

**2018**



# **ANNUAL CONSOLIDATED ACTIVITY REPORT**



## **GENERAL INFORMATION**

INTRODUCTION

INFORMATION FOR THE GROUP OF CHIMIMPORT AD

THE COMPANY TODAY

MANAGING BODIES

SCOPE OF ACTIVITY

LIST A SUBSIDIARY

## **INFORMATION ACCORDING TO ORDINANCE №2/17.09.2003**

Appendix № 10 of ORDINANCE №2/17.09.2003

GENERAL RISK AND UNCERTAINTIES

CONSOLIDATED DECLARATION OF CORPORATE MANAGEMENT

NON-FINANCIAL DECLARATION

CONTAC US

For more information,

please visit: [www.chimimport.bg](http://www.chimimport.bg)

## INTRODUCTION

The present Annual Activity Report of the Group of Chimimport AD presents comments and analyzes of the financial statements and other material data on the financial position and the results of the Company's activity covering the one-year period from 1 January 2018 until 31 December 2018. The report is prepared in accordance with the requirements of the Accountancy Act, Art. 100n, par. 7 of the Public Offering of Securities Act and Annex 10 to Art. 32, par. 1, item 2, from Ordinance № 2 of 17 September 2003.

More than 70 years "Chimimport" AD is one of the most successful Bulgarian enterprises. It started as a foreign trade company specializing in the marketing of chemical products, today "Chimimport" AD is an established holding company, uniting successful businesses.

The main area of activity of "Chimimport" AD is the acquisition, sale of shares in Bulgarian and foreign companies, restructuring and management of subsidiaries of the portfolio. Subsidiaries occupy leading positions in various economic sectors, which operate:

- banking and finance
- non-life insurance
- life insurance
- pensions
- air transport and ground activities on servicing and repair of aircraft
- manufacture, production and marketing of petroleum and chemical products and natural gas
- production, processing and trade with cereals and vegetable oils

Each of every nearly 6 000 employees in the structure of "Chimimport" AD contributes to the successful integration of Bulgarian business to European standards. Recent years have strengthened the company as a leader of the "Bulgarian Stock Exchange - Sofia" AD, included in "Premium" segment share, in the indices SOFIX, BGBX40 and BGTR30, which is the result of proper planning of investments and professional actions and efforts of management. The company's activities as a public company is the creation and establishment of effectively functioning corporate governance models to ensure equal treatment and protection of the rights of all shareholders. The common practice is the transparent and fair disclosure of information needed by current shareholders, stakeholders and potential investors.

At this stage the main advantages of "Chimimport" AD are:

- Knowledge of economic and political conditions and resources in Bulgaria, needs and specificities of clients conquered good positions in strategic sectors of the economy;
- Approved management team - the group has a highly motivated team of managers with a vision for the growth of the holding company, with proven skills and experience in management, acquisition and restructuring of companies in both favorable and unfavorable market environment.



  
IVO KAMENOV  
CEO /Chief Executive Officer/

## INFORMATION FOR THE GROUP OF CHIMIMPORT AD

Chimimport AD is a public company with a two-tier management system.

All members of the Management Board and the Supervisory Board shall meet the legal requirements for taking up their position. Management bodies of the Company are: General Meeting of Shareholders, Supervisory Board and Management Board. The Management Board manages in accordance with the established vision, goals and strategy of Chimimport AD. All members and management and supervisory bodies are guided by their generally accepted principles of integrity, managerial and professional competence.

The basic strategy and investment policy of "Chimimport" AD are focused on positioning the group as a significant partner in servicing the traditional for the country and region trade flows. In particular, this motivates the entry of the group in sectors such as transport, agriculture, financial operations and real estate.

The companies of the economic group of Chimimport JSC are 58, in total, in the following leading and key sectors:

- The financial sector, an area where the group strives to offer a full range of services to its clients. The financial group under the "Chimimport" AD now includes a universal commercial bank, which has traditionally good positions in lending, life and non- life insurance companies, pension company, management company (mutual funds).

- Transport is an important sector for the group. Bulgaria is geographically located at the crossroads between Europe and Asia / Middle East, as five of the ten Trans European transport corridors pass through the country. The group of "Chimimport" AD develops air, river and sea transport, and in all three cases seek to cover the entire spectrum of activities, not just transport ( incl. the management of airports and ports, repair and maintenance vehicles, cargo handling, agency).

- Both in the transport sector and in agriculture, "Chimimport" AD seeks to spread its activities over the full spectrum of business - in this case, focusing firstly on buying, trading, logistics, storage of grain and oilseeds, actively seeking and exploiting interconnections and synergies with other businesses (transport, finance, etc.).

- The sector exploration and production of oil and gas is primarily develop through its subsidiary PDNG AD, which is the only Bulgarian company engaged in the full range of activities in prospecting, exploration, development and exploitation of oil and gas fields and processing crude oil into finished products for the market. And is the successor of the main geological, scientific research and production enterprises and objects of Bulgarian oil industry with over 50 years of history.

## THE COMPANY TODAY

<b>Share capital</b>	BGN 239 646 thousand
<b>In precisions owned by subsidiaries</b>	BGN (12 455) thousand
<b>Equit /consolidated/</b>	BGN 1 350 762 thousand
<b>Assets /consolidated/</b>	BGN 9 099 069 thousand
<b>Profit for the year attributable to the shareholders of Chimimport AD</b>	BGN 70 309 thousand
<b>Executive directors</b>	Ivo Kamenov Marin Mitev
<b>Majority shareholder</b>	Company management in the face of “Invest Capital” AD -72,96 %
<b>Minority shareholders of Chimimport AD are respected international companies and institutions</b>	Uncredit Bank Austria – Austria Eurobank Ergasias - Greece The Bank of New York Mellon – USA Eaton Vance Emerging Markets Funds – USA Raiffeisen Bank International – Austria BNP Paribas Securities Services S.C.A. – France Euroins Romania Asigurare – Reasigurare - Horizon Growth Fund N.V. Approximately 250 legal entities and over 3 500 individuals.



## MANAGING BODIES



### *Members of Supervisory Board :*

Chairman of the Supervisory Board  
Invest Capital AD

Member of the Supervisory Board  
CCB Group EAD

Member of the Supervisory Board  
Mariana Bazhdarova.

### *Members of Managing Board:*

Chairman of the Managing Board  
Tsvetan Botev

Deputy Chairman of the Managing Board;  
Alexander Kerezov

Executive Director and Member of the Managing Board  
Ivo Kamenov

Executive Director and Member of the Managing Board  
Marin Mitev

Member of the Managing Board  
Nikola Mishev

Member of the Managing Board  
Mirolyub Panchev

The Company is managed by a two-tier management system.

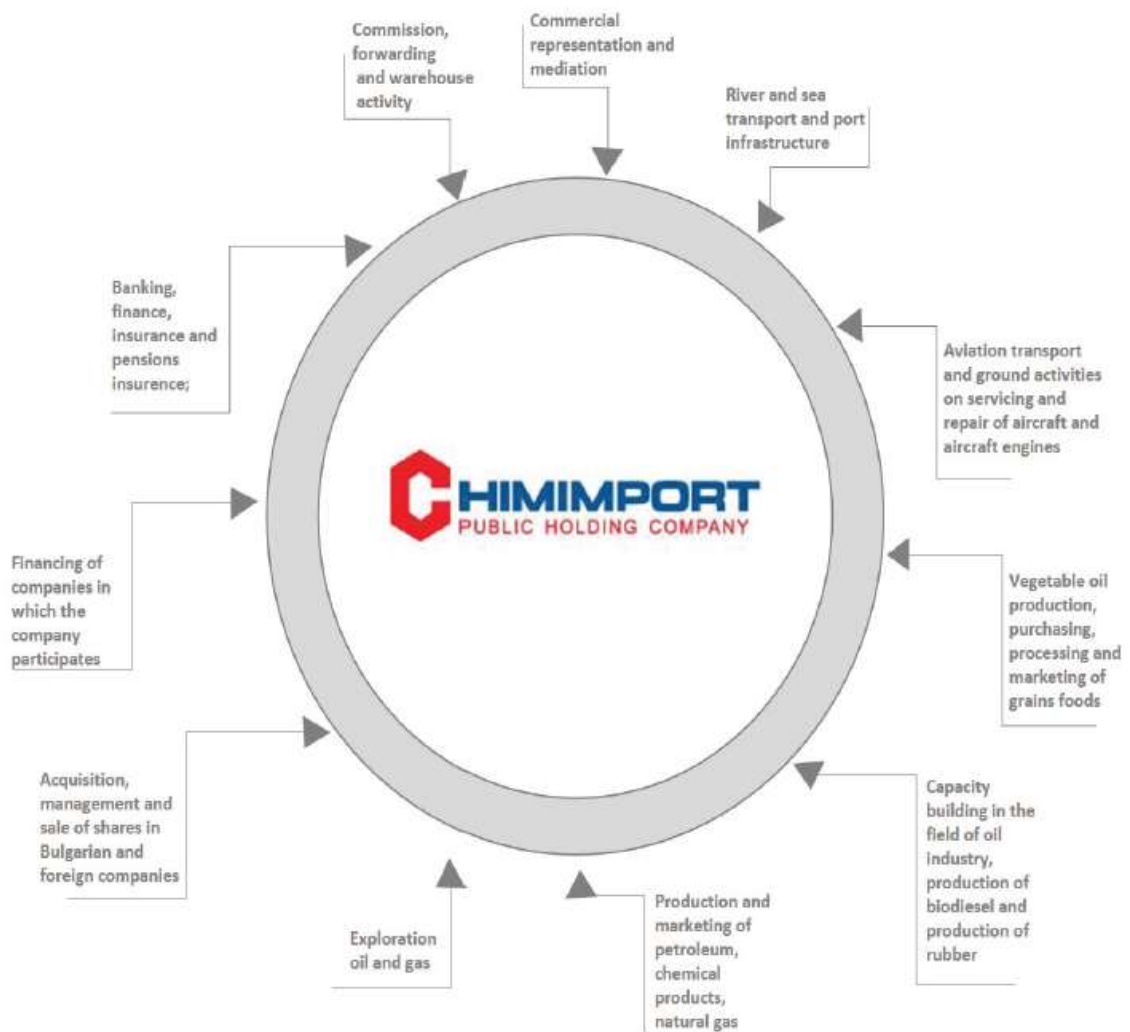
Boards are:

- General Meeting of Shareholders
- Supervisory Board
- Managing Board

“Chimimport” AD is represented by its executive directors Ivo Kamenov and Marin Mitev together and separately.

## SCOPE OF ACTIVITY

Chimimport AD develops its activities through its subsidiaries. Its financial position, operating results and prospects are directly dependent on the status, results and prospects of its subsidiaries.



## GENERAL INFORMATION

### LIST A SUBSIDIARY

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%	79.30%	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%



## GENERAL INFORMATION

Slanchevi Iachi 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%	100.00%	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	-	-	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%

## GENERAL INFORMATION

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	100.00%	100.00%	100.00%	100.00%
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%	-	-
Bulgarian Shipping Company EAD	Bulgaria	Sea and River Transport	100.00%	100.00%	100.00%	100.00%
Parahodstvo Bulgarsko Rečno Plavane AD	Bulgaria	Sea and River Transport	79.89%	79.89%	79.89%	79.89%
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	-	-	43.94%	55.00%

## GENERAL INFORMATION

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 Horiozon 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	-	-	100.00%	100.00%
Energoproekt AD	Bulgaria	Construction and engineering	98.69%	98.69%	98.69%	98.69%
Energoproekt Utilities OOD (in liquidation)	Bulgaria	Construction and engineering	50.33%	51.00%	50.33%	51.00%
Bulgaria Air Maintanance EAD	Bulgaria	Real Estate	100.00%	100.00%	100.00%	100.00%
Golf Shabla AD	Bulgaria	Real Estate	32.23%	65.00%	32.23%	65.00%
Sporten Complex Varna AD	Bulgaria	Real Estate	65.00%	65.00%	65.00%	65.00%
Sporten management EOOD	Bulgaria	Real Estate	65.00%	100.00%	65.00%	100.00%
TI AD	Bulgaria	Real Estate	87.66%	87.66%	87.66%	87.66%
Invest Capital Consult AD	Bulgaria	Real Estate	100.00%	100.00%	100.00%	100.00%

## GENERAL INFORMATION

Bulchimex GmbH	Germany	Real Estate	100.00%	100.00%	100.00%	100.00%
Sitniakovo Project Estate EOOD	Bulgaria	Real Estate	49.59%	100.00%	49.59%	100.00%

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

Name segment	Accumulated non controlling interest	
	2018 BGN '000	2017 BGN '000
Finance sector	119 302	101 512
Production, trade and services	134 047	129 139
Transport	16 411	21 107
Real Estate	24 171	31 197
<b>TOTAL</b>	<b>293 931</b>	<b>282 955</b>

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

**Appendix № 10 to Art. 32, par. 1, of the Ordinance № 2 / 17.09.2003**

- Information regarding the value and the quality of the general categories of goods, products and/or provided services including their contribution to the issuer's revenue from sales and the changes occurred in the current financial year.

Due to the specific nature of the activity of the issuer - holding activity, the main revenues of the company are both income from operating activities and financial, formed by positive differences from operations with financial instruments, interest income and dividends. Operating revenues are mainly related to investment property, services and others.

Changes in Profit and Income from Non-Financial Activities of Segment Group

<b>Business Segments</b>	<b>Production, Trade and Services BGN '000</b>	<b>Financial Sector BGN '000</b>	<b>Transport Sector BGN '000</b>	<b>Real estate BGN '000</b>
<b>31 December 2018 Share of the single segment in the Group's profit</b>	11.08%	85.83%	2.48%	0.62%
<b>31 December 2017 Share of the single segment in the Group's profit</b>	5,50%	89,08%	2,99%	2,43%

The Finance segment has the biggest share of the Group's net profit in 2018.



## INFORMATION ACCORDING TO ORDINANCE №2 / 17.09.2003

Information on revenue broken down by category of activity, internal and external markets.

Operating segments	Production, trade and services	Financial sector	Transport sector	Real estate Sector and engineering	Elimination	Consolidated
31.12.2018	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
<b>Income from non-financial activities from external customers</b>	91 671	48 158	313 965	10 441	(2 798)	461 437
<b>Change in fair value of investment property</b>	(149)	2 481	-	471	-	2 803
<b>Gain from sale of non-current assets</b>	104	126	936	1	(61)	1 106
<b>Inter-segment income from non-financial activities</b>	11 075	3 168	2 775	725	(17 743)	-
<b>Total income from non-financial activities</b>	<b>102 701</b>	<b>53 933</b>	<b>317 676</b>	<b>11 638</b>	<b>(20 602)</b>	<b>465 346</b>
<b>Insurance income from external customers</b>	-	377 484	-	-	-	377 484
<b>Inter-segment insurance income</b>	-	4 271	-	-	(4 271)	-
<b>Total insurance income</b>	-	<b>381 755</b>	-	-	<b>(4 271)</b>	<b>377 484</b>
<b>Result from insurance</b>	-	<b>31 600</b>	-	-	<b>(3 801)</b>	<b>27 799</b>
<b>Interest income</b>	5 382	197 627	1 124	1 813	(16 339)	189 607
<b>Interest expenses</b>	(7 646)	(33 140)	(6 701)	(3 089)	16 342	(34 234)
<b>Result from interest</b>	<b>(2 264)</b>	<b>164 487</b>	<b>(5 577)</b>	<b>(1 276)</b>	<b>3</b>	<b>155 373</b>
<b>Result from transactions with financial instruments, net</b>	<b>6 156</b>	<b>24 877</b>	<b>4 906</b>	<b>(308)</b>	<b>(14 715)</b>	<b>20 916</b>

## INFORMATION ACCORDING TO ORDINANCE №2 / 17.09.2003

<b>Operating and Administrative expenses</b>	(92 165)	(237 851)	(320 363)	(9 145)	22 737	(636 787)
<b>Net result from equity accounted investments in associates</b>	42	-	5 258	-	-	5 300
<b>Other financial income/ (expenses)</b>	(2 765)	69 488	(441)	(174)	(593)	65 515
<b>Profit for allocating insurance batches</b>	-	(10 544)	-	-	-	(10 544)
<b>Profit for the period before tax</b>	<b>11 705</b>	<b>95 990</b>	<b>1 459</b>	<b>735</b>	<b>(16 971)</b>	<b>92 918</b>
<b>Tax expense</b>	(428)	(8 637)	1 061	(109)	(453)	(8 566)
<b>Net profit for the year</b>	<b>11 277</b>	<b>87 353</b>	<b>2 520</b>	<b>626</b>	<b>(17 424)</b>	<b>84 352</b>

## INFORMATION ACCORDING TO ORDINANCE №2 / 17.09.2003

- Information regarding the income, distributed in separate activity category, internal and external markets, as well as information on the rendering of services, reflecting the degree of dependency for each customer. In case the percentage of any of the customers exceeds 10% of the sales revenue or expenses, information should be provided for each person individually, the client's contribution to sale or purchases and its relationship with the issuer.

### Income and expenses structure

Income from non-financial activities	2018 BGN '000	2017 BGN '000	Change
Income from the sale of plane tickets	242 212	229 362	5.60%
Income from sale of finished goods	54 739	54 075	1.23%
Income from services rendered	52 001	54 429	(4.46%)
Income from sale of trading goods	25 857	40 704	(36.48%)
Other	86 628	54 469	59.04%
<b>Total</b>	<b>461 437</b>	<b>433 039</b>	<b>6.55%</b>

Gain / (Loss) from change in fair value of investment property	2018 BGN '000	2017 BGN '000	Change
Gain on change in fair value of investment properties	3 806	2 654	43.41%
Loss from change in fair value of investment properties	(1 003)	(546)	(83.70%)
<b>Net effect of changes in fair value of investment properties</b>	<b>2 803</b>	<b>2 108</b>	<b>32.97%</b>

Interest expenses by depositors:	2018 BGN '000	2017 BGN '000	Change
Legal entities	(4 718)	(10 743)	(56,08%)
Individuals	(10 183)	(18 247)	(44,19%)
Banks	(8 891)	(7 143)	24,47%
Other	(10 442)	(3 056)	241,69%
<b>Total</b>	<b>(34 234)</b>	<b>(39 189)</b>	<b>(12,64%)</b>

Interest income by types of sources:	2018 BGN '000	2017 BGN '000	Change
<b>Legal entities</b>	93 998	107 584	(12.63%)
<b>Government securities</b>	39 236	40 270	(2.57%)
<b>Banks</b>	5 921	4 516	31.11%

## INFORMATION ACCORDING TO ORDINANCE №2 / 17.09.2003

<b>Individuals</b>	48 057	45 394	5.87%
<b>Other</b>	2 395	1 704	(40.55%)
<b>Total</b>	<b>189 607</b>	<b>199 468</b>	<b>(4.94%)</b>

<b>Results from transactions with financial instruments</b>	<b>2018 BGN '000</b>	<b>2017 BGN '000</b>	<b>Change</b>
<b>Gains from transactions with securities and investments</b>	431 362	513 338	(15,97%)
<b>Dividend income</b>	14 902	14 251	4,56%
<b>Other</b>	5	1 086	(99,54)
<b>Total</b>	<b>446 269</b>	<b>528 675</b>	<b>(15,59%)</b>
<b>Losses from transactions with securities and investments</b>	(425 353)	(427 941)	(0,60%)
<b>Other</b>	-	(13)	100%
<b>Losses from transactions with securities and investments</b>	(425 353)	(427 941)	(0,60%)
<b>Total</b>	<b>(425 353)</b>	<b>(427 954)</b>	<b>(0,61%)</b>
<b>Results from transactions with financial instruments, net</b>	<b>20 916</b>	<b>100 721</b>	<b>(79.23%)</b>

<b>Operating and administrative expenses</b>	<b>2018 BGN '000</b>	<b>2017 BGN '000</b>	<b>Change</b>
Hired services	(237 921)	(250 584)	(5,05%)
Cost of materials	(111 456)	(102 799)	(8,42%)
Cost of goods sold	(25 043)	(37 966)	(34,04%)
Employee benefits expense	(114 166)	(113 630)	0,47%
Depreciation and impairment of non-financial assets	(32 482)	(31 243)	3,97%
Changes in inventories of products and work in progress	(9)	472	(101,91%)
Impairment of receivables	(4 781)	(3 936)	21,47%
Other expenses	(110 929)	(93 547)	18,58%
	<b>(636 787)</b>	<b>(633 233)</b>	<b>0,56%</b>

<b>Employee benefits expense</b>	<b>2018 BGN '000</b>	<b>2017 BGN '000</b>	<b>Change</b>
Salaries expense	(96 718)	(97 068)	(0,36%)
Social security costs	(17 448)	(16 602)	5,10%

## INFORMATION ACCORDING TO ORDINANCE №2 / 17.09.2003

<b>Total</b>	<b>(114 166)</b>	<b>(113 670)</b>	<b>0,43%</b>
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<b>Other financial income, net</b>	<b>2018 BGN '000</b>	<b>2017 BGN '000</b>	<b>Change</b>
Revenue from fees and commissions, net	59 622	59 342	4,47%
Net result from foreign exchange differences	8 523	(19 599)	143,49%
Other finance expenses	(2 630)	(3 292)	(20,11%)
<b>Total</b>	<b>65 515</b>	<b>36 451</b>	<b>79,73%</b>

<b>Revenue from fees and commissions</b>	<b>2018 BGN '000</b>	<b>2017 BGN '000</b>	<b>Change</b>
Bank transfers in Bulgaria and abroad	27 868	23 531	18,43%
Maintenance fee on deposit accounts	15 523	15 116	2,69%
Servicing fee for loans	3 148	3 381	(6,89%)
Fee for commitments and contingencies	978	1 030	(5,05%)
Other fees and commissions income, different from banks	13 810	14 920	(7,44%)
Other income	11 052	12 557	(0,12%)
<b>Revenue from fees and commissions</b>	<b>72 379</b>	<b>70 535</b>	<b>(2,61%)</b>

<b>Fees and commissions expenses</b>	<b>2018 BGN '000</b>	<b>2017 BGN '000</b>	<b>Change</b>
Bank transfers in Bulgaria and abroad	(8 121)	(6 881)	18.02%
Account maintenance fees	(977)	(527)	85.39%
Release of precious parcels	(712)	(335)	112.53%
Transactions with securities	(65)	(154)	(57.79%)
Other fees and commissions expenses, different from banks	(1 594)	(2 217)	(28.10%)
Other expenses	(1 288)	(1 079)	19.36%
<b>Total fees and commissions expenses</b>	<b>(12 757)</b>	<b>(11 193)</b>	<b>13.97%</b>



- **Research and development**

- In 2018 the Company has not performed any action on research and development.

- **Information regarding conclusion of major deals or such of a significant importance for the activity of the issuer**

- The Group does not have large deals for the period under Art. 114, para 1 of Public Offering of Securities Act.

- **Information regarding the transactions between the issuer and its related parties in 2016, the proposals for concluding such deals, as well as deals not related to the main activity, including the amount of the transactions, the relationship between the parties and any other information, needed for valuation of the impact on the financial statement of the issuer**

The related parties of the Group include the parent company, its subsidiaries, the key management personnel and other parties, described below.

Unless particularly stated, transactions with related parties were not performed under special conditions and no assurance were issued or received.

Key management of the Group includes members of the Managing Board and Supervisory Board. Key management personnel remuneration includes the following expenses:

<b>Transactions with key management personnel</b>	<b>2018 BGN '000</b>	<b>2017 BGN '000</b>
<b>Short-term wages:</b>		
- Salaries, including bonuses	(565)	(1 201)
- Social security costs	(28)	(20)
<b>Total short-term benefits</b>	<b>(593)</b>	<b>(1 221)</b>

<b>Related party balances at year-end:</b>	<b>2018 BGN '000</b>	<b>2017 BGN '000</b>
<b>Non-current</b>		
<b>Receivables from:</b>		
- owners	47	-
- associates	2 339	2 295
- joint ventures	38	3 266
- other related parties under common control	4 032	3 197
<b>Total non-current receivables from related parties</b>	<b>6 456</b>	<b>8 758</b>

<b>Current</b>	<b>2018 BGN '000</b>	<b>2017 BGN '000</b>
<b>Receivables from:</b>		
- 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

<b>Total current receivables from related parties</b>	<b>43 759</b>	<b>68 920</b>
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<b>Non-current Payables to:</b>	<b>2018 BGN '000</b>	<b>2017 BGN '000</b>
- owners		-
- associates	2 864	1 043
- joint ventures	422	379
- other related parties under common control	2 312	2 893
<b>Total non-current payables to related parties</b>	<b>5 598</b>	<b>4 315</b>

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

- **Information regarding unusual events and indices for the issuer that has a significant influence on its activity and realized income and expenses; valuation of this influence on the financial results for the current year.**

No unusual events for the issuer that might have a significant impact on its activities occurred in 2018.

- **Information regarding off-balance transactions**

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 contingent liabilities related to the bank activity of the Group are as follows:

	<b>2018 BGN '000</b>	<b>2017 BGN '000</b>
Bank guarantees in: BGN	32 456	38 096
Bank guarantees in: foreign currency	19 797	24 170
Irrevocable commitments	202 404	118 176
<b>Total contingent liabilities</b>	<b>254 657</b>	<b>180 442</b>

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 Eurobank Bulgaria AD 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 Eurobank Bulgaria AD with a term of validity of 31 October 2019;

Pursuant to a loan agreement with UniCredit Bulbank AD, 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 Bulgarian Development Bank AD, 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 DSK Bank EAD 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 Eurobank EFG Bulgaria AD to the amount of BGN 2 600 thousand in favour of the Customs Agency with a term of validity until 5 April 2020..

- **Information regarding the shares of the issuer, its major domestic and foreign investments (in securities, financial instruments, intangible assets and real estate), as well as investments in equity securities outside its economic group and the source of financing.**

**- Information regarding changes in non-current and current investments of the Group:**

Changes occurred in investment in subsidiaries and Changes in controlling shares

**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	<u>(8 969)</u>

#### 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	<u>206</u>
Impairment of goodwill recognized in the statement of profit or loss	(206)

#### 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

#### 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)

#### 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

**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)

**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"	-

**- Investments accounted for using the equity method**

Investments in associates

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

	2018	Share	2017	Share
	BGN '000	%	BGN '000	%
Lufthansa Technik Sofia OOD	8 945	24,90%	8 256	24,90%
Swissport Bulgaria AD	5 671	49%	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	45,00%	3 502	41,00%
Dobrich fair AD	-	-	755	39,98%
Kavarna Gas OOD	552	35%	496	35,00%
Port Pristis	19	19%		
<b>Total</b>	<b>27 685</b>		<b>26 893</b>	

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

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

Investments in joint ventures

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

Name	2018	Share	2017	Share
	BGN '000	%	BGN '000	%
<b>Varna ferry OOD</b>	<b>5 007</b>	<b>50%</b>	<b>5 007</b>	<b>50%</b>
<b>Nuance BG AD</b>	<b>2 434</b>	<b>50%</b>	<b>2 520</b>	<b>50%</b>
<b>Total</b>	<b>7 441</b>		<b>7 527</b>	

The investment in the joint venture is 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 joint venture can be summarized as follows:

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

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

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

- **Information on the loan agreements concluded by the issuer, its subsidiary or its Parent company in their capacity as borrowers / lenders.**

**Liabilities to depositors are presented as follows:**

	2018 BGN'000	2017 BGN'000
<b>Analysis by term and type of currency:</b>		
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
	3 329	3 242

	2018	2017
	BGN'000	BGN'000
<b>Analysis by term and type of currency:</b>		
	7 071	17 895
<b>Total liabilities to depositors</b>	<b>5 259 602</b>	<b>5 052 941</b>

	2018	2017
	BGN'000	BGN'000
<b>Analysis by term and type of currency:</b>		
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
<b>Total liabilities due to depositors</b>	<b>5 259 602</b>	<b>5 052 941</b>

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

### Bonds and debenture loans

Bonds and debenture loans, received by the Group, relate to the following entities

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

The carrying amount of the bond issue at 31 December 2018 is BGN 45 178 thousand (2017 BGN 42 350 thousand) is calculate as using the effective interest

### 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		Non-current	
	2018 BGN'000	2017 BGN'000	2018 BGN'000	2017 BGN'000
Bank loans	62 060	61 119	127 140	120 332

#### Long-term bank loans

	2018 BGN '000	2017 BGN '000
Revolving and investment bank credits	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 Bulgarian 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.

#### Short-term bank loans

	2018 BGN'000	2017 BGN'000
<b>Short-term revolving and investment bank credits</b>	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

#### Other borrowings and financing

	Current		Non-current	
	2018 BGN'000	2017 BGN'000	2018 BGN'000	2017 BGN'000
Other borrowings	7 305	21 830	18 218	18 848

#### Other non-current borrowings

	2018 BGN'000	2017 BGN'000
Financing from State Agricultural Fund	16 943	17 573
Long term borrowings	12 75	1 275
Total	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

#### Other current borrowings

	2018 BGN'000	2017 BGN'000
<b>Current borrowings</b>	6 840	19 736
<b>Operational program financing</b>	465	2 094
<b>Total</b>	<b>7 305</b>	<b>21 830</b>

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 loans are not pledged with any collateral. 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.

#### Insurance contracts liabilities

	2018 BGN'000	2017 BGN'000
Insurance liabilities	12 962	10 252
Reinsurance liabilities	15 023	14 546
Transactions with Guarantee fund	505	617
<b>Total</b>	<b>28 490</b>	<b>25 415</b>

#### Deposits from Banks

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

### Payables under repurchase agreements of securities

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 accrued liabilities under Interest on them. The maturity of these agreements is until the end of 2018.

### Leases

#### 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 Annual Consolidated Financial Statements as at 2018.). 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..

<b>31 December 2017</b>	<b>Within 1 year</b>	<b>1 to 5 years</b>	<b>Total</b>
	<b>BGN '000</b>	<b>BGN '000</b>	<b>BGN '000</b>
Lease payments	2 146	3 562	5 708
Finance charges	(213)	(146)	(359)
<b>Net present values</b>	<b>1 933</b>	<b>3 416</b>	<b>5 349</b>
<b>31 December 2017 r.</b>	<b>Within 1 year</b>	<b>1 to 5 years</b>	<b>Total</b>
	<b>BGN '000</b>	<b>BGN '000</b>	<b>BGN '000</b>
Lease payments	1 265	2 965	4 230
Finance charges	(132)	(159)	(291)
<b>Net present values</b>	<b>1 133</b>	<b>2 806</b>	<b>3 939</b>

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.

**Operating leases as lessee**

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

	Within 1 year	1 to 5 years	After 5 Years	Total
	BGN '000	BGN '000	BGN '000	BGN '000
<b>31 December 2018</b>	<b>52 787</b>	<b>135 143</b>	<b>18 804</b>	<b>206 734</b>
<b>31 December 2017</b>	<b>55 373</b>	<b>160 956</b>	<b>12 999</b>	<b>229 307</b>

Lease payments recognized as an expense during the period amount to BGN 58 551 thousands (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 this consolidated financial statements, the Group is a lessee under operating leases on 9 aircraft (Airbus and BAE).

Operating lease agreements do not contain provisions for contingent payments or purchase.

**Operating leases as lessor**

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 21 519 thousand (2017: BGN 16 732 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:

	Minimum lease payments due			
	Within 1 year	1 to 5 years	After 5 years	Total
	BGN '000	BGN '000	BGN '000	BGN '000
<b>31 December 2018</b>	<b>13 123</b>	<b>62 726</b>	<b>25 932</b>	<b>101 781</b>
<b>31 December 2017</b>	<b>10 387</b>	<b>59 542</b>	<b>38 442</b>	<b>108 371</b>

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.

- **Information regarding the resources from the issuance of securities during the reporting period**

- During the reporting period the issuer did not increase its capital.

- **Information about changes during the reporting period in the key management principles of the issuer and its economic group.**

- In 2018 no changes have been made to the issuer's key management principles.

- **Information on changes in management and supervisory bodies during the reporting financial year**

- During the reporting period there were no changes in the number and persons participating in the Management and Supervisory Board of Chimimport AD.

- **Analysis of the relationship between the financial result in the financial statements and the previously forecasted results**

- In 2017 the Company has not published any forecasts of the financial result for the 2018. All publicly announced targets and objectives of the Group were accomplished.

The Chimimport Group`s companies – not applicable

- **Analysis and valuation of the financial resources management policy, including the ability to cover debt payments, subsequent threats and precautions that have been taken or are to be taken by the issuer for their avoidance.**

The parent company successfully manages its financial resources and serves its duties properly and in a timely manner.

- **Assessment of the possibilities for realization of the investment intentions with indication of the amount of available funds and reflection of possible changes in the structure of financing of this activity.**

The Group companies have the necessary resources to realize their future investment intentions and determine the assessment of the realization opportunities as positive

- **Information about the main characteristics applied by the issuer in the process of preparing financial statements, internal control system and risk management.**

- The main features of the internal control system and risk management are detailed on page 65 of this Report.

- **Post balance sheet events**

No adjusting or significant non-adjusting events have occurred between the reporting date of the consolidated financial statements and the date of approval for publication.

There are no remedial events or other significant non-adjusting events, except as noted above, occurred between the date of the financial statements and the date of their approval for publication.

- Information about the amount of remuneration, rewards and / or benefits of each of the members of the management and control bodies for the financial year, paid by the issuer and its subsidiaries, regardless of whether they have been included in the expenses of the issuer or arise from the distribution profits, including:

The key management personnel of the Parent company includes the members of the Management Board and the Supervisory Board. The remuneration of key management personnel consists of current salaries and wages as follows

Name	Issuer BGN '000	Subsidiaries BGN '000
<b>Supervisory board</b>		
Mariana Bazhdarova	24	-
<b>Management Board</b>		
Ivo Kamenov	224	215
Nikola Mishev	24	59
Tzvetan Botev	24	79
Mirolyub Ivanov	24	163
Marin Mitev	224	179
Alexander Kerezov	24	162

The Issuer did not provide options on its securities as well as special rights of ownership on the part of the members of the Management Board.

- **Information about the issuer's shares held by the members of the management and supervisory bodies**

According to a reference from the Central Depository issued as at 31 December 2018, the members of the Managing and Supervisory Board own the following number of shares:

**Members of the Managing Board:**

IVO KAMENOV	495 880	0,21%
ALEXANDER KEREZOV	160 000	0,07%
MIROLYUB IVANOV	89 066	0,04%
NIKOLA MISHEV	36 790	0,02%
MARIN MITEV	26 533	0,01%

**Members of Supervisory Board:**

INVEST CAPITAL AD	174 847 247	72.96%
CCB GROUP EAD	1 296 605	0,54%
MARIANA BAZHDAROVA	199	0,00%



- Information about participation of Members of Supervisory and Managing Board in other trade companies as general partners, as owners' of more than 25 % in other companies' shares, as managers of other companies and as members of other companies' Supervisory, Managing Boards and Boards of, in accordance with Art. 247 of Commercial act.

**SUPERVISORY BOARD of Chimimport AD:**

**Mariana Angelova Bazhdarova - Member of Supervisory Board of Chimimport AD:**

<i>Company</i>	<i>UIC</i>	<i>Participation</i>
<b>Chimimport AD</b>	000627519	Member of the Supervisory Board
<b>MB Consult Commerce</b>	203868694	Owner of more than 25% of the shares

**Does not participate in the management of other companies or cooperatives as a procurator, manager or board member under art. 247 of Comemercial act.**





**MANAGING BOARD of Chimimport AD:**

**Ivo Kamenov Georgiev - Executive director, Member of Supervisory and Managing Board of Chimimport AD:**

<i>Company</i>	<i>UIC</i>	<i>Participation</i>
<b>Chimimport AD</b>	000627519	Member of the Management Board, Member of the Supervisory Board and Executive Director
<b>Invest Capital AD</b>	831541734	Member of the Board of Directors and Executive Director
<b>CCB Group AD</b>	121749139	Chairman of the Management Board
<b>CCB AD</b>	831447150	Member of the Supervisory Board
<b>Capital Invest EAD</b>	121878333	Representative, who exercising the rights and obligations of the member of Investl Capital AD in the Board of Directors
<b>Invest Capital Asset Management EAD</b>	200775128	Representative, who exercising the rights and obligations of the member of Investl Capital AD in the Board of Directors
<b>Invest Capital Management OOD</b>	103045368	Owner of more than 25% of the shares
<b>Varnenska Konsultantska Kompania OOD</b>	103060548	Owner of more than 25% of the shares
<b>National Association of Combat Sports</b>	176868502	Chairman of the Management Board and manager

CHIMIMPORT





## GENERAL RISKS AND UNCERTAINTIES

- Information about participation of Members of Supervisory and Managing Board in other trade companies as general partners, as owners' of more than 25 % in other companies' shares, as managers of other companies and as members of other companies' Supervisory, Managing Boards and Boards of, in accordance with Art. 247 of Commercial act.

**Marin Velikov Mitev - Executive director, Member of Supervisory and Managing Board of Chimimport AD:**

<i>Company</i>	<i>UIC</i>	<i>Participation</i>
<b>Chimimport AD</b>	000627519	Member of the Management Board, Member of the Supervisory Board and Executive Director
<b>Golf Shabla AD</b>	124712625	Member of the Board of Directors and Executive Director
<b>Invest Capital AD</b>	831541734	Member of the Board of Directors and Executive Director
<b>Spotren Comlex Varna AD</b>	103941472	Member of the Board of Directors and Executive Director
<b>Varna Plod AD</b>	103106697	Member of the Board of Directors
<b>CCB Group EAD</b>	121749139	Member of the Supervisory Board
<b>CCB AD</b>	831447150	Member of the Supervisory Board
<b>Association Sports Club TIM</b>	103014351	Chairman of the Management Board and manager
<b>Martial Sports Club Association TIM</b>	103606634	Chairman of the Management Board and manager
<b>Bulgarian Karate Kyokushin Federation</b>	103570622	Chairman of the Management Board and manager
<b>Association "Aerobics Club" Tim - Class "</b>	103556156	Member of the Management Board
<b>Association of Sports Clubs Black Sea</b>	000090542	Member of the Management Board
<b>Association National Tourism Board</b>	175090938	Member of the Management Board
<b>Marin Mitev Project Management</b>	103326073	Owner
<b>Varna Consulting Company OOD</b>	103060548	Owner of more than 25% of the shares
<b>Invest Capital Management OOD</b>	103045368	Owner of more than 25% of the shares

**Tsvetan Tsankov Botev - Chairman of the Managing Board of Chimimport AD:**

<i>Company</i>	<i>UIC</i>	<i>Participation</i>
<b>Chimimport AD</b>	000627519	Chairman of the Management Board
<b>CCB AD</b>	831447150	Deputy Chairman of the Management Board
<b>Bulhimitread OOD</b>	200477808	Manager
<b>Pharma GBS</b>	176397025	Manager
<b>Consortium Chimimport-biofarm engineering DZZD</b>	131071224	Manager

**Does not hold directly more than 25 per cent of the capital of other commercial companies.**

## GENERAL RISKS AND UNCERTAINTIES

- Information about participation of Members of Supervisory and Managing Board in other trade companies as general partners, as owners' of more than 25 % in other companies' shares, as managers of other companies and as members of other companies' Supervisory, Managing Boards and Boards of, in accordance with Art. 247 of Commercial act.

Alexander Dimitrov Kerezov - Deputy Chairman and member of the Managing Board of Chimimport AD:

<i>Company</i>	<i>UIC</i>	<i>Participation</i>
Chimimport AD	000627519	Member of the Management Board
CCB AD	831447150	Member of the Management Board
Bulgarian Airways Group" EAD	131085074	Member of the Board of Directors
CCB Group EAD	121749139	Member of the Management Board
Zarneni Hrani Bulgaria AD	175410085	Member of the Management Board and Executive Director
Armeec Insurance Company AD	121076907	Member of the Management Board
Parahodstvo Bulgarsko Rečno Plavane AD	827183719	Member of the Management Board
Pension Insurance Joint Stock Company CCB - Sila" AD	825240908	Member of the Supervisory Board
Assenova Krepost AD	115012041	Member of the Management Board
AH "HGH Consult" OOD	130452457	Manager
Protekt Art OOD	203844348	Manager and Owner of more than 25% of the shares
Association Agreement 066	176941060	Chairman of the Management Board and manager
Foundation Agreement Sofia	205004556	Chairman of the Management Board and manager
Association "United Grand Lodge of Bulgaria	130688048	Member of the Management Board

Nikola Peev Mishev - member of the Managing Board of Chimimport AD:

<i>Company</i>	<i>UIC</i>	<i>Participation</i>
Chimimport AD	000627519	Member of the Management Board
Zarneni Hrani Bulgaria AD	175410085	Member of the Management Board
Assenova Krepost AD	115012041	Member of the Management Board and Executive Director
Asella AD	115023575	Member of the Board of Directors
Energoproekt AD	831367237	Member of the Supervisory Board
Chimsnab Trade OOD	131388356	Manager
Bulhimtrade OOD	200477808	Manager
Rabur Trade OOD	130430425	Manager
Chimeltex EOOD	130434434	Manager

Does not hold directly more than 25 per cent of the capital of other commercial companies.

## GENERAL RISKS AND UNCERTAINTIES

- Information about participation of Members of Supervisory and Managing Board in other trade companies as general partners, as owners' of more than 25 % in other companies' shares, as managers of other companies and as members of other companies' Supervisory, Managing Boards and Boards of, in accordance with Art. 247 of Commercial act.

**Mirolyub Pantchev Ivanov - member of the Managing Board of Chimimport AD:**

<i>Company</i>	<i>UIC</i>	<i>Participation</i>
Chimimport AD	000627519	Member of the Management Board
Armeec Insurance Company	121076907	Member of the Management Board and Executive Director
National Stock Exchange AD	115223519	Member of the Board of Directors
Bulgarian Shipping Company AD	175389730	Member of the Board of Directors
CCB REAL ESTATE FUND REIT	131550406	Member of the Board of Directors and Executive Director
Exploration and Production of Oil and Gas AD	824033568	Member of the Management Board
Capital Invest EAD	121878333	Executive Director
"Invest Capital Asset Management" EAD	200775128	Executive Director
Pension Insurance Joint Stock Company CCB - Sila" AD	825240908	Member of the Supervisory Board
Omega Finance	181385114	Manager
Prime Lega Consult EOOD	130993620	Manager
TI AD	121483350	Member of the Board of Directors and Executive Director
Zarneni Hrani Bulgaria AD	175410085	Member of the Management Board
Project company 1AD	205105587	Member of the Board of Directors and Executive Director
Rubikon Prejekt EOOD	202902446	Manager
Mutual Fund "High Capital Investment"	175860666	Manager
Energomat EOOD	131095780	Manager
Energoproekt AD	831367237	Member of the Supervisory Board
Consortium Technocapital	176018753	Manager

**Does not hold directly more than 25 per cent of the capital of other commercial companies.**

- Information regarding the Group's agreements (including post balance sheet period), that may cause changes in the relative number of the shares and bonds, owned by the current shareholders and bondholders

There is no information regarding the Company's agreements (including post balance sheet period), that may cause changes in the relative number of the shares and bonds, owned by the current shareholders and bondholders.

## GENERAL RISKS AND UNCERTAINTIES

- **Information regarding pending suits, administrative or arbitration proceedings, relating to issuer's liabilities or receivables amounting to a minimum of 10% from the owner's equity. If the total amount of the liabilities or the receivables from all pending suits and proceedings exceed 10% of the owner's equity, the information is presented individually for each case.**

The Group has not registered any pending court, administrative or arbitration proceedings, related to receivables or liabilities that together or apart exceed 10% of the owner's equity.

### Categories of financial assets and liabilities

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

<b>Financial assets</b>	<b>2018</b>	<b>2017</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Financial assets at fair value through profit or loss:		
- 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	-
Equity instruments at fair value through other comprehensive income:		
- Quoted equity instruments	12 713	-
- Unquoted equity instruments	58 270	-
Debt instruments measured at fair value through other comprehensive income:		
- Bonds	75 865	-
- Government Securities	347 051	-
Debt instruments at amortized cost:		
- Loans	2 729 127	-

## GENERAL RISKS AND UNCERTAINTIES

<b>Financial assets</b>	<b>2018</b>	<b>2017</b>
	<b>BGN'000</b>	<b>BGN'000</b>
- Cession receivables	51 489	-
- Receivables under repurchase agreements	297 105	-
- Debt instruments at amortized cost	302 516	-
- Financial lease receivables	269	-
- Receivables from related parties	50 215	-
- Trade receivables	96 916	-
- Others	74 684	-
Less: Impairment	(79 378)	-
- Cash and cash equivalents	2 045 224	-
	<b>7 747 144</b>	<b>-</b>
<b>Financial assets (up to 31.12.2017)</b>	<b>2018</b>	<b>2017</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Held-to-maturity financial assets:		
Debenture bonds	-	36 469
Available-for-sale financial assets:		
Securities and Debt Bonds	-	664 195
Financial assets held for trading (measured at fair value through profit or loss):		
Non-derivative financial assets	-	1 429 298
Derivatives	-	1 025
	<b>-</b>	<b>1 430 323</b>
Loans and receivables:		
Trade and other receivables	-	190 364
Loans	-	2 900 649
Receivables from related parties	-	77 678

## GENERAL RISKS AND UNCERTAINTIES

<b>Financial assets (up to 31.12.2017)</b>	<b>2018</b>	<b>2017</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Cash and cash equivalents	-	2 204 904
	-	5 373 595
	<b>-</b>	<b>7 504 582</b>

<b>Financial liabilities</b>	<b>2018</b>	<b>2017</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Financial liabilities measured at amortised cost:		
Liabilities to depositors	5 259 602	5 052 941
Borrowings	259 901	264 479
Bank deposits	14 452	7 048
Cession payables	39 852	35 554
Obligations under repo agreements	13 559	15 433
Finance lease obligations	5 349	3 939
Trade and other payables	121 400	142 971
Related party payables	52 383	41 734
	<b>5 766 498</b>	<b>5 564 099</b>
Derivatives designated as hedging instruments in cash flow (at fair value):		
Derivatives	1 272	3 396
	<b>5 767 770</b>	<b>5 567 495</b>

## GENERAL RISK AND UCERTAINTIES

- **Financial instruments risk**

- 

### **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 Annual Consolidated Financial Statements as at 2018. The most significant financial risks to which the Group is exposed to are described below.

### **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



## GENERAL RISKS AND UNCERTAINTIES

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 reinsurance of the reinsurer, assessed on the basis of the public rating and the studies conducted.



## GENERAL RISKS AND UNCERTAINTIES

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.

<b>Year of event</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
<b>At the end of the period</b>	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
<b>Overall assessment of benefits</b>	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.

## GENERAL RISKS AND UNCERTAINTIES

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

## GENERAL RISKS AND UNCERTAINTIES

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.

### 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

## GENERAL RISKS AND UNCERTAINTIES

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.

### 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	2018	2017	2017
	Damages quota, gross	Damages, quota, net	Damages quota, gross	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%

## GENERAL RISKS AND UNCERTAINTIES

Types of insurance	2018	2018	2017	2017
	Damages quota, gross	Damages, quota, net	Damages quota, gross	Damages quota, net
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%
<b>Total:</b>	<b>55%</b>	<b>43%</b>	<b>48%</b>	<b>41%</b>

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	Average	Average	Average
			indemnity 2018	indemnity 2017	indemnity 2016	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

## GENERAL RISKS AND UNCERTAINTIES

Types of insurance	BGN	Number	Average indemnity 2018	Average indemnity 2017	Average indemnity 2016	Average indemnity 2015
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
<b>Total:</b>	<b>112 099 773</b>	<b>100 013</b>	<b>1 121</b>	<b>984</b>	<b>1 020</b>	<b>1 044</b>

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.

### 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-

## GENERAL RISKS AND UNCERTAINTIES

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
<b>FINANCIAL ASSETS</b>					
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					
<b>TOTAL ASSETS</b>	<b>2 004 962</b>	<b>1 481 996</b>	<b>113 436</b>	<b>303 973</b>	<b>3 904 367</b>
<b>FINANCIAL LIABILITIES</b>					
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
<b>TOTAL LIABILITIES</b>	<b>3 485 158</b>	<b>1 339 489</b>	<b>205 778</b>	<b>270 879</b>	<b>5 301 304</b>
<b>NET POSITION</b>	<b>(1 480 196)</b>	<b>142 507</b>	<b>(92 342)</b>	<b>33 094</b>	<b>(1 396 937)</b>



## GENERAL RISKS AND UNCERTAINTIES

The currency structure of financial assets and liabilities at book value as at 31 December 2017 is as follows:

	BGN	EURO	USD	Other	Total
<b>FINANCIAL ASSETS</b>					
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
<b>TOTAL ASSETS</b>	<b>1 832 192</b>	<b>1 290 513</b>	<b>184 335</b>	<b>203 852</b>	<b>3 510 892</b>
<b>FINANCIAL LIABILITIES</b>					
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
<b>TOTAL LIABILITIES</b>	<b>3 349 339</b>	<b>1 339 470</b>	<b>226 154</b>	<b>216 039</b>	<b>5 131 002</b>
<b>NET POSITION</b>	<b>(1 517 147)</b>	<b>(48 957)</b>	<b>(41 819)</b>	<b>(12 187)</b>	<b>(1 620 110)</b>

### 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.



## GENERAL RISKS AND UNCERTAINTIES

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
<b>INTEREST-BEARING ASSETS</b>						
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
<b>TOTAL INTEREST-BEARING ASSETS</b>	<b>359 704</b>	<b>210 331</b>	<b>356 077</b>	<b>1 594 011</b>	<b>1 174 625</b>	<b>3 694 748</b>
<b>INTEREST-BEARING LIABILITIES</b>						
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
<b>INTEREST-BEARING LIABILITIES</b>	<b>954</b>	<b>4</b>	<b>6</b>	<b>943</b>	<b>-</b>	<b>1 907</b>
	<b>2 393 552</b>	<b>369 513</b>	<b>1 161 505</b>	<b>1 369 739</b>	<b>6 995</b>	<b>5 301 304</b>
<b>IMBALANCE BETWEEN INTEREST BEARING ASSETS AND LIABILITIES, NET</b>						

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) ).

## GENERAL RISKS AND UNCERTAINTIES

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
<b>INTEREST-BEARING ASSETS</b>						
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
<b>TOTAL INTEREST-BEARING ASSETS</b>	<b>467 328</b>	<b>131 332</b>	<b>448 416</b>	<b>1 418 058</b>	<b>896 431</b>	<b>3 361 565</b>
<b>INTEREST-BEARING LIABILITIES</b>						
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
<b>INTEREST-BEARING LIABILITIES</b>	<b>2 447 737</b>	<b>380 170</b>	<b>1 149 437</b>	<b>1 151 045</b>	<b>2 613</b>	<b>5 131 002</b>
<b>IMBALANCE BETWEEN INTEREST BEARING ASSETS AND LIABILITIES, NET</b>	<b>(1 980 409)</b>	<b>(248 838)</b>	<b>(701 021)</b>	<b>267 013</b>	<b>893 818</b>	<b>(1 769 437)</b>

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.

### 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:

## GENERAL RISKS AND UNCERTAINTIES

	2018	2017
	BGN'000	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
<b>Carrying amount</b>	<b>7 747 144</b>	<b>7 504 582</b>

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

## GENERAL RISKS AND UNCERTAINTIES

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.

## GENERAL RISKS AND UNCERTAINTIES

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.

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	BGN'000	BGN'000	BGN'000	BGN'000
<b>Impairment loss - Loans and advances to banks at amortized cost</b>				
<b>Impairment loss on 31 December 2017</b>	-	-	3 713	<b>3 713</b>
Effect of IFRS 9	105	-	-	105
<b>Impairment loss on 1 January 2018</b>	<b>105</b>	<b>-</b>	<b>3 713</b>	<b>3,818</b>
Change in impairment loss	54	-	-	54
Accrued for the period	250	-	-	250

## GENERAL RISKS AND UNCERTAINTIES

Released during the period	(196)	-	-	(196)
Foreign exchange and other movements	-	-	176	176
<b>Impairment loss on 31 December 2018</b>	<b>159</b>	<b>-</b>	<b>3,889</b>	<b>4,048</b>

	Stage 1	Stage 2	Stage 3	
<b>Impairment loss – Receivables under repurchase agreements of securities</b>	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	BGN'000	BGN'000	BGN'000	BGN'000
<b>Impairment loss at December 31, 2017</b>	-	-	-	-
Effect of IFRS 9	23	-	-	23
<b>Impairment loss at 1 January 2018</b>	<b>23</b>	<b>-</b>	<b>-</b>	<b>23</b>
Change in impairment loss	185	-	-	185
Accumulated for the period	1 347	-	-	1 347
Derecognised for the period	(1 162)	-	-	(1 162)
<b>Impairment loss at 31 December 2018</b>	<b>208</b>	<b>-</b>	<b>-</b>	<b>208</b>

	Stage 1	Stage 2	Stage 3	
<b>Impairment loss – Loans and advances granted to customers at amortised cost</b>	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	BGN'000	BGN'000	BGN'000	BGN'000
<b>Impairment loss at December 31, 2017</b>	<b>19 351</b>	<b>428</b>	<b>99 489</b>	<b>119 268</b>
Effect of IFRS 9	(9 754)	1 591	16110	7 947
<b>Impairment loss at January 1, 2018</b>	<b>9 597</b>	<b>2 019</b>	<b>115 599</b>	<b>127 215</b>
<b>Change in impairment loss recognised in Profit and loss</b>	<b>2 700</b>	<b>187</b>	<b>3 269</b>	<b>6 156</b>
– 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)

## GENERAL RISKS AND UNCERTAINTIES

– 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
<b>Impairment loss at December 31, 2018</b>	<b>10 952</b>	<b>1 648</b>	<b>99 563</b>	<b>112 163</b>

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	BGN'000	BGN'000	BGN'000	BGN'000
<b>Impairment loss – Investments in debt securities at amortised cost</b>				
<b>Impairment loss at December 31, 2017</b>	-	-	-	-
Effect of IFRS 9	-	-	-	-
<b>Impairment loss at January 1, 2018</b>	-	-	-	-
<b>Change in impairment loss</b>	<b>390</b>	-	-	<b>390</b>
Accumulated for the period	516	-	-	516
Derecognised for the period	(126)	-	-	(126)
<b>Impairment loss at December 31, 2018</b>	<b>390</b>	-	-	<b>390</b>

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	BGN'000	BGN'000	BGN'000	BGN'000
<b>Impairment loss – Investments in debt securities at FVTOCI</b>				
<b>Impairment loss at December 31, 2017</b>	-	-	-	-
Effect of IFRS 9	1 031	-	-	1 031
<b>Impairment loss at January 1, 2018</b>	<b>1 031</b>	-	<b>1 830</b>	<b>2 861</b>
<b>Change in impairment loss</b>	<b>675</b>	-	<b>(1 830)</b>	<b>(1 155)</b>
Accumulated for the period	1 888	-	-	1 888
Derecognised for the period	(1 213)	-	(1 830)	(3 043)
<b>Impairment loss at December 31, 2018</b>	<b>1 706</b>	-	-	<b>1 706</b>

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	BGN'000	BGN'000	BGN'000	BGN'000
<b>Impairment loss – Loan commitments</b>				
<b>Impairment loss at December 31, 2017</b>	-	-	-	-

## GENERAL RISKS AND UNCERTAINTIES

Effect of IFRS 9	452	2	69	523
<b>Impairment loss at January 1, 2018</b>	452	2	69	523
<b>Change in impairment loss</b>	<b>(144)</b>	<b>(4)</b>	<b>(7)</b>	<b>(155)</b>
Accumulated for the period	117	1	31	149
Derecognised for the period	(261)	(5)	(38)	(304)
Currency and other movements	13	4	(20)	(3)
<b>Impairment loss at December 31, 2018</b>	<b>321</b>	<b>2</b>	<b>42</b>	<b>365</b>

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	BGN'000	BGN'000	BGN'000	BGN'000
<b>Impairment loss – Financial guarantee contracts</b>				
<b>Impairment loss at December 31, 2017</b>	-	-	-	-
Effect of IFRS 9	6	-	-	6
<b>Impairment loss at January 1, 2018</b>	6	-	-	6
<b>Change in impairment loss</b>	6	-	-	6
Accumulated for the period	49	-	-	49
Derecognised for the period	(43)	-	-	(43)
Currency and other movements	(3)	-	-	(3)
<b>Impairment loss at December 31, 2018</b>	<b>9</b>	<b>-</b>	<b>-</b>	<b>9</b>

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.

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	BGN'000	BGN'000	BGN'000	BGN'000
<b>Carrying amount before impairment – Loans and advances granted to banks at amortised cost</b>				
<b>Gross carrying amount at December 31, 2017</b>	281 016	-	3 713	284 729
Effect of IFRS 9	-	-	-	-
<b>Gross carrying amount at January 1, 2018</b>	281 016	-	3 713	284 729
<b>Change in the gross carrying amount</b>	<b>(58 751)</b>	<b>-</b>	<b>176</b>	<b>(58 575)</b>
Increase for the period	132 589	-	-	132 589
Decrease for the period	(191 340)	-	-	(191 340)
<b>Gross carrying amount at December 31, 2018</b>	<b>-</b>	<b>-</b>	<b>176</b>	<b>176</b>



## GENERAL RISKS AND UNCERTAINTIES

Impairment loss at December 31, 2018	<b>222 265</b>	-	<b>3 889</b>	<b>226 154</b>
<b>Carrying amount at December 31, 2018</b>	(159)		(3 889)	(4 048)
Increase for the period	<b>222 106</b>	-	-	<b>222 106</b>
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	
<b>Carrying amount before impairment – Receivables under repurchase agreements of securities</b>	<b>12-month ECL</b>	<b>Lifetime ECL</b>	<b>Lifetime ECL</b>	<b>Total</b>
	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
<b>Gross carrying amount at December 31, 2017</b>	<b>196 910</b>	-	-	<b>196 910</b>
Effect of IFRS 9	-	-	-	-
<b>Gross carrying amount at January 1, 2018</b>	<b>196 910</b>	-	-	<b>196 910</b>
<b>Change in the gross carrying amount</b>	<b>59 896</b>	-	-	<b>59 896</b>
Increase for the period	256 806	-	-	256 806
Decrease for the period	(196 910)	-	-	(196 910)
<b>Gross carrying amount at December 31, 2018</b>	<b>256 806</b>	-	-	<b>256 806</b>
Impairment loss at December 31, 2018	(208)	-	-	(208)
<b>Carrying amount at December 31, 2018</b>	<b>256 598</b>	-	-	<b>256 598</b>
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	
<b>Loans and advances granted to customers at amortised cost</b>	<b>12-month ECL</b>	<b>Lifetime ECL</b>	<b>Lifetime ECL</b>	<b>Total</b>
	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
<b>Gross carrying amount at December 31, 2017</b>	<b>2 085 218</b>	<b>21 834</b>	<b>226 063</b>	<b>2 333 115</b>
Effect of IFRS 9	(151 071)	151 071	-	-
<b>Gross carrying amount at January 1, 2018</b>	<b>1 934 147</b>	<b>172 905</b>	<b>226 063</b>	<b>2 333 115</b>
<b>Change in the gross carrying amount</b>	<b>279 795</b>	<b>(52 877)</b>	<b>(28 110)</b>	<b>198 808</b>
– 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)

## GENERAL RISKS AND UNCERTAINTIES

– 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
<b>Gross carrying amount at December 31, 2018</b>	<b>2 213 942</b>	<b>120 028</b>	<b>197 953</b>	<b>2 531 923</b>
Impairment loss at December 31, 2018	(12 803)	(1 504)	(100 099)	<b>(114 406)</b>
<b>Carrying amount at December 31, 2018</b>	<b>2 201 139</b>	<b>118 524</b>	<b>97 854</b>	<b>2 417 517</b>

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	BGN'000	BGN'000	BGN'000	BGN'000
<b>Carrying amount before impairment – Investments in debt securities at amortised cost</b>				
<b>Gross carrying amount at December 31, 2017</b>	-	-	-	-
Effect of IFRS 9	-	-	-	-
<b>Gross carrying amount at January 1, 2018</b>	-	-	-	-
<b>Change in the gross carrying amount</b>	<b>262,957</b>	-	-	<b>262,957</b>
Increase for the period	262,957	-	-	262,957
Decrease for the period	-	-	-	-
Other movements	-	-	-	-
<b>Gross carrying amount at December 31, 2018</b>	<b>262,957</b>	-	-	<b>262,957</b>
Impairment loss at December 31, 2018	(390)	-	-	<b>(390)</b>
<b>Carrying amount at December 31, 2018</b>	<b>262,567</b>	-	-	<b>262,567</b>

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	BGN'000	BGN'000	BGN'000	BGN'000
<b>Carrying amount before impairment – Investments in debt securities at FVTOCI</b>				
<b>Gross carrying amount at December 31, 2017</b>	-	-	-	-
Effect of IFRS 9	-	-	-	-
<b>Gross carrying amount at January 1, 2018</b>	-	-	-	-
<b>Change in the gross carrying amount</b>	<b>502 607</b>	-	-	<b>502 607</b>
Increase for the period	502 607	-	-	502 607
<b>Gross carrying amount at December 31, 2018</b>	<b>502 607</b>	-	-	<b>502 607</b>
Impairment loss at December 31, 2018	(1 706)	-	-	<b>(1 706)</b>
<b>Carrying amount at December 31, 2018</b>	<b>500 901</b>	-	-	<b>500 901</b>

## GENERAL RISKS AND UNCERTAINTIES

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	BGN'000	BGN'000	BGN'000	BGN'000
<b>Loan commitments</b>				
<b>Total amount of loan commitments at December 31, 2017</b>	<b>108,264</b>	<b>536</b>	<b>358</b>	<b>109,158</b>
Effect of IFRS 9	211	(211)	-	-
<b>Total amount of loan commitments at January 1, 2018</b>	<b>108,475</b>	<b>325</b>	<b>358</b>	<b>109,158</b>
<b>Change in the amount of loan commitments</b>	<b>62,930</b>	<b>76</b>	<b>65</b>	<b>63,071</b>
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
<b>Total amount of loan commitments at December 31, 2018</b>	<b>171,405</b>	<b>401</b>	<b>423</b>	<b>172,229</b>
ECL allowance at December 31, 2018	(321)	(2)	(42)	(365)

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	BGN'000	BGN'000	BGN'000	BGN'000
<b>Financial guarantee contracts</b>				
<b>Total amount of guarantees at December 31, 2017</b>	<b>53 479</b>	<b>59</b>	<b>50</b>	<b>53 588</b>
Effect of IFRS 9	59	(59)	-	-
<b>Total amount of guarantees at January 1, 2018</b>	<b>53 538</b>	<b>-</b>	<b>50</b>	<b>53 588</b>
<b>Change in the gross carrying amount</b>	<b>(7 107)</b>	<b>-</b>	<b>(50)</b>	<b>(7 157)</b>
Increase for the period	10 314	-	-	10 314
Decrease for the period	(17 471)	-	-	(17 471)
Other movements	50	-	(50)	-
<b>Total amount of guarantees at December 31, 2018</b>	<b>46 431</b>	<b>-</b>	<b>-</b>	<b>46 431</b>
ECL allowance at December 31, 2018	(9)	-	-	(9)

	2018		2017	
<b>Loans and advances granted to customers</b>	<b>Gross carrying amount</b>	<b>Impairment loss</b>	<b>Gross carrying amount</b>	<b>Impairment loss</b>
	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
0-29 days	2 304 989	(33 227)	2 251 120	(25 894)
30-59 days	28 082	(451)	13 939	(169)

## GENERAL RISKS AND UNCERTAINTIES

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)
<b>Total</b>	<b>2 531 923</b>	<b>(114 406)</b>	<b>2 438 139</b>	<b>(118 330)</b>

			<b>2018</b>	<b>2017</b>
Loans and advances granted to customers at amortised cost			2 531 923	2 438 139
Less impairment for uncollectibility			(114 406)	(118 330)
<b>Total loans and advances granted to customers</b>			<b>2 417 517</b>	<b>2 319 809</b>

	31.12.2018			31.12.2017		
	Gross carrying amount	ECL impairment	Carrying amount	Gross carrying amount	ECL impairment	Carrying amount
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
<b>Retail banking</b>						
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
<b>Total retail banking</b>	<b>836 206</b>	<b>(19 370)</b>	<b>816 836</b>	<b>703 394</b>	<b>(21 460)</b>	<b>681 934</b>
Corporate lending	1 695 717	(95 036)	1 600 681	1 734 745	(96 870)	1 637 875
<b>Total</b>	<b>2 531 923</b>	<b>(114 406)</b>	<b>2 417 517</b>	<b>2 438 139</b>	<b>(118 330)</b>	<b>2 319 809</b>

	2018			2017	
	Stage 1	Stage 2	Stage 3	Total	Total
Placements with, and advances to, banks at amortised cost	12-month ECL	Lifetime ECL	Lifetime ECL	Total	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
<b>Category</b>	222 265	-	3 889	226 154	281 016
<b>Total gross carrying amount</b>	<b>222 265</b>	<b>-</b>	<b>3 889</b>	<b>226 154</b>	<b>281 016</b>
Impairment loss	(159)	-	(3 889)	(4 048)	-

## GENERAL RISKS AND UNCERTAINTIES

Carrying amount	222 106	-	-	222 106	281 016
	2018			2017	
Receivables under repurchase agreements of securities	Stage 1	Stage 2	Stage 3	Total	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
<i>Category</i>	256 806	-	-	256 806	196 910
<b>Total gross carrying amount</b>	<b>256 806</b>	<b>-</b>	<b>-</b>	<b>256 806</b>	<b>196 910</b>
Impairment loss	(208)	-	-	(208)	-
<b>Carrying amount</b>	<b>256 598</b>	<b>-</b>	<b>-</b>	<b>256 598</b>	<b>196 910</b>
	2018			2017	
Investments in debt securities at amortised cost	Stage 1	Stage 2	Stage 3	Total	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
<i>Category</i>	262 957	-	-	262 957	-
<b>Total gross carrying amount</b>	<b>262 957</b>	<b>-</b>	<b>-</b>	<b>262 957</b>	<b>-</b>
Impairment loss	(390)	-	-	(390)	-
<b>Carrying amount</b>	<b>262 567</b>	<b>-</b>	<b>-</b>	<b>262 567</b>	<b>-</b>
	2018			2017	
Investments in debt securities at FVTOCI	Stage 1	Stage 2	Stage 3	Total	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
<i>Category</i>	491 303	-	1 830	493 133	511 298
<b>Total gross carrying amount</b>	<b>491 303</b>	<b>-</b>	<b>1 830</b>	<b>493 133</b>	<b>511 298</b>
Impairment loss	(1 706)	-	-	(1 706)	(1 830)
<b>Carrying amount</b>	<b>489 597</b>	<b>-</b>	<b>1 830</b>	<b>491 427</b>	<b>509 468</b>

## GENERAL RISKS AND UNCERTAINTIES

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		
<b>Loan commitments</b>				<b>Total</b>	<b>Total</b>
	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
<i>Category</i>	171 405	401	423	172 229	109 158
<b>Total gross carrying amount</b>	<b>171 405</b>	<b>401</b>	<b>423</b>	<b>172 229</b>	<b>109 158</b>
Expected credit loss allowance	(321)	(2)	(42)	(365)	-
<b>Net exposure</b>	<b>171 084</b>	<b>399</b>	<b>381</b>	<b>171 864</b>	<b>109 158</b>

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		
<b>Financial guarantee contracts</b>				<b>Total</b>	<b>Total</b>
	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
<i>Category</i>	46 381	-	50	46 431	53 588
<b>Total gross carrying amount</b>	<b>46 381</b>	<b>-</b>	<b>50</b>	<b>46 431</b>	<b>53 588</b>
Expected credit loss allowance	(9)	-	-	(9)	-
<b>Net exposure</b>	<b>46 372</b>	<b>-</b>	<b>50</b>	<b>46 422</b>	<b>53 588</b>

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	
	Amount	Amount	Amount	Amount	Provision
Regular	2 212 081	19 226	86 800	53 538	-
Non-performing	226 058	99 104	358	50	-
<b>Total</b>	<b>2 438 139</b>	<b>118 330</b>	<b>87 158</b>	<b>53 588</b>	<b>-</b>

The loans provided by the Group can be summarized in the following table:

## GENERAL RISKS AND UNCERTAINTIES

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	-
<b>Total</b>	<b>2 438 139</b>	<b>196 911</b>
Allowances for impairment provided	(118 330)	-
<b>Net loans</b>	<b>2 319 809</b>	<b>196 911</b>

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
<b>Total</b>	<b>2 047 509</b>

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.

## GENERAL RISKS AND UNCERTAINTIES

	As at 31.12.2017
Individuals	
Credit cards and overdrafts	10 767
Consumer loans	34 589
Mortgage loans	14 601
Corporate clients	35 240
<b>Total</b>	<b>95 197</b>

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
<b>Total</b>	<b>190 409</b>	<b>(88 540)</b>	<b>101 869</b>

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.



## GENERAL RISKS AND UNCERTAINTIES

<b>Placements with, and advances to, banks at amortised cost</b>	<b>2018</b>	<b>2017</b>
	<b>BGN'000</b>	<b>BGN'000</b>
<b>Concentration by sector</b>		
Central banks	926	3 512
Bulgarian commercial banks	52 292	35 986
Foreign commercial banks	172 936	241 518
<b>Total</b>	<b>226 154</b>	<b>281 016</b>
<b>Concentration by region</b>		
Europe	223 812	278 383
America	2 286	2 620
Asia	56	13
<b>Total</b>	<b>226 154</b>	<b>281 016</b>
<b>Receivables under repurchase agreements of securities</b>		
	<b>2018</b>	<b>2017</b>
	<b>BGN'000</b>	<b>BGN'000</b>
<b>Corporate:</b>		
Construction	31 036	20 946
Commerce and finance	176 983	145 645
Transport and communications	13 104	15 246
Other	35 683	15 073
<b>Total</b>	<b>256 806</b>	<b>196 910</b>
<b>Concentration by region</b>		
Europe	256 806	196 910
<b>Total</b>	<b>256 806</b>	<b>196 910</b>
<b>Investments in debt securities at amortised cost</b>		
	<b>2018</b>	<b>2017</b>
	<b>BGN'000</b>	<b>BGN'000</b>
<b>Concentration by sector</b>		
States	245,183	-
Bank	9,810	-
<b>Corporate:</b>		-

## GENERAL RISKS AND UNCERTAINTIES

Commerce and finance	7,964	-
<b>Total</b>	<b>262,957</b>	<b>-</b>
<b>Concentration by region</b>		
Europe	262,957	-
<b>Total</b>	<b>262,957</b>	<b>-</b>
<b>Investments in debt securities at FVTOCI</b>		
	<b>2018</b>	<b>2017</b>
	<b>BGN'000</b>	<b>BGN'000</b>
<b>Concentration by sector</b>		
States	415 562	466 615
<b>Corporate:</b>	<b>75 865</b>	<b>44 683</b>
Construction	9 635	13 057
Industry	19 351	10 255
Commerce and finance	43 570	18 939
Other	3 309	2 432
<b>Total</b>	<b>491 427</b>	<b>511 298</b>
<b>Concentration by region</b>		
Europe	491 427	511 298
<b>Total</b>	<b>491 427</b>	<b>511 298</b>
<b>Loans and advances at amortised cost granted to customers</b>		
	<b>2018</b>	<b>2017</b>
	<b>BGN'000</b>	<b>BGN'000</b>
<b>Concentration by sector</b>		
<b>Retail banking:</b>	<b>836 206</b>	<b>703 394</b>
Mortgage	363 541	262 692
Consumer	441 787	406 409
Credit cards	21 804	22 036
Other	9 074	12 257
<b>Corporate:</b>	<b>1 695 717</b>	<b>1 734 745</b>
Agriculture and forestry	72 761	59 114
Industry	44 314	81 919

## GENERAL RISKS AND UNCERTAINTIES

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
<b>Total</b>	<b>2 531 923</b>	<b>2 438 139</b>

### Concentration by region

Europe	2 531 187	2 437 345
America	733	791
Middle East and Africa	3	3
<b>Total</b>	<b>2 531 923</b>	<b>2 438 139</b>

### Credit commitments

2018 2017

BGN'000 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 2017

## GENERAL RISKS AND UNCERTAINTIES

	BGN'000	BGN'000
<b>Concentration by sector</b>		
<b>Retail banking:</b>	<b>103</b>	<b>20</b>
Other	103	20
<b>Corporate:</b>	<b>46 328</b>	<b>53 568</b>
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
<b>Total</b>	<b>46 431</b>	<b>53 588</b>
<b>Concentration by regions</b>		
Europe	46 431	53 588
<b>Total</b>	<b>46 431</b>	<b>53 588</b>

### 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

## GENERAL RISKS AND UNCERTAINTIES

2017	Corporate customers BGN'000	Individuals BGN'000
Amount before impairment	276 255	1 574
Impairment	(44 124)	(452)
Amount after impairment	<u>232 131</u>	<u>1 122</u>

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	<u>363 541</u>	<u>262 688</u>

#### 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

## GENERAL RISKS AND UNCERTAINTIES

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.

### 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	From 2 to 5 years	Over 5 years	
	BGN'000	BGN'000	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	-	
<b>Total</b>	<b>4 198 357</b>	<b>1 546 852</b>	<b>22 920</b>	

As at 31 December 2017 Group's liabilities (including interest payables where applicable) have contractual maturities summarized below:

## GENERAL RISKS AND UNCERTAINTIES

	Current		Non-current	
	Within 12 months	From 2 to 5 years	Over 5 years	
	BGN'000	BGN'000	BGN'000	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	-	
<b>Total</b>	<b>4 250 208</b>	<b>1 274 872</b>	<b>42 706</b>	

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

## GENERAL RISKS AND UNCERTAINTIES

### 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
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>2 350 776</b>	<b>346 321</b>	<b>1 073 999</b>	<b>1 314 628</b>	<b>4 660</b>	<b>5 090 384</b>

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
<b>FINANCIAL LIABILITIES</b>						
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
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>2 428 855</b>	<b>356 499</b>	<b>1 063 874</b>	<b>1 098 709</b>	<b>2 295</b>	<b>4 950 232</b>

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.

- Fair value measurement

### Fair value measurement of financial instruments



## GENERAL RISKS AND UNCERTAINTIES

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.

<b>31 December 2018</b>	<b>Note</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
		<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
<b>Assets</b>					
Financial assets measured at fair value through profit or loss	a)	1 142 974	172 170	369 934	1 685 078
Equity instruments at fair value through other comprehensive income	b)	12 912	9 776	48 295	70 983
Debt instruments measured at fair value through other comprehensive income	b)	383 542	-	39 374	422 916
<b>Total assets</b>		<b>1 539 428</b>	<b>181 946</b>	<b>457 603</b>	<b>2 178 977</b>
<b>Liabilities</b>					
Derivatives	b)	-	1 272	-	1 272
<b>Total liabilities</b>		<b>-</b>	<b>1 272</b>	<b>-</b>	<b>1 272</b>
<b>31 December 2017</b>					
	<b>Note</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
		<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
<b>Assets</b>					
Financial assets held for trading	a)	1 207 221	219 138	3 965	1 430 324
Financial assets available for sale	b)	560 077	-	104 118	664 195
<b>Total assets</b>		<b>1 767 298</b>	<b>219 138</b>	<b>108 083</b>	<b>2 094 519</b>

## GENERAL RISKS AND UNCERTAINTIES

### Liabilities

Derivatives	B)	-	3 396	-	3 396
<b>Total liabilities</b>		<b>-</b>	<b>3 396</b>	<b>-</b>	<b>3 396</b>

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.

### .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	Level 2	Level 3	Total
	BGN '000	BGN '000	BGN '000	BGN '000

### Investment property:

Land building machines and equipment	-	-	422 174	422 174
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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.

## GENERAL RISKS AND UNCERTAINTIES

The reconciliation of the carrying amounts of non-financial assets classified within Level 3 is as follows:

	<b>Investment property</b>
	<b>BGN'000</b>
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)
<b>Balance as at 31 December 2018</b>	<b>422 174</b>
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

- 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:

## GENERAL RISKS AND UNCERTAINTIES

	2018	2017
	BGN'000	BGN'000
Shareholders' equity	1 644 693	1 688 797
<b>Equity</b>	<b>1 644 693</b>	<b>1 688 797</b>
Debt	7 454 376	7 156 519
- Cash and cash equivalents	(2 045 224)	(2 204 904)
<b>Net debt</b>	<b>5 409 152</b>	<b>4 951 615</b>
<b>Capital to net debt</b>	<b>1:3.29</b>	<b>1:2.93</b>

In 2018 the change in the ratio is minimal. The Group has complied with its contractual obligations including the maintenance of certain capital ratios

# CONSOLIDATED DECLARATION OF CORPORATE MANAGEMENT

The consolidated declaration of corporate management of the Group of Chimimport AD is prepared pursuant to the Bulgarian legislation requirements and principles of good corporate management, set out in the National Corporate Governance Code, the Commercial Act (CA), the Public Offering of Securities Act (POCA), the Accountancy Act (AA), the Independent Financial Audit Act (IFAA) and other laws and regulations and internationally recognized standards. The declaration of corporate management is prepared in accordance with the requirements of Article 39 of the Accountancy Act and Article 100n of POCA.

The Corporate Governance Declaration of the Chimimport Group applies to public companies in the Group.

The Individual Corporate Governance Declarations are integral part of the individual company activity reports for 2018 and have been published at 31 March 2019.

## **1. Information under Article 100m, paragraph 8, subparagraphs 1 and 2 of POCA**

**Implementation, enforcement and compliance, as appropriate, by Chimimport AD of the principles of the National Corporate Governance Code.**

As at 18 January 2008, Chimimport AD embraced the National Corporate Governance Code and conducts its activity in accordance with the set principles and provisions.

In its activities Chimimport AD is governed by the national corporate governance principles recommended for application by the National Committee on Corporate Governance, reflecting the international standards of good corporate governance and best practices. The management of Chimimport AD aims at strengthening the principles of good corporate governance, enhancing the confidence of shareholders, investors and other stakeholders interested in the management and operations of the Company. The management of Chimimport AD considers that the effective application of the good corporate management practices, contribute to sustainable growth and reaching the long-term goals of the Company, and to establish transparent and honest relationships with all stakeholders.

Information on corporate governance practices applied by the issuer in addition to the corporate governance code approved by the Deputy Chairperson or any other corporate governance code

Chimimport AD does not apply other corporate management practices in addition of the National Corporate Governance Code.

Explanation by the issuer as to which parts of the corporate management code, approved by the Deputy Chairperson or any other corporate governance code the issuer does not comply with and to what was the ground for the non-compliance when the issuer opted not to refer to any of the rules of the corporate management code

The basic principle of the National Corporate Governance Code is the principle of “comply or explain”. The Company aims to comply with the recommendations of the Code and in case of deviation, the management provides explanations on the reasons for the non-compliance.

Chimimport AD presents the current information regarding compliance with the Code, and the same will be published on the website of the company.

### **INFORMATION REGARDING CORPORATE MANAGEMENT**

Chimimport AD is a listed company with two-tier management system. All members of the Managing Board and the Supervisory Board comply with the legal requirements for their appointment.

# CONSOLIDATED DECLARATION OF CORPORATE MANAGEMENT

The managing bodies of the Company comprise: General meeting of the shareholders, Supervisory Board and Managing Board.

Members of the Supervisory Board:

1. Invest Capital AD
2. CCB Group EAD;
3. Mariana Bazhdarova.

Members of the Managing Board:

1. Alexander Kerezov
2. Ivo Kamenov
3. Marin Mitev
4. Nikola Mishev
5. Miroljub Ivanov
6. Tsvetan Botev

## ***Key functions, responsibilities, structure and competence***

The Supervisory Board of Chimimport AD consists of three members. It conducts regular control over the Managing Board, concerning the management of the Company by ensuring that the actions of the MB increase the interest of shareholders and facilitate the application of good corporate governance principles within the Company. The Supervisory Board, if necessary, may take the necessary steps to facilitate their duties through consultations with experts. The Supervisory Board shall appoint and dismiss members of the Managing Board delimiting the powers delegated to them, the application of their powers and the frequency with which they are to report to the SB. The Supervisory Board assesses the overall performance the Company, paying special attention to the information received by the Managing Board and periodically reconciles and analyses the difference between the achievements and goals. The Supervisory Board monitors and controls the process of disclosing information by the Company.

The Supervisory Board has included restrictions in its internal rules on the maximum number of companies in which members of the Managing and the Supervisory Board of Chimimport AD can sit on the managing and supervisory bodies, participation in which is considered acceptable in view of the requirement for effective implementation of obligations as a member of the boards of the Company. The Supervisory Board has set criteria that distinguish participations in other companies, depending on the position held and the time that each of the positions requires for the relevant obligations.

Following the requirements of the POSA and the Statute of the Company, the Supervisory Board, if necessary, reassesses the structure of the Managing Board, the division of duties, powers and the remuneration of each member of the MB. In carrying out its activities, the Supervisory Board members are obliged to perform their duties with due diligence in a manner that reasonably believed is in the interest of all shareholders and by using only information that they reasonably believe is reliable and complete, and show loyalty to the Company under POSA.

The Supervisory Board of the Company is supported by the Audit Committee. The structure and functions of the Committee are set out in the Internal rules of operation of the Audit Committee of Chimimport AD.

The Managing Board of Chimimport AD consists of six members. The competence, rights and obligations of the Managing Board are conducted in accordance with the legal requirements, the requirements of the current Company's Statute and the rules for its operation as approved by the Supervisory Board. The Managing Board reports, on its activities, to the Supervisory Board at least quarterly. The Managing Board shall immediately notify the chairman of the Supervisory Board of any circumstances that are essential for the Company. The Managing Board provides to the Supervisory Board the Annual Financial Statements, the Annual Activity Report and the Independent Auditor's Report, together with proposal for profit distribution, which will be brought to the General Meeting of Shareholders.

The Managing Board governs in accordance with the established vision, goals and strategy of Chimimport AD.

The Board members are guided in their activities by the generally accepted principles of integrity and management and professional competence.

# CONSOLIDATED DECLARATION OF CORPORATE MANAGEMENT

## ***Appointment and dismissal of board members***

Members of the Supervisory Board are appointed and dismissed by the General Meeting of the Shareholders, in accordance with the Company's Statute.

Members of the Managing Board are appointed by the Supervisory Board, which also determines their remuneration and can dismiss them at any point in time.

## ***Remunerations of the Managing and Supervisory Boards***

The General Meeting of the Shareholders has affirmed the remuneration policy of the Managing and Supervisory Boards of the Company, developed by the Supervisory Board.

The remuneration paid to the members of the Managing and Supervisory Boards of the Company, may be permanent (fixed) or variable in the form of premiums, bonuses, retirement benefits and other incentives, based on assessment criteria of the conducted activities. The proportion of the fixed remuneration in the total amount of the remuneration shall allow the implementation of flexible policy by the Company on the variable remuneration of the members of the Managing and Supervisory Boards of the Company. In 2017, the Company shall update the policy with the recommendation of the Code, namely the remuneration of the members of the SB to conform their activities and obligations and not be bound to the results of the Company operations and will present it to the General Meeting of the Shareholders for approval.

The remuneration policy observes the following principles and criteria:

- Consistency of the remunerations with the business goals and development strategy of the Company, the protection of the interests and promotion of the values of Chimimport AD;
- Providing remuneration that allows attraction, retention and motivation of board members with the necessary skills for successful management and development of the Company.
- Excluding discrimination, conflict of interest and unequal treatment of members of the Supervisory Board of the Company in setting and negotiating remunerations;
- Appreciation of the duties and input of each member of the Managing Board in the performance and results of the Company.

The Management discloses the remunerations of the Managing Board in accordance with the legal requirements and Company's policies regularly within the quarterly financial statements. Shareholders are provided easy access to information on remunerations.

## ***Conflict of interest***

The members of the Supervisory and Managing Boards avoid any real or potential conflict of interest. Procedures for preventing and detecting conflicts of interest are regulated by the statutes of the Company.

## ***Committees***

The Company has set Audit Committee in accordance with the requirements of the Independent Financial Audit Act of public interest companies.

In view of the change in the regulatory framework regarding requirements for Audit Committees, changes in the composition of the committee will be proposed at the next general meeting of the shareholders, as to comply with the new requirements of the IFAA. The Management of the Company will prepare and submit for approval to the General Meeting of Shareholders the statute of the Audit Committee regulating its structure, scope, tasks, operation and reporting procedures consistent with the new requirements of the legislation.

## **INFORMATION REGARDING CONDUCT OF AUDIT AND INTERNAL CONTROL**

The Companies from the group have developed and implemented internal control system that ensures the proper identification of risks associated with the Company's operations and supports their effective management, and adequate operation of the reporting systems and disclosure of information.

Internal control and risk management are dynamic and iterative processes carried out by management and supervisory bodies designed to provide a reasonable degree of certainty in terms of achieving the organization's objectives in terms of efficiency and effectiveness of operations; Reliability of financial statements; Compliance and enforcement of existing legal and regulatory frameworks.

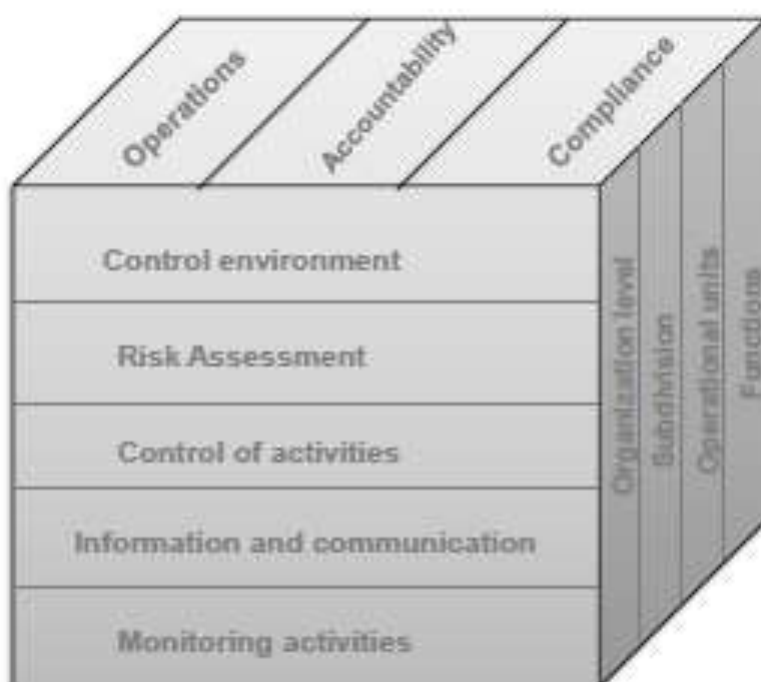


# CONSOLIDATED DECLARATION OF CORPORATE MANAGEMENT

The main components of internal control systems are:

- Control environment
- Risk Assessment
- Activity control
- Information and communication
- monitoring activities

These components are relevant to the overall organization and to its individual levels and subdivisions, or to individual operational units, functions or other structural elements thereof, and this relationship is represented by the “COSO” Cube<sup>1</sup>



One of the main objectives of the internal control and risk management system is to assist the management of the companies and other stakeholders in assessing the reliability of the financial statements of the companies.

The Audit Committees apply the requirements of the Code of Ethics for Professional Accountants on the rotation of registered auditors when drafting proposals and recommendations for the selection of external auditors. They supervise internal audit activities and monitor the overall relationship with the external auditor, including the nature of the non-audit services provided by the auditor of the company.

Registered auditors are elected by the individual General Meetings of the Shareholders of the various companies to perform an independent financial audit of the annual financial statements of the companies for 2017 in accordance with the requirements of the Independent Financial Audit Act.

<sup>1</sup> The Committee of Sponsoring Organizations of the Treadway Commission (COSO) - Basic Concept of Internal Control



# CONSOLIDATED DECLARATION OF CORPORATE MANAGEMENT

The independent financial audit covers procedures to achieve a reasonable level of security:

- compliance with the accounting principles according to the applicable accounting basis;
- whether the accounting policy of the audited entity is appropriate for its operations and is consistent with the applicable accounting and accounting policies used in the industry concerned;
- the consistency of the application of the disclosed accounting policy under the applicable accounting basis;
- the effectiveness of the internal control system limited to the achievement of the audit objectives;
- the process of accounting closure and preparation of the financial statements
- the reliability and user-friendliness of the information presented and disclosed in the financial statements according to the applicable accounting basis.
- the consistency between the information in the financial statements and that in the management report of the audited entity as well as any other information that the management of the entity provides with the audited financial statement

To ensure the effectiveness of the external auditors of Chimimport AD, the Managing Board implements measures to ensure effective implementation of the obligations of auditors of the Company based on the requirements of the Independent Financial Audit Act.

## **INFORMATION ON PROTECTION OF THE RIGHTS OF SHAREHOLDERS**

The management of Chimimport AD guarantees equal treatment of all shareholders of the Company, including minority and international.

The Company applies established rules of the organization and conduct of regular and extraordinary General Meetings of Shareholders.

The protection of shareholders' rights is ensured through:

- facilitation of the shareholders' effective participation in the work of the General Meetings of shareholders through timely disclosure of all materials for the GMS, on the following websites: [www.x3news.com](http://www.x3news.com), [www.investor.bg](http://www.investor.bg) and [www.chimimport.bg](http://www.chimimport.bg).
- transparent procedures regarding organization and conduct of regular and extraordinary General Meetings of Shareholders;
- established procedures on representation of shareholders at the GMS, including templates of letter of attorney both in Bulgarian and English;
- providing opportunity for participation in the profit distributions to the Company, if the General Meeting of Shareholders adopts a specific resolution for dividend distribution;
- implementing a policy to assist shareholders in exercising their rights

## **INFORMATION ON PROCEDURES FOR DISCLOSURE OF INFORMATION**

The Company has adopted rules for internal personnel and internal information, that regulate the obligations, order and responsibility for the public disclosure of inside information for Chimimport AD, prohibit insider trading and market manipulation of financial instruments. The public information regarding the activities of Chimimport AD is presented to the Financial Supervisory Commission, the Bulgarian Stock Exchange - Sofia AD and the investing community, distributed through the information agency X3 NEWS - [www.x3news.com](http://www.x3news.com).

Chimimport AD regularly updates its corporate website [www.chimimport.bg](http://www.chimimport.bg) both in Bulgarian and English, consistent in structure and volume with the information provided with the recommendations of the National Code and established good practices on systems of disclosure of information.

The website provides general information about the Company and the segments of operations of all companies within the economic group, current data on the financial and economic situation of the Company, including interim and annual financial statements of Chimimport AD on an individual and consolidated basis, as well as information on the Group structure, corporate governance and management of the company, corporate documents prepared and approved by the Managing Board of the

# CONSOLIDATED DECLARATION OF CORPORATE MANAGEMENT

Company and the securities issued. All shareholders, investors and interested parties can obtain information about upcoming and already held important corporate events, meetings of the General Meeting of Shareholders and the planned investment policy of the Company.

## INFORMATION ABOUT INTERESTED PARTIES AND RECOGNITION OF THEIR RIGHTS AND INTERESTS

The Company has not developed its own rules on accounting for the interests of stakeholders, but for all matters that directly or indirectly affect them, coordination procedures are carried out.

Chimimport AD identifies as stakeholders with respect to its activities all persons who are not shareholders and who have an interest in the economic prosperity of the Company:

- bondholders,
- employees,
- clients,
- suppliers,
- bank – creditors;
- the public, in general.

Within its policy towards stakeholders, the Company complies with the legal requirements and principles of transparency, accountability and business ethics. The Stakeholders are provided with the necessary information about the company's current data of the financial situation and everything that would help correct their orientation and make an informed and reasoned decision.

## **2.Information under Article 100m, paragraph 8, subparagraph 3 of the POSA**

### ***Characteristics of the internal control and risk management systems***

#### ***Internal control and risk management***

The Managing Board is responsible for the internal control and risk management systems and monitors their effectiveness.

These systems are created to manage but cannot fully eliminate the risk from falling behind the set business objectives. They can only provide reasonable, but not absolute assurance on the lack of any substantial inaccuracies or errors. The Managing Board has established an ongoing process for identifying, evaluating and managing significant risks for the Company.

#### ***Internal control***

Every year, the Company reviews and confirms the degree of compliance with the policies of the National Corporate Governance Code.

All major plans and programs of the Company require approval by the Managing Board.

There are limits to the authority to ensure that the appropriate approvals are obtained, if the Board is not required to verify the segregation of duties.

Financial policies, controls and procedures are enforced within the Company and are reviewed and updated regularly.

The main activities comprised within the system of internal control of the Company are:

- Control over the functioning of the current reporting and documentation of the Company;
- Maintaining the high competence of personnel with financial and reporting functions;
- Control over the content, accuracy and timeliness of financial statements;
- Completeness of the range and reliability of the financial information system;
- Lawful implementation of tax and social security obligations;
- Protection and preservation of assets;

# CONSOLIDATED DECLARATION OF CORPORATE MANAGEMENT

- Control over disposal of assets and resources.

A system of internal control and risk management operates to ensure the effective functioning of the reporting and disclosure of information. The internal control system is built and functions to identify inherent risks of the company and support their effective management.

The code of conduct of employees of Chimimport AD, determining the required levels of ethics and conduct, is communicated to all employees and any amendments to it are included in the employee training.

Management has overall responsibility of ensuring proper maintenance of accounting data and processes to ensure that financial information is relevant, reliable, consistent with applicable law and the financial statements and management reports are prepared and published by the Company in due course. The Company's management reviews and approves the financial statements to ensure that the financial position and results of the Company are presented fairly and correctly. The financial information, published by the Company is subject for approval by the Supervisory Board.

Annual review of the internal control environment is carried out by the Managing Board, with the assistance of the Audit Committee.

## ***Analysis and risk management***

The Managing Board determines the main risks of the Company regularly and monitors throughout the year the measures to address those risks, including through internal control and monitoring. The risk analysis includes business and operational risks, health and safety of employees, financial, market and operational risks, reputation risks, which may affect the Company, as well as specific areas identified in the business plan and the budget process.

All significant plans relating to the acquisition of assets or realization of operating income include consideration of relevant risks and appropriate action plans.

Inherently the risk management is a set of processes to identify, assess and control the risks that ensure that the objectives of the Group of Chimimport AD are met and effective management is achieved. Risk management is systematic, structured and in due time and thus facilitates continuous improvement of the organization.

The risk management system comprises the following activities:

- identification of the different groups of risks (indicated in the reports on the activities of the group)
- evaluation and risk analysis (indicated in the reports on the activities of the group)
- monitoring and procedures that will be applied to prevent or reduce the effects of onset risks.

Risk management is part of the internal control system. The goal of management is to detect risks that cast doubt on the functioning of the company, to assess and reduce critical risks. Well-managed risk-taking is a prerequisite for sustainable improvement of the organization. The Company management seeks to develop an active risk management by introducing a risk management system and directing efforts to improve it in line with international best practices.

The risk management system defines the duties and responsibilities in the structural divisions of the Company, organization, and procedure for interaction in risk management, analysis, and evaluation of information related to risks, preparing periodic reporting on risk management.

The internal control system and the risk management system are continuously improved following the legislative requirements and best practices. Their goals may be summarized as follows: compliance with the strategies, plans, internal regulations and procedures for the implementation of the activities to ensure effective and efficient operations, reliable financial reporting, storage and protection of assets. Risk management in Chimimport AD is performed by employees at all levels of management and is an integral part of operations and the corporate governance of the Company.

## ***Statement by the directors on the Annual Activity Report and the Financial Statements***

Pursuant to the requirements of the Code, the directors confirm their responsibility for preparing the annual activity report and the annual financial statements and consider the Annual Activity Report is

# CONSOLIDATED DECLARATION OF CORPORATE MANAGEMENT

transparent, balanced and understandable and provides the necessary information to shareholders, to assess the Company's position and operations, its business model and strategy.

## ***Responsibilities and interaction between the Supervisory Board, the Audit Committee and the external auditor of the Company***

As a public company, according to the Independent Financial Audit Act and the National Corporate Governance Code, Chimimport AD has established an Audit Committee, which is responsible for monitoring of the financial reporting and the independent financial audit as well as the effectiveness of the internal audit function and control and risk management systems of the Company.

At the General Meeting of Shareholders held on 01 July 2013, under the proposal of the Managing Board, the shareholders of Chimimport AD elected the following Audit Committee members: Dina Krasteva Paskova - Chairperson, Mariana Zarkova Parvanova and Zornitza Krasimirova Aleksova - members. The structure and functions of the Committee are defined under Article 108, Paragraph 1 of the Independent Financial Audit Act.

The Committee recommends the registered auditor to conduct an independent financial audit of the company and monitor its independence in accordance with the law and the Code of Ethics for Professional Accountants.

The mandate and the number of members of the Audit Committee shall be determined by the General Meeting of Shareholders.

The functions and responsibilities of the Audit Committee are regulated by the Rules of the Audit Committee.

Committee members have unlimited access to the members of the Supervisory Board, the Managing Board and the senior management personnel directly responsible for the activities falling within the scope of the delegated competence of the Committee.

The Audit Committee reports its activity to the General Meeting of Shareholders annually.

The main functions of the Audit Committee include:

- to monitor the financial reporting processes;
- to monitor the effectiveness of internal control systems;
- to monitor the effectiveness of risk management systems;
- to monitor the independent financial audit on the Company;
- to oversee the independence of the registered auditor of the Company in accordance with the IFAA and monitor the provision of ancillary services by the auditor

## ***3. Information in accordance with Article 10, paragraph 1, items "c", "d", "f", "h", and "i" of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004.***

### **3.1 Information in accordance with Article 10, paragraph 1, item "c" of Directive 2004/25/EC on takeover bids regarding significant direct and indirect shareholdings (including indirect shareholdings through pyramUIC structures and cross-shareholdings) within the meaning of Article 85 of Directive 2001/34/EC.**

In 2018, no changes have been made relating to the acquisition or sale of shares of the Company that reach, exceed or fall below one of the thresholds of 10%, 20%, 1/3, 50% and 2/3 of the voting rights of the Company for the period as defined in Article 85 of Directive 2001/34 / EC.

The share capital of the Company as of 31 December 2018 consists of 239,646,267 ordinary shares with par value of BGN 1 per share. The ordinary shares of the Company are dematerialized, registered and freely transferable and entitle to one (1) vote and liquidation share.

On 15 June 2016, all preferred shares of the Company issued on 12 June 2009, were mandatory converted into ordinary, per the prospectus for the issue.

The list of major shareholders holding more than 5% of the shares of the Company is as follows:

# CONSOLIDATED DECLARATION OF CORPORATE MANAGEMENT

	Ordinary shares As a t 31.12.2018	Ordinary shares As a t 31.12.2018
Invest Capital AD	174 847 247	72.96%
Other legal entities and individuals not exceeding 5%	64 799 020	27.04%
	239 646 267	100.00%

### **3.2 Information in accordance with Article 10, paragraph 1, item “d” of Directive 2004/25/EC on takeover bids regarding the holders of any securities with special control rights and a description of those right**

Chimimport AD has no shareholders with special control rights..

### **3.3 Information in accordance with Article 10, paragraph 1, item “f” of Directive 2004/25/EC on takeover bids regarding any restrictions on voting rights, such as limitations of the voting rights of holders of a given percentage or number of votes, deadlines for exercising voting rights, or systems whereby, with the company’s cooperation, the financial rights attaching to securities are separated from the holding of securities;**

There are no restrictions on voting rights, such as limitations of the voting rights of holders of a given percentage or number of votes, deadlines for exercising voting rights, or systems whereby, with the company’s cooperation, the financial rights attaching to securities are separated from the holding of securities

### **3.4 Information in accordance with Article 10, paragraph 1, item “h” of Directive 2004/25/EC on takeover bids regarding the rules governing the appointment and replacement of board members and the amendment of the articles of association;**

The management bodies of the Company are:

- General Meeting of the Shareholders;
- Supervisory Board;
- Managing Board.

The General Meeting of the Shareholders elects and dismisses members of the Supervisory Board and determines their compensation and bonuses.

The members of the Managing board are appointed by the Supervisory Board, which can replace them at any time. One individual cannot be both a member of the Managing and Supervisory Board. Members of the Managing Board may be re-elected without limitation.

Members of the Managing Board of “Chimimport” AD are elected only if they meet the following legal requirements:

- be either individuals or legal persons;
- at the moment of election have not been convicted of crimes against property, economy or against the fiscal, tax and
- insurance authorities of the Republic of Bulgaria or abroad, unless rehabilitated;
- are not members of the managing or supervisory body of a company terminated due to bankruptcy in the past two years preceding the date of the declaration of insolvency, if any unsatisfied creditors remain;

Amendments to the Articles of Association of the Company are approved by General Meeting of the Shareholders.

### **3.5 Information in accordance with Article 10, paragraph 1, item “i” of Directive 2004/25/EC on takeover bids regarding the powers of board members, and in particular the power to issue or buy back shares;**

The amount of capital may be amended in the manner provided by the law and the Statutes of the Company. The decision to amend shall contain all the details required by law.



# CONSOLIDATED DECLARATION OF CORPORATE MANAGEMENT

The decision to increase the capital is taken by the General Meeting of the Shareholders or the Managing Board, within the mandate under Article 17 of the Statute of the Company.

If new shares are sold at a price higher than nominal, their issue price is determined with the decision to increase the capital.

Each shareholder is entitled to acquire part of the new shares, which corresponds to its share capital before the increase, unless that right is limited by law (Article 113, paragraph 2, subparagraph 2 of the Public Offering of Securities Act).

In the event of a capital increase through the capitalization of retained earnings and other assets by issuing new shares, the latter shall be acquired by the shareholders in proportion to shares already owned.

In its decision for capital increase under Article 17, the Managing Board sets the amount and purpose of the increase; the number and type of the new shares, their rights and privileges, deadline and conditions of transfer of rights under § 1, p. 3 of POSA issued against existing shares; the deadline and conditions for subscription of new shares; the amount of the issue price and terms and conditions for its payment; the investment intermediary entrusted with the implementation of the subscription; as well as determines any other terms and conditions provided for in the regulations or necessary to make the corresponding increase in equity.

## **Capital decrease**

The capital reduction is carried out by decision of the General Meeting of Shareholders by decreasing the nominal value of shares or through cancellation of shares.

Cancellation of shares shall be allowed only through the purchase of company's own shares under the conditions and according to the Commercial Code.

## **4. Composition and functions of the administrative, management and supervisory bodies**

The Supervisory Board of Chimimport consists of 3 members who are elected by the General Meeting of the Shareholders for a term of five years.

The Supervisory Board performs its activities in conformity with the Statute of Chimimport AD and the Internal rules of the Supervisory Board.

The Managing Board of Chimimport AD consists of six members who are elected by the Supervisory Board for a term of five years.

The Managing Board performs its activities in conformity with the Statute of Chimimport AD and the Internal rules of the Managing Board.

In carrying out their duties and responsibilities the members of the Managing and Supervisory Boards are governed by the legal requirements, by-laws of the Company and the standards of integrity and competence.

The Managing Board:

- governs and represents Chimimport AD;
- manages the operating activities of the Company;
- approves plans and programs for the Company's activities;
- approves the organizational and managerial structure of the Company;
- approves decisions that are not in the express competence of the General Meeting of the Shareholders and the Supervisory Board;
- decides on capital increase or decrease under the Articles of Association;

The Managing Board, with the approval of the Supervisory Board:

- approves and proposes for approval to the General Meeting of Shareholders the annual financial statements and the activity report of the Company;
- based on the financial performance of the Company at the end of the reporting year, makes a proposal on the appropriation of the profit

# CONSOLIDATED DECLARATION OF CORPORATE MANAGEMENT

Members of the Managing Board are guided in their activities by the generally accepted principles of integrity and management and professional competence.

Members of the Supervisory and Managing Board apply the principle of avoidance and prevention of actual or potential conflict of interest. Any conflict of interest should be disclosed to the Supervisory Board. Members of the Managing Board should inform the Supervisory Board about whether directly, indirectly or on behalf of third parties have a significant interest in any transactions or matters that have a direct impact on the Company.

## **5. Description of the diversity policy**

Chimimport AD, appoints and recommends for election by the Supervisory Board, candidates for members of the Management Board, taking into account the balance of professional knowledge and skills, the various qualifications and professional experience of the members of the board, necessary for the management of the Company.

CHIMIMPORT

# NON-FINANCIAL DECLARATION

This Non-financial Statement of Chimimport AD is prepared in accordance with the requirements of Art. 48 of the Accountancy Act and is an integral part of the Annual Activity report of Chimimport AD for 2017.

The management of Chimimport AD declares its SOCIAL RESPONSIBILITY POLICY, which is documented, implemented, maintained and communicated at all levels of the company structure.

Chimimport's Corporate Social Responsibility Policy is geared towards implementing strategic management activities that contribute to sustainable economic development, fair and ethical working relationships with employees, their families and society as a whole in order to improve the quality of life.

The management is committed to creating the necessary conditions for complying with the requirements of the Social Responsibility System and for the active assistance of the management and executive staff in its development.

Company's general principles on social responsibility include:

- compliance with applicable national legal and other requirements and respect for international instruments and their interpretation in the field of social responsibility;
- preventing child labor in contravention of labor law;
- non-participation or assistance in the use of forced or compulsory labor;
- preventing trafficking in human beings;
- ensuring healthy and safe working conditions for its employees;
- respect for human rights and fundamental freedoms as set out in the Universal Declaration of Human Rights;
- protecting common human values;
- developing and motivating staff;
- ensuring security of payments;
- maintaining adequate remuneration of labor with timely payment of salaries, taxes and types of social security contributions for employees and workers;
- ensuring that the policy is documented, implemented, maintained and disseminated in accessible and comprehensible form to all employees, including management, technical and executive staff as well as subcontractors and suppliers;



## I. Business model

For its more than 70 years of existence, Chimimport AD has become a successful foreign trade company specializing in the trade in chemical products in a large-scale holding company that brings together nearly 70 subsidiaries and associated companies operating in different sectors of the Bulgarian economy.

The company's priority investments are concentrated in the following industries:

- Banking, Finance, Insurance and Pension Insurance;
- Oil and gas extraction;
- Manufacture and trade in petroleum and chemical products;
- Capacity building in the petroleum, biofuel and rubber industry;
- Production of vegetable oils, purchase, processing and marketing of cereals;
- Aviation transport and ground handling activities for the maintenance and repair of aircraft and aircraft engines;
- River and maritime transport, port infrastructure;
- Securitization of real estate and receivables;
- Commercial representation and mediation;
- Commissioning, logistics and warehousing.

The main strategy and investment policy of Chimimport AD are focused on positioning the group as a significant partner in servicing the traditional trade flows for the country and the region. In particular, this motivates the group to enter into sectors such as transport, agriculture, financial operations and real estate. The financial sector is another area where the group strives to offer a full range of services to its clients.

The business model of the group is built to implement the above-defined development strategy based on maintaining and expanding the company's leading role in the sectors identified as important for the Bulgarian economy.

Some of the more specific objectives set by the management of Chimimport AD are:

- maintaining high growth rates of the Group's assets and equity, which is related to ensuring stable long-term returns to shareholders;
- validation of Chimimport AD as a holding with a strong presence in the economy of Bulgaria and Central and Eastern Europe;
- maintaining a leading position among the public companies in Bulgaria and improving the international reputation of the group.

## II. Policy description

For Chimimport AD the highest priority is to adhere to high standards in all its business relationships. The company's procedures have mechanisms in place to ensure that senior management and all stakeholders have the adequate and effective functioning of internal control, risk management, accountability and transparency systems.

The company applies a clear and categorical policy as well as transparent procedures for assessment, selection and interaction with its partners, suppliers, customers and all stakeholders. In addition to providing reliable and high-quality products and services, Chimimport's employees aim to precisely serve the needs, rights and interests of our clients, seek mutual benefit, comply with the law and internal rules and operate in full confidentiality, according to the requirements of current legislation in the country.

Chimimport AD imposes serious resources and efforts to investigate, formulate and select the appropriate solutions to prevent the occurrence of any problem encountered in practice.

### Ethics Business Code of Chimimport AD

In order to control the ethical aspects of the work of Chimimport AD employees, the Code of Conduct and Professional Ethics of the company has a system of rules that are systematically updated and supplemented.

## NON-FINANCIAL DECLARATION

The Code sets out the principles of honesty, loyalty and conscientiousness, as well as stringent requirements for employee behavior regarding their personal and professional ethics. It contains rules and norms that guide employees in their day-to-day work and set the tone of their relationship both within the company and with third parties.

### Anti-Corruption Policy

Chimimport AD does not tolerate any form of bribery or corruption. In particular, the company agrees to refrain from any action or conduct that might be perceived as active or passive bribery.

Employees are obliged to comply with the Money Laundering Act, the Implementing Regulations of the Money Laundering Act, the Act on Measures against the Financing of Terrorist Activity and the Internal Rules for the Control and Prevention of Money Laundering and Financing of Terrorist Activity.

Well-tested procedures are applied and they guarantee the company's assets and prevent insider trading and potential employee abuse. Apart from customer care, business partners, authorities and the public, all employees of Chimimport AD are also committed to ensuring fair treatment of all their colleagues and to strictly adhere to the requirements of the Protection against Discrimination Act.

The management of the company is aware that his professional and life example has a greater impact on employees than spoken or written words. That is why each of them strives to be an example of imitation in terms of professional ethics and high moral qualities, and in his duties to be guided by values such as honesty, fairness, precision, loyalty, respect and prudence. The management shares the belief that good corporate governance is not limited to covering the requirements set out in the legal framework, but above all is a matter of deep internal conviction. For Chimimport AD, good corporate management implies first and foremost respect for shareholders who have confided in MB, as well as awareness of the immediate and long-term benefits of management transparency.

### Employee policy

Led by the challenges of today's market environment and responding to rising requirements, management believes that successful business and stable development are only possible through focusing on quality across the whole range of activities of Chimimport AD.

As one of the largest employers in the country, employing nearly 6 000 people, Chimimport is aware that the way it treats its employees and the social benefits it provides is among the main mechanisms by which the company can work for the public good.

Therefore, since its inception, the company has invested in the continuous improvement of its human resources by applying precise methods of selection, training, evaluation and rewarding of staff. These practices build on the leadership's belief that people are their most valuable asset and the prerequisite for future growth.

Chimimport AD and the group attach great importance to:

- Job candidates based on their personal qualities and merits, based on a careful assessment of the knowledge, competence and professionalism of potential employees. It gives equal opportunity to all decent candidates to become part of their team regardless of their gender, ethnic origin, public position, beliefs, political views or any other factors unrelated to their professionalism and skills.
- Ensuring equal opportunities for training and career development for all employees, regardless of their current position.
- Creating a work environment that values, recognizes and rewards the efforts and achievements that are among the core values of the organization.

### Developing the potential of employees

Chimimport AD seeks to direct its employees to business activities that would allow the full deployment of their potential and the realization of their personal and professional ambitions. Emphasis is also placed on the development of qualities that allow the continuous growth of employees and hence of the whole organization.

The staff development policy at Chimimport AD enables employees of all hierarchical levels who have proven their professional qualities to be promoted not only within the same management / branch but also

## NON-FINANCIAL DECLARATION

to be re-appointed to other positions in the organization, possess the experience and professional qualities required for the new positions.

Last but not least, Chimimport AD is of the utmost importance to retain and develop its cadres and consistently makes efforts in this direction. Throughout the year, staff development programs are being set up to explore and improve the professional qualities of its staff and to fully exploit their potential.

### Assessment of performance and development

The overall performance of a company undoubtedly depends on the individual performance and achievements of its employees. Therefore, it is extremely important for the company to objectively assess the contribution of each employee, which is done during the annual evaluation of performance and development. The annual evaluation aims to determine the remuneration of employees that corresponds to their performance and to help them to improve their skills constantly.

The annual evaluation procedure itself ensures transparency and objectivity. It allows staff to be assessed on the basis of the position they occupy and takes into account the different nature of the duties performed. The appraisal system does not only address the extent to which the objectives are met but also draws attention to the way the tasks are done. This promotes communication between evaluators and evaluates and encourages the professional and personal development of each employee.

### Labor remuneration and social benefits

The pay and additional benefits policy has been developed to attract, hire and retain highly qualified staff. It is based on the following principles: internal balance, recognition of the personal qualities of each employee, remuneration consistent with performance and competitiveness.

### Company's values:

- fairness-equal opportunities for development.
- quality-we strive for perfection in every endeavor
- respect- to our colleagues, clients and fellow citizens
- teamwork - we succeed when we are together
- trust -it also makes the impossible achievable
- social responsibility - we work with public care
- effectiveness-we are looking for innovative ideas in our quest for improvement
- creativity - we always aim to achieve our goals.

### III. Major risks related to environmental and social issues

The success of any business is inextricably linked to the well-being of the community within which it operates. That is why the daily operations of Chimimport AD are subject to the highest ethical principles and to the unwavering desire of the company to make a significant contribution to the development of Bulgarian society. Chimimport AD also welcomes new opportunities for initiatives that benefit local communities and increase civic awareness among its employees.

The policy of the company for environmental protection consists of:

1. Implement the activities in a way that guarantees the protection of the environment
2. Analysis and assessment of the impact on nature as a result of the activities of all the companies in the Group
3. Take precautionary measures against potential environmental pollution
4. Respect all laws and regulations as well as the internal regulations adopted by the company for environmental equilibrium.

The main environmental risks that are relevant to the company's activities are related to non-compliance with environmental standards and established rules.

The main social risk faced by the company is the risk of an increase in the average age of the staff. Other employee-related risks are: the occupational risk and the low qualification of newly recruited personnel.

Future tasks to Chimimport AD are:

1. Getting new qualified staff and lowering the average age of staff.

2. Limiting turnover to a minimum by introducing incentives to achieve results and expanding the social agenda 3. Training of newly recruited personnel Chimimport adheres to all its environmental and social policies.

Chimimport adheres to all its accepted environmental and social policies.

CHIMIMPORT

## CONTACT US

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WEBSITE: [www.chimimport.bg](http://www.chimimport.bg)

Медии за разкриване на информация  
[www.x3news.com](http://www.x3news.com)

All current shareholders, interested persons/stakeholders and potential investors may receive the necessary information related to the activities of the company and its financial results at the following address:

2 "Stefan Karadja" Str., Sofia 1000, every Friday from 13.00 till 17.00.



FOR ADDITIONAL INFORMATION  
PLEASE VISIT OUR WEBSITE

[www.chimimport.bg](http://www.chimimport.bg)



### USEFUL LINKS

Financial Supervision Commission  
<http://www.fsc.bg/>

Bulgarian Stock Exchange  
<http://www.bse-sofia.bg/>

Central Depository  
<http://www.csd-bg.bg/>

Bulgarian National Bank  
<http://www.bnb.bg/>

Privatization Agency  
<http://www.priv.government.bg/>

[www.chimimport.bg](http://www.chimimport.bg)