) for the total remuneration of BGN 2 170 thousand.

The Group recognized a decrease in the consolidated profit at the amount of BGN 1 890 thousand and a decrease in the non-controlling interest at the amount of BGN 4 705 thousand.

	2018 BGN'000
Total transferred remuneration	2 170
Sold share of the net assets of Pharmimport AD	(4 060)
Result of loss of control recognized within "Result of operations with financial instruments"	**(1 890)**

6.8. Transfer of controlling interest in Rentintercar EOOD

In 2018, the Group sold its subsidiary Rentintercar EOOD (100% of the shares) for the total remuneration of BGN 2 523 thousand.

	2018 BGN'000
Total transferred remuneration	2 523
Sold share of the net assets of Rentintercar EOOD	(2 523)
Result of loss of control recognized within "Result of operations with financial instruments"	**-**

7. Investments accounted for using the equity method

7.1. Investments in associates

The Group owns shares in the share capital of the following associated companies:

	2018 BGN'000	Share %	2017 BGN'000	Share %
Lufthansa Technik Sofia OOD	8 945	24.90%	8 256	24.90%
Swissport Bulgaria AD	5 671	49.00%	5 409	49.00%
Silver Wings Bulgaria OOD	5 170	42.50%	5 132	42.50%
Amadeus Bulgaria OOD	3 294	44.99%	3 343	44.99%
VTC AD	4 034	41.00%	3 502	41.00%
Kavarna Gas OOD	552	35.00%	496	35.00%
Port Pristis OOD	19	19.00%	-	-
Dobrich fair AD	-	-	755	39.98%
	27 685		**26 893**	

Investments in associates are presented in the financial statements of the Group using the equity method. Associates have a reporting date as at 31 December.

The financial information about the associates can be summarized as follows:

	2018 BGN '000	2017 BGN '000
Assets	125 295	117 294
Liabilities	(61 259)	(60 186)
Revenues	181 481	154 846
Profit for the period	12 644	11 807
Profit attributable to the Group	**4 347**	**4 112**

In 2018, the Group received dividends from its associated companies amounting to BGN 3 860 thousand (2017: BGN 1 387 thousand).

7.2. Investments in joint ventures

The Group holds shares in the capital of these joint ventures:

Name	2018 BGN'000	Share %	2017 BGN'000	Share %
Varna ferry OOD	5 007	50%	5 007	50%
Nuance BG AD	2 434	50%	2 520	50%
	7 441		**7 527**	

The investments in the joint venture is presented in the financial statements of the Group using the equity method. Joint ventures have a reporting date as at 31 December. The financial information about the joint venture can be summarized as follows:

	2018 BGN '000	2017 BGN '000
Assets	77 420	24 926
Liabilities	(61 460)	(17 242)
Revenues	145 378	49 202
Profit for the period	3 691	4 273
Profit attributable to the Group	**953**	**2 137**
Recognized share of the profit, attributable to the Group	**953**	**1 629**

For the reporting period, the Group's share in the profits of joint ventures is recognized after deducting unrecognized losses from previous periods.

The Group has no contingent liabilities or other commitments in relation to the associated companies.

In 2018, the Group received dividends from the joint venture companies at the amount of BGN 1 039 thousand (2017: BGN 210 thousand).

8. Segment reporting

The management responsible for making the business decisions determines the business segments on the grounds of the types of activities, the main products and services rendered by the Group. The activities of the Group are analysed as a whole of business segments that may vary depending on the nature and development of a certain segment by considering the influence of the risk factors, cash flows, products and market requirements.

Each business segment is managed separately as long as it requires different technologies and resources or marketing approaches. The adoption of IFRS 8 had no influence on the identification of the main business segments of the Group in comparison with those determined in the last consolidated financial statements.

According to IFRS 8 the profits reported by segments are based on the information used for the needs of the internal management reporting and is regularly reviewed from those responsible for the business decisions. All inter-segment transfers are priced and carried out at market price and condition basis.

For segment reporting under IFRS 8, the Group applies the same valuation policy as in the latest annual consolidated financial statements. All transfers between segments are valued and recognized at market prices and conditions.

The main operating segments of the Group are the following: Production, trade and services; Finance; Transport; Real estate and engineering.

The Group's operating segments are summarized as follows:

Operating segment 31.12.2018	Production, trade and services BGN'000	Finance BGN'000	Transport BGN'000	Real estate and engineering BGN'000	Eliminations BGN'000	Consolidated BGN'000
Income from non-financial activities from external customers	91 671	48 158	313 965	10 441	(2 798)	461 437
Change in fair value of investment property	(149)	2 481	-	471	-	2 803
Gain from sale of non-current assets	104	126	936	1	(61)	1 106
Inter-segment income from non-financial activities	11 075	3 168	2 775	**725**	(17 743)	-
Total income from non-financial activities	**102 701**	**53 933**	**317 676**	**11 638**	**(20 602)**	**465 346**
Insurance income from external customers	-	377 484	-	-	-	377 484
Inter-segment insurance income	-	4 271	-	-	(4 271)	-
Total insurance income	**-**	**381 755**	**-**	**-**	**(4 271)**	**377 484**
Result from insurance	**-**	**31 600**	**-**	**-**	**(3 801)**	**27 799**
Interest income	5 382	197 627	1 124	1 813	(16 339)	189 607
Interest expenses	(7 646)	(33 140)	(6 701)	(3 089)	16 342	(34 234)
Result from interest	**(2 264)**	**164 487**	**(5 577)**	**(1 276)**	**3**	**155 373**
Result from transactions with financial instruments, net	**6 156**	**24 877**	**4 906**	**(308)**	**(14 715)**	**20 916**
Other operating and administrative expenses	(92 165)	(237 851)	(320 363)	(9 145)	22 737	(636 787)
Net result from equity accounted investments in associates	42	-	5 258	-	-	5 300
Other financial income/ (expenses)	(2 765)	69 488	(441)	(174)	(593)	65 515
Profit for allocating insurance batches	-	(10 544)	-	-		(10 544)
Profit for the period before tax	**11 705**	**95 990**	**1 459**	**735**	**(16 971)**	**92 918**
Tax expense	(428)	(8 637)	1 061	(109)	(453)	(8 566)
Net profit for the year	**11 277**	**87 353**	**2 520**	**626**	**(17 424)**	**84 352**

Operating segments 31 December 2018	Production, trade and services BGN'000	Finance BGN'000	Transport BGN'000	Real estate and engineering BGN'000	Eliminations BGN'000	Consolidated BGN'000
Assets of the segment	649 562	9 521 296	767 905	291 768	(2 166 588)	9 063 943
Equity accounted investments	3 819	-	23 494	-	7 813	35 126
Total consolidated assets	**653 381**	**9 521 296**	**791 399**	**291 768**	**(2 158 775)**	**9 099 069**
Liabilities of the segment	215 237	7 385 436	366 097	124 860	(637 254)	7 454 376
Total consolidated liabilities	**215 237**	**7 385 436**	**366 097**	**124 860**	**(637 254)**	**7 454 376**

Operating segment 31.12.2017	Production, trade and services BGN'000	Finance BGN'000	Transport BGN'000	Real estate and engineering BGN'000	Eliminations BGN'000	Consolidated BGN'000
Income from non-financial activities from external customers	98 365	21 932	308 954	6 685	(2 897)	433 039
Change in fair value of investment property	(52)	2 160	-	-	-	2 108
Gain from sale of non-current assets	(145)	29	(833)	2 135	(7 319)	(6 133)
Inter-segment income from non-financial activities	8 341	816	2 844	**1 864**	(13 865)	-
Total income from non-financial activities	**106 509**	**24 937**	**310 965**	**10 684**	**(24 081)**	**429 014**
Insurance income from external customers	-	352 019	-	-	-	352 019
Inter-segment insurance income	-	2 059	-	-	(2 059)	-
Total insurance income	**-**	**354 078**	**-**	**-**	**(2 059)**	**352 019**
Result from insurance	**-**	**34 881**	**-**	**-**	**(1 337)**	**33 544**
Interest income	6 600	206 500	1 957	882	(16 471)	199 468
Interest expenses	(8 275)	(38 049)	(7 495)	(1 736)	16 366	(39 189)
Result from interest	**(1 675)**	**168 451**	**(5 538)**	**(854)**	**(105)**	**160 279**
Result from transactions with financial instruments, net	**5 667**	**102 883**	**13 522**	**1**	**(21 352)**	**100 721**
Other operating and administrative expenses	(103 445)	(225 782)	(320 132)	(6 494)	22 620	(633 233)
Net result from equity accounted investments in associates	42	-	5 699	-	-	5 741
Other financial income/ (expenses)	(421)	41 659	(2 526)	(262)	(1 999)	36 451
Profit for allocating insurance batches	-	(45 021)	-	-		(45 021)
Profit for the period before tax	**6 677**	**102 008**	**1 990**	**3 075**	**(26 254)**	**87 496**
Tax expense	(521)	266	1 356	(361)	31	771
Net profit for the year	**6 156**	**102 274**	**3 346**	**2 714**	**(26 223)**	**88 267**

Operating segment 31.12.2017	Production, trade and services BGN'000	Finance BGN'000	Transport BGN'000	Real estate and engineering BGN'000	Eliminations BGN'000	Consolidated BGN'000
Assets of the segment	720 205	9 283 949	788 388	298 625	(2 280 271)	8 810 896
Equity accounted investments	4 027	-	23 475	2	6 916	34 420
Total consolidated assets	**724 232**	**9 283 949**	**811 863**	**298 627**	**(2 273 355)**	**8 845 316**
Liabilities of the segment	258 129	7 150 665	370 833	129 003	(752 111)	7 156 519
Total consolidated liabilities	**258 129**	**7 150 665**	**370 833**	**129 003**	**(752 111)**	**7 156 519**

9. Property, plant and equipment

Property, plant and equipment of the Group include land, buildings, plant and equipment, vehicles, repairs of rented fixed assets, assets in process of acquisition, etc. Their carrying amount can be analysed as follows:

2018	**Land**	**Building**	**Plant and equipment**	**Equipment and spare parts**	**Vehicles**	**Improvement on leased assets**	**Others**	**Assets in process of acquisition**	**Total**
	BGN'000	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**
Balance at 1 January 2018	51 382	132 104	182 354	85 229	125 850	24 368	74 401	40 731	**716 419**
Additions:									
- separately acquired	-	-	82	-	73	-	17	321	**493**
- reclassification	166	8 299	6 834	1 183	5 887	2 478	2 712	17 606	**45 165**
Disposals									
- separately disposed	(5)	(523)	(4 763)	(774)	(3 164)	(16)	(95)	(18 197)	**(27 537)**
- business combinations	-	-	(182)	(1)	(2 886)	-	-	-	**(3 069)**
Balance at 31 December 2018	51 543	139 880	184 325	85 637	125 760	26 830	77 035	40 461	**731 471**
Depreciation									
Balance at 1 January 2018	-	(24 873)	(117 446)	(33 741)	(55 439)	(24 164)	(37 578)	-	**(293 241)**
Additions - business combinations	-	-	(75)	-	(62)	-	(17)	-	**(154)**
Disposals - business combinations	-	-	142	1	340	-	-	-	**483**
Disposals	-	133	4 705	570	2 120	19	94	-	**7 641**
Depreciation for the period	-	(3 897)	(9 997)	(1 510)	(5 533)	(1 570)	(2 796)	-	**(25 303)**
Balance at 31 December 2018	-	(28 637)	(122 671)	(34 680)	(58 574)	(25 715)	(40 297)	-	**(310 574)**
Carrying amount at 31 December 2018	**51 543**	**111 243**	**61 654**	**50 957**	**67 186**	**1 115**	**36 738**	**40 461**	**420 897**

- for the period ending 31 December 2017:

2017	Land BGN'000	Building BGN'000	Plant and equipment BGN'000	Equipment and spare parts BGN'000	Vehicles BGN'000	Improvement on leased assets BGN'000	Others BGN'000	Assets in process of acquisition BGN'000	Total BGN'000
Balance at 1 January 2017	52 651	124 769	176 066	84 989	128 159	23 487	73 462	60 258	**723 841**
Additions:									
- separately acquired	-	9 155	8 298	821	4 263	881	1 608	9 027	**34 053**
- reclassification	-	3 556	-	-	-	-	-	-	**3 556**
Disposals									
- separately disposed	(1 050)	(1 796)	(1 997)	(581)	(4 470)	-	(660)	(23 366)	**(33 920)**
- business combinations	-	-	-	-	(2 102)	-	-	(5 188)	**(7 290)**
- reclassification – Investment properties and Intangible assets	(219)	(3 580)	(13)	-	-	-	(9)	-	**(3 821)**
Balance at 31 December 2017	51 382	132 104	182 354	85 229	125 850	24 368	74 401	40 731	**716 419**
Depreciation									
Balance at 1 January 2017	-	(21 921)	(109 076)	(32 332)	(52 122)	(22 621)	(35 567)	-	**(273 639)**
Disposals - business combinations	-	201	-	-	-	-	-	-	**201**
Disposals	-	456	1 697	162	1 619	-	393	-	**4 327**
Depreciation for the period	-	(3 609)	(10 067)	(1 571)	(4 936)	(1 543)	(2 404)	-	**(24 130)**
Balance at 31 December 2017	-	(24 873)	(117 446)	(33 741)	(55 439)	(24 164)	(37 578)	-	**(293 241)**
Carrying amount at 31 December 2017	**51 382**	**107 231**	**64 908**	**51 488**	**70 411**	**204**	**36 823**	**40 731**	**423 178**

All depreciation expenses are included in the consolidated statement of profit or loss and other comprehensive income within "Operating and administrative expenses".

The carrying amount of the Group's property, plant and equipment pledged as security as at 31 December is presented as follows:

	Land BGN'000	Building BGN'000	Machines BGN'000	Vehicles BGN'000	Other BGN'000	Total BGN'000
Carrying amount as at 31 December 2018	905	16 552	57 557	1 936	2	76 952
Carrying amount as at 31 December 2017	509	15 193	64 287	1 029	301	81 319

10. Lease

10.1. Finance leases as lessee

The Group has entered into finance leases as a lessee to acquire machinery and equipment such as ships, cars, industrial machinery and computer equipment. Assets are included in the consolidated statement of financial position in "Property, Plant and Equipment" (see note 9). Net book value of assets acquired under finance leases amounted to BGN 14 958 thousand (2017: BGN 16 607 thousand).

Finance lease liabilities are secured by the related assets held under finance lease arrangements.

Future minimum finance lease payments at the end of each reporting period under review are as follows:

31 December 2018	**Within 1 year BGN '000**	**1 to 5 years BGN '000**	**Total BGN '000**
Lease payments	2 146	3 562	5 708
Finance charges	(213)	(146)	(359)
Net present values	**1 933**	**3 416**	**5 349**

31 December 2017	**Within 1 year BGN '000**	**1 to 5 years BGN '000**	**Total BGN '000**
Lease payments	1 265	2 965	4 230
Finance charges	(132)	(159)	(291)
Net present values	**1 133**	**2 806**	**3 939**

The lease agreements include fixed lease payments and purchase option in the last year of the lease term. The agreements are non-cancellable but do not contain any further restrictions. No contingent rents were recognized as an expense and no sublease income is expected to be received as all assets are used exclusively by the Group.

10.2. Operating lease as lessee

The Group's future minimum operating lease payments are as follows:

	Within 1 year BGN'000	**1 to 5 years BGN'000**	**After 5 Years BGN'000**	**Total BGN'000**
31 December 2018	52 787	135 143	18 804	**206 734**
31 December 2017	55 373	160 956	12 999	**229 328**

Lease payments recognized as an expense during the period amount to BGN 58 551 thousand (2017: BGN 64 324 thousand).

Significant to the Group operating leases are related to hiring airplanes and real estate.

At the date of preparation of these consolidated financial statements, the Group is a lessee under operating leases on 9 aircraft (five Airbuses and four Embraers). Operating lease agreements do not contain provisions for contingent payments or purchase.

10.3. Operating lease as lessor

The revenues from operating leases for 2018 are amounting to BGN 21 519 thousand (2017: BGN 16 732 thousand). In 2018 and 2017 the Group allows for the lease of airplanes to other companies under operating leases. Revenues from leasing of airplanes rent in 2018 amounted to BGN 8 706 thousand (2017: BGN 12 577 thousand).

In 2018 and 2017 the Group leases real estate of property, plant and equipment, and investment properties under operating leases.

Costs incurred in operating the investment properties amounting to BGN 701 thousand are recognized in the consolidated statement of profit and loss and other comprehensive income (2017: BGN 565 thousand).

Future minimum lease payments are as follows:

	Future minimal lease receipts			
	Within 1 year BGN '000	1 to 5 years BGN '000	After 5 years BGN '000	Total BGN '000
31 December 2018	13 123	62 726	25 932	**101 781**
31 December 2017	10 387	59 542	38 442	**108 371**

For operating leases, the Group does not contain any contingent rent clauses. None of the operating lease agreements contains an option to renew or purchase or escalation clauses or restrictions regarding dividends, further leasing or additional debt.

11. Investment property

Investment property includes land and buildings, hangars and outbuildings which are owned to earn rentals and capital increase.

Investment property is recognized in the consolidated financial statements of the Group using fair value model. Changes to the carrying amounts presented in the consolidated statement of financial position can be summarized as follows:

	Investment property BGN '000
Carrying amount at 1 January 2017	**337 574**
Additions:	
- from business combinations	13 127
- through acquisition costs	62 142
- separately acquired	4 835
- reclassifications	2 729
Gain from change of the fair value of investment property	2 654
Loss from change of fair value of investment property	(546)
Disposals	(13 457)
Disposals due to reclassifications	(3 556)
Carrying amount at 31 December 2017	**405 502**
Additions:	
- from business combinations	2 856
- through acquisition costs	1 592
- separately acquired	14 705
Gain from change of the fair value of investment property	3 806
Loss from change of fair value of investment property	(1 003)
Disposals	(5 284)
Carrying amount at 31 December 2018	**422 174**

The fair value of the investment property is determined by the Group in accordance with valuation reports from certified valuation specialists, internal group expert reports based on the current market prices.

Investment properties that are pledged as collateral are at the amount of BGN 83 508 thousand (2017: BGN 85 429 thousand).

Revenue from investment properties for the year 2018 amounted to BGN 11 999 thousand (2017: BGN 7 439 thousand) and are included in the consolidated statement of profit or loss and other comprehensive income within "Income from non-financial activities". Direct operating expenses in the amount of BGN 2 101 thousand are recognized as "Operating and administrative expenses" (2017: BGN 1 125 thousand).

12. Goodwill

The main changes in the carrying amount of goodwill result from acquisitions and impairment of subsidiaries during the period.

	Goodwill BGN '000
2017	
Carrying amount at 1 January	33 042
Impairment loss recognized for the period	(735)
Carrying amount at 31 December	**32 307**
2018	
Carrying amount at 1 January	32 307
Goodwill recognized during the period	206
Impairment loss recognized for the period	(4 088)
Carrying amount at 31 December	**28 425**

For the purpose of annual impairment testing in 2018 the carrying amount of goodwill is allocated to the following cash-generating units:

	2018 BGN '000	**2017 BGN '000**
Segment "Finance"	18 169	20 463
Segment "Production, trade and services "	9 073	10 237
Segment "Transport"	661	744
Segment "Real estate and engineering"	522	863
	28 425	**32 307**

The recoverable amount of cash generating units is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using constant growth rates characteristic of the sector in which each cash-generating unit operates. The discount rates used reflect specific risks relating to the sector in which each cash-generating unit operates.

In 2018 impairment of goodwill was carried, associated with segment “Finance” totalling BGN 2 594 thousand (2017: BGN 0 thousand), segment “Production, trade and services” totalling BGN 1 070 thousand (2017: BGN 0 thousand), segment “Transport” – BGN 83 thousand (2017: BGN 0 thousand), segment “Real estate and engineering” – BGN 341 thousand (2017: BGN 735 thousand).

The impairment of goodwill is included within "Operating and administrative expenses " in the consolidated statement of profit or loss and other comprehensive income.

13. Other intangible assets

The carrying amounts of the intangible assets of the Group for the reporting periods can be analysed as follows:

2018	Trade marks	Licenses and patents	Software products	Customer relationships	Research and development activities	Exploration and evaluation expenditures	Property rights	Other	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Gross carrying amount									
Balance at 1 January 2018	53 168	9 243	10 420	6 058	1 145	11 625	21 499	131 385	244 543
Additions:									
- separately acquired	-	257	200	-	-	73	-	3 444	3 974
- reclassified assets	-	11	6	-	-	-	-	(17)	-
- business combinations	2 459	-	-	-	-	-	-	-	2 459
Disposals									
- separately disposed	-	(3)	(45)	-	-	(2 103)	(7 688)	(3 458)	(13 297)
Balance at 31 December 2018	55 627	9 508	10 581	6 058	1 145	9 595	13 811	131 354	237 679
Amortization and impairment									
Balance at 1 January 2018	(36 909)	(6 485)	(9 670)	(5 181)	(52)	-	-	(14 505)	(72 802)
Disposals	-	3	30	-	-	-	-	-	33
Amortization	(1 380)	(460)	(573)	(413)	-	-	-	(4 353)	(7 179)
Balance at 31 December 2018	(38 289)	(6 942)	(10 213)	(5 594)	(52)	-	-	(18 858)	(79 948)
Carrying amount at 31 December 2018	**17 338**	**2 566**	**368**	**464**	**1 093**	**9 595**	**13 811**	**112 496**	**157 731**

- For the period ended 31 December 2017

2017	Trade marks	Licenses and patents	Software products	Customer relationships	Research and development activities	Exploration and evaluation expenditures	Property rights	Other	Total
	BGN‘000	BGN‘000	BGN‘000	BGN‘000	BGN‘000	BGN‘000	BGN‘000	BGN‘000	BGN‘000
Gross carrying amount									
Balance at 1 January 2017	44 888	8 905	10 163	6 058	1 145	11 366	25 520	129 814	237 859
Additions:									
- separately acquired	8 280	405	295	-	-	259	1 318	1 285	11 842
- reclassified assets	-	-	-	-	-	-	-	1 092	1 092
Disposals									
- through business combination	-	-	-	-	-	-	-	-	-
- separately disposed	-	(67)	(38)	-	-	-	(5 339)	(806)	(6 250)
Balance at 31 December 2017	53 168	9 243	10 420	6 058	1 145	11 625	21 499	131 385	244 543
Amortization and impairment									
Balance at 1 January 2017	(35 815)	(6 146)	(9 084)	(4 767)	(52)	-	-	(9 963)	(65 827)
Acquired from business combination	-	-	-	-	-	-	-	-	-
Disposals	-	62	20	-	-	-	-	56	138
Amortization	(1 094)	(401)	(606)	(414)	-	-	-	(4 598)	(7 113)
Balance at 31 December 2017	(36 909)	(6 485)	(9 670)	(5 181)	(52)	-	-	(14 505)	(72 802)
Carrying amount at 31 December 2017	**16 259**	**2 758**	**750**	**877**	**1 093**	**11 625**	**21 499**	**116 880**	**171 741**

Established Property Right

Established property rights to the buildings relate to massive office buildings, located in several major cities in the country, which will be used for branches of CCB AD. Rights to use the buildings are set up in 2011 and 2012 and 2014 for the terms until 2020, 2022 and 2031 for a total amount of BGN 13 811 thousand (2017: BGN 21 499 thousand). Carrying amount of each entitlement is amortized in equal instalments for the period of use of buildings.

Trade marks

Trademarks acquired by the Group are “Bulgaria Air”, national carrier and “Arena Armeec”, representing name of multifunctional hall in Sofia, Bulgaria – Arena Armeec.

Exploration and evaluation expenditures

The expenses for research and valuation include granted rights and capitalized expenses for research and valuation.

As at 31 December 2018 the Group recognized exploration and evaluation expenditures in Block 1-12 Knezha, Block 1-4 Kavarna and Block 1-17 Ovcha mogila in the amount of BGN 9 595 thousand (2017: BGN 11 625 thousand).

	2018 **BGN ‘000**	**2017** **BGN ‘000**
Block 1-12 Knezha	7 842	7 769
Block 1-17 Ovcha mogila	1 753	3 856
	9 595	**11 625**

In 2018, indications for impairment of exploration and evaluation costs amounting to BGN 2 103 thousand were established in Block 1-17 Ovcha Mogila, as presented within "Operating and administrative Expenses" in the consolidated statement of profit or loss and other comprehensive income. No indications of impairment were identified in 2017.

All amortization expenses are included in the consolidated statement of profit or loss and other comprehensive income within “Operating and administrative expenses”.

No intangible assets have been pledged as security for liabilities.

14. Deferred tax assets and liabilities

Deferred taxes arise from temporary differences and can be summarized as follows:

Deferred tax liabilities (assets)	1 January 2018 BGN '000	Effect of IFRS 9 as at 1 January 2018 BGN '000	Business combination BGN '000	Recognized in other comprehensive income BGN '000	Recognized in profit and loss BGN '000	31 December 2018 BGN '000
Assets						
Property, plant and equipment	9 374	-	-	-	117	9 491
Investment property	5 115	-	(19)	-	301	5 397
Financial assets	7 258	(8 995)	-	960	2 695	1 918
Trade and other non-financial receivables	(559)	-	-	-	367	(192)
Inventories	(46)	-	-		(2)	(48)
Other assets	6 463	-	-	-	572	7 035
Liabilities						
Pension and other employee obligations	(1 174)	-	-	-	(418)	(1 592)
Provisions and trade payables	(335)	-	-	-	(63)	(398)
Unused tax losses	(4 606)	-	-		(1 199)	(5 805)
	21 490	**(8 995)**	**(19)**	**960**	**2 370**	**15 806**
Recognized as:						
Deferred tax assets	**(6 720)**					**(8 035)**
Deferred tax liabilities	**28 210**					**23 841**

Deferred taxes for the comparative period 2017 can be summarized as follows:

Deferred tax liabilities (assets)	**1 January 2017 BGN '000**	**Recognized as result of business combinations BGN '000**	**Recognized in other comprehensive income BGN '000**	**Recognized in profit and loss BGN '000**	**31 December 2017 BGN '000**
Assets					
Property, plant and equipment	9 436	-	-	(62)	9 374
Investment property	3 837	1 294	-	(16)	5 115
Financial assets	7 594	-	190	(526)	7 258
Trade and other receivables	(613)	-	-	54	(559)
Inventories	-	-	-	(46)	(46)
Other assets	9 731	662	274	(4 204)	6 463
Liabilities					
Pension and other employee obligations	(736)	-	(118)	(320)	(1 174)
Provisions and trade payables	(273)	-	(1)	(61)	(335)
Unused tax losses	(3 359)	-	-	(1 247)	(4 606)
	25 617	**1 956**	**345**	**(6 428)**	**21 490**
Recognized as:					
Deferred tax assets	**(4 981)**				**(6 720)**
Deferred tax liabilities	**30 598**				**28 210**

15. Loans and advances to bank clients

Loans and advances can be summarized as follows:

(a) Analysis by customer type

	2018 BGN '000	**2017 BGN '000**
Physical persons:		
In BGN	776 458	635 268
In foreign currency	224 663	185 199
Legal entities:		
In BGN	738 783	789 017
In foreign currency	792 019	828 655
	2 531 923	2 438 139
Impairment loss	(114 406)	(118 330)
Total loans and advances to bank clients	**2 417 517**	**2 319 809**

Loans and advances to customers as at 31 December 2018 include deposits with international financial institutions under marginal derivative transactions amounting to BGN 9 920 thousand (2017: BGN 15 514 thousand), including the result of transactions.

(b) Interest rates

Loans in BGN and foreign currencies are accrued at a variable interest rate. Under the terms of these loans, the interest rate is calculated on the basis of a reference interest rate of the Bank or an interest rate index for EURIBOR, LIBOR, plus a margin. The allowance for regular loans ranges from 2% to 5%, depending on the credit risk associated with the respective borrower, and overdue loans are charged an additional margin above the agreed interest rate.

16. Financial assets at fair value through profit or loss

Financial assets measured at fair value through profit or loss can be summarized as follows:

	2018 BGN '000	2017 BGN '000
Financial assets measured at fair value through profit or loss:		
Bulgarian corporate shares and rights	771 590	588 382
Bulgarian corporate bonds	184 136	149 759
Medium-term Bulgarian government securities	189 231	200 193
Long-term Bulgarian government securities	53 892	56 613
Securities issued or guaranteed in other countries	486 173	433 070
Short-term Bulgarian government securities	-	1 281
Derivatives held for trading	56	1 025
	1 685 078	**1 430 323**

Financial assets are measured at fair value based on stock quotes at the date of the financial statements or on the basis of estimates by independent valuers as at the date of the financial statements.

Gains and losses are recognized in the consolidated statement of profit or loss and other comprehensive income within "Result from operations with financial instruments".

17. Debt instruments at fair value through other comprehensive income

The financial assets at fair value through other comprehensive income, including bonds and government securities, is presented as follows:

	2018 BGN '000	2017 BGN '000
Bonds	75 865	-
Government securities	347 051	-
Total debt instruments at fair value through other comprehensive income	**422 916**	**-**

As of 31 December 2018, the financial assets measured at fair value in other comprehensive income formed a related impairment loss amounting to BGN 1 706 thousand, which is reflected in the equity and did not reduce the book value of the assets.

As at 31 December 2018 government bonds issued by the Bulgarian government amounting to BGN 91 328 thousand are pledged as collateral for servicing budget accounts. As at 31 December 2018, the Bulgarian corporate securities are bonds. As at 31 December 2018, foreign corporate securities represent bonds in foreign commercial companies.

18. Equity instruments at fair value through other comprehensive income

	2018 BGN '000	2017 BGN '000
Quoted equity instruments	12 713	-
Unquoted equity instruments	58 270	-
Total equity instruments at fair value through other comprehensive income	**70 983**	**-**

19. Available-for-sale financial assets

	2018 BGN '000	2017 BGN '000
Corporate bonds	-	50 383
Equity investments with a market value	-	27 855
Equity investments in stokes and shares not listed on a public exchange	-	104 353
Long-term Bulgarian government bonds	-	97 988
Medium-term Bulgarian government bonds	-	189 483
Short-term Bulgarian government bonds	-	30 835
Foreign government securities	-	165 128
Less impairment	-	(1 830)
	-	**664 195**

The fair value of available-for-sale financial assets is determined on the basis of their quoted prices at the date of the consolidated financial statements, except for equity investments in stocks and shares of companies that are not listed on a public stock exchange in Bulgaria and abroad. They are valued at cost, which at 31 December 2017 amounted to BGN 82 362 thousand.

20. Held-to-maturity financial assets

	2018 BGN '000	2017 BGN '000
Short-term bonds issued by the Government of the Republic of Macedonia	-	16 214
Short-term bonds of the National Bank of the Republic of Macedonia	-	17 796
Short-term Bulgarian government bonds within up to 1 year	-	2 459
	-	**36 469**

Short-term Government Bonds of the Republic of Macedonia
Short-term bonds issued by the Government and by the National Bank of the Republic of Macedonia have no market price and their fair value cannot be determined.

21. Other financial assets at amortized cost

Amounts recognized in the consolidated statement of financial position are attributable to other financial assets measured at amortized cost are as follows:

	Note	2018 BGN '000	2017 BGN '000
Loans granted	21.1.1	363 099	293 318
Receivables under repurchase agreements	21.1.2	297 105	237 959
Debt instruments measured at amortized cost	21.1.3	302 516	-
Receivables from related parties	48	50 215	77 678
Trade receivables	21.1.4	96 620	106 969
Other		75 249	69 566
Less impairment		(79 378)	(4 667)
		1 105 426	**780 823**

21.1.1. Loans granted

	2018 BGN '000	2017 BGN '000
Loans granted	311 610	255 651
Receivables under cession contracts	51 489	37 667
	363 099	**293 318**

Loans are provided at annual interest rates of 3% to 10% depending on the term of the loan.

The fair value of the loans granted is not individually determined as the management considers that their carrying amount gives a true idea of their fair value.

21.1.2. Receivables under repurchase agreements

As at 31 December 2018, the Group has entered into repurchase agreements with a total of BGN 297 105 thousand (2017: BGN 237 959 thousand), including interest receivables.

Some of them amounting to BGN 74 248 thousand are secured by pledge of Bulgarian government securities of approximately the same amount. The rest of the amount of BGN 222 857 thousand is secured by a pledge of corporate securities whose value is greater than the value of the provided resource. As at 31 December 2018 an impairment loss amounting to BGN 208 thousand was formed under the repurchase clauses. The maturity of these agreements is between January and June 2019.

21.1.3. Debt instruments measured at amortized cost

As at 31 December 2018, debt instruments measured at amortized cost consist of Bulgarian government bonds, government bonds of EU countries, Bulgarian corporate bonds and foreign corporate bonds, including the amount of accrued interest and discount / premium on the basis of their original maturity, as follows:

	2018 BGN '000	2017 BGN '000
Bulgarian Government Bonds	131 656	-
Foreign government bonds	148 099	-
Bulgarian corporate bonds	12 950	-
Foreign corporate bonds	9 811	-
Impairment loss	(412)	-
Debt instruments measured at amortized cost	**302 104**	**-**

As of 31 December 2018, government bonds issued by the Bulgarian government amounting to BGN 131 656 thousand are pledged as collateral for servicing budget accounts.

21.1.4. Trade receivables

	2018 BGN '000	2017 BGN '000
Trade receivables. gross	96 620	106 969
Impairment loss	(8 140)	(4 667)
Trade receivables	**88 480**	**102 302**

All receivables are short-term. The net book value of trade receivables is considered a reasonable estimate of their fair value.

All trade receivables of the Group have been reviewed for impairment indications. Some trade receivables have been derecognised and the corresponding impairment in the consolidated statement on profit or loss and other comprehensive income within "Operating and Administrative Expenses". The impaired receivables were mainly due to commercial customers who had financial difficulties.

22. Tax receivables

	2018 BGN '000	2017 BGN '000
Overpaid corporate tax	510	87
VAT recovery	1 336	1 663
Excise recovery fee	3	3
Other overpaid taxes	5	3
	1 854	**1 756**

23. Insurance and reinsurance receivables

	2018 BGN '000	2017 BGN '000
Claims on accrued premiums on insurance contracts	47 929	43 454
Reinsurance contracts	3 013	62
Estimates of co-insurance contracts	129	129
	51 071	**43 645**

24. Other receivables

	2018 BGN '000	2017 BGN '000
Noncurrent other receivables		
Advance payments	340	1 787
Prepaid costs	324	-
Noncurrent other receivables	**664**	**1 787**
Current other receivables		
Litigation and claims	59 806	60 721
Short-term deposits and guarantees	2 170	4 617
Prepaid costs	14 383	12 757
Advance payments	20 004	36 210
Other	9 868	44 977
Current other receivables, gross	**106 231**	**159 282**
Impairment of other receivables	(13 424)	-
Current other receivables	**92 807**	**159 282**
Other receivables	**93 471**	**161 069**

The significant part of the short-term deposits and guarantees amounting to BGN 20 004 thousand (2017: BGN 10 278 thousand) represent short-term deposits, guarantees paid under the contracts for operating aircraft leasing, guarantee claims for airport servicing, rental warranties and other contracts and a guarantee for duty-free trade to Sofia Customs.

Prepayments totalling BGN 14 383 thousand (2017: BGN 12 757 thousand) represent prepaid expenses for advertising, rents, insurance, etc. represent prepaid advertising, rent, insurance, and other costs.

25. Inventories

Inventories recognized in the consolidated statement of financial position can be analysed as follows:

	2018 BGN'000	2017 BGN'000
Materials	11 014	10 505
Production	1 995	2 039
Goods	7 798	10 069
Unfinished production	1 549	1 791
Spare parts	6 316	6 194
Assets acquired from collateral	16 992	16 289
Other	259	288
	45 923	**47 175**

As of 31.12.2018, the Group's inventories amounting to BGN 6 903 thousand (2017: BGN 11 083 thousand) were provided as collateral for liabilities to banks.

Assets acquired from collateral amounting to 16 992 (2017: BGN 16 289 thousand) refer to assets acquired from the Group's banking activities that do not meet the criteria for classification as held for sale and are reported in accordance with the requirements of IAS 2 Inventories.

26. Cash and cash equivalents

Cash and cash equivalents include the following:

	2018 BGN'000	2017 BGN'000
Cash in cash and in banks:		
- BGN	1 650 269	1 759 643
- EUR	172 011	122 279
- USD	103 052	199 217
- other currencies	119 892	123 765
Cash and cash equivalents	**2 045 224**	**2 204 904**

	2018 BGN'000	2017 BGN'000
Cash at the Central Bank	1 433 596	1 601 438
Short-term investments and deposits	220 413	20 705
Provided resources and advances to banks and cash	387 513	561 479
Restricted cash	3 702	21 282
	2 045 224	**2 204 904**

27. Equity

27.1. Share capital

The share capital of Chimimport AD as at 31 December 2018 consists of 239 646 267 (31.12.2017: 239 646 267) ordinary shares with a par value of BGN 1 per share, including 12 454 620 (31.12.2017: 12 410 519) ordinary shares, acquired by companies of Group of Chimimport AD. The ordinary shares of Chimimport AD are registered and subject to unrestricted transfers and entitle 1 voting right and liquidation quota:

	2018 Number of shares	2017 Number of shares
Shares issued and fully paid at 1 January:	227 235 748	226 914 228
Change in own shares /ordinary and preferred/, acquired by subsidiaries during the year	(44 101)	321 520
Shares issued and fully paid as at period end	**227 191 647**	**227 235 748**

The list of the principal shareholders, holding ordinary shares of the parent company, is as follows:

	2018 Number ordinary shares	2018 %	2017 Number ordinary shares	2017 %
Invest Capital AD	174 847 247	72.96%	174 847 247	72.96%
Other entities	50 761 796	21.18%	47 643 859	19.88%
Other individuals	14 037 224	5.86%	17 155 161	7.16%
	239 646 267	**100.00%**	**239 646 267**	**100.00%**
Own shares held by subsidiaries				
CCB Group AD	(1 296 606)	0.54%	(1 296 606)	0.54%
ZAD Armeec	(3 236 507)	1.35%	(3 236 507)	1.35%
POAD CCB Sila	(7 919 307)	3.30%	(7 872 107)	3.29%
Trans Intercar EAD	(2 200)	-	(5 300)	-
	(12 454 620)	**5.19%**	**(12 410 519)**	**5.18%**
Net number of shares	**227 191 647**		**227 235 748**	

The tax on dividends for individuals and non-EU legal entities is 5%, with the tax deducted from the gross amount of the dividends.

27.2. Premium reserve

	2018 BGN'000	2017 BGN'000
Premium reserves from 2009, 2007 and 2006	247 129	246 838
Change in own-equity reserves held by subsidiaries	(59)	291
	247 070	**247 129**

In 2018 the premium reserve decreased by BGN 59 thousand as a result of purchased own shares from subsidiaries of the Group.

As at 31 December 2018 the premium reserve amounted to BGN 247 070 thousand (2017: BGN 247 129 thousand). The premium reserve is formed by the issue of preferred shares from 2009 and two issues of ordinary shares in 2007 and 2006.

27.3. Other reserves

As at 31 December 2018, the other reserves amounted to BGN 145 447 thousand (2017: BGN 124 926 thousand), including BGN 10 632 thousand - Pension fund reserves (2017: BGN 9 742 thousand), revaluations under defined benefit plans BGN 126 thousand (2017: BGN 78 thousand) and other reserves.

28. Liabilities to depositors

Liabilities to depositors are presented as follows:

Analysis by term and type of currency:	2018 BGN'000	2017 BGN'000
On-demand deposits		
in BGN	1 148 504	1 095 702
in foreign currency	238 548	232 192
	1 387 052	1 327 894
Term deposits		
in BGN	1 200 827	1 247 268
In foreign currency	1 058 451	1 037 232
	2 259 278	2 284 500
Savings accounts		
in BGN	1 108 901	978 826
in foreign currency	497 300	443 826
	1 606 201	1 422 652
Other deposits		
in BGN	3 742	14 653
in foreign currency	3 329	3 242
	7 071	17 895
Total liabilities to depositors	**5 259 602**	**5 052 941**

Analysis by term and type of currency:	2018 BGN'000	2017 BGN'000
Individual deposits		
in BGN	2 515 000	2 285 615
in foreign currency	1 560 207	1 449 010
	4 075 207	3 734 625
Legal entities deposits		
in BGN	938 364	1 029 880
in foreign currency	232 606	264 262
	1 170 970	1 294 142
Deposits of other institutions		
in BGN	8 610	19 521
in foreign currency	4 815	4 653
	13 425	24 174
Total liabilities due to depositors	**5 259 602**	**5 052 941**

29. Other financial liabilities

		Current		Non-current	
		2018 BGN'000	2017 BGN'000	2018 BGN'000	2017 BGN'000
Financial liabilities measured at fair value					
Derivatives held for sale	29.1	1 272	3 396	-	-
Financial liabilities measured at amortized cost:					
Bonds and debenture loan	29.2	2 488	12 558	42 690	29 792
Bank loans	29.3	62 060	61 119	127 140	120 332
Other borrowings and financing	29.4	7 305	21 830	18 218	18 848
Deposits from banks	29.5	14 452	7 048	-	-
Cession liabilities		21 898	17 536	17 954	18 018
Liabilities under repurchase agreements	29.6	13 559	15 433	-	-
Trade payables	29.7	98 388	97 372	23 012	47 599
Payables to related parties	48	46 785	37 419	5 598	4 315
Total carrying amount		**268 207**	**273 711**	**234 612**	**238 904**

29.1. Derivatives held for sale

As at 31 December 2018, derivatives held for trading amounting to BGN 1 272 thousand (2017: BGN 3 396 thousand) are presented at fair value and include transactions for the purchase and sale of currency, valuables securities, forward contracts and currency swaps in the open market.

29.2. Bonds and debenture loan

The bond loans received by the Group are as follows:

	Current		Non-current	
	2018 BGN'000	2017 BGN'000	2018 BGN'000	2017 BGN'000
Bonds and debenture loans	2 488	12 558	42 690	29 792
	2 488	**12 558**	**42 690**	**29 792**

The carrying amount of the Group's debts on the aforementioned debenture loans at 31 December 2018 amounted to BGN 45 178 thousand (2017: BGN 42 350 thousand) and was calculated using the effective interest method.

29.3. Bank loans

The Bank loans of the Group comprise loans, granted by Bulgarian commercial banks, designated for financing investment projects of the Group, as well as, for refinancing the current operating activity of the Group. Bank loans are classified according to their contracted maturity date.

	Current		Noncurrent	
	2018 BGN'000	2017 BGN'000	2018 BGN'000	2017 BGN'000
Bank loans	62 060	61 119	127 140	120 332

29.3.1. Noncurrent bank loans

	2018 BGN'000	2017 BGN'000
Revolving and investment bank loans	127 140	120 332
	127 140	**120 332**

Investment loans

The Group has received the following investment loans as with the following terms and conditions.

- The Group is party to a contract for an investment bank loan, signed on 30 January 2015 with maturity date on 30 April 2023. The repayment of the loan is made in BGN and is in accordance with an agreed repayment schedule for the whole term of the contract. The annual interest rate on the loan is BIR plus 4.9%. The loan is secured by investment property with carrying amount as at 31 December 2018 amounting to BGN 35 831 thousand.
- The Group is party to a contract for an investment bank loan, signed on 23 December 2015 with maturity date on 31 December 2025. The repayment of the loan is made in BGN and is in accordance with an agreed repayment schedule for the whole term of the contract. The annual interest rate on the loan is 1M SOFIBOR plus 3%. Since 01.07.2018 the SOFIBOR index has stopped publishing. The interest rate applied for the loan after 01.07.2018 is formed as the sum of “Average deposit index” plus 2.727 %. The loan is secured by contractual mortgage of a hangar, all receivables of the Group arising from lease agreements concluded with Lufthansa Technik Sofia OOD in its capacity of tenant.
- The Group is party to a contract for an investment bank loan, signed on 01 November 2016. The repayment of the loan is made in BGN and is in accordance with an agreed repayment schedule with beginning date on 31 October 2018. The annual interest rate on the loan is 1M SOFIBOR plus 3%. Since 01.07.2018 the SOFIBOR index has stopped publishing. The interest rate applied for the loan after 01.07.2018 is formed as the sum of “Average deposit index” plus 2.727 %. The loan is secured by contractual mortgage of a hangar, all receivables of the Group arising from lease agreements concluded with Lufthansa Technik Sofia OOD in its capacity of tenant.
- The Group is party to a contract for an investment bank loan, signed on 20 December 2013. The repayment of the loan is made in BGN and is in accordance with an agreed repayment schedule for the whole term of the contract. The annual interest rate on the loan is base index (until it dropped in 2018) plus 3 %. The loan is secured by non-self-propelled dry cargo barge BRP 19003 (owned by the Group) and tangible fixed assets purchased with funds from the respective credit.
- The Group is party to a contract for an investment bank loan, signed on 11 August 2017, maturing on 31 August 2027. The interest on the loan is equal to the annual interest rate determined as the sum of the variable base interest rate applicable to the relevant interest rate period and a surplus to the interest rate index of 2.738 %. The loan is secured by a mortgage on a real estate in Sofia and a pledge of shares and receivables.
- The Group is a party to an investment bank loan agreement signed on 21 June 2013, maturing on 22 May 2023. The interest on the loan is 3M EURIBOR plus 3 percentage points, but not less than 6.5%. The loan is secured by a real estate mortgage, a pledge of long-term tangible assets under the Law on Special Pledges.

Revolving loans

- The Group was granted bank loan for working capital with due date on 01 February 2021. The annual interest rate is equal to the base interest rate of the Bank plus a contractual surplus of 1.7 % on the used portion of the loan. The loan is secured by a contract for pledge of making third party lease of "Hangar with lightweight construction (HOK)" and connecting corridor, located in the town. Sofia Slatina, Sofia Airport.

- The Group is party to a loan contract for working capital, signed on 01 August 2018 with due date on 20 August 2021. The annual interest rate is equal to the base interest rate of the Bank plus a contractual surplus of 1.7 %. The loan is secured by a pledge of receivables on current accounts in creditor bank and a special pledge on goods intended for duty-free foreign exchange trading on airplanes and / or in specialized stores with carrying amount as at 31 December 2018 at the amount of BGN 286 thousand.
- The Group is party to a 2 loan contracts for working capital with due dates on 31 October 2022 and 31 January 2021. The annual interest rate on the loans is 3 % plus 3M EURIBOR, but no less than 4 %. The loans are secured by pledge of public procurement contracts for providing of air tickets, receivables under BSP receipts, receivables under contracts of third parties.
- The Group is party to a bank loan agreement with a commercial bank signed on 31 January 2018 at the amount of EUR 4 950 thousand with due date on 31 January 2020. The loan is secured by bank deposits. The annual interest rate on the loan is based on BIR plus 0.4 %.
- The Group is party to a bank loan contract for working capital. The annual interest rate on the loan is BIR in BGN 2.5 % and an agreed credit risk margin amounting to 1 % or the sum of 3.5 %. The maturity date of the loan is 20 November 2020. The loan is secured by pledge of assets from the group of property, plant and equipment.
- The Group is a party to a bank credit contract for working capital. The annual interest rate on the working capital loan is BIR in BGN 2.5 % and a contracted credit risk amounting to 0.7 points or a total contracted rate of 3.2 per cent. The deadline for repayment of the loan is 31.01.2020. The received loan is secured by term deposits on the Group's accounts.
- The Group is a party to a bank credit contract for working capital. The annual interest rate on the working capital loan is BIR in BGN 2.5 % and an agreed credit risk margin of 1.5 points or a total contracted rate of 4 %. The deadline for repayment of the loan is 30.12.2022. The received loan is secured by government securities of the Republic of Bulgaria owned by the Group.

29.3.2. Current bank loans

	2018 BGN'000	2017 BGN'000
Current revolving and investment loans	62 060	61 119
	62 060	**61 119**

Investment loans

Liabilities of the Group as at 31 December 2018 comprise the following investment bank loan:

- The Group is a party to a bank loan agreement signed on 16 March 2011. The principal is repaid in BGN and is subject to a contracted repayment schedule for the whole term of the contract. The interest rate on the contract is a base index of a 12M EURIBOR + 6%. To secure the borrowings, the Group has pledged assets from the group of property, plant and equipment.
- The Group is a party to a bank loan agreement signed on 21 December 2018 and maturing on 25 April 2019. The principal is repaid in BGN and is subject to a contracted repayment schedule for the whole term of the contract. The interest rate on the contract is a base index of a 12M EURIBOR + 6%. The loan is not secured.

Revolving loans

- The Group was granted a bank loan on 5 October 2011 with maturity date on 29 September 2019. The loan is secured by real estate. The annual interest rate equals 8.5%, formed based on 1M EURIBOR + 4%, but no less than 4%.
- The Group was granted a bank loan to provide working capital with maturity date on 31 May 2019. The interest rate is 3.00 % plus 3M EURIOR, but no less than 4.00 %. The loan is secured by pledge of public procurement contracts for providing of air tickets, receivables under BSP receipts, receivables under contracts of third parties.

- The Group was granted a revolving bank credit, signed on 28 January 2008 with maturity date on 25 September 2019. The annual interest rate is 1M EURIBOR plus 4%.
- The Group is a party to a revolving bank loan agreement concluded on 21 June 2013 with a repayment term of 22 May 2019. The annual interest rate on the loan amounts to a three-month EURIBOR plus a 3% surcharge, but not less than 6%.
- The Group was granted a revolving bank credit, signed on 13 December 2013 with maturity date on 30 September 2019. The annual interest rate is average deposit index (ADI) plus 2.657 %.

29.4. Other borrowings and financing

		Current			Non-current	
		2018 BGN'000	**2017 BGN'000**		**2018 BGN'000**	**2017 BGN'000**
Other borrowings and financing	29.4.2	7 305	21 830	29.4.1	18 218	18 848

29.4.1. Other non-current borrowings

	2018 BGN'000	**2017 BGN'000**
Non-current borrowings	16 943	17 573
Financing from State Agricultural Fund	1 275	1 275
	18 218	**18 848**

Other non-current borrowings are received under annual interest rates from 3% to 8% depending on the contract period, received from third parties. The long-term borrowing is not secured. Payments are concluded in the currency, in which they were granted.

Financing refers to acquired assets Station for geophysical studies in oil and gas Drilling, Station for drilling geophysical studies in oil and gas drilling under contract between Oil and Gas Exploration and Production and The General Directorate "European Funds for Competitiveness" - Managing Authority of the OPC to the Ministry of Economy and Energy - legal successor of BSMEPA, regarding grant № 2TMG-02-21 / 13.06.2011 under Operational Program "Development of the Competitiveness of the Bulgarian Economy 2007-2013", Financed by the European Union through the European Regional Development Fund, and others.

29.4.2. Other current borrowings

	2018 BGN'000	**2017 BGN'000**
Current borrowings	6 840	19 736
Financing under operational programs	465	2 094
	7 305	**21 830**

Other current borrowings are received under annual interest rates from 3% to 8% depending on the contracted period. The period of repayment is on demand by the Group. The fair value of the loans is not separately determined as the management considers that the carrying amount of the loans is a reasonable approximation of their fair value.

29.5. Deposits from banks

	Current	
	2018 BGN'000	2017 BGN'000
Demand deposits – local banks		
-in Bulgarian leva	2 202	632
-in foreign currency	2 083	3 215
Demand deposits from foreign banks in foreign currency	9 117	749
Term deposits from Bulgarian banks in BGN	175	409
Term deposits from foreign banks in foreign currency	875	2 043
	14 452	**7 048**

29.6. Liabilities under repurchase agreements

As at 31 December 2018, the Group has entered into agreements with a repurchase clause with Bulgarian companies totalling BGN 13 559 thousand (2017: BGN 15 433 thousand), including accumulated interest payables on them. The maturity of these agreements is until the end of 2019.

29.7. Trade payables

	Current		Non-current	
	2018 BGN'000	2017 BGN'000	2018 BGN'000	2017 BGN'000
Trade payables	98 388	97 372	23 012	47 599

The net carrying amount of trade payables is considered a reasonable estimate of their fair value.

30. Payables to insured individuals

	2018 BGN'000	2017 BGN'000
Attracted funds in a voluntary pension fund	87 148	83 769
Attracted funds in a professional pension fund	121 008	115 823
Attracted funds in a universal pension fund	1 087 738	995 963
	1 295 894	**1 195 555**

The net asset value of the funds managed by the subsidiary POAD CCB-Sila as at 31 December 2018 is BGN 1 295 894 thousand. The increase of BGN 100 339 thousand against the liabilities at 31 December 2017 is mainly due of proceeds from positive income from the investment of insured persons realized in 2018, receipts from insurance contributions and reduction of the amounts paid under the insurance contract.

Changes in net assets available for income are the result of:

	2018 BGN'000	2017 BGN'000
Beginning of the period	**1 195 555**	**1 057 762**
Received pension contributions	141 080	130 369
Amounts received from pension funds, managed by other Pension Insurance Companies	38 820	40 352
Funds of persons who have resumed their insurance in UPF under the procedure of Art. 124a of CSR	128	83
Recovered amounts from National Social Security Institute	-	1
Total increase of pension contributions	**180 028**	**170 805**
Positive income from investment of funds	10 544	45 204
Result from investment of funds	**10 544**	**45 204**
Paid off pensions	(115)	(119)
One-time paid pensions to insured individuals	(4 193)	(4 067)
Funds for disbursement of funds to heirs of insured individuals	(2 584)	(1 705)
Amounts paid to the National Revenue Agency	(3 733)	(2 895)
Amounts paid under social security contracts	**(10 625)**	**(8 786)**
Amounts paid to insured individuals, transferred to other pension funds	(53 770)	(49 566)
Amounts paid to individuals that have changed their insurance under Article 46 of the SIC	(10 918)	(5 045)
Transferred taxes	(100)	(95)
Amounts paid to state budget	(1)	-
Funds transferred to insured persons into EU, ECB or EIB schemes	(3)	-
Transferred amount to pension reserve	(38)	(34)
Entrance fee	(11)	(10)
Service fee	(192)	(5)
9% yield fee	-	(5 415)
Service fee (2018: 4.00%; 2017: 4.25%)	(5 324)	-
Investment fee (2018: 0.80%; 2017: 0.85%)	(9 251)	(9 255)
Withdrawal fee	-	(5)
End of the period	**1 295 894**	**1 195 555**

The net assets available for income are distributed as follows:

	2018 BGN'000	2017 BGN'000
Individual accounts	1 294 744	1 194 409
Reserve for minimal return	1 150	1 146
Net assets available for income	**1 295 894**	**1 195 555**

31. Employee compensation

31.1. Employee benefits expense

Employee benefits expense includes current salaries and wages, as well as social security expenses, unused leaves and provisions for pension as follows:

	2018 BGN'000	2017 BGN'000
Salaries expense	(96 718)	(97 068)
Social security costs	(17 448)	(16 602)
Employee benefits expense	**(114 166)**	**(113 670)**

31.2. Pension and other employee obligations

Pensions and other payables to staff recognized in the consolidated statement of financial position consist of the following amounts:

	2018 BGN'000	2017 BGN'000
Non-current:		
Pension provisions	4 283	3 651
Non-current pension employee obligations	**4 283**	**3 651**
Current:		
Employee benefits obligations	10 884	10 791
Payables to social security institutions	2 544	2 874
Pension provisions	767	895
Current pension and other employee obligations	**14 195**	**14 560**

The current portion of these liabilities represents the Group's obligations to its current and former employees that are expected to be settled during 2019.

In determining the pension obligation, actuarial assumptions were used. These assumptions were developed by management under consideration of expert advice provided by independent actuarial appraisers. These assumptions have led to the amounts determined as the Group's defined benefit obligations for the reporting periods under review and should be regarded as management's best estimate. However, the actual outcome may vary.

Changes in pension provisions under the Labour code are presented as follows:

	2018 BGN'000	2017 BGN'000
Pension provisions	4 546	4 159
Expenses for current service	758	791
Interest expenses	105	68
Adjustments - actuarial losses from changes in demographic assumptions and financial assumptions	48	10
Benefits paid	(407)	(482)
	5 050	**4 546**

32. Technical reserves and reinsurance assets

Insurance technical reserves	**Note**	**2018 BGN'000**	**2017 BGN'000**
Reserves from non-life insurance business	32.1	267 594	260 428
Life Insurance Reserves	32.2	2 188	2 541
		269 782	**262 969**

The insurance reserves as at 31 December 2018 were set aside in the course of the insurance activity of the Group, performed through the Armeec Insurance Company (General Insurance) and CCB Life EAD (Life Insurance).

Reserve adequacy

Periodically, the actuaries of the Group assess whether the total provision less the deferred acquisition costs is sufficient to cover any future payments. As required by regulators, the amount of such reserves should be fully secured by investing in highly liquid assets.

When assessing the adequacy of reserves, account shall be taken of cash flows intended to pay indemnities, cash flows generated by collected premiums, paid commissions.

32.1. Reserves from non-life insurance business

		31.12.2018			31.12.2017		
	Note	Insurance reserves	Reinsurance assets	Net	Insurance reserves	Reinsurance assets	Net
		BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Premium reserve carried forward	32.1.1	89 574	(17 720)	71 854	83 304	(16 164)	67 140
Reserve for outstanding payments	32.1.2	173 858	(68 832)	105 026	167 517	(64 528)	102 989
Contingency fund	32.1.3	-	-	-	865	-	865
Unexpired risk reserve	32.1.4	2 684	-	2 684	6 491	-	6 491
Reserve for bonuses and discounts	32.1.5	1 478	(666)	812	2 251	(588)	1 663
		267 594	**(87 218)**	**180 376**	**260 428**	**(81 280)**	**179 148**

32.1.1. Premium reserve carried forward

Premium reserve carried forward as at 31 December 2018 amounting to BGN 89 574 thousand (2017: BGN 83 304 thousand) is formed to cover claims and expenses that are expected to arise after the reporting period under the insurance or reinsurance contracts in force at the time of valuation.

The amount of the transfer-premise reserve is determined using the "exact date" method according to which the reserve includes the portion of the premium income related to the time between the end of the reporting period and the expiry date of the insurance contract. The Group has formed its unearned premium reserve on the basis of accrued insurance premiums after deduction of unearned premiums and receivables written off in early terminated contracts and premiums on contracts expired at the reporting date period. Given that the insurer does not pursue a policy of deferral of its acquisition cost, the latter is recognized at the time of the conclusion of the insurance contract and deducted from the accrued premium income in the calculation of the carry-over reserve.

The basis for the formation of the reserve corresponds to the accounting recognized premium income. Premium income recognizes the amount owed by the insurer for the entire insurance period that the Group is entitled to receive under the contracts entered into during the accounting year. The accrued premium income includes all the contributions due for the entire duration of the policy, and in the case of multi-year policies with deferred payment of the premium, the consecutive annual contribution is accrued at the maturity date.

32.1.2. Reserve for outstanding payments

The reserve for outstanding payments as at 31.12.2018 amounting to BGN 173 858 thousand (2017: BGN 167 517 thousand) is set up to cover benefits, amounts and other payments under insurance or reinsurance contracts, as well as related costs, on claims that arose before the end of the reporting period, whether or not they were filed, and which were not paid on the same date. The amount of the provision is in line with the estimated cost of settlement of all claims on events occurring by the end of the reporting period, including the estimated amount of unreported claims.
The provision for claims outstanding includes the following components:

- **reported, but not settled claims;**
- **incurred, but not reported claims;**
- **settlement costs**

Reserve for reported, but not settled claims (RBNS):

The value of RBNS has been calculated using the "Claim by claim" method, including the expected amount of payments for each reported but unpaid claim.

For damages brought in legal actions for which there are no enforceable decisions, for insurance with sufficient representative data, correction coefficients are used, calculated according to Art. 90, para. 12 of Ordinance No. 53. As of 31 December 2018, correction coefficients are attached to the claims incurred in insurance claims: "Casco", "Civil liability of the motorist", "Fire and natural disasters" and "General civil liability".

Where the damage compensation is paid in the form of an annuity, the amount of the reserve is calculated using recognized actuarial methods, taking into account the annuity period, the value of the periodic payment, the age of the person, and the use of mortality tables and the risk-free interest rate curve published by EIOPA. Under the civil liability insurance lawsuits, as of 31.12.2018 the Group pays three annuity claims.

Reserve for incurred, but not reported claims (IBNR):

The reserve includes the expected amount of unpublished claims that occurred before the end of the reporting period. In order to determine the IBNR reserve, chain-based methods based on the accumulated value of the paid or claimed claims were used. For all types of insurance, the Group has data for a sufficiently long period to cover the full cycle of claim development as well as to use statistical calculation methods. The amount of the reserve is determined separately for the activity of active reinsurance and direct business.
Under Casco Insurance, due to the significant amount of recovered amounts of regressions and sufficient data to predict future revenues, Armeec Insurance Company reduces the reserve for incurred but not reported claims with the expected recoveries by regressions. The latter are calculated using a chain-based method based on the recovered sums for regressions over the past 11 years.
Under Motor Third Party Liability insurance, the Unpaid Claims Reserve is calculated separately for property and non-pecuniary damage as well as for minor and major damage. Large claims have been categorized as one event with a total amount over BGN 500 000. The value of the reserve is calculated on a database for the period 2008 - 2018. The calculation of the small-loss reserve was done using a chain-based method based on the accumulated historical values of the claimed and paid claims using weighted averages of development, with the two approaches (paid and claimed) being assigned the same weight in determining of the final amount of the reserve. For the calculation of the large damages reserve Armeec Insurance Company uses a method based on the average number of damages per year per event and year of claim and the average amount of a claim. The method used for the calculation of the motor third party liability insurance was approved by FSC Resolution No. 530 - CP from 02.04.2019.

As of 31 December 2018, the Group has not created a provision for incurred but not reported damage to insurances: "Disease", "Rail Vehicles", "Casco on Vessels", "Property Damage", "Credit and Leasing" Guarantee Insurance "," Miscellaneous Financial Losses "and Legal Expenses Insurance, in the absence of the need to set aside, in view of the historical data and the results obtained from the calculations made.

Reserve for settlement costs

The value of the liquidation cost reserve is calculated on the basis of an expected average liquidation cost per claim.

32.1.3. Contingency fund

By the end of the previous 2017, the Group had formed a reserve fund only for Loans insurance, which was released in 2018. As of 31 December 2018, the Group did not allocate a reserve fund.

32.1.4. Unexpired risk reserve

The Reserve for unexpired risks as at 31.12.2018 amounting to BGN 2 684 thousand (2017: BGN 6 491 thousand) is formed when the expectations for the risk and expense of the current policies at the end of the reporting period exceed the amount of the assigned premium reserve.

In the case of insurance under Section II, point A, item 10.1 of Annex 1 to the Insurance Code, where the sum of the expected loss and the operational costs of the insurance class for the relevant signature year exceed the premium received, the Group shall allocate a non-unexpected risk reserve an amount equal to the difference between the expected final loss and the operating costs on the one hand and the assigned premium reserve on the other.
As of 31.12.2018, under the Motor Third Party Liability insurance, the Group has allocated a provision for unexpired insurance risks in the amount of BGN 2 559 thousand.
For insurance other than Section II (A) (10.1) of Annex 1 to the Insurance Code, the Group creates a provision for unexpired risks or as a difference between the estimated final loss for claims and expenses in the last signature year and the calculated prepayment reserve or according to Annex 7 of Ordinance №53, when for the last three years, including the current one, the gross technical result under Annex № 6 of Ordinance №53 is negative. As of 31.12.2018 a reserve for unexpired risks was also formed under the Travel Assistance Insurance amounting to BGN 125 thousand.

32.1.5. Reserve for bonuses and discounts

The Bonus and Discount Reserve is formed for all contracts that provide for the return of a premium on a positive result after their expiration or a final settlement of the premium on the basis of realized risks during the term of the insurance.
The value of the reserve is determined separately for each policy with a performance clause, and for all insurance policies in force at the time of calculating the reserve, the winning premium is multiplied by an average return on the premium calculated on the basis of historical data. As of 31.12.2018, a factor of 10% was applied. For all expired contracts, the specific amount of the premium to be reimbursed has been calculated, or when insufficient data is available, the above approach is applied.

32.2. Life Insurance Reserves

	2018 BGN'000	2017 BGN'000
Mathematical reserve	610	802
Premium reserve carried forward	1 274	1 371
Reserve for outstanding payments	304	368
	2 188	**2 541**

The insurance reserves of the Group's 2018 life insurance business are formed in compliance with the requirements of Ordinance No. 53 of 23.12.2016 on the requirements for accountability, valuation of assets and liabilities and formation of the technical reserves of insurers, reinsurers and the Guarantee Fund.

Data on current allowances issued by the company and recognized as premium income for the period from the commencement of operations to 2018 are used for the **premium reserve carried forward**. As of 31.12.2018 these data are aligned with accounting data.

For the **RBNS reserve** (pending payments), data for the received and outstanding claims on policies as of 31.12.2018 was used in the Group damages register provided by the Liquidation Division. Claims relating to court proceedings include sums for court and interest in court cases.

For the IBNR reserve chain-column statistical methods were used.

For the **mathematical reserve** a prospective method has been used with respect to the group and individual life insurance policies as at 31.12.2018.

An additional **non-expired risk reserve** is not set aside under Disease Insurance because the result of Appendix No. 6 of Ordinance 53 is positive for 2018.

A stock fund is not formed because there has been no significant deviation in the amount of net allowances in the previous years.

A reserve for bonuses and rebates is not set as, under the terms of the insurance contracts and the internal rules of the Group, bonuses and rebates are made only in the case of the policy renewal by the insured person and the calculation of the levy on the expired policy.

The following methods for calculating the reserves are used:

The unearned premium reserve is allocated by the method of the exact date (according to Art. 84 para. 2 of Ordinance № 53). The amount of the reserve amounts to BGN 1 274 thousand.

The Reserve for Outstanding Payments includes the amounts for claims incurred but unpaid (IBNR). There are no charges due to settling claims related to pending payments.

For the RBNS reserve, the "Claim by Claim" method is used, according to Art. 90 para 1 of Ordinance No. 53. In addition, according to Art. 90 para. 2 of claims on insurance contracts brought before a court for which the Group is informed and on which there is no ruling of the Court are included in the reserve for pending payments at the cost of the claims together with the interest due and the known costs of the cases. Given the small number of legal claims - 2, the coefficient under paragraph 12 of Art. 90 was not administered. The total reserve for claimed and outstanding claims is BGN 303 thousand, the main amount being due to additional insurance.

With respect to the reserve currency, all policies in effect as at 31.12.2018 are in EUR or BGN, so BGN assets are used to cover the gross amount of the insurance reserves.

33. Liabilities to insurance and reinsurance contracts

	2018 BGN'000	2017 BGN'000
Insurance technical reserves		
Insurance liabilities	12 962	10 222
Reinsurance obligations	15 023	14 546
Assets with Guarantee Fund	505	588
	28 490	**25 356**

34. Tax liabilities

Tax liabilities include:

	2018 BGN'000	2017 BGN'000
Corporate income tax	685	1 961
VAT payables	1 024	1 035
Excise duty on imports	402	219
Other tax liabilities	2 419	3 274
	4 530	**6 489**

35. Other liabilities

Other liabilities can be summarized as follows:

		Current			Non-current	
		2018 BGN'000	2017 BGN'000		2018 BGN'000	2017 BGN'000
Other liabilities	35.2	38 973	45 160	35.1	6 618	5 074

35.1. Other noncurrent liabilities

	2018 BGN'000	2017 BGN'000
Funding for acquisition of non-current assets	2 075	1 541
Funding for European transport systems	19	19
Provisions	1 017	598
Other	3 507	2 916
	6 618	**5 074**

The Group participates in the Operational Programme "Development of the Competitiveness of the Bulgarian economy BG161P003-1.1.04 Support for commercialization of innovative products, processes and provision of innovative services".

The program includes the purchase of:

- Three-layer line for inflating foil
- Flow technology line of installation tapes looms and apparel fabric products

As at 31 December 2018 the Group is a beneficiary under the Resolution for granting financial aid, dated 10 June 2009, by the Commission of the European Community for projects of common interest "Studies related to the port expansion project for Lesport as part of Port Varna regarding implementation of European standards in Bulgaria" 2008-BG-90300-S in the field of the trans-European transport networks (INEA).

35.2. Other current liabilities

	2018 BGN'000	2017 BGN'000
Air tickets sold	15 841	14 920
Advances from customers	2 523	8 962
Guarantees	1 809	2 340
Liabilities under concessionary remunerations	-	-
Penalties	1 566	1 672
Other	17 234	17 266
	38 973	**45 160**

Liabilities for airfare tickets sold amounting to BGN 15 841 thousand (2017: BGN 14 920 thousand) represent the tickets sales, which as at the date of the financial statements have not factually occurred i.e. conducting the carriage.

36. Revenue from non-financial activities

The income from non-financial activities can be analysed as follows:

	2018 BGN'000	2017 BGN'000
Income from sale of plane tickets	242 212	229 362
Income from sale of finished goods	54 739	54 075
Income from services rendered	52 001	54 429
Income from sale of trading goods	25 857	40 704
Other	86 628	54 469
	461 437	**433 039**

37. Gain/ (loss) on sale of non-current assets

	2018 BGN'000	2017 BGN'000
Proceeds from sale of non-current assets	2 539	2 562
Carrying amount of non-current assets sold	(1 433)	(8 695)
	1 106	**(6 133)**

38. Insurance income

		2018 BGN'000	2017 BGN'000
Insurance premium income	38.1	206 451	195 732

Income from reinsurance operations	157 951	142 443
Regression income	10 212	10 226
Income from release of insurance reserves	2 232	2 872
Other insurance income	638	746
	377 484	**352 019**

38.1. Insurance premium income

	2018 BGN'000	2018 %	2017 BGN'000	2017 %
Casco	116 337	56.35%	110 763	56.59%
Motor third party liability	48 798	23.64%	47 961	24.50%
Fire and natural disasters	17 076	8.27%	14 794	7.56%
Travel Assistance	4 954	2.40%	4 388	2.24%
Accidents	4 612	2.23%	3 741	1.91%
General third-party liability	2 890	1.40%	2 609	1.33%
Other financial losses	2 830	1.37%	4 552	2.33%
Additional insurance	2 272	1.10%	2 133	1.09%
Casco of aircrafts	2 147	1.04%	1 366	0.70%
TPL related to aircraft	1 335	0.65%	163	0.08%
Freight transport	971	0.47%	671	0.34%
Casco of vessels	921	0.45%	1 178	0.60%
Loans and leases	739	0.36%	443	0.23%
Health services	339	0.16%	264	0.13%
Life and annuity	141	0.07%	597	0.31%
TPL related to vessels	46	0.02%	74	0.04%
Property damage	41	0.02%	31	0.02%
Insurance guarantees	2	0.00%	4	0.00%
	206 451	**100.00%**	**195 732**	**100.00%**

39. Insurance expense

		2018 BGN'000	2017 BGN'000
Reinsurance costs		(162 678)	(150 220)
Indemnities paid	39.1	(112 165)	(103 971)
Acquisition costs		(47 070)	(43 181)
Net change in insurance reserves set aside		(9 352)	(3 082)
Expenses for liquidation of damages		(5 474)	(5 652)
Other insurance costs		(12 946)	(12 369)
		(349 685)	**(318 457)**

39.1. Indemnities paid

In 2018 and 2017, the following insurance benefits were paid:

	2018 Indemnities paid BGN'000	2018 Share %	2017 Indemnities paid BGN'000	2017 Share %
Casco	(59 752)	53.27%	(67 960)	65.36%
Motor third party liability	(40 662)	36.25%	(26 899)	25.87%
Property damage	(6 889)	6.14%	(10)	0.00%
Travel assistance	(1 927)	1.72%	(1 610)	1.55%
Accident	(1 549)	1.38%	(2 143)	2.06%
Casco of aircrafts	(390)	0.35%	(153)	0.15%
Casco of vessels	(227)	0.20%	(123)	0.12%
Health services	(197)	0.18%	(184)	0.18%
Additional insurance	(187)	0.17%	(245)	0.24%
Life insurance	(173)	0.15%	(640)	0.62%
General Third-Party liability	(110)	0.10%	(208)	0.20%
Freight transport	(102)	0.09%	(259)	0.25%
Fire and natural disaster	-	0.00%	(3 475)	3.34%
Aircrafts Third Party liabilities	-	0.00%	(62)	0.06%
	(112 165)	**100.00%**	**(103 971)**	**100.00%**

40. Interest income

	2018 BGN'000	2017 BGN'000
Interest income by types of sources:		
Legal entities	93 998	107 584
Government securities	39 236	40 270
Banks	5 921	4 516
Individuals	48 057	45 394
Other	2 395	1 704
	189 607	**199 468**

41. Interest expense

	2018 BGN'000	2017 BGN'000
Interest expense due to depositors:		
Legal entities	(4 718)	(10 743)
Individuals	(10 183)	(18 247)
Banks	(8 891)	(7 143)
Other	(10 442)	(3 056)
	(34 234)	**(39 189)**

42. Result from transactions with financial instruments, net

	2018 BGN'000	2017 BGN'000
Gains from transactions with securities and investments	431 362	513 338
Dividend income	14 902	14 251
Other	5	1 086
	446 269	**528 675**

	2018 BGN'000	2017 BGN'000
Losses from transactions with securities and investments	(425 353)	(427 941)
Other	-	(13)
	(425 353)	**(427 954)**
Result from transactions with financial instruments, net	**20 916**	**100 721**

43. Operating and administrative expenses

	2018 BGN'000	2017 BGN'000
Hired services	(237 921)	(250 584)
Cost of materials	(111 456)	(102 799)
Cost of goods sold	(25 043)	(37 966)
Employee benefits expense	(114 166)	(113 630)
Depreciation and impairment of non-financial assets	(32 482)	(31 243)
Changes in inventories of products and work in progress	(9)	472
Impairment of receivables	(4 781)	(3 936)
Other expenses	(110 929)	(93 547)
	(636 787)	**(633 233)**

Fees for independent financial audits of companies in the Group for 2018 carried out by registered auditors amount to BGN 2 227 thousand. During the year, tax consultations or other non-audit services performed by registered auditors, for which fees have been charged to the amount of BGN 217 thousand. The present disclosure is in compliance with the requirements of Art. 30 of the Accountancy Act.

44. Other financial income, net

		2018 BGN'000	2017 BGN'000
Revenue from fees and commissions, net	44.1, 44.2	59 622	59 342
Net result from foreign exchange differences		8 523	(19 599)
Other finance expenses		(2 630)	(3 292)
		65 515	**36 451**

44.1. Revenue from fees and commissions

	2018 BGN'000	2017 BGN'000
Bank transfers in Bulgaria and abroad	27 868	23 531
Maintenance fee on deposit accounts	15 523	15 116
Servicing fee for loans	3 148	3 381
Fee for commitments and contingencies	978	1 030
Other fees and commissions income, different from banks	13 810	14 920
Other income	11 052	12 557
Revenue from fees and commissions	**72 379**	**70 535**

44.2. Expenses from fees and commissions

	2018 BGN'000	2017 BGN'000
Bank transfers in Bulgaria and abroad	(8 121)	(6 881)
Account maintenance fees	(977)	(527)
Release of precious parcels	(712)	(335)
Transactions with securities	(65)	(154)
Other fees and commissions expenses, different from banks	(1 594)	(2 217)
Other expenses	(1 288)	(1 079)
Total fees and commissions expenses	**(12 757)**	**(11 193)**

45. Income tax (expense)/ income

The relationship between the expected tax expense based on the applicable tax rate of 10 % (2017: 10%) and the reported tax expense in profit or loss can be reconciled as follows:

	2018 BGN'000	2018 BGN'000
Profit before tax	92 918	87 496
Tax rate	10%	10%
Expected tax expense	**(9 292)**	**(8 750)**
Net effect of adjustments of the financial result for tax purpose	3 096	3 093
Current tax (expense)	**(6 196)**	**(5 657)**
Deferred tax income/ (expense), resulting from:		
- origination and reversal of temporary differences	(2 370)	6 428
Tax (expense)/income	**(8 566)**	**771**
Deferred tax expense recognized in other comprehensive income	(960)	(345)

Note 14 presents additional information on the deferred tax assets and liabilities, including the amounts recognized in other comprehensive income.

46. Earnings per share

Basic earnings per share are calculated using the net profitable amount attributable to holders of ordinary shares as the numerator.

The weighted average number of ordinary shares used for the calculation of basic earnings per share as well as the net profit less the dividend expense to be distributed are as follows:

	2018	2017
Net profit for the Group subject to distribution in BGN	70 309 000	69 598 000
Weighted average number of shares	227 213 698	227 101 090
Basic earnings per share (BGN per share)	**0.31**	**0.31**

47. Related party transactions

The Group's related parties include its owners, associates and key management personnel. Unless otherwise stated, none of the transactions incorporate special terms and conditions. Outstanding balances are usually settled by bank transfers, in cash or set off.

47.1. Transactions with owners

	2018 BGN'000	2017 BGN'000
Sale of goods and services, interest income and other income		
Interest income	280	752
Sale of services	10	10
Purchase of services, interest expense, and other expense		
Purchase of services	-	(193)
Interest expense	(10)	(1)

47.2. Transactions with associates and other related parties under common control

Sale of goods and services, interest income and other income	2018 BGN'000	2017 BGN'000
Sale of production		
- entities reported under the SC method	780	614
- other related parties out of the Group	343	400
Sale of goods		
- entities reported under the SC method	420	102
- other related parties out of the Group	1 107	1 214
Sale of services		
- entities reported under the SC method	8 183	5 205
- other related parties out of the Group	2 248	2 075
Interest income		
- entities reported under the SC method	538	480
- other related parties out of the Group	446	1 741
Other revenue		
- entities reported under the SC method	92	82
- other related parties out of the Group	62	92

Purchase of services and interest expense	2018 BGN'000	2017 BGN'000
Purchase of services		
- entities reported under the SC method	(14 888)	(12 616)
- other related parties out of the Group	(6 460)	(5 892)
Interest expense		
- entities reported under the SC method	(30)	(6)
- other related parties out of the Group	(19)	(39)

47.3. Transactions with key management personnel

Key management of Chimimport AD includes members of the Managing Board and Supervisory Board of the parent company. Key management personnel remuneration includes the following expenses:

	2018 BGN'000	2017 BGN'000
Short-term employee benefits:		
Salaries, including bonuses	(565)	(1 201)
Social security costs	(28)	(20)
Total short-term benefits	**(593)**	**(1 221)**

48. Related party balances at year end

	2018 BGN'000	2017 BGN'000
Non-current receivables from:		
- owners	47	-
- associates	2 339	2 295
- joint ventures	38	3 266
- other related parties under common control	4 032	3 197
Total non-current receivables from related parties	**6 456**	**8 758**

Current receivables from:	2018 BGN'000	2017 BGN'000
- owners	26 473	28 362
- associates	6 423	580
- joint ventures	7 082	3 446
- other related parties under common control	3 781	36 532
Total current receivables from related parties	**43 759**	**68 920**

Non-current payable to:	2018 BGN'000	2017 BGN'000
- owners	-	-
- associates	2 864	1 043
- joint ventures	422	379
- other related parties under common control	2 312	2 893
Total non-current payables from related parties	**5 598**	**4 315**

Current payables to:	**2018 BGN'000**	**2017 BGN'000**
- owners	22 170	8 894
- associates	8 602	12 164
- joint ventures	43	262
- other related parties under common control	15 970	16 099
Total current payables from related parties	**46 785**	**37 419**

49. Contingent assets, contingent liabilities and other commitments

As at 31 December 2018 and 2017, the Group has concluded bank lending agreements to clients whose future use depends on whether borrowers meet certain criteria, including whether there are no past due arrears on previous loan tranches, providing collateral with certain quality and liquidity, and others.

The total amount of contingent liabilities in respect of the Group's banking activities is as follows:

	2018 BGN'000	**2017 BGN'000**
Bank guarantees in Bulgarian leva	32 456	38 096
Bank guarantees in foreign currency	19 797	24 170
Irrevocable commitments	202 404	118 176
Total contingent liabilities	**254 657**	**180 442**

In relation to the requirements of IFRS 9, the Group has recognized BGN 429 thousand provisions for expected credit losses related to the contingent liabilities of the Group.

The Group is a party to bank guarantees issued by two commercial banks amounting to BGN 400 thousand, EUR 92 thousand, as well as a letter of credit worth USD 999 thousand. Bank guarantees are issued in connection with securing trade obligations of the Group.

According to a concession contract for Port Lom - part of a port for public transport Lom, the Group should maintain bank guarantees in the established amount:

- bank guarantee for execution of the Investment Program for the fourth contract investment year at the amount of BGN 59 thousand issued by a commercial bank with a term of validity as of 31 October 2019;
- a bank guarantee for the good execution of the obligations under the Concession Agreement, amounting to BGN 449 thousand issued by a commercial bank with a term of validity of 31 October 2019;

Pursuant to a loan agreement with a commercial bank, the Group establishes a first special pledge on agricultural production, on receivables arising from contracts, orders and invoices for realization of agricultural production, as well as on all receivables on all accounts of the Group in the Bank.

Under a bank loan agreement with a commercial bank, the Group establishes a special pledge on all its open accounts in the bank.

On 25 January 2017 and annexed on 29 January 2018 by a commercial bank were issued bank guarantees under concession contracts for oil and gas extraction in the initial amount of BGN 142 thousand and a total increase of BGN 94 thousand. Amount of bank guarantees in the amount of BGN 236 thousand represents the value of the entire concession fee paid by the Group under the concession contracts for Selanovtsi Deposit and Iskar-West Deposit for 2017 with VAT). The validity of the guarantees is until 28.02.2019.

The Group has a guarantee issued by a commercial bank to the amount of BGN 2 600 thousand in favour of the Customs Agency with a term of validity until 5 April 2020.

50. Reconciliation of liabilities arising from financing activities

The changes in the Group's liabilities arising from financing activities can be classified as follows:

	Debenture loan BGN'000	Bank loans BGN'000	Other loans BGN'000	Total BGN'000
1 January 2018	**29 792**	**120 332**	**18 848**	**168 972**
Cash flows:				
Repayment	(12)	(5 377)	(5 373)	(10 762)
Proceeds	15 000	20 730	6 299	42 029
Interest paid	(420)	(2 323)	(1 556)	(4 299)
Non-cash:				
Reclassification	(1 670)	(6 222)	-	(7 892)
31 December 2018	**42 690**	**127 140**	**18 218**	**188 048**

	Debenture loan BGN'000	Bank loans BGN'000	Other loans BGN'000	Total BGN'000
1 January 2017	**34 587**	**83 278**	**3 520**	**121 385**
Cash flows:				
Repayment	(10 347)	(5 593)	(347)	(16 287)
Proceeds	5 751	57 182	15 833	78 766
Interest paid	(199)	(7 094)	(158)	(7 451)
Non-cash:				
Reclassification	-	(7 441)	-	(7 441)
31 December 2017	**29 792**	**120 332**	**18 848**	**168 972**

51. Non-monetary transactions

During the presented reporting period the Group has entered into the following non-monetary transactions which are not presented in cash flows from financing activities in the Statement of cash flows:

- In 2018 the Group has offset obligations to acquire assets against trade receivables amounting to BGN 3 711 thousand (2017: BGN 2 051 thousand)
- The Group has not offset dividends payable on preferred shares against receivables from the shareholders in 2018 (2017: BGN 7 390 thousand).

52. Categories of financial assets and liabilities

The carrying amount of the Group's financial assets and liabilities, can be presented in the following categories:

Financial assets	**Note**	**2018 BGN'000**	**2017 BGN'000**
Financial assets at fair value through profit or loss:	16		
- Bulgarian corporate shares, stocks and rights		771 590	-
- Bulgarian corporate bonds		184 136	-
- Medium-term Bulgarian government securities		189 231	-
- Long-term Bulgarian government securities		53 892	-
- Securities issued or guaranteed in other countries		486 173	-
- Derivatives held for trading		56	-

Financial assets	Note	2018 BGN'000	2017 BGN'000
Equity instruments at fair value through other comprehensive income:	18		
- Quoted equity instruments		12 713	-
- Unquoted equity instruments		58 270	-
Debt instruments measured at fair value through other comprehensive income:	17		
- Bonds		75 865	-
- Government Securities		347 051	-
Debt instruments at amortized cost:			
- Loans	15, 21.1.1	2 729 127	-
- Cession receivables	21.1.1	51 489	-
- Receivables under repurchase agreements	21.1.2	297 105	-
- Debt instruments at amortized cost	21.1.3	302 516	-
- Financial lease receivables	21	269	-
- Receivables from related parties	48	50 215	-
- Trade receivables	21.1.4	96 916	-
- Others	21	74 684	-
Less: Impairment	*21*	*(79 378)*	-
- Cash and cash equivalents	26	2 045 224	-
		7 747 144	**-**

Financial assets (up to 31.12.2017)	Note	2018 BGN'000	2017 BGN'000
Held-to-maturity financial assets:			
Debenture bonds	20	**-**	**36 469**
Available-for-sale financial assets:			
Securities and Debt Bonds	19	**-**	**664 195**
Financial assets held for trading (measured at fair value through profit or loss):	16		
Non-derivative financial assets		-	1 429 298
Derivatives		-	1 025
		-	**1 430 323**
Loans and receivables:			
Trade and other receivables		-	190 364
Loans		-	2 900 649
Receivables from related parties	48	-	77 678
Cash and cash equivalents	26	-	2 204 904
		-	**5 373 595**
		-	**7 504 582**

Financial liabilities	Note	2018 BGN'000	2017 BGN'000
Financial liabilities measured at amortised cost:			
Liabilities to depositors	28	5 259 602	5 052 941
Borrowings	29.2, 29.3	259 901	264 479
Bank deposits	29.5	14 452	7 048
Cession payables	29	39 852	35 554
Obligations under repo agreements	29.6	13 559	15 433
Finance lease obligations	10.1	5 349	3 939
Trade and other payables	29.7	121 400	142 971
Related party payables	48	52 383	41 734
		5 766 498	**5 564 099**

Financial liabilities	Note	2018 BGN'000	2017 BGN'000
Derivatives designated as hedging instruments in cash flow (at fair value):			
Derivatives	29.1	1 272	3 396
		5 767 770	**5 567 495**

See note 4.19 for information on accounting policy for each category of financial instruments. The methods used to measure fair values are described in note 54. A description of Group's policy and objectives for risk management is presented in note 53.

53. Financial instruments risks

Risk management objectives and policies

Due to the use of financial instruments and as a result of its operating and investment activities, the Group is exposed to various risks – insurance risks, market risk, foreign currency risk, interest risk, as well as price risk. The Group's risk management is coordinated by the Managing board and focuses on actively securing the Company's short to medium-term cash flows by minimizing the exposure to risks. Long-term financial investments are managed to generate lasting returns.

The Group is exposed to different types of risk with regards to its financial instruments. For further information regarding the categories of financial assets and liabilities see note 52. The most significant financial risks to which the Group is exposed to are described below.

53.1. Insurance risk

Insurance risk is the risk of occurrence of insured events as a result of the portfolio of insurance contracts in which the amount of damages and the benefits to be paid exceeds the amount of the insurance reserves.

This depends on the frequency with which the insurance events occur, the type of insurance portfolio, the amount of the insurance benefits. To mitigate this risk, the variety of insurance portfolio and probability theory are of great importance.

The Group strives to make a relatively even distribution of insurance contracts and to analyse the different types of insurance risks, which is reflected in the general conditions. Through various assessment and control methods, the Head of Internal Control performs regular risk assessment and monitors the accumulation of insurance sums by group of clients and regions. The risk management is carried out by the Internal Control Directorate in cooperation with the actuaries and the management of the Group.

The main factors on which the positive financial result of the Group depends are the loss rate, the cost quota and the investment income.

Insurance risk - the technical risk is the risk of occurrence of an insured event, in which the amount of the insurance indemnity exceeds the expectations for risk manifestation, expressed in the amount of the formed insurance reserves, i.e. insurance technical risk exists when the total loss for a certain period of time is greater than the calculated premium and the reserves reserved. The insurance - technical risk is influenced by the frequency and weight of the claims.

Every insurance company is seeking to ensure that the coverage of its commitments have allocated sufficient amount insurance technical reserves.

The Group manages and balances the insurance risks incurred both within the insurance group and outside it. Within the insurance group, this is achieved by balancing the risks assumed in time, in essence, by location, in risk groups and by increasing the number of insured entities, i.e. through the manifestation of the Law of Big Numbers. The Group carries out a systematic analysis of the risks assumed, their time and territorial diversification, offers new insurance products and strives to incorporate permanently new units into the insurance population with a well anticipated risk exposure.

Outside the insurance group, the Group equates the risk by using reinsurance contracts. According to the specifics of the specific insurance products, the choice of the reinsurance contract and the relevant limits of self-retention is determined. The management of insurance risk is also reflected in the application of constraints in signing procedures - Limits of liability, exclusion of risks to which it can be influenced, use of appropriate methods to assess the necessary bonuses and future obligations, implementation of reinsurance program and monitoring of the insurance business. Regardless of the reinsurance protection, the Group is not relieved of its direct liability to the insured against the risks transferred, resulting in credit risk to the extent that the reinsurers of the relevant reinsurance contract are unable to meet their financial obligations under the reinsurance contract. To minimize the exposure to this credit risk, the Group maintains a register of available quantitative indicators of the financial position of its counterparties.

The Group offers over 70 types of insurance products, thus striving to achieve a diversified and balanced, aggregated insurance portfolio. Ten of the products offered cover risks in Car Insurance; 18 cover risks in Property Insurance; 40 - In liability insurance, Accident and Travel assistance; 10 are the Insurance of Insurance and Financial Risks Insurance and a number of other insurances in different fields of the non-life insurance. The term of the concluded contracts in the aggregated insurance portfolio is mainly one year, but there are also contracts in it that are shorter or longer than one year.

The car insurance covers mainly risk related to road accidents, natural disasters and illegal human activities. The risks are tangible and intangible. The covered risks cover to the fullest extent the insurance coverage needs of owners, users and holders of motor vehicles. The territorial scope of insurance covers the whole of Europe.

The property insurance covers mainly risk related to fire, natural disasters, equipment and equipment failure, illegal human activity, etc. For property insurance, valuation and reinsurance protection with regard to catastrophic risks is essential. In assessing these risks, the accent is put on the adequate determination of the sum insured, the prevention performed, the periodic inspection of the insured objects. The provided territorial coverage for them is only for the territory of the Republic of Bulgaria.

Under Insurances Responsibilities, besides General Civil Liability, a large number of Professional Responsibilities are covered, which are mostly mandatory under different regulations. The cover of these insurances is granted only for the territory of the Republic of Bulgaria.

Accident and Travel Assistance covers risks related to: death, permanent and temporary disability of the insured, as a result of an accident and assisted assistance in health conditions. The coverage provided for the different products in this group is different and ranges from cover only for the Republic of Bulgaria to coverage worldwide.

Annually, the range of insurance products offered is analysed, depending on the results of each product, the Group's risky interest, market needs and other factors, adapting existing products or developing new products to meet specific needs . The latter is done after a thorough analysis of consumer demand and market segmentation.

The underlying assumption underlying the valuation of liabilities is that the development of future claims to the Group will follow in broad terms the experience of the development of claims in past years. This includes assumptions about the frequency and weight of each claim, as well as an estimate of the inflation factor for each year of insurance events. In addition, a qualitative and quantitative assessment is made of the degree of deviation that can be expected in applying past trends in the future. The Group recognizes the impact of external factors such as changes in legislation, development of case law, etc. on the amount of insurance liabilities.

In order to limit exposure to extreme adverse events, especially with regard to catastrophic events, the relevant reinsurance protection applies. Reinsurance contracts distribute the risk and minimize the effect of significant losses, which guarantees the Group's capitalization.

In selecting a reinsurer, the Group takes into account the relative reassurance of the reinsurer, assessed on the basis of the public rating and the studies conducted.

Insurance risk is reflected in the settlement process and the allocation of reserves. The table below represents an estimate of the RBNS included in the financial statements based on the claims reported and paid, broken down by the year of occurrence of the damage. The table provides a historical review of the sufficiency of the estimate of the amount of outstanding claims used in past years. Due to the inherent uncertainty in the process of determining the reserves, it cannot be guaranteed with absolute certainty that these reserves will suffice as a final result.

Year of event	2018	2017	2016	2015	2014	2013
	BGN'000	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**
At the end of the period	48 674	52 390	54 258	55 684	77 766	47 685
1 year later	-	30 963	30 330	31 750	49 224	20 758
2 years later	-	-	13 422	7 041	10 122	6 118
3 years later	-	-	-	9 876	4 894	4 002
4 years later	-	-	-	-	2 776	3 614
5 years later	-	-	-	-	-	2 007
Cumulative payments to date	48 674	83 353	98 010	104 351	144 782	84 184
Overall assessment of benefits	93 821	102 564	109 648	109 996	148 318	84 184
As at 31 December:						
Payments:						
Evaluation	45 147	19 211	11 638	5 646	3 537	-
Real Reserves	90 003	32 788	20 682	9 652	8 598	4 120

Some assumptions are made in the calculation of technical provisions. Assignment is a process related to the calculation of neutral estimates of the most probable or expected outcome of the insured event. The sources of information on which assumptions are made are based on in-depth studies on the Group's experience. Where there is insufficient insider information to produce a reliable assessment of the development of insurance claims, market data obtained from its own research or established by the Financial Supervision Commission is used.

With regard to the reserve for claimed but unpaid claims, the expertise of the liquidation experts is essential. They examine the damage in terms of the circumstances of the occurrence and the right to compensation. Based on a historically proven experience of the magnitude of such damage, it is assessed. This evaluation is reviewed regularly, and updates are updated when new information is available.

In order to create a reserve for incurred but unreported claims (IBNR), the Group uses chain-based methods both on the basis of accrued values of the paid claims and on the basis of the historical claims. Average and weighted average growth rates were used for development factors, with almost all insurance policies being applied for the period 2008-2018. When there is a major variation in development rates for a certain insurance policy for a given year, these years are not taken into account when calculating the reserve.

With sufficient data for recovered sums, the Group calculates a regression reserve that is deducted from the reserve for incurred but unproven damages. Such a reserve is calculated only under Casco insurance because of the significant amount of the recovered sums from this insurance. This reserve has been calculated on the basis of a chain-based method based on the recovered sums for the past 11 years.

For Motor Third Party Liability insurance, the unsecured claim reserve is considered separately for both property and non-pecuniary damage as well as for minor and major damage. For the provision for minor but unpredicted property losses, the Group uses a combination of chain-based method based on the accumulated historical values of the claims using the weighted average development coefficients derived from the Group's own data and the chain-based method based on accumulated Values of paid claims using weighted average growth rates derived from the Group's own data in a 50/50 ratio.

The Group uses a combination of chain-based method based on the accumulated historical values of the claims using the weighted average development coefficients derived from the Group's own data and the chain-based method based on accumulated values of paid claims using weighted average growth rates derived from the Group's own data in a 50/50 ratio. The period taken as a basis for calculating the reserve is eleven years - 2008 - 2018. The method described is the method under Art. 92 para. 11 of Ordinance No. 53, which is used to determine the sufficiency of the insurance reserve by using adjusted data. The adjustment of the data is in accordance with Art. 92 para. 9 of Ordinance No. 53 on the requirements for accountability, valuation of assets and liabilities and formation of technical reserves of insurers, reinsurers and the Guarantee Fund, not taking into account damages over BGN 500 000 from one event.

For damages of more than BGN 500 000 from one event an additional large loss reserve is calculated which is added to the calculated values of the property and non-material damages with smoothed data.

In order to form a large loss reserve, the Group uses a method based on the average number of claims per year per event and claim and the average amount of damage claimed by one event.

The method has been approved for a method of calculating the insurance reserve as at 31.12.2018 by FSC Resolution No. 530 - CP from 02.04.2019. The reserve is calculated together for the compulsory Third Party Liability insurance of the motor vehicle and the insurance "Border Liability of the motorist ".

For the Green Card insurance, a separate reserve for incurred but unforeseen damages, was calculated using a combination of chain-based method based on the accumulated historical values of the claims, using weighted average development coefficients derived from the Group's own data and a chain-column method based on accumulated values of paid claims using weighted average growth rates derived from the Group's own data in a 50/50 ratio. The method is used separately for property and non-pecuniary damage. The data are for the period 2008-2018.

For insurances in which the Group offers active reinsurance and we have at least 3 years of damage statistics, the reserve for incurred but unproven damages, is calculated separately for direct insurance and active reinsurance. In the case of active reinsurance, damages are significantly delayed over time compared to their direct insurance claims and, given the availability of sufficient data for the chain-pillar method, it is more reasonable to consider them separately for the two types of business. For Insurance of Aircraft Crash and Fire and Natural Disasters the Group calculates the reserve for incurred but not reported damages separately for direct insurance and active reinsurance, as for the insurance "Fire and natural disasters" the active reinsurance is divided into "Property" and "Technical risks".

No provision is made for any incurred but unforeseen damages for Illness Insurance, Rail Vehicles, Cascade on Vessels, Property Damage, Credit and Leasing, Warranty Insurance, Miscellaneous Financial loss "and Legal Expenses Insurance because, using the chain-based method of calculating the reserve for incurred but unproven damages under Casco of Vessels, Property Damage, Warranty Insurance, Credit and Leasing "and" Miscellaneous Financial Losses "results as the value 0, and insurance "disease", "Rail vehicles" and "Legal expenses" not realized premium income.

The unearned premium reserve is formed to cover claims and expenses that are expected to arise in the insurance or reinsurance contract at the end of the reporting period.

The group formed unearned premium reserve base their accrued insurance premiums. All outstanding policy contributions are accrued over the life of the contract for one-year policies and for multiannual premiums with a lump sum payment. For multiannual policies with an annual contribution, the annual instalment is charged at the time of its maturity.

The Group uses a method of calculating the transfer-premise reserve - a method with the exact date. The transfer premium is deducted by subtracting the actual commission rate on each policy and the other acquisition costs incurred under the Insurance and Technical Plan.

The unearned premium reserve for insurance "Cargo" and "Carrier's Liability" was calculated for the period of insurance one month.

Basis for the calculation of the unearned premium reserve of the Group each policy separately. The calculations are made by a program embedded in the information system.

The proportion of reinsurers in the premium reserve is calculated in proportion to the premium on each policy for the proportionate contracts and facultative entered into. For the disproportionate reinsurance contracts "excess of loss", "stop loss" and CAT contracts, the share of the reinsurer is not set aside.

The adequacy of the obligations is ensured by the periodic assessment of the overall reserves and whether they are sufficient to cover any future payments. When assessing the adequacy of the reserves, account shall be taken of all expected cash flows under insurance contracts, such as benefits payments, compensation costs, etc. The adequacy of the unearned premium reserve and loss reserve is established by relevant tests.

Adequacy test of unearned premium reserve shall be under Art. 85 of Ordinance No. 53 of 23 December 2016 on the Procedure and Methodology for Establishing Technical Reserves by Insurers and Reinsurers. If during the last three years, including the current, the gross technical result under Appendix 6 of Art. 85, para. 3 of Ordinance No. 53 is negative, a reserve for unexpired risks is allocated. The test is carried out by type of insurance. The amount of the unexpired risk reserve is determined in accordance with Appendix 7 of Art. 85, para. 4 of the Ordinance.

The adequacy test of the pending payment reserve was performed using the run-off method.

The impact of the development of insurance performance on the Group's capital adequacy is simulated of the scenarios examined, the greatest impact on the Group's capital is that with a change in the amount of the provision for outstanding payments. This scenario reflects the uncertainty inherent in the assessment of the provision as it is a current estimate of expected future claims payments. This uncertainty is, to a large extent, the same in respect of the reserve for unreported and unreported claims, and in respect of insurances characterized by a longer claim settlement process, which is essentially compulsory Third-Party Liability insurance for motorists and others types of liability insurance.

53.1.1. Reinsurance strategy

The reinsurance campaign of the Group is aimed at preserving its financial stability and ensuring maximum protection of the interests of insured persons in the event of the occurrence of insurance events that involve the risk of sensitive losses as a result of the occurrence of single insurance events and of catastrophic nature. This objective is achieved by continuously analysing the structure of the insurance portfolio by ensuring the accumulation of cover risks in amounts not exceeding the financial capacity of the Group.

Reinsurance Program:

- is a capital management tool aimed at reducing the cost of capital funds in the event of adverse events;
- is a measure to protect the Group's capital adequacy from accumulating risks, including those of a catastrophic nature;
- covers almost all risks and classes of business recorded by the Group. The types of reinsurance protection and contract limits are fully in line with the Group's risk appetite, the type of portfolio and the signing rules of the Group;
- accurately and clearly defines the specific needs for transferring risks as well as the right kind of specific contracts;
- determines self-retention rates by business class;
- is aimed at constantly optimizing reinsurance contracts in order to alleviate capital pressure through the application of different reinsurance options that can partially or totally achieve optimization of capital adequacy;
- reduces fluctuations in case of occurrence of insurance events;
- evaluates and equalizes the risks of different types of insurance coverage.

The Group reinsures part of its risks in order to control its exposures to losses and to protect its capital resources. All optional reinsurance contracts are pre-approved by the management. Before concluding a reinsurance contract, the Group analyses the credit rating of the reinsurers concerned. High reinsurance reinsurers are selected. The Group periodically analyses the current financial position of reinsurers with which reinsurance commitments have been entered into.

The Group enters into reinsurance commitments with various reinsurers with a high credit rating to control the exposure to losses as a result of an insured event.

53.1.2. Damage settlement process

The damages table and namely the percentage of the damages quota ensures the opportunity for more precise information about the risk development during the reporting periods:

Types of insurance	2018 Damages quota, gross	2018 Damages, quota, net	2017 Damages quota, gross	2017 Damages quota, net
Accident insurance	47%	42%	68%	66%
Including obligatory accident insurance of the passengers in the public transport	54%	28%	79%	87%
Disease	0%	0%	0%	0%
Casco	42%	41%	42%	33%
Rail vehicles	0%	0%	0%	0%
Casco Aircraft	14%	94%	33%	285%
Casco vessels	27%	-4%	-15%	-24%
Freight transport	7%	7%	11%	13%
Fire and natural disasters	63%	19%	38%	37%
Damage to property	27%	27%	27%	27%
Insurance associated with the ownership and usage of motor vehicles, including:	95%	78%	73%	93%
Third-party vehicle insurance	96%	79%	74%	92%
“Green Card” insurance	-214%	-260%	58%	215%
Third-party boarder insurance	66%	431%	-366%	-12%
Third-party carrier insurance	34%	35%	66%	68%
Third-party aviation insurance	-11%	-36%	18%	331%
Third party vessels insurance	-1 222%	-608%	-109%	142%
General third-party insurance	-22%	-15%	37%	14%
Loans and leasing	-12%	-12%	-53%	-53%
Insurance of guarantees	0%	0%	0%	0%
Miscellaneous financial losses	-1%	-1%	-4%	-4%
Legal costs	0%	0%	0%	0%
Travel Assistance	45%	45%	19%	19%
Total:	**55%**	**43%**	**48%**	**41%**

Compared to the annual net allowances, for 2018 and 2017, there is an increase in damages due mainly to Third Party Vehicle Insurance.

The following table shows the average amount of damage paid by type of insurance:

Types of insurance	BGN	Number	Average indemnity 2018	Average indemnity 2017	Average indemnity 2016	Average indemnity 2015
Accident insurance	1 550 521	2 513	617	866	619	813
Casco	60 239 380	82 070	734	771	786	890
Casco of aircrafts	389 916	6	64 986	21 811	19 033	26 013
Casco of vessels	226 800	10	22 680	8 174	9 877	10 367
Cargo insurance during transportation	101 566	43	2 362	7 206	3 135	7 332
Fire and natural calamities insurance	6 888 428	2 494	2 762	1 582	1 564	1 362
Property damage insurance	-	-	-	984	14 520	20 745
Insurance associated with the ownership and usage of motor vehicles	40 665 726	9 342	4 353	3 151	3 124	2 240
Third-party aviation insurance	-	-	-	8 860	7 368	787
Third party vessels insurance	-	-	-	-	324	2 175
General third-party insurance	110 236	31	3 556	6 492	1 972	11 223
Loans and leasing	-	-	-	-	3 665	4 308
Miscellaneous financial losses	-	-	-	-	-	11 388
Travel assistance	1 927 200	3 504	550	538	610	722
Total:	**112 099 773**	**100 013**	**1 121**	**984**	**1 020**	**1 044**

The number of damages paid in 2018 decreased by 5.1% compared to 2017. The average loss paid in 2018 for the group as a whole is BGN 1 121 and compared to the same indicator in the previous year - BGN 984 has increased its size by 14%. The greatest damage is the average for non-pecuniary in insurance "Third-party liability" of drivers - BGN 37 713, and the smallest Insurance "Travel Assistance" - BGN 550.

53.2. Foreign currency risk

The foreign currency risk is a potential cause for losses for the Group when the foreign currency rates fluctuate.

Group's policy regarding other than banking activities

Most of the Group's transactions are carried out in BGN. The foreign transactions of the Group, denominated in US dollars, expose the Group to currency risk. The Group has long-term trade payables and short-term finance lease liabilities in US dollars, the greater part of which is related to the purchase of aircraft. These liabilities are stated at amortized cost. The Group has short-term and long-term US dollar loans. These receivables are classified as loans and receivables.

The foreign transactions of the Group denominated in euro do not expose the Group to currency risk as the exchange rate of the Bulgarian lev is fixed to the euro under the Currency Board Act.

In order for the foreign currency risk to be decreased, the non-BGN cash flows are monitored by the Group. Generally, the Group has different procedures for risk management for the short-term (due within 6 months) and long-term non-BGN cash flows.

Group's policies regarding the banking activities

In the Republic of Bulgaria, the exchange rate of the Bulgarian lev to the euro is fixed by the Currency Board Act, which is why the Group's long position in euro does not pose a risk to the Group. The risk-weighted net currency position as at 31 December 2018 in financial instruments denominated in currencies other than leva or euro is less than 2% of the capital base and no foreign exchange risk capital requirements on the part of the Group with respect to banking activities. Currency positions in other currencies include primarily assets and liabilities denominated in Macedonian denars and in Russian rubles.

The currency structure of financial assets and liabilities at book value as at 31 December 2018 is as follows:

	BGN	EUR	USD	Oher	Total
FINANCIAL ASSETS					
Provided resources and advances to banks	23 024	33 015	104 727	71 445	232 211
Receivables under repurchase agreements	205 184	51 414	-	-	256 598
Financial assets at fair value through profit or loss	161 431	2 113	-	34 896	198 440
Loans and advances to customers	1 506 890	743 638	3 784	163 205	2 417 517
Financial assets measured at fair value in other comprehensive income	108 433	389 249	4 925	755	503 362
Financial assets at amortized cost	-	262 567	-	33 672	296 239
Investments in subsidiaries					
TOTAL ASSETS	**2 004 962**	**1 481 996**	**113 436**	**303 973**	**3 904 367**
FINANCIAL LIABILITIES					
Deposits from banks	6 162	4 695	2 509	1 086	14 452
Liabilities to other depositors	3 478 996	1 334 794	203 269	242 543	5 259 602
Issued bonds	-	-	-	25 343	25 343
Other attracted funds	-	-	-	1 907	1 907
TOTAL LIABILITIES	**3 485 158**	**1 339 489**	**205 778**	**270 879**	**5 301 304**
NET POSITION	**(1 480 196)**	**142 507**	**(92 342)**	**33 094**	**(1 396 937)**

The currency structure of financial assets and liabilities at book value as at 31 December 2017 is as follows:

	BGN	EURO	USD	Other	Total
FINANCIAL ASSETS					
Provided resources and advances to banks	8 152	46 764	173 845	59 550	288 311
Receivables under repurchase agreements	164 378	32 532	-	-	196 910
Financial asset held-for-trading	67 763	12 955	1	1 056	81 775
Loans and advances to customers, net	1 420 920	783 138	7 274	108 477	2 319 809
Held-to-maturity financial assets	-	-	-	34 010	34 010
Available-for-sale financial assets	170 979	415 124	3 215	759	590 077
TOTAL ASSETS	**1 832 192**	**1 290 513**	**184 335**	**203 852**	**3 510 892**
FINANCIAL LIABILITIES					
Deposits from banks	757	4 755	1 246	290	7 048
Liabilities to other depositors	3 348 582	1 264 480	224 908	214 971	5 052 941
Other attracted funds	-	-	-	778	778
Issued bonds	-	70 235	-	-	70 235
TOTAL LIABILITIES	**3 349 339**	**1 339 470**	**226 154**	**216 039**	**5 131 002**
NET POSITION	**(1 517 147)**	**(48 957)**	**(41 819)**	**(12 187)**	**(1 620 110)**

53.3. Interest risk

Group's policy regarding other than banking activities

The policy of the Group is aimed at minimizing interest rate risk on long-term financing. Therefore, long-term loans are usually with fixed interest rates. As at 31 December 2018, the Group is exposed to the risk of a change in market interest rates on its variable-rate bank loans. All other financial assets and liabilities of the Group have fixed interest rates. All investments in the Group's bonds are paid on a fixed interest rate basis.

Group's policies regarding the banking activities

Interest rate risk is the probability of a potential change in net interest income or net interest margin due to a change in overall market interest rates. Interest rate risk management in the Group seeks to minimize the risk of reducing net interest income as a result of changes in interest rates.

For measuring and assessing interest rate risk, the Group uses the GAR-analysis method (mismatch / imbalance analysis). It identifies the sensitivity of the expected revenues and expenditures to the development of the interest rate.

The GAP analysis method aims to determine the Group's position, generally and by individual types of financial assets and liabilities, in terms of expected changes in interest rates and the impact of this change on net interest income. It assists in the management of assets and liabilities and is a tool to provide sufficient and stable net interest rate profitability.

The Group's imbalance between interest rate assets and interest-bearing liabilities as of 31 December 2018 is negative, amounting to BGN 1 606 556 thousand. The GAP coefficient, as an expression of this imbalance, compared to the Group's total profitable assets (interest-bearing assets, derivatives and investments in subsidiaries) is minus 30.30%.

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
INTEREST-BEARING ASSETS						
Placements with, and advances to banks	203 149	-	-	29 063	-	232 212
Receivables under repurchase agreements	34 741	129 535	92 322	-	-	256 598
Loans and advances to customers	74 663	49 466	243 570	1 294 771	755 047	2 417 517
Financial assets measured at fair value in other comprehensive income	19 671	25 146	8 960	218 039	220 366	492 182
Financial assets at amortized cost	27 480	6 184	11 225	52 138	199 212	296 239
TOTAL INTEREST-BEARING ASSETS	359 704	210 331	356 077	1 594 011	1 174 625	3 694 748
INTEREST-BEARING LIABILITIES						
Deposits from banks	14 421	-	-	31	-	14 452
Liabilities to other depositors	2 378 177	369 509	1 161 499	1 343 422	6 995	5 259 602
Bonds Issued	-	-	-	25 343	-	25 343
INTEREST–BEARING LIABILITIES	954	4	6	943	-	1 907
	2 393 552	369 513	1 161 505	1 369 739	6 995	5 301 304
IMBALANCE BETWEEN INTEREST BEARING ASSETS AND LIABILITIES, NET						

Maintaining a negative imbalance expose the Group to the risk of a decrease in net interest income when interest rates rise. The impact of the imbalance reported on 31 December 2018 on net interest income, with a 2% increase in interest rates on a horizon of one year, is a decline in net interest income by BGN 3 285 thousand (2017: BGN 2 048 thousand)).

The Group's imbalance between interest rate assets and interest-bearing liabilities as of 31 December 2017 is negative, amounting to BGN 1 769 437 thousand. The GAP coefficient, as an expression of this imbalance, compared to the Group's total profitable assets (interest-bearing assets, derivatives, and investments in subsidiaries) is minus 34.49%.

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
INTEREST-BEARING ASSETS						
Placements with, and advances to banks	274 248	-	3 129	10 934	-	288 311
Receivables under repurchase agreements	66 376	45 364	85 170	-	-	196 910
Financial assets held for trade	-	-	-	13 057	-	13 057
Loans and advances to customers, net	92 426	78 228	328 779	1 180 930	639 446	2 319 809
Available-for-sale financial assets	34 278	7 740	31 338	213 137	256 985	543 478
TOTAL INTEREST-BEARING ASSETS	467 328	131 332	448 416	1 418 058	896 431	3 361 565
INTEREST-BEARING LIABILITIES						
Deposits from banks	3 919	-	3 129	-	-	7 048
Liabilities to other depositors	2 443 818	380 170	1 146 308	1 080 032	2 613	5 052 941
Other borrowed funds	-	-	-	778	-	778
Bonds issued	-	-	-	70 235	-	70 235
INTEREST–BEARING LIABILITIES	**2 447 737**	**380 170**	**1 149 437**	**1 151 045**	**2 613**	**5 131 002**
IMBALANCE BETWEEN INTEREST BEARING ASSETS AND LIABILITIES, NET	**(1 980 409)**	**(248 838)**	**(701 021)**	**267 013**	**893 818**	**(1 769 437)**

In the tables above, a portion of the borrowed funds on current accounts with no residual maturity of BGN 1 282 673 thousand as at 31 December 2018 and BGN 1 014 579 thousand at 31 December 2017 is presented in the range of 1 year to 5 years as The Group considers this reserve to be a reliable long-term resource based on the average daily balance on these accounts for 2018 and 2017.

53.4. Credit risk

Group's policy regarding other than banking activities

Credit risk is the risk that counterparty fails to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments, for example by granting loans and receivables to customers, placing deposits etc. The Group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognized at the reporting date, as summarized below:

	2018 BGN'000	2017 BGN'000
Financial assets – carrying amounts:		
Financial assets measured at fair value through profit or loss	1 685 078	-
Equity instruments at fair value through other comprehensive income	70 983	-
Debt instruments measured at fair value through other comprehensive income	422 916	-
Debt instruments at amortized cost	5 568 167	-
Long-term financial assets	-	2 606 120
Long-term receivables from related parties	-	8 758
Short-term financial assets	-	2 425 516
Short-term receivables from related parties	-	68 920
Cash and cash equivalents	-	2 204 904
Trade and other receivables	-	190 364
Carrying amount	**7 747 144**	**7 504 582**

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group and incorporates this information into its credit risk controls. The Group's policy is to deal only with creditworthy counterparties. The Group's management considers that all the above financial assets that are not impaired or past due for each of the reporting dates under review are of good credit quality.

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Trade receivables consist of a large number of customers in different industries and geographical areas. Based on historical indicators, the management considers that the trade receivables that are not past due are of good credit quality.

The credit risk related to cash and cash equivalents and financial market funds is considered immaterial as the contracting parties are banks with good reputation and good credit rating.

The carrying amounts presented above represent the maximum exposure to credit risk the Group might experience, regarding these financial instruments.

Group's policies regarding the banking activities

Credit risk is the probability of a loss arising from the non-performance of contractual obligations of the counterparty on financial assets held by the Group. The Group manages credit risk inherent in both the banking and trading book. The Group has structured credit risk monitoring and management units for individual business segments by applying individual credit policies. The credit risk of individual exposures is managed over the life of the exposure - from the decision to form the exposure to its full repayment. In order to minimize credit risk in the credit process, detailed procedures are applied for the analysis of the economic feasibility of each project, the control over the use of the funds allocated and the administration related to this activity.

To reduce credit risk, appropriate type and value collateral and guarantees are adhered to, in accordance with the Internal Rules, the approach used for calculating capital requirements and current banking legislation.

The provided resources and advances to banks amounting to BGN 232 212 thousand are primarily deposits with international and Bulgarian financial institutions with a maturity of up to 7 days. These financial assets carry a credit risk with a maximum exposure of 20%, 50% and 100% according to the policy of the Group, the percentage being determined by the quality characteristics of the financial institution.

Claims under repurchase agreements amounting to BGN 256 598 thousand carry a credit risk for the Group, depending on the risk of the collateral being provided. Part of the receivables amounting to BGN 74 040 thousand is secured by government securities issued by the Republic of Bulgaria and bear respectively: BGN 22 626 thousand - 0% risk and BGN 51 414 thousand - 10% risk. The remaining receivables amounting to BGN 182 515 thousand are secured by corporate securities and carry respectively: BGN 168 881 thousand - 100% risk and BGN 13 634 thousand - 150% risk depending on the issuer of the securities provided as collateral.

Other financial assets at fair value through profit or loss amounting to BGN 198 440 thousand are equity instruments - shares in financial and non-financial corporations amounting to BGN 93 411 thousand and debt instruments - units in contractual funds at value BGN 105 029 thousand. These financial instruments are credit risk holders whose maximum exposure is 100% or BGN 198 440 thousand.

Equity securities measured at fair value in other comprehensive income of BGN 11 180 thousand represent shares in financial and non-financial corporations carrying credit risk with a maximum exposure of 100% or BGN 11 180 thousand in absolute amount.

Debt securities measured at fair value in other comprehensive income and issued by the Republic of Bulgaria amounting to BGN 288 234 thousand carry a credit risk for the Group respectively: BGN 85 509 thousand - 0% risk and BGN 202 725 thousand. - 10% risk. Debt securities measured at fair value in other comprehensive income and issued by other European countries at the amount of BGN 127 328 thousand carry a credit risk to the Group depending on the credit risk of the issuing State.

Debt securities, measured at fair value in other comprehensive income and issued by local and foreign commercial companies amounting to BGN 75 865 thousand, have a credit risk for the Group with a maximum exposure of 100% or BGN 75 865 thousand. in absolute amount.

Debt securities, measured at amortized cost and issued by the Republic of Bulgaria, have a carrying amount of BGN 130 583 thousand, bearing a credit risk for the Group of 10% risk. Debt securities, measured at amortized cost and issued by other European countries, have a carrying amount of BGN 114 246 thousand, incur credit risk to the Group, depending on the issuer's credit rating.

Debt securities, measured at amortized cost and issued by local and foreign commercial companies with carrying amount of BGN 17 738 thousand, have a credit risk for the Group with a maximum exposure of 100% or BGN 17 738 thousand in absolute amount.

The loans and advances to customers with a carrying amount of BGN 2 417 517 thousand carry a credit risk to the Group. In determining the Group's exposure to this risk, an analysis of the Group's individual risk arising from each particular exposure is performed and the Group applies the criteria for the assessment and classification of risk exposures set out in the Banking Legislation of the Republic of Bulgaria and IFRS In accordance with these criteria and the analysis carried out, the maximum exposure of the Credit Risk Group amounts to BGN 1 776 501 thousand.

As at 31 December 2018, the amount of provisions made by the Group to cover expected credit losses on loans and advances was BGN 114 406 thousand.

Asset quality
Due to the entry into force of IFRS 9 Financial Instruments dated 01.01.2018, the Group presents the comparative information on credit risk in accordance with the classification categories and qualitative characteristics of the loans and credit commitments that were in effect as of 31.12.2017 under IAS 39 Financial Instruments: Recognition and Measurement.

In the tables below, the Group presented the structure and amendment of the adjustment for expected credit losses arising from the initial introduction of the expected credit loss model as at 01.01.2018 and the amendment of the correction until the end of the financial period.

Impairment loss - Loans and advances to banks at amortized cost	**Stage 1 12-month ECL BGN'000**	**Stage 2 Lifetime ECL BGN'000**	**Stage 3 Lifetime ECL BGN'000**	**Total BGN'000**
Impairment loss on 31 December 2017	-	-	3 713	**3 713**
Effect of IFRS 9	105	-	-	105
Impairment loss on 1 January 2018	**105**	**-**	**3 713**	**3,818**
Change in impairment loss	54	-	-	54
Accrued for the period	250	-	-	250
Released during the period	(196)	-	-	(196)
Foreign exchange and other movements	-	-	176	176
Impairment loss on 31 December 2018	**159**	**-**	**3,889**	**4,048**

Impairment loss – Receivables under repurchase agreements of securities	**Stage 1 12-month ECL BGN'000**	**Stage 2 Lifetime ECL BGN'000**	**Stage 3 Lifetime ECL BGN'000**	**Total BGN'000**
Impairment loss at December 31, 2017	**-**	**-**	**-**	**-**
Effect of IFRS 9	23	-	-	23
Impairment loss at 1 January 2018	**23**	**-**	**-**	**23**
Change in impairment loss	185	-	-	185
Accumulated for the period	1 347	-	-	1 347
Derecognised for the period	(1 162)	-	-	(1 162)
Impairment loss at 31 December 2018	**208**	**-**	**-**	**208**

Impairment loss – Loans and advances granted to customers at amortised cost	**Stage 1 12-month ECL BGN'000**	**Stage 2 Lifetime ECL BGN'000**	**Stage 3 Lifetime ECL BGN'000**	**Total BGN'000**
Impairment loss at December 31, 2017	**19 351**	**428**	**99 489**	**119 268**
Effect of IFRS 9	(9 754)	1 591	16110	7 947
Impairment loss at January 1, 2018	**9 597**	**2 019**	**115 599**	**127 215**
Change in impairment loss recognised in Profit and loss	**2 700**	**187**	**3 269**	**6 156**
– Transfer to Stage 1	548	(261)	(287)	-
– Transfer to Stage 2	(707)	887	(180)	-
– Transfer to Stage 3	(23)	(171)	194	-
– Increase due to change in credit risk	(133)	79	657	603
– Decrease due to change in credit risk	(496)	(276)	(143)	(915)
– Increase due to originated or purchased assets	3 297	18	141	3 456
– Change in risk parameters	214	(89)	2 887	3 012
– Decrease due to derecognition for uncollectibility	-	-	(2 591)	(2 591)
– Decrease due to derecognition for transfer	(1 345)	(558)	(20 800)	(22 703)
– Interest income adjustment			3 629	3 629
– Currency differences and other adjustments			457	457
Impairment loss at December 31, 2018	10 952	1 648	99 563	112 163

Impairment loss – Investments in debt securities at amortised cost	**Stage 1 12-month ECL BGN'000**	**Stage 2 Lifetime ECL BGN'000**	**Stage 3 Lifetime ECL BGN'000**	**Total BGN'000**
Impairment loss at December 31, 2017	-	-	-	**-**
Effect of IFRS 9	-	-	-	**-**
Impairment loss at January 1, 2018	-	-	-	**-**
Change in impairment loss	**390**	**-**	**-**	**390**
Accumulated for the period	516	-	-	**516**
Derecognised for the period	(126)	-	-	**(126)**
Impairment loss at December 31, 2018	**390**	**-**	**-**	**390**

	Stage 1	**Stage 2**	**Stage 3**

Impairment loss – Investments in debt securities at FVTOCI	12-month ECL BGN‘000	Lifetime ECL BGN‘000	Lifetime ECL BGN‘000	Total BGN‘000
Impairment loss at December 31, 2017	-	-	-	**-**
Effect of IFRS 9	1 031	-	-	**1 031**
Impairment loss at January 1, 2018	**1 031**	**-**	**1 830**	**2 861**
Change in impairment loss	**675**	**-**	**(1 830)**	**(1 155)**
Accumulated for the period	1 888	-	-	**1 888**
Derecognised for the period	(1 213)	-	(1 830)	**(3 043)**
Impairment loss at December 31, 2018	**1 706**	**-**	**-**	**1 706**

Impairment loss – Loan commitments	Stage 1 12-month ECL BGN‘000	Stage 2 Lifetime ECL BGN‘000	Stage 3 Lifetime ECL BGN‘000	Total BGN‘000
Impairment loss at December 31, 2017	-			**-**
Effect of IFRS 9	452	2	69	**523**
Impairment loss at January 1, 2018	452	2	69	**523**
Change in impairment loss	**(144)**	**(4)**	**(7)**	**(155)**
Accumulated for the period	117	1	31	**149**
Derecognised for the period	(261)	(5)	(38)	**(304)**
Currency and other movements	13	4	(20)	**(3)**
Impairment loss at December 31, 2018	**321**	**2**	**42**	**365**

Impairment loss – Financial guarantee contracts	Stage 1 12-month ECL BGN‘000	Stage 2 Lifetime ECL BGN‘000	Stage 3 Lifetime ECL BGN‘000	Total BGN‘000
Impairment loss at December 31, 2017	-	-	-	**-**
Effect of IFRS 9	6	-	-	**6**
Impairment loss at January 1, 2018	**6**	**-**	**-**	**6**
Change in impairment loss	**6**	-	-	**6**
Accumulated for the period	49	-	-	**49**
Derecognised for the period	(43)	-	-	**(43)**
Currency and other movements	(3)	-	-	**(3)**
Impairment loss at December 31, 2018	**9**	**-**	**-**	**9**

The tables below present the structure and change of gross amounts by categories of asset at 01.01.2018 and their change until the financial period end.

Carrying amount before impairment – Loans and advances granted to banks at amortised cost	Stage 1 12-month ECL BGN‘000	Stage 2 Lifetime ECL BGN‘000	Stage 3 Lifetime ECL BGN‘000	Total BGN‘000
Gross carrying amount at December 31, 2017	**281 016**	**-**	**3 713**	**284 729**
Effect of IFRS 9	-	-	-	-
Gross carrying amount at January 1, 2018	**281 016**	**-**	**3 713**	**284 729**
Change in the gross carrying amount	**(58 751)**	**-**	**176**	**(58 575)**
Increase for the period	132 589	-	-	132 589
Decrease for the period	(191 340)	-	-	(191 340)
Gross carrying amount at December 31, 2018	-	-	176	176
Impairment loss at December 31, 2018	**222 265**	**-**	**3 889**	**226 154**
Carrying amount at December 31, 2018	(159)		(3 889)	(4 048)
Increase for the period	**222 106**	**-**	**-**	**222 106**

Carrying amount before impairment – Receivables under repurchase agreements of securities	Stage 1 12-month ECL BGN‘000	Stage 2 Lifetime ECL BGN‘000	Stage 3 Lifetime ECL BGN‘000	Total BGN‘000
Gross carrying amount at December 31, 2017	**196 910**	**-**	**-**	**196 910**
Effect of IFRS 9	-	-	-	-
Gross carrying amount at January 1, 2018	**196 910**	**-**	**-**	**196 910**
Change in the gross carrying amount	**59 896**	**-**	**-**	**59 896**
Increase for the period	256 806	-	-	256 806
Decrease for the period	(196 910)	-	-	(196 910)
Gross carrying amount at December 31, 2018	**256 806**	**-**	**-**	**256 806**
Impairment loss at December 31, 2018	(208)	-	-	(208)
Carrying amount at December 31, 2018	**256 598**	**-**	**-**	**256 598**

Loans and advances granted to customers at amortised cost	Stage 1 12-month ECL BGN'000	Stage 2 Lifetime ECL BGN'000	Stage 3 Lifetime ECL BGN'000	Total BGN'000
Gross carrying amount at December 31, 2017	**2 085 218**	**21 834**	**226 063**	**2 333 115**
Effect of IFRS 9	(151 071)	151 071	-	-
Gross carrying amount at January 1, 2018	**1 934 147**	**172 905**	**226 063**	**2 333 115**
Change in the gross carrying amount	**279 795**	**(52 877)**	**(28 110)**	**198 808**
– Transfer to Stage 1	23 778	(21 737)	(2 041)	-
– Transfer to Stage 2	(55 087)	55 983	(896)	-
– Transfer to Stage 3	(2 502)	(11 029)	13 531	-
– Increase due to change in credit risk	43	140	613	796
– Decrease due to change in credit risk	(7 555)	(7 286)	(433)	(15 274)
– Increase due to originated or purchased assets	737 474	852	246	738 572
– Change in risk parameters	(138 212)	(11 808)	(1 220)	(151 240)
– Decrease due to write-off for uncollectibility	-	-	(2 591)	(2 591)
– Decrease due to write-off for transfer	(278 144)	(57 992)	(39 405)	(375 541)
– Interest income adjustment	-	-	3 629	3 629
– Currency differences and other adjustments	-	-	457	457
Gross carrying amount at December 31, 2018	**2 213 942**	**120 028**	**197 953**	**2 531 923**
Impairment loss at December 31, 2018	(12 803)	(1 504)	(100 099)	**(114 406)**
Carrying amount at December 31, 2018	**2 201 139**	**118 524**	**97 854**	**2 417 517**

Carrying amount before impairment – Investments in debt securities at amortised cost	Stage 1 12-month ECL BGN'000	Stage 2 Lifetime ECL BGN'000	Stage 3 Lifetime ECL BGN'000	Total BGN'000
Gross carrying amount at December 31, 2017	**-**	**-**	**-**	**-**
Effect of IFRS 9	-	-	-	-
Gross carrying amount at January 1, 2018	**-**	**-**	**-**	**-**
Change in the gross carrying amount	**262,957**	**-**	**-**	**262,957**
Increase for the period	262,957	-	-	262,957
Decrease for the period		-	-	-
Other movements	-	-	-	-
Gross carrying amount at December 31, 2018	**262,957**	**-**	**-**	**262,957**
Impairment loss at December 31, 2018	(390)	-	-	**(390)**
Carrying amount at December 31, 2018	**262,567**	**-**	**-**	**262,567**

Carrying amount before impairment – Investments in debt securities at FVTOCI	Stage 1 12-month ECL BGN'000	Stage 2 Lifetime ECL BGN'000	Stage 3 Lifetime ECL BGN'000	Total BGN'000
Gross carrying amount at December 31, 2017	**-**	**-**	**-**	**-**
Effect of IFRS 9	**-**	**-**	**-**	**-**
Gross carrying amount at January 1, 2018	-	-	-	-
Change in the gross carrying amount	**502 607**	**-**	**-**	**502 607**
Increase for the period	502 607	**-**	**-**	502 607
Gross carrying amount at December 31, 2018	**502 607**	**-**	**-**	**502 607**
Impairment loss at December 31, 2018	(1 706)	-	-	**(1 706)**
Carrying amount at December 31, 2018	**500 901**	**-**	**-**	**500 901**

Loan commitments	Stage 1 12-month ECL BGN'000	Stage 2 Lifetime ECL BGN'000	Stage 3 Lifetime ECL BGN'000	Total BGN'000
Total amount of loan commitments at December 31, 2017	**108,264**	**536**	**358**	**109,158**
Effect of IFRS 9	211	(211)	-	-
Total amount of loan commitments at January 1, 2018	**108,475**	**325**	**358**	**109,158**
Change in the amount of loan commitments	**62,930**	**76**	**65**	**63,071**
Increase for the period	105,394	105	101	105,600
Decrease for the period	(42,126)	(216)	(190)	(42,532)
Other movements	(338)	187	154	3
Total amount of loan commitments at December 31, 2018	**171,405**	**401**	**423**	**172,229**
ECL allowance at December 31, 2018	(321)	(2)	(42)	**(365)**

Financial guarantee contracts	Stage 1 12-month ECL BGN'000	Stage 2 Lifetime ECL BGN'000	Stage 3 Lifetime ECL BGN'000	Total BGN'000
Total amount of guarantees at December 31, 2017	**53 479**	**59**	**50**	**53 588**
Effect of IFRS 9	59	(59)	-	-
Total amount of guarantees at January 1, 2018	**53 538**	**-**	**50**	**53 588**
Change in the gross carrying amount	**(7 107)**	**-**	**(50)**	**(7 157)**
Increase for the period	10 314	-	-	10 314
Decrease for the period	(17 471)	-	-	(17 471)
Other movements	50	-	(50)	-
Total amount of guarantees at December 31, 2018	**46 431**	-	-	**46 431**
ECL allowance at December 31, 2018	(9)	-	-	(9)

Loans and advances granted to customers	2018 Gross carrying amount BGN'000	Impairment loss BGN'000	2017 Gross carrying amount BGN'000	Impairment loss BGN'000
0-29 days	2 304 989	(33 227)	2 251 120	(25 894)
30-59 days	28 082	(451)	13 939	(169)
60-89 days	1 801	(84)	3 833	(1 880)
90-180 days	1 823	(656)	3 356	(849)
Over 181 days	195 228	(79 988)	165 891	(89 538)
Total	**2 531 923**	**(114 406)**	**2 438 139**	**(118 330)**

	2018	2017
Loans and advances granted to customers at amortised cost	2 531 923	2 438 139
Less impairment for uncollectibility	(114 406)	(118 330)
Total loans and advances granted to customers	**2 417 517**	**2 319 809**

	31.12.2018			31.12.2017		
	Gross carrying amount BGN'000	**ECL impairment BGN'000**	**Carrying amount BGN'000**	**Gross carrying amount BGN'000**	**ECL impairment BGN'000**	**Carrying amount BGN'000**
Retail banking						
Mortgages	363 541	(591)	362 950	262 692	(648)	262 044
Consumer loans	441 787	(8 691)	433 096	406 409	(8 316)	398 093
Credit cards	21 804	(1 497)	20 307	22 036	(1 942)	20 094
Other	9 074	(8 591)	483	12 257	(10 554)	1 703
Total retail banking	**836 206**	**(19 370)**	**816 836**	**703 394**	**(21 460)**	**681 934**
Corporate lending	1 695 717	(95 036)	1 600 681	1 734 745	(96 870)	1 637 875
Total	**2 531 923**	**(114 406)**	**2 417 517**	**2 438 139**	**(118 330)**	**2 319 809**

	2018				2017
Placements with, and advances to, banks at amortised cost	**Stage 1 12-month ECL BGN'000**	**Stage 2 Lifetime ECL BGN'000**	**Stage 3 Lifetime ECL BGN'000**	**Total BGN'000**	**Total BGN'000**
Category	222 265	-	3 889	226 154	281 016
Total gross carrying amount	**222 265**	**-**	**3 889**	**226 154**	**281 016**
Impairment loss	(159)	-	(3 889)	(4 048)	-
Carrying amount	**222 106**	**-**	**-**	**222 106**	**281 016**

Receivables under repurchase agreements of securities	2018 Stage 1 12-month ECL BGN'000	Stage 2 Lifetime ECL BGN'000	Stage 3 Lifetime ECL BGN'000	Total BGN'000	2017 Total BGN'000
Category	256 806	-	-	256 806	196 910
Total gross carrying amount	**256 806**	**-**	**-**	**256 806**	**196 910**
Impairment loss	(208)	-	-	(208)	-
Carrying amount	**256 598**	**-**	**-**	**256 598**	**196 910**

Investments in debt securities at amortised cost	2018 Stage 1 12-month ECL BGN'000	Stage 2 Lifetime ECL BGN'000	Stage 3 Lifetime ECL BGN'000	Total BGN'000	2017 Total BGN'000
Category	262 957	-	-	262 957	-
Total gross carrying amount	**262 957**	**-**	**-**	**262 957**	**-**
Impairment loss	(390)	-	-	(390)	-
Carrying amount	**262 567**	**-**	**-**	**262 567**	**-**

Investments in debt securities at FVTOCI	2018 Stage 1 12-month ECL BGN'000	Stage 2 Lifetime ECL BGN'000	Stage 3 Lifetime ECL BGN'000	Total BGN'000	2017 Total BGN'000
Category	491 303	-	1 830	493 133	511 298
Total gross carrying amount	**491 303**	**-**	**1 830**	**493 133**	**511 298**
Impairment loss	(1 706)	-	-	(1 706)	(1 830)
Carrying amount	**489 597**	**-**	**1 830**	**491 427**	**509 468**

Loan commitments	2018 Stage 1 12-month ECL BGN'000	Stage 2 Lifetime ECL BGN'000	Stage 3 Lifetime ECL BGN'000	Total BGN'000	2017 Total BGN'000
Category	171 405	401	423	172 229	109 158
Total gross carrying amount	**171 405**	**401**	**423**	**172 229**	**109 158**
Expected credit loss allowance	(321)	(2)	(42)	(365)	-
Net exposure	**171 084**	**399**	**381**	**171 864**	**109 158**

Financial guarantee contracts	2018 Stage 1 12-month ECL BGN'000	Stage 2 Lifetime ECL BGN'000	Stage 3 Lifetime ECL BGN'000	Total BGN'000	2017 Total BGN'000
Category	46 381	-	50	46 431	53 588
Total gross carrying amount	**46 381**	**-**	**50**	**46 431**	**53 588**
Expected credit loss allowance	(9)	-	-	(9)	-
Net exposure	**46 372**	**-**	**50**	**46 422**	**53 588**

The tables below present the quality and characteristics of assets, as classified at 31 December 2017 under IAS 39.

Debt	By granted loans		Undrawn commitment	By provided letters of guarantee	
Group	Amount	Amount	Amount	Amount	Provision
Regular	2 212 081	19 226	86 800	53 538	-
Non-performing	226 058	99 104	358	50	-
Total	**2 438 139**	**118 330**	**87 158**	**53 588**	**-**

The loans provided by the Group can be summarized in the following table:

Groups	31.12.2017	
	Loans granted to non-financial customers	Loans granted to banks and receivables under repurchase agreements
	BGN'000	**BGN'000**
Neither past due nor impaired on individual basis	2 152 533	196 911
Past due, but not impaired on individual basis	95 197	-
Impaired on individual basis	190 409	-
Total	**2 438 139**	**196 911**
Allowances for impairment provided	(118 330)	-
Net loans	**2 319 809**	**196 911**

As at 31 December 2017, the bulk of loans presented as overdue, but not impaired, on an individual basis, are loans that are overdue within 30 days. The Group considers that such incidental arrears are not an indication of impairment of these loans.

Loans and advances that are either neither overdue nor impaired on an individual basis are presented in the following table:

	As at 31.12.2017
Individuals	
Credit cards and overdrafts	19 865
Consumer loans	364 386
Mortgage loans	245 706
Corporate clients	1 417 552
Total	**2 047 509**

The value of loans that are overdue but not impaired on an individual basis is presented in the table below. The bulk of these loans are not impaired because they have allowed accrued overdue payments of up to 30 days, which does not necessitate their depreciation.

	As at 31.12.2017
Individuals	
Credit cards and overdrafts	10 767
Consumer loans	34 589
Mortgage loans	14 601
Corporate clients	35 240
Total	**95 197**

The book value of the loans for which there is an accrued provision on an individual basis as at 31 December 2017 is BGN 190 409 thousand. These amounts do not include the cash flow from the collaterals of these loans.

31 December 2017	Carrying amount before impairment	Impairment	Carrying amount after impairment
Consumer loans	11 479	(10 542)	937
Mortgage loans	2 001	-	2 001
Corporate clients	176 929	(77 998)	98 931
Total	**190 409**	**(88 540)**	**101 869**

The total net exposure for 2017 of the 5 largest exposures is BGN 296 143 thousand and represents 12.69% of the loans and advances to customers of the Group.

Credit risk concentration

Concentration risk is the possibility of loss due to incorrect diversification of exposures to customers, groups of connected clients, customers in the same economic sector or geographic area.

The tables below represent a cross-section of the concentrations of the different asset classes of the Group by region and by economic sector.

Placements with, and advances to, banks at amortised cost	**2018 BGN'000**	**2017 BGN'000**
Concentration by sector		
Central banks	926	3 512
Bulgarian commercial banks	52 292	35 986
Foreign commercial banks	172 936	241 518
Total	**226 154**	**281 016**
Concentration by region		
Europe	223 812	278 383
America	2 286	2 620
Asia	56	13
Total	**226 154**	**281 016**

Receivables under repurchase agreements of securities	**2018 BGN'000**	**2017 BGN'000**
Corporate:		
Construction	31 036	20 946
Commerce and finance	176 983	145 645
Transport and communications	13 104	15 246
Other	35 683	15 073
Total	**256 806**	**196 910**
Concentration by region		
Europe	256 806	196 910
Total	**256 806**	**196 910**

Investments in debt securities at amortised cost	**2018 BGN'000**	**2017 BGN'000**
Concentration by sector		
States	245,183	-
Bank	9,810	-
Corporate:		-
Commerce and finance	7,964	-
Total	**262,957**	**-**
Concentration by region		
Europe	262,957	-
Total	**262,957**	**-**

Investments in debt securities at FVTOCI	**2018 BGN'000**	**2017 BGN'000**
Concentration by sector		
States	415 562	466 615
Corporate:	**75 865**	**44 683**
Construction	9 635	13 057
Industry	19 351	10 255
Commerce and finance	43 570	18 939
Other	3 309	2 432
Total	**491 427**	**511 298**
Concentration by region		
Europe	491 427	511 298
Total	**491 427**	**511 298**

Loans and advances at amortised cost granted to customers	**2018 BGN'000**	**2017 BGN'000**
Concentration by sector		
Retail banking:	**836 206**	**703 394**
Mortgage	363 541	262 692
Consumer	441 787	406 409
Credit cards	21 804	22 036
Other	9 074	12 257
Corporate:	**1 695 717**	**1 734 745**
Agriculture and forestry	72 761	59 114
Industry	44 314	81 919

Construction	387 568	249 558
Commerce and finance	944 407	1 115 875
Transport and communications	120 398	124 758
Other	126 269	103 521
Total	**2 531 923**	**2 438 139**
Concentration by region		
Europe	2 531 187	2 437 345
America	733	791
Middle East and Africa	3	3
Total	**2 531 923**	**2 438 139**

Credit commitments	**2018 BGN'000**	**2017 BGN'000**
Concentration by sector		
Retail banking:	**48 101**	**49 146**
Mortgage	792	223
Consumer	7 287	7 521
Credit cards	40 022	41 402
Corporate:	**124 128**	**60 012**
Agriculture and forestry	3 275	3 785
Industry	713	1 027
Construction	42 022	10 040
Commerce and finance	72 409	41 067
Transport and communications	1 964	1 920
Other	3 745	2 173
Total	**172 229**	**109 158**
Concentration by region		
Europe	172 191	109 151
America	34	5
Middle East and Africa	4	2
Total	**172 229**	**109 158**

Financial guarantee contracts	**2018 BGN'000**	**2017 BGN'000**
Concentration by sector		
Retail banking:	**103**	**20**
Other	103	20
Corporate:	**46 328**	**53 568**
Agriculture and forestry	3 621	4 756
Industry	10 379	10 856
Construction	3 487	7 152
Commerce and finance	18 814	18 443
Transport and communications	4 022	7 105
Other	6 005	5 256
Total	**46 431**	**53 588**
Concentration by regions		
Europe	46 431	53 588
Total	**46 431**	**53 588**

Credit exposures with restructuring measures

As exposures with restructuring measures the Group accepts credit exposures that have modified the original terms of the contract caused by a deterioration in the financial condition of the debtor leading to the inability to repay the full amount of the debt in due time and which discounts the Group would not circumstances.

Amendments to the original terms of the contract in connection with the implementation of the restructuring measures may include:

- Postponing or rescheduling the payment of principal interest or where applicable fees resulting in a reduction in the amount of the financial commitment;
- Partial or total refinancing of a troubled debt contract which is only allowed when the debtor is in financial difficulties.
- Full or partial write-off of debt which leads to a reduction in the amount of the financial obligation;
- An amendment involving repayments resulting from a collateral acquisition by the Group is treated as a restructuring measure when the debtor is in financial difficulty.

- Granted rebates to a debtor who is in default before granting the rebates.
- Decrease in the interest rate under the contract except for a change in the agreed interest rate resulting from changes in market interest rates.

The information on exposures with restructuring measures is as follows:

2018	**Corporate customers BGN'000**	**Individuals BGN'000**
Amount before impairment	89 014	1 466
Impairment	(40 614)	(595)
Amount after impairment	48 400	871

2017	**Corporate customers BGN'000**	**Individuals BGN'000**
Amount before impairment	276 255	1 574
Impairment	(44 124)	(452)
Amount after impairment	232 131	1 122

As at 31 December 2017 corporate exposures with a value before impairment of BGN 150 068 thousand represent serviced exposures that are not subject to delinquency.

Collaterals on loans granted

Housing mortgage loans to individuals

The table below presents the carrying amount of reported housing mortgage loans to individuals based on loan-to-value ratio. The ratio is calculated as a correlation of the gross amount of loan exposure to the collateral value. Collateral value on housing mortgage loans is determined upon loan granting and is updated in case of significant changes in the prices of real estate market.

Loan-to-value	**2018 BGN'000**	**2017 BGN'000**
Below 50%	80 147	57 507
From 50% to 75%	146 880	105 019
From 75% to 90%	119 089	89 197
From 90% to 100%	11 972	7 431
Above 100%	5 453	3 534
Total	**363 541**	**262 688**

Loans granted to legal entities

With respect to loans to legal entities the Group identifies the creditworthiness of each individual client as the most appropriate risk exposure indicator. For this the Group has adopted an approach to individual credit assessment and impairment testing of loans to corporates. To ensure additional security in addition to regular monitoring of the financial position of borrowing enterprises the Group also requires collateral to be set up in the credit exposures. The Group accepts collateral for loans to legal persons mortgages on real estate a pledge of a commercial enterprise a special pledge of tangible assets as well as other guarantees and rights of ownership.

The Group periodically analyses and updates the value of the collateral taking into account significant changes in the market environment the regulatory framework or other occurring circumstances. In the event that there is a decrease in the value of the collateral as a result of which the Group considers that it is not sufficient the Group requires that the debtor be constituted additional collateral by setting a certain period within which the supplementation will be fulfilled.

53.5. Liquidity risk analysis

Liquidity risk is the risk that the Group cannot meet its liabilities. The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash in- and outflows due to day-to-day business. Liquidity needs are monitored in various time bands on a day-to-day and week-to-week basis as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180-day and a 360-day lookout period are identified monthly. The need for cash is compared to the available loans in order to determine shortage or surplus. This analysis determines whether the loans available will be enough to cover the Group's needs for the period.

The Group maintains cash to meet its liquidity requirements for up to 30-day periods. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and sale of long-term financial assets. As at 31 December 2018 Group's liabilities (including interest payables where applicable) have contractual maturities summarized below

	Current	Non-current	
	Within 12 months BGN'000	**From 2 to 5 years BGN'000**	**Over 5 years BGN'000**
Bank and other loans	71 853	172 013	16 035
Related party payables	46 785	5 598	-
Financial lease payables	2 146	3 562	-
Liabilities to other depositors	3 929 276	1 323 441	6 885
Deposits from banks	14 452	-	-
Obligations under repo agreements	13 559	-	-
Liabilities under cession agreements	21 898	17 954	-
Trade and other payables	98 388	23 012	-
Derivatives	-	1 272	-
Total	**4 198 357**	**1 546 852**	**22 920**

As at 31 December 2017 Group's liabilities (including interest payables where applicable) have contractual maturities summarized below:

	Current	Non-current	
	Within 12 months BGN'000	**From 2 to 5 years BGN'000**	**Over 5 years BGN'000**
Bank and other loans	95 507	128 879	40 093
Related party payables	37 419	4 315	-
Financial lease payables	1 265	2 965	-
Liabilities to other depositors	3 980 628	1 069 700	2 613
Deposits from banks	7 048	-	-
Obligations under repo agreements	15 433	-	-
Liabilities under cession agreements	17 536	18 018	-
Trade and other payables	95 372	47 599	-
Derivatives	-	3 396	-
Total	**4 250 208**	**1 274 872**	**42 706**

The amounts disclosed in this obligation maturity analysis represent the undiscounted cash flows under the contracts that may differ from the carrying amounts of the liabilities at the reporting date. Annual interest payments amount to BGN 9 299 thousand (2017: BGN 7 451 thousand).

Group's policies regarding the banking activities

The Group follows the obligations and constraints arising from the banking legislation in the respective countries related to the management and supervision of banks' liquidity. The Group has identified specialized liquidity management bodies that conduct the liquidity risk management policy adopted by the Group's management.

Quantitative measure of the liquidity risk according to the regulations of the BNB and EBA is the Liquid Coverage Ratio - the LCR indicator. This ratio represents the excess of the liquidity buffer (liquid assets) of the Group over net outflows.

The Group's liquidity coverage ratio as at 31.12.2018 amounted to 573.09% (31.12.2017: 656.74%) and exceeded the statutory requirement of 100%.

The allocation of the Group's financial liabilities as at 31 December 2018 based on their residual maturity is as follows:

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	Above 5 years	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
FINANCIAL LIABILITIES						
Deposits from banks	40 440	-	-	-	-	40 440
Liabilities to other depositors	2 300 164	346 321	1 073 309	1 289 285	4 660	5 013 739
Issued bonds	-	-	-	25 343	-	25 343
Provisions for liabilities	-	-	690	-	-	690
Other liabilities	10 172	-	-	-	-	10 172
TOTAL FINANCIAL LIABILITIES	2 350 776	346 321	1 073 999	1 314 628	4 660	5 090 384

Financial liabilities of the Group are formed mainly by borrowing from other depositors – deposits of natural persons and legal entities.

The allocation of financial liabilities of the Group as of 31 December 2017 according to their residual term is as follows:

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	Above 5 years	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
FINANCIAL LIABILITIES						
Deposits from banks	8 434	-	-	-	-	8 434
Liabilities to other depositors	2 408 779	356 499	1 063 874	1 028 474	1 447	4 859 073
Other borrowed funds	-	-	-	-		-
Issued bonds	-	-	-	70 235	-	70 235
Provisions for liabilities	-	-	-	-	-	-
Other liabilities	11 642	-	-	-	848	12 490
TOTAL FINANCIAL LIABILITIES	2 428 855	356 499	1 063 874	1 098 709	2 295	4 950 232

In the tables above a part of the attracted funds on current accounts with no residual maturity amounting to BGN 1 282 673 thousand as at 31 December 2018 (2017: BGN 1 014 579 thousand) is presented in the range from 1 year to 5 years since the Group considers this reserve to be a reliable long-term resource based on the average daily balance on those accounts in 2018 and 2017.

Financial assets used for managing liquidity risk

In assessing and managing liquidity risk the Group recognizes the expected cash flows from financial instruments in particular available cash and trade receivables. Available cash resources and trade and other receivables significantly exceed the current outflow cash flow requirements. Under the contracts entered into all cash flows from trade and other receivables are due within 1 year.

54. Fair value measurement

Fair value measurement of financial instruments

Financial assets and liabilities at fair value in the consolidated financial statements of financial position are grouped into three levels according to the fair value hierarchy

This hierarchy groups are based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset that are not based on observable market data.

A financial asset or liability is classified to the lowest level of significant input information used to determine its fair value.

31 December 2018	Note	Level 1 BGN‘000	Level 2 BGN‘000	Level 3 BGN‘000	Total BGN‘000
Assets					
Financial assets measured at fair value through profit or loss	а)	1 142 974	172 170	369 934	1 685 078
Equity instruments at fair value through other comprehensive income	б)	12 912	9 776	48 295	70 983
Debt instruments measured at fair value through other comprehensive income	в)	383 542	-	39 374	422 916
Total assets		**1 539 428**	**181 946**	**457 603**	**2 178 977**
Liabilities					
Derivatives	в)	-	1 272	-	1 272
Total liabilities		**-**	**1 272**	**-**	**1 272**

31 December 2017	Note	Level 1 BGN‘000	Level 2 BGN‘000	Level 3 BGN‘000	Total BGN‘000
Assets					
Financial assets held for trading	а)	1 207 221	219 138	3 965	1 430 324
Financial assets available for sale	б)	560 077	-	104 118	664 195
Total assets		**1 767 298**	**219 138**	**108 083**	**2 094 519**
Liabilities					
Derivatives	в)	-	3 396	-	3 396
Total liabilities		**-**	**3 3 96**	**-**	**3 396**

There have been no transfers between levels 1 and 2 during the reporting period.

Measurement of fair value

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

a) Listed equity instruments

All listed equity investments are denominated in BGN and are publicly traded on the Bulgarian Stock Exchange Sofia. Fair values have been determined by reference to their quoted bid prices at the reporting date.

b) Non-listed equity instruments

The fair value of these instruments is based on observed rates of recent market transactions with shares of similar companies adjusted for specific factors.

c) Derivatives

When derivative financial instruments are traded on stock markets or liquid OTC markets the Group uses the closing prices on the stock markets at the reporting date. When derivative financial instruments are not traded on active markets the fair value of these contracts is determined by using valuation techniques using observable market data (Level 2).

d) Loans in BGN

The fair value of loans is determined by using valuation techniques.

All significant inputs to the model are based on observable market prices namely market interest rates on similar loans with similar risk.

54.1. Fair value measurement of nonfinancial assets

The following table shows the levels within the hierarchy of non-financial assets measured at fair value on a recurring basis at 31 December 2018:

31 December 2018	**Level 1 BGN ‘000**	**Level 2 BGN ‘000**	**Level 3 BGN ‘000**	**Total BGN ‘000**
Investment property:				
Land building machines and equipment	-	-	422 174	422 174

Fair value of the Company's main property assets is estimated based on appraisals performed by independent qualified appraisers.

Land buildings machines and equipment (Level 3)

The land buildings machines and equipment are revaluated on 31 December 2018.

The reconciliation of the carrying amounts of non-financial assets classified within Level 3 is as follows:

	Investment property BGN‘000
Balance at 1 January 2018	405 502
Gains or losses recognised in profit or loss	
- change in fair value of investment property	3 806
Loss from change in the fair value of investment property	(1 003)
Acquisitions and reclassifications	19 153
Disposals and reclassifications	(5 284)
Balance as at 31 December 2018	**422 174**
Total amount included within Revenue from operating activity as a result of unrealized gains or losses from assets held at the end of the reporting period	2 803

55. Capital management policies and procedures

The Group’s capital management objectives are:

- To ensure the Group’s ability to continue as a going concern; and
- To provide an adequate return to the shareholders by pricing products and services commensurately with the level of risk.

The Group monitors capital on the basis of the correlation between capital to net debt.

The Group determines the capital based on the carrying amount of the equity presented in the statement of financial position.

Net debt is calculated as total liabilities less the carrying amount of the cash and cash equivalents.

Group’s goal is to maintain a capital-to-net-debt ratio in a reasonable range which would ensure relevant and conservative ratio of financing.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure the Group may adjust the amount of dividends paid to shareholders return capital to shareholders issue new shares or sell assets to reduce debt.

The capital for the presented reporting periods is summarized as follows:

	2018 BGN'000	2017 BGN'000
Shareholders' equity	1 644 693	1 688 797
Equity	**1 644 693**	**1 688 797**
Debt	7 454 376	7 156 519
- Cash and cash equivalents	(2 045 224)	(2 204 904)
Net debt	**5 409 152**	**4 951 615**
Capital to net debt	**1:3.29**	**1:2.93**

In 2018 the change in the ratio is minimal. The Group has complied with its contractual obligations including the maintenance of certain capital ratios.

56. Post-reporting date events

No adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorization.

57. Authorization of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2018 (including comparatives) were approved by the Managing board on 30 April 2019.