ProCredit Bank

Part of the
ProCredit Group

Consolidated Financial Statements 2019

PROCREDIT BANK (BULGARIA) EAD
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2019

The financial statements in English are a translation from the original, which was prepared in Bulgarian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the report takes precedence over this translation.

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Independent Auditors' Report

To the Sole shareholder of ProCredit Bank (Bulgaria) EAD

Report on the audit of the consolidated financial statements

Our opinion

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

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) and the ethical requirements of the Independent Financial Audit Act that are relevant to our audit of the consolidated financial statements in Bulgaria. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Independent Financial Audit Act.

PricewaterhouseCoopers Audit OOD, 9-11 Maria Louisa Blvd., 1000 Sofia, Bulgaria
T: +359 2 9355200, F: +359 2 9355266, www.pwc.com/bg; Registered with the Sofia City Court under company file number 13424/1997.

Baker Tilly Kliotu and Partners OOD, 5 Stara Planina Str., 5th and 6th floor, Sofia 1000, Bulgaria
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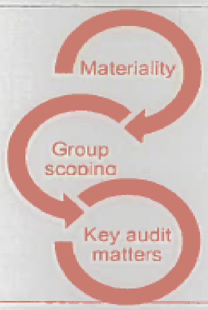
Our audit approach

Overview



- Overall Group materiality: BGN 2,021 thousand, which represents 5% of profit before tax.

- We conducted audit work of three reporting units in two countries.
- Our audit scope addressed 99.9% of the Group's total assets and 99.5% of the Group's absolute value of underlying profit before tax.

- Estimation uncertainty with respect to the impairment allowance for loans and advances to customers

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.

Overall Bank materiality	BGN 2,021 thousand
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We applied profit before tax as a benchmark because, in our view, it is the benchmark against which the performance of the Group is commonly measured by the users of the consolidated financial statements and it is a generally accepted benchmark.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment allowance for loans and advances to customers The impairment allowance for loans and advances to customers has been determined in accordance with IFRS 9 "Financial Instruments". We focus on this area because IFRS 9 is a complex accounting standard which requires management's subjective judgement over the interpretation of the requirements applicable to the new expected credit loss model, identification of the exposures with significant increase in credit risk and the estimation of the amount that should be recognized. As described in note 18 to the consolidated financial statements, the Group has recorded as at December 31, 2019 impairment allowances on loans and advances to customers amounting to BGN 35,192 thousand. The identification of significant increase in credit risk and the determination of loans' recoverable amounts are part of the Group's estimations and expected credit loss models including, amongst others, the assessment of objective evidence for impairment, the probability of default, loss given default, exposure at default parameters, the financial condition of the debtors, the expected future cash-flows and the value of collateral. The use of different assumptions could lead to different estimates of impairment charges on loans and advances to customers. Because of the significance of the valuation of loans and advances to customers for the consolidated financial statements, and due to the fact that the assumptions in determining the impairment allowances include significant estimates and application of professional judgment, we identified impairment of loans and advances to customers as a key audit matter.	Our audit approach included assessment of the modelling design, validation and documentation and the Group's expected credit loss methodology for compliance with IFRS 9. We have assessed and tested the design and operating effectiveness of the controls within the lending and provision processes and determined that we could rely on these controls for the purposes of the audit. We involved auditor's experts in the areas which required specific expertise. For individually impaired loans we have performed, for a sample of credit exposures, a detailed review of loans files. We challenged the assumptions related to impairment identification and quantification of expected of future cash-flows (recoverable amounts) determined based on either valuation of underlying collateral or other recoveries. For the loan impairment calculated on a collective basis, we tested the underlying models and the appropriateness of the model parameters such as probability of default, loss given defaults, exposure at default and where available, compared data and assumptions to historical experience. We assessed the completeness, appropriateness and adequacy of the disclosures in the Group's consolidated financial statements with regard to the measurement of loans and advances to customers.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

We have audited the financial information of the Bank, which represents 99.9% of the Group's total assets.

These together with additional procedures performed at the Group level, including testing of consolidation journals and intercompany eliminations, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

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

Management is responsible for the other information. The other information comprises the Consolidated Annual Activity Report and the Consolidated Corporate Governance Statement, prepared by the management in accordance with Chapter Seven of the Accountancy Act, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Additional matters to be reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, in relation to the Consolidated Annual Activity Report and the Consolidated Corporate Governance Statement, we have also performed the procedures added to those required under ISAs in accordance with the "Guidelines regarding the new and enhanced auditor reporting and communication by the auditor" of the professional organisation of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming an opinion on whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and where applicable art. 100(m) paragraph 8 of Public Offering of Securities Act, applicable in Bulgaria.

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

Based on the procedures performed, in our opinion:

a) the information included in the Consolidated Annual Activity Report referring to the financial year for which the consolidated financial statements have been prepared is consistent with those consolidated financial statements.

b) the Consolidated Annual Activity Report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

c) the Consolidated Corporate Governance Statement for the consolidated financial year, for which the consolidated financial statements have been prepared, presents the information required by Chapter Seven of the Accountancy Act and where applicable Art. 100(m), paragraph 8 of the Public Offering of Securities Act.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

Those charged with governance are responsible for overseeing the Group's consolidated financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

We are jointly and severally responsible for the performance of our audit and for the audit opinion expressed by us in accordance with the requirements of the Independent Financial Audit Act, applicable in Bulgaria. In accepting and performing the engagement for the joint audit, in connection to which we report, we have also been guided by the Guidelines for the implementation of joint audit, issued on 13 June 2017 by the Institute of Certified Public Accountants, Bulgaria and the Commission for Public Oversight of Statutory Auditors in Bulgaria.

Report on other legal and regulatory requirements

Additional reporting on the audit of the consolidated financial statements in connection with art. 10 of Regulation (EU) 537/2014 in connection with the requirements of art. 59 of the Independent Financial Audit Act

In accordance with the requirements of the Independent Financial Audit Act in connection with Art.10 of Regulation (EU) 537/2014, we hereby additionally report the information stated below:

- PricewaterhouseCoopers Audit OOD was appointed as a statutory auditor of the consolidated financial statements of the Group for the year ended 31 December 2019 by the general meeting of shareholders held on 25 November 2019 for a period of one year. PricewaterhouseCoopers Audit OOD was first appointed as auditors of the Group on 28 August 2014.
- Baker Tilly Klitou and Partners OOD was appointed as a statutory auditor of the consolidated financial statements of the Group for the year ended 31 December 2019 by the general meeting of shareholders held 25 November 2019 for a period of one year. Baker Tilly Klitou and Partners OOD was first appointed as auditors of the Group on 11 December 2017.
- The audit of the consolidated financial statements of the Group for the year ended 31 December 2019 represents the sixth of total uninterrupted statutory audit engagements for that entity carried out by PricewaterhouseCoopers Audit OOD.
- The audit of the consolidated financial statements of the Group for the year ended 31 December 2019 represents the third of total uninterrupted statutory audit engagements for that entity carried out by Baker Tilly Klitou and Partners OOD.

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- We hereby confirm that the audit opinion expressed by us is consistent with the additional report provided to the Group's audit committee in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We hereby confirm that we have not provided the prohibited non-audit services referred to in Art.64 of the Independent Financial Audit Act.
- We hereby confirm that in conducting the audit we have remained independent of the Group.
- For the period to which our statutory audit refers, PricewaterhouseCoopers Audit OOD have provided to the Bank, in addition to the audit, the following services in the total amount of BGN 63,017 which have not been disclosed in the Bank's consolidated financial statements:
    - Limited reviews of the consolidated ProCredit Bank group reporting forms, prepared by the Bank in accordance with ProCredit Group accounting manual for the periods ended 30 June 2019 and 30 September 2019;
    - Audit of the consolidated ProCredit Bank group reporting forms, prepared by the Bank in accordance with ProCredit Group accounting manual for the year ended 31 December 2019;
    - Specified procedures of the consolidated ProCredit Bank group reporting forms, prepared by the Bank in accordance with ProCredit Group requirement for the period ended 30 September 2019;
    - Report in accordance with the requirements of Art. 76 (8) by the Law on Credit Institutions and Regulation 14 by BNB from 4 February 2010 for the year ended 31 December 2019 (jointly with Baker Tilly Klitou and Partners OOD).
- For the period to which our statutory audit refers, Baker Tilly Klitou and Partners OOD have provided to the Bank, in addition to the audit, the following services in the total amount of BGN 978 which have not been disclosed in the Bank's consolidated financial statements:
    - Report in accordance with the requirements of Art. 76 (8) by the Law on Credit Institutions and Regulation 14 by BNB from 4 February 2010 for the year ended 31 December 2019 (jointly with PricewaterhouseCoopers Audit OOD).

For PricewaterhouseCoopers Audit OOD:

Jock Nunan
Procurist

Tsvetana Tsankova
Registered Auditor responsible for the audit
9-11, Maria Luiza Blvd.
1000 Sofia, Bulgaria

Date: 15 April 2020

Одиторско дружество София рег. № 085

For Baker Tilly Klitou and Partners OOD:

Spyridon Gkrouits
Authorized Representative

Liliya Rangelova
Registered Auditor responsible for the audit
5, Stara Planina str., 5th floor
1000 Sofia, Bulgaria

Date: 15 April 2020

Одиторско дружество София рег. № 129

Consolidated Statement of Profit or Loss

(all amounts expressed in thousands of BGN)	**Notes**	**Year ended 31 December**	
		2019	**2018**
Interest and similar income	6	64,877	62,510
Interest and similar expenses	6	(6,156)	(4,965)
Net interest income		**58,721**	**57,545**
(Loss allowance)/Reversal of loss allowance	7	464	(1,656)
Net interest income after allowances		**59,185**	**55,889**
Fee and commission income	8	24,027	24,666
Fee and commission expenses	8	(2,974)	(2,407)
Net fee and commission income		**21,053**	**22,259**
Result from foreign exchange transactions	9	8,823	7,812
Result from investment securities	10	-	(321)
Net other operating income	11	859	2,855
Operating income		**89,920**	**88,494**
Personnel expenses	12	(18,429)	(16,364)
Administrative expenses	13	(31,078)	(29,676)
Operating expenses		**(49,507)**	**(46,040)**
Profit before tax		40,413	42,454
Income tax expense	14	(4,211)	(4,345)
Profit for the year		**36,202**	**38,109**

These consolidated financial statements on pages 1 to 68 were approved by the Management Board and signed on its behalf by:

Reni Peicheva
Executive Director and
Member of the Management Board
14 April 2020

Ivan Dachev
Executive Director and
Member of the Management Board

Initialled for identification purposes in reference to the auditors' report

For PricewaterhouseCoopers Audit OOD

Jock Nunan
Procurator

Tsvetana Tsankova
Registered auditor, responsible for the audit
15 April 2020

For Baker Tilly Klitou and Partners OOD

Spyridon Gkrouits
Authorised Representative

Liliya Rangelova
Registered auditor, responsible for the audit
15 April 2020

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 085

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 129

The notes set out on pages 6 to 68 form an integral part of these financial statements.

Consolidated Statement of Other Comprehensive Income

(all amounts expressed in thousands of BGN)	Notes	Year ended 31 December	
		2019	**2018**
Profit for the year		36,202	38,109
Items that will not be reclassified to profit or loss			
Change in revaluation reserve from financial assets at fair value through other comprehensive income (shares)		1,474	641
Items that may be reclassified subsequently to profit or loss			
Change in revaluation reserve from financial assets at fair value through other comprehensive income (Bulgarian Government debt securities)		17	120
Other comprehensive income for the year, net of tax		**1,491**	**761**
Total comprehensive income for the year		**37,693**	**38,870**

These consolidated financial statements on pages 1 to 68 were approved by the Management Board and signed on its behalf by:

Reni Peicheva
Executive Director and
Member of the Management Board
14 April 2020

Ivan Dachev
Executive Director and
Member of the Management Board

Initialled for identification purposes in reference to the auditors' report

For PricewaterhouseCoopers Audit OOD

Jock Nunan
Procurator

Tsvetana Tsankova
Registered auditor, responsible for the audit
15 April 2020

For Baker Tilly Klitou and Partners OOD

Spyridon Gkrouits
Authorised Representative

Liliya Rangelova
Registered auditor, responsible for the audit
15 April 2020

The notes set out on pages 6 to 68 form an integral part of these financial statements.

Consolidated Statement of Financial Position

(all amounts expressed in thousands of BGN)	Notes	31.12.2019	31.12.2018
ASSETS			
Cash and cash equivalents	15	282,956	218,803
Loans and advances to banks	16	325,387	268,469
Investment securities (FVOCI)	17	21,497	33,384
Loans and advances to customers	18	1,810,082	1,598,077
Property, plant and equipment	19	45,198	39,376
Intangible assets	19	5,490	5,067
Deferred tax assets	20	313	550
Other assets	21	9,572	11,124
Total assets		**2,500,495**	**2,174,850**
LIABILITIES			
Liabilities to banks	22	27,634	91,164
Liabilities to customers	23	2,051,999	1,656,287
Liabilities to financial institutions	24	145,454	179,662
Lease liabilities	25	4,274	-
Other liabilities	26	5,187	3,747
Provisions	27	1,081	959
Current tax liabilities		522	515
Total liabilities		**2,236,151**	**1,932,334**
EQUITY			
Share capital and share premium	28	206,822	187,264
Legal reserve		8,417	6,461
Other reserve		6,514	6,514
Retained earnings		39,367	40,544
Revaluation reserve		3,224	1,733
Total equity		**264,344**	**242,516**
Total equity and liabilities		**2,500,495**	**2,174,850**

These consolidated financial statements on pages 1 to 68 were approved by the Management Board and signed on its behalf by:

Reni Peicheva
Executive Director and
Member of the Management Board
14 April 2020

Ivan Dachev
Executive Director and
Member of the Management Board

Initialled for identification purposes in reference to the auditors' report
For PricewaterhouseCoopers Audit OOD

Jock Nunan
Procurator

Tsvetana Tsankova
Registered auditor, responsible for the audit
15 April 2020

For Baker Tilly Klitou and Partners OOD

Spyridon Gkrouits
Authorised Representative

Liliya Rangelova
Registered auditor, responsible for the audit
15 April 2020

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 085 ПРАЙСУОТЪРХАУС КУПЪРС ОДИТ ООД

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

The notes set out on pages 6 to 68 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

(all amounts expressed in thousands of BGN)	Share capital	Share premium	Legal reserve	Other reserve	Retained earnings	Revaluation reserve	Total
Balance as of 31 December 2017	**164,210**	**3,496**	**6,461**	**6,514**	**35,035**	**953**	**216,669**
Change on initial application of IFRS 9	-	-	-	-	(577)	19	(558)
Restated balance as of 1 January 2018	**164,210**	**3,496**	**6,461**	**6,514**	**34,458**	**972**	**216,111**
Comprehensive income for the year							
Change in revaluation reserve, net of taxes	-	-	-	-	-	761	761
Profit for the year	-	-	-	-	38,109	-	38,109
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**38,109**	**761**	**38,870**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Capital increase	19,558	-	-	-	-	-	19,558
Distributed dividends	-	-	-	-	(32,023)	-	(32,023)
Total contributions by and distributions to owners	**19,558**	**-**	**-**	**-**	**(32,023)**	**-**	**(12,465)**
Balance as of 31 December 2018	**183,768**	**3,496**	**6,461**	**6,514**	**40,544**	**1,733**	**242,516**
Comprehensive income for the year							
Change in revaluation reserve, net of taxes	-	-	-	-	-	1,491	1,491
Transfer	-	-	1,956	-	(1,956)	-	-
Profit for the year	-	-	-	-	36,202	-	36,202
Total comprehensive income for the year	**-**	**-**	**1,956**	**-**	**34,246**	**1,491**	**37,693**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Capital increase	19,558	-	-	-	-	-	19,558
Distributed dividends	-	-	-	-	(35,423)	-	(35,423)
Total contributions by and distributions to owners	**19,558**	**-**	**-**	**-**	**(35,423)**	**-**	**(15,865)**
Balance as of 31 December 2019	**203,326**	**3,496**	**8,417**	**6,514**	**39,367**	**3,224**	**264,344**

These consolidated financial statements on pages 1 to 68 were approved by the Management Board and signed on its behalf by:

Reni Peicheva
Executive Director and
Member of the Management Board
14 April 2020

Ivan Dachev
Executive Director and
Member of the Management Board

Initialled for identification purposes in reference to the auditors' report

For PricewaterhouseCoopers Audit OOD

Jock Nunan
Procurator

Tsvetana Tsankova
Registered auditor, responsible for the audit
15 April 2020

For Baker Tilly Klitou and Partners OOD

Spyridon Gkrouits
Authorised Representative

Liliya Rangelova
Registered auditor, responsible for the audit
15 April 2020

Одиторско дружество София Рег. № 085 Прайсуотърхаускупърс Одит ООД

Одиторско дружество София Рег. № 129 Бейкър Тили Клиту и Партньори ООД

The notes set out on pages 6 to 68 form an integral part of these financial statements.

Consolidated Statement of Cash Flows

(all amounts expressed in thousands of BGN)	Notes	Year ended 31 December 2019	2018
Profit for the year		36,202	38,109
Non-cash items and transition to the cash flow from operating activities			
Loss allowance/(Reversal of loss allowance)	7	(464)	1,656
Result from investment securities	10	-	321
Depreciation	13	6,310	5,200
Unrealised (gains)/losses from currency revaluation	9	13	(90)
Increase in right-of-use assets		(5,421)	-
Increase in lease liabilities		5,838	-
Net interest income	6	(58,721)	(57,545)
Income tax expense	14	4,211	4,345
Increase/ decrease of assets and liabilities from operating activities after non-cash items			
Required reserve with the central bank		(37,556)	(19,064)
Loans and advances to customers		(210,640)	(198,746)
Other assets		1,404	2,068
Short term liabilities to banks and financial institutions		(37,557)	7,292
Liabilities to customers		395,692	190,351
Other liabilities		1,563	(3,135)
Interest received		64,256	65,204
Interest paid		(5,869)	(8,900)
Interest paid (lease liabilities)		(128)	-
Income tax paid		(3,820)	(4,260)
Cash flow from operating activities		**155,313**	**22,806**
Cash flows from investing activities			
Purchases of Property, plant and equipment and intangible assets		(7,779)	(6,286)
Income from sale of Property, plant and equipment and intangible assets		645	1,717
Securities purchased		-	(15,529)
Securities matured		13,032	14,956
Cash flow from investing activities		**5,898**	**(5,142)**
Cash flow from financing activities			
Dividends paid		(35,423)	(32,023)
Shares issued		19,558	19,558
Long term liabilities to banks and financial institutions, net		(60,459)	(17,323)
Lease liabilities		(1,436)	-
Cash flow (used in) financing activities		**(77,760)**	**(29,788)**
Net (decrease)/increase in cash and cash equivalents		**83,451**	**(12,124)**
Cash and cash equivalents at the beginning of the year		**335,998**	**348,122**
Cash and cash equivalents at the end of the year	15	**419,449**	**335,998**

These consolidated financial statements on pages 1 to 68 were approved by the Management Board and signed on its behalf by:

Reni Peicheva
Executive Director and
Member of the Management Board
14 April 2020

Ivan Dachev
Executive Director and
Member of the Management Board

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For PricewaterhouseCoopers Audit OOD

Jock Nunan
Procurator

Tsvetana Tsankova
Registered auditor, responsible for the audit
15 April 2020

For Baker Tilly Klitou and Partners OOD

Spyridon Gkrotsis
Authorised Representative

Liliya Rangelova
Registered auditor, responsible for the audit
15 April 2020

Одиторско дружество София Рег. № 085 Прайсуотърхаускупърс Одит ООД

Одиторско дружество София Рег. № 129 Бейкър Тили Клиту и Партньори ООД

The notes set out on pages 6 to 68 form an integral part of these financial statements.

1 Reporting entity

ProCredit Bank (Bulgaria) EAD ("ProCredit Bank", "the bank" or "the institution") was founded in October 2001 by an alliance of international development-oriented investors, many of which are shareholders in ProCredit Holding AG & Co. KGaA („ProCredit Holding") today. Since the beginning of 2013 the sole shareholder of the bank is ProCredit Holding.

The bank is part of the international group of financial institutions owned by ProCredit Holding. ProCredit Holding is the ultimate parent and ultimate controlling party of the ProCredit group of banks ("the ProCredit group"). The bank has two subsidiaries – ProCredit Properties EAD and ProCredit Education EAD (referred to collectively as "the group"), which are wholly owned.

The group is managed through a Supervisory Board consisting of five members and a Management Board consisting of four members as of December 2019 which are elected for a period of three years.

ProCredit Bank is a development oriented full service bank which aims to be a house bank for businesses and private clients. Business clients, serviced by the bank, are companies, agricultural producers and self-employed persons. They are categorised as Small and Medium in accordance to their business potential. Private clients are regular income receivers (salary, pension or other) and business owners. The bank strives to have comprehensive knowledge about its customers and to implement an individual approach and strategy for servicing each client, being based on the client's profile. Strategically, the bank focuses on production companies, agricultural producers, green and energy efficiency financing.

2 Basis of preparation

a Compliance with International Financial Reporting Standards

ProCredit Bank prepares its Consolidated Financial Statements in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee ("IFRS IC") as adopted by the European Union ("EU"). IFRSs as adopted by the EU is the commonly accepted name of the general purpose framework – the basis of accounting equivalent to the framework definition introduced by § 1, p. 8 of the Additional Provisions of the Accountancy Act "International Accounting Standards" (IASs). The financial statements were prepared on a consolidated basis according to the Accountancy Act. The consolidated financial statements were approved by the Management Board on 14 April 2020.

The Consolidated Financial Statements comprise the Consolidated Statement of Profit or Loss, the Consolidated Statement of Other Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the Notes to the Consolidated Financial Statements. The information required by IFRS 7 on the nature and extent of risks arising from financial instruments and their management is presented in the Risk Report section of the Management Report.

The principle accounting policies have been consistently applied to all the years presented, unless otherwise stated. All amounts are presented in thousands of Bulgarian leva (BGN), unless otherwise stated. The fiscal year of the group is the calendar year. For computational reasons, the figures in the tables may exhibit rounding differences of ± one unit (BGN, %, etc.). Reporting and valuation are made on a going concern basis.

2 Basis of preparation (continued)

b Consolidation

The consolidated financial statements comprise the financial statements of ProCredit Bank (Bulgaria) EAD and its subsidiaries as of 31 December 2019. Subsidiaries are all companies which are controlled by the group, i.e. for which the group can determine the financial and operating policies. The subsidiaries are fully consolidated. The group had two subsidiaries as of end 2019 – ProCredit Properties EAD and ProCredit Education EAD. Intercompany transactions, balances and unrealised gains and losses on transactions between the bank and its subsidiary companies are eliminated. Where necessary, the accounting policies of the subsidiaries have been changed to ensure consistency with the policy adopted by the group. The purchase method of accounting is used to account for the acquisition of subsidiaries by the group.

c Measurement basis

The financial statements have been prepared on a historical cost basis, except for the following:

- Certain financial assets and liabilities (including derivative instruments), measured at fair value.
- Assets held for sale - measured at fair value less costs to sell.

d Use of assumptions and estimates

The group's financial reporting and its financial result are influenced by assumptions, estimates and management judgements which necessarily have to be made in the course of preparation of the Consolidated Financial Statements.

All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with applicable standard. Estimates and judgements are evaluated on continuous basis, and are based on past experience and other factors, including expectations with regard to future events and are considered appropriate under the given circumstances. The authenticity of accounting estimates and judgments is monitored regularly.

The group makes estimates and judgments for the purposes of the accounting and disclosure. The resulting accounting estimates will, by definition, seldom equal the related actual results. Management judgements for certain items are especially critical for the group's results and financial situation due to their materiality in amount. This applies to the following positions:

Impairment of credit exposures
By applying IFRS 9, the Incurred-Loss Model from IAS 39 is replaced by the Expected-Loss Model. Loss allowances are established in an amount equivalent to the expected loss for all financial assets recognised at amortised cost, for all funding instruments recognised at fair value with changes in fair value reported in Other Comprehensive Income (FVOCI), and for off-balance-sheet business. Expected credit losses are recorded in an approach with various stages. ProCredit Bank reports the balance sheet items "Central bank reserves", "Loans and advances to banks", "Investment securities", "Loans and advances to customers" and "Other assets" net (including loss allowances). Further information on the group's accounting policy on loan loss provisioning can be found in Note 3g.

Measurement of deferred tax asset
The group recognises deferred tax assets only to the extent that it is probable that taxable profits will be available against which the tax-reducing effects can be utilised. The profit projection is based on the latest business planning as of December 2019 approved by the Supervisory Board of the group and therefore reflects management's view of future business prospects. The tax planning period of the group is five years. For details on the recognised amounts see Notes 14 and 20.

2 Basis of preparation (continued)

Use of assumptions and estimates (continued)

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

For leases of premises, the following factors are normally the most relevant:
- If there are significant penalties to terminate (or not extend), the group is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the group is typically reasonably certain to extend (or not terminate).
- Otherwise, the group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset. Most extension options for offices leases have not been included in the lease liability, because the bank could replace the assets without significant cost or business disruption.

As at 31 December 2019 there are no potential future cash outflows which have been excluded from the lease liability because it is not reasonably certain that the leases will be extended (or not terminated).

The lease term is reassessed if an option is actually exercised (or not exercised) or the group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee. During the current financial year, there was no financial effect of revising lease terms to reflect the effect of exercising extension and termination options.

Estimating the amount payable under residual value guarantees
The bank does is not part under lease agreements which anticipate residual value guarantee.

e New and amended standards adopted by the group

This note provides a list of the significant accounting policies adopted in the preparation of these financial statements to the extent they have not already been disclosed in the other notes above. These policies have been consistently applied to all the years presented, unless otherwise stated

(i) Standards, amendments and interpretations adopted by the group and effective on or after 1 January 2019

The group has applied the following standards and amendments for the first time for their annual reporting period commencing on 1 January 2019:

- IFRS 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). IFRS 16 “Leases” replaces IAS 17 together with the corresponding interpretations and has an impact on the recognition, measurement and presentation of existing contracts as lessees. Existing leases will now be reported as “right-of-use” (“ROU”) assets under “Property, Plant and Equipment” and leasing liabilities will be reported as a separate line in the consolidated balance sheet. The impact of the first time application is shown under Note 19 and 25. The bank applies IFRS 16 retrospectively using the modified retrospective approach. At the time of initial application, there were no effects on the opening balance of retained earnings.

2 Basis of preparation (continued)

e New and amended standards adopted by the group (continued)

Accordingly, no adjustment was made to the comparative information for 2018. The bank applies the definition of a lease under IFRS 16 for all agreements at the date of initial application. There are no leases that were previously classified as finance leases. Leases with a term ending less than 12 months after the date of initial application are treated as short-term leases and are not recognised in the balance sheet. Likewise, no assets of low value are recognised. For contracts with extension and termination options, the term of the lease was determined retrospectively. IFRS 16 is applicable for annual periods beginning on or after 1 January 2019.

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

As at 1 January 2019, the group recognized assets with a right of use amounting to BGN 6,612 thousand and lease liabilities amounting to BGN 6,612 thousand (after adjustments for prepayments and accrued lease payments recognized as at 31 December 2018.).

The group does not have activity as a lessor.

- IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- Prepayment Features with Negative Compensation - Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- Plan Amendment, Curtailment or Settlement - Amendments to IAS 19 (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

The following standards, amendments or interpretations were issued by the IASB and endorsed by the EU and had no impact on the group's financial statements: IFRIC 23 "Uncertainty over Income Tax Treatments", amendments to IAS 19 "Plan amendments, curtailments, and settlements", and amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures".

(ii) Standards, amendments and interpretations issued but not yet effective

Certain new accounting standards and interpretations that are not mandatory for the reporting period at 31 December 2019 and have not been previously adopted by the group have been published. The group's assessment of the impact of these new standards and interpretations is set out below.

2 Basis of preparation (continued)

e New and amended standards adopted by the group (continued)

- Amendments to the references to the framework in IFRS will have a minor impact on the financial statements. The amendments are effective for annual periods beginning on or after 1 January 2020.
- Amendments to IAS 1 and IAS 8: “Definition of Material” will have a minor impact on the financial statements. The amendments are effective for annual periods beginning on or after 1 January 2020.
- Amendments to IFRS 9, IAS 39 and IFRS 7: “reference rate reform” will have a minor impact on the financial statements. The amendments are effective for annual periods beginning on or after 1 January 2020.

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

There was no early adoption of any standards, amendments and interpretations not yet effective.

(iii) New standards, interpretations and amendments not yet adopted by the EU

- IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).
- Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (issued on 23 January 2020).

The adoption of amendments is not expected to impact the group’s consolidated financial statements.

3 Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these financial statements to the extent they have not already been disclosed in the other notes above. These policies have been consistently applied to all the years presented, unless otherwise stated.

a Foreign currency translation

(a) Functional and presentation currency
Items included in the financial statements are measured using the currency with which the entity operates in its primary economic environment (“the functional currency”). The financial statements are presented in Bulgarian leva, which is the group’s functional and presentation currency. All amounts stated within the financial statements are presented in thousands of Bulgarian leva unless otherwise specified.

(b) Transactions and balances
Foreign currency assets and liabilities are translated into the functional currency using the closing exchange rates, and items of income and expenses are translated at the monthly average rate of exchange when these approximate actual rates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated Statement of Profit or Loss (result from foreign exchange transactions).

In the case of changes in the fair value of financial assets at fair value through other comprehensive income denominated in foreign currency a distinction is made between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. Translation differences on financial assets at fair value through other comprehensive income in the Consolidated Statement of Profit or Loss.

Non-monetary items measured at historical cost denominated in foreign currency are translated with the historical exchange rate as of the date of the transaction.

As of 31 December 2019, monetary assets and liabilities denominated in foreign currency were translated into Bulgarian leva at the official central bank exchange rate: BGN 1.95583 for EUR 1 and BGN 1.74099 for USD 1 (2018: BGN 1.95583 for EUR 1 and BGN 1.70815 for USD 1).

b Interest income and expenses

Interest income and expenses for all interest-bearing financial instruments are recognised within “Interest income” and “Interest expense” in the Consolidated Statement of Profit or Loss using the effective interest rate method in the period in which they arise.

Payments received in respect of written-off loans are not recognised in net interest income, but rather under “Loss allowances”.

c Fee and commission income and expenses

Fees and commissions consist mainly of fees for Bulgarian leva and foreign currency transactions, and are generally recognised on an accrual basis. Fee and commission expenses concern fees incurred by the group in dealings with other banks and are recognised on the date of the transaction.

3 Summary of significant accounting policies (continued)

d Result from foreign exchange transactions

“Result from foreign exchange transactions” refers primarily to the results of foreign exchange dealings with and for customers. The group does not engage in any foreign currency trading on its own account. This position also includes unrealised foreign currency revaluation effects. The group does not apply hedge accounting as defined by IFRS 9.

e Financial instruments

ProCredit Bank classifies its financial assets according to their underlying business model. Differentiation is made between the following business models:

- "Hold to collect”: The financial assets are held with the aim of collecting the contractual cash flows through interest and principal payments (Solely Payments of Principal and Interest (“SPPI”) conform.
- “Hold to collect and sell”: The financial assets are held with the aim of both collecting the contractual cash flows and selling the financial assets.
- "Other": This business model is used for financial assets that are neither allocated to the “hold to collect" business model nor to the "hold to collect and sell" business model.

Our business models for financial assets are assessed on the basis of groups of financial assets (portfolios). The allocation to a business model is based on the actual circumstances at the time of the assessment. This is a discretionary decision by the management. The following criteria, among others, are taken into account:

- the business and risk strategy of ProCredit Bank (and ProCredit group) and
- the way in which the development of the business model is evaluated and reported to the Management and the Supervisory Board of the bank
- if there were sales in previous periods, the frequency, volume, timing and reasons for those sales as well as expectations regarding future sales activities.

As a result, the balance sheet items allocated to the “hold to collect” business model are: “Central bank balances”, “Loans and advances to banks”, “Loans and advances to customers” and “Other assets”. “Investment securities” (which are debt securities) are allocated to the “hold to collect and sell” business model. Furthermore, a small amount of shares are allocated to the “hold to collect and sell” business model, included in the balance sheet under “Investment securities”. “Cash” and “Derivative financial assets” are allocated to the “other” business model.

Subsequent recognition of financial liabilities is generally performed at amortised cost. Only derivative financial liabilities are recognised at fair value.

(a) Financial assets and financial liabilities at fair value through profit or loss

Financial assets allocated to the “Other” business model are recognised at fair value through profit or loss. This includes “Cash” and “Derivative financial assets”. Only “Derivative financial liabilities” are recognised as financial liabilities at fair value through profit or loss.

The group does not apply hedge accounting. Derivatives with a positive fair value at the balance sheet date are carried as financial assets and reported under “Derivative financial assets”. Derivatives with a negative fair value are carried as financial liabilities and are reported under “Derivative financial liabilities”.

3 Summary of significant accounting policies (continued)

e Financial instruments (continued)

Derivative financial instruments are initially recognised at fair value, and transaction costs are expensed in the Consolidated Statement of Profit or Loss. Purchases and sales of derivative financial instruments are recognised on the trade date – the date on which the group commits to purchase or sell the instrument. Subsequently, the financial instruments are also carried at fair value. Gains and losses arising from changes in their fair value are immediately recognised in the Consolidated Statement of Profit or Loss of the period.

Derivative financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the group has transferred legal rights and substantially all risks and rewards of ownership. Derivative financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expired.

(b) Financial assets at amortised costs

A financial asset is classified "at amortised cost" when the financial asset is assigned to the "hold to collect" business model with the objective to solely collect contractual cash flows through interest and principal payments (SPPI conform). The review of the SPPI criterion is a discretionary decision of the Management. These arise when the group provides capital directly to a contracting party with no intention of trading the receivable.

These financial assets are initially recognised at fair value plus transaction costs; subsequently they are measured at amortised cost using the effective interest method. Expected credit losses are basically recognised using a three-stage model (see Note 3g for the accounting policy for impairment of credit exposures, as well as Notes 7 and 18). If the amount of the impairment loss decreases, the impairment allowance is reduced accordingly, and the amount of the reduction is recognised in the Consolidated Statement of Profit or Loss. The upper limit on the reduction of the impairment is equal to the amortised costs which would have been incurred as of the valuation date if there had not been any impairment. Loans and receivables are derecognised when the rights to receive cash flows from the financial assets have expired or where the group has transferred substantially all risks and rewards of ownership. In addition, when loans and receivables are restructured with substantially different terms and conditions, the original financial asset is derecognised and replaced with the new financial asset.

(c) Financial assets at fair value with changes in fair value recognised in Other Comprehensive Income

A financial asset is classified and recognised as "at fair value with changes in fair value recognised in Other Comprehensive Income" ("FVOCI financial instrument"), if the financial asset is allocated to a "hold to collect or sell" business model.

In general, "investment securities" are allocated to this business model. The cash flow criterion is checked individually. All investment securities of the group (which are debt securities) generally fulfil the cash flow criterion (SPPI conform) but can be sold if required. Furthermore, a small amount of shares (also included under the position "Investment securities") are allocated to this business model. In general, there is no intention to trade or sell these shares.

3 Summary of significant accounting policies (continued)

e Financial instruments (continued)

At initial recognition, the FVOCI financial instruments are recorded at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Subsequently they are carried at fair value. Gains and losses arising from changes in fair value are recognised in the Consolidated Statement of Other Comprehensive Income under "Revaluation reserve". If the financial asset is derecognised or impaired (for details on impairment, see Note 3g), the cumulative gain or loss previously recognised in the "Revaluation reserve" is recognised in the Consolidated Statement of Profit or Loss in the position "Net result from investment securities". Interest calculated using the effective interest rate method and foreign currency gains and losses on monetary assets classified as FVOCI financial instruments are recognised in the Consolidated Statement of Profit or Loss. For the FVOCI capital instruments, any dividend payments are recognised in the Consolidated Statement of Profit or Loss, but not the accumulated value change on derecognition (no recycling).

Purchases and sales of FVOCI financial instruments are recorded as of the trade date. They are derecognised when the rights to receive cash flows from the financial assets have expired or when the group has transferred substantially all risks and rewards of ownership.

(d) Other financial liabilities at amortised cost

Other financial liabilities at amortised cost are recognised initially at fair value net of transaction costs incurred. They are subsequently measured at amortised cost using the effective interest method. Any difference between proceeds net of transaction costs and the redemption value is recognised in the Consolidated Statement of Profit or Loss over the period of the debt instrument. Financial liabilities at amortised cost are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expired.

Fair value measurement principles

Upon acquisition, financial instruments are measured at fair value. In principle, this is the transaction price at the time they are acquired. Depending on their respective category, financial instruments are subsequently recognised either at fair value or at (amortised) cost. In general, financial instruments at fair value are measured on a recurring basis in the financial statements.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date.

ProCredit Bank applies the IFRS hierarchy to measure fair value. The hierarchy categorises the inputs used in the valuation techniques to measure fair value into three levels:

Level 1 Inputs
Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active if market transactions with the asset or liability occur there sufficiently frequently and in sufficient volumes to ensure the ongoing availability of pricing information.

3 Summary of significant accounting policies (continued)

e Financial instruments (continued)

Level 2 Inputs
Other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation techniques applied are approximations of the current fair value of similar instruments and discounted cash flow analysis using observable market parameters.

Level 3 Inputs
Unobservable inputs for the asset or liability. If observable market interest rates are not available, internal rates are used as an input for a discounted cash flow model. These internal rates reflect the cost of funds, taking into account foreign currency effects and maturities as well as a risk margin. Internal rates are regularly compared to those applied for third-party transactions and are consistent with the parameters of an orderly transaction between market participants under market conditions at the measurement date.

f Cash and cash equivalents

For the purposes of the Consolidated Statement of Financial Position, cash and cash equivalents comprise cash and balances with Bulgarian National Bank (“BNB”). Generally, all cash and cash equivalent items are recognised at their nominal value.

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months’ maturity including: cash, balances with the BNB excluding the minimum required reserve, and amounts due from other banks.

g Loss allowances

The group establishes loss allowances in an amount equivalent to the expected loss for all financial assets recognised at amortised cost, for all debt instruments recognised at fair value with changes in fair value reported in Other Comprehensive Income (FVOCI), and for off-balance-sheet financial instruments. In general, a three-stage model is used to report loss allowances. Estimates and assumptions are particularly necessary for determining which future-related macroeconomic factors are to be included. Furthermore, determining probabilities in the weighting of scenarios requires discretionary decisions.

ProCredit Bank sets aside loss allowances for the balance sheet items “Central bank reserves”, “Loans and advances to banks”, “Loans and advances to customers”, “Investment securities” and for the financial assets under “Other assets”. These are generally recognised at net value within the corresponding balance sheet positions, except for the item “Investment securities”, which are reported at fair value. The respective loss allowances are recognised in shareholders’ equity under “Revaluation reserve”.

Net change in loss allowances
The net change in loss allowances includes additions, reversals and change in loss allowances due to non-substantial modifications.

3 Summary of significant accounting policies (continued)

g Loss allowances (continued)

Recognition of loss allowances uses a three-stage model based on expected credit losses. Allocation to stages requires discretionary decisions to be made with regard to the definition of default, stage transfers and the determination of criteria as to whether there has been a significant increase in credit risk since recognition in the balance sheet:

- Stage 1: Financial assets are generally classified as “Stage 1” when they are recognised for the first time. ProCredit Bank establishes loss allowances in an amount equivalent to the expected credit losses during a maximum of 12 months following the balance sheet date, insofar as there is no significant increase in credit risk since initial recognition.
- Stage 2: If credit risk increases significantly, the assets are classified as “Stage 2” and loss allowances are established in an amount equivalent to the expected credit losses over the entire remaining maturity.
- Stage 3: Defaulted financial assets are classified as “Stage 3” and loss allowances are likewise established in an amount equivalent to the expected credit losses over the entire remaining maturity. For significant exposures, loss allowances are determined on the basis of recoverable cash flows. For insignificant exposures, loss allowances are determined on the basis of portfolio-based parameters. Interest income is recognised at net book value (less loss allowances). Stage 3 also includes financial assets which are already impaired at initial recognition in the balance sheet (POCI). These financial assets are initially recognised at fair value and thus no loss allowances are established. Regardless of future changes in credit risk, POCI assets remain in Stage 3 until their derecognition.

For the “Other assets” position, loss allowances are established using the simplified approach. As a rule, loss allowances are recorded at initial recognition and on each subsequent reporting date in an amount equivalent to the expected credit losses during the total maturity period. For these generally short-term assets, the total maturity period has been set at 12 months.

In the event that credit risk decreases, loss allowances already recorded are reversed.

Non-substantial modification
A non-substantial modification exist if a financial asset is modified without derecognition. The effect is to be recognised as a modification gain or loss. The modification gain or loss is equal to the difference between the original gross book value and the present value, discounted at the original effective interest rate, of the contractual cash flows under the modified terms.

Write-offs, recoveries and direct write-offs
When a loan is uncollectible, it is written off against the related loss allowance set aside. Such write-offs occur after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised in the Consolidated Statement of Profit or Loss under “Loss allowances”. Uncollectible loans for which no loss allowances have been set aside in full are recognised as direct write-offs.

Restructured credit exposures
Restructuring is defined as any modification of the terms and conditions of a credit exposure by agreement between the group and the client to modify the payment plan of a credit exposure agreement in response to an increase in the current or future credit default risk associated with the client. Restructured credit exposures are assigned to Stage 3 at the moment of restructuring if either of the following conditions are met: the exposures is in arrears by more than 90 days, and/or cannot be expected to be repaid in full due to serious payment problems faced by the client. Otherwise, restructured loans are assigned to Stage 2.

3 Summary of significant accounting policies (continued)

g Loss allowances (continued)

Assets acquired in exchange for loans (repossessed property)
Repossessed properties are non-financial assets acquired in exchange for loans as part of an orderly realisation and are reported as "Other assets". The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan at the date of exchange. Repossessed properties are held for sale and no depreciation is charged for the respective assets. Any subsequent write-down of the acquired asset to fair value less costs to sell is recognised in the Consolidated Statement of Profit or Loss in "Net other operating income". Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative write-down, is also recognised in "Net other operating income", together with any realised gains or losses on disposal.

h Intangible assets

Software and licences
Acquired or developed computer software is capitalised on the basis of the costs incurred to acquire or develop and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Software has an expected useful lifetime of 5 years and is tested for impairment if there are indications that impairment may have occurred. Computer software is carried at cost less accumulated amortisation less impairment losses. Depreciation is calculated as follows:

Licences	7 years
Software	5 years

i Property, plant and equipment and Investment property

Property, plant and equipment are stated at historical cost less scheduled depreciation and impairment losses, as decided by the management. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Component parts of an asset are recognised separately if they have different useful lives or provide benefits to the enterprise in a different pattern.

Subsequent purchase or production costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Consolidated Statement of Profit or Loss during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate the depreciable amount of the asset over its useful live, as follows:

Buildings	40 years
Furniture	10 years
Leasehold improvements	10 years
Computers	5 years
Motor vehicles	5 years
Other fixed assets	7 years

The assets' residual carrying values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

3 Summary of significant accounting policies (continued)

i Property, plant and equipment and Investment property (continued)

In addition, all assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. The impairment is recognised within "Other administrative expenses".

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognised within "Net other operating income" in the Consolidated Statement of Profit or Loss.

j Leases

ProCredit Bank is the lessee

At contract begin, the group assesses whether the agreement constitutes or contains a lease. This is the case when the agreement grants the right to control the use of an identified asset for a specified period of time in return for a fee. The group uses the option to account for each leasing component and all related non-leasing components as a single leasing component. ProCredit Bank recognises an asset for the right of use granted as well as a lease liability on the date of provision. The right of use is recognised at acquisition costs. These include the amount of the lease liability, plus all lease payments made at or before provision, initial direct costs and estimated dismantling and removal costs, less any incentives received. The right of use is amortised on a straight-line basis until the end of the lease term. Any impairment losses are also taken into account. The lease liability is recognised at the present value of the lease payments not yet made at that time. The lease payments are discounted at the lessee's incremental borrowing rate of interest. They are subsequently measured at amortised cost using the effective interest method.

Short-term leases or leases based on assets of minor value are not recognised in the balance sheet; instead, the lease payments are recognised under administrative expenses in the consolidated statement of profit or loss over the term of the lease.

(a) The effect from adoption of IFRS 16 on the group's financial statements

On adoption of IFRS 16, the group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the bank's incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate (IBR) of the group applied to the lease liabilities on 1 January 2019 was 2.2%. The IBRs were determined using the Fund Transfer Pricing (FTP) market rates for the respective currency and term of the contract. FTP market rates are used by ProCredit Holding for the purposes of preparing FTP reporting forms towards German bank regulators.

	01.01.2019
Operating lease commitments disclosed as at 31 December 2018	7,281
Discounted using the bank's incremental borrowing rate of 2.2%	(498)
Add: Finance lease liabilities recognized as at 31 December 2018	-
Less: Short-term and low-value leases recognized on a straight-line basis	(171)
Lease liabilities recognised as of 1 January 2019	**6,612**
Of which are:	
Current lease liabilities	1,338
Non-current lease liabilities	5,274

3 Summary of significant accounting policies (continued)

j Leases (continued)

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

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

- Right of use assets – increase by BGN 6,612 thousands
- Lease liabilities – increase by BGN 6,612 thousands
- There was no impact on retained earnings on 1 January 2019

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

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

(b) Accounting policies applied from 1 January 2019
Until the 2018 financial year payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

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

The right-of-use asset is presented as part of “Property, plant and equipment” on the statement of financial position.

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

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable.

The lease payments are discounted using the lessee’s incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

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

3 Summary of significant accounting policies (continued)

j Leases (continued)

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

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

- The amount of the initial measurement of lease liability.

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

The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The amortisation periods for the right-of-use assets are as follows:

- Office premises: 10 years

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

Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and items of office machinery.

(c) Accounting policies applied until 31 December 2018

Leases in which substantially all risks and rewards of ownership is not transferred to the bank as a lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

(d) Group's leasing activities

The group leases offices premises. Leases are negotiated on an individual basis, but in general contain similar terms and conditions (incl. termination and renewal rights). The main lease features are summarised below:

Office premises in general rented for a period of 10 years. The contracts contain an option to renew the leases. The lease payments are fixed.

(e) Extension and termination options

Extension and termination options are included in the leasing contracts. These are used to maximise operational flexibility in terms of managing the assets used in the group's operations. For critical judgements in determining the lease term, please refer to Note 2.

(f) Residual value guarantees

The group does not provide residual value guarantees in relation to leasing contracts. For critical judgements in estimating the amount payable under residual value guarantees, please refer to Note 2.

(g) Short-term leases

The costs for short term leases are recognised on a straight-line basis during the reporting period. The total cost of short-term leases is disclosed in Note 25.

3 Summary of significant accounting policies (continued)

k Income taxes

Taxation has been provided for in the consolidated financial statements in accordance with Bulgarian legislation.

(a) Current income tax
Current tax is calculated on the basis of the taxable profit for the year, using the tax rates enacted at the reporting date and is recognised as an expense in the period in which taxable profits arise. Taxes other than on income are recorded under “Other administrative expenses”.

(b) Deferred income tax
Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Statements prepared in conformity with IFRS, as adopted by the EU. Deferred tax assets and liabilities are determined using Bulgarian tax rates (and laws) that have been enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. The tax planning period is five years.

Changes of deferred taxes related to financial instruments carried at fair value are charged to the Consolidated Statement of Other Comprehensive Income. The presentation in the Consolidated Statement of Other Comprehensive Income is made on a gross basis. At the time of sale, the respective deferred taxes are transferred to current income tax.

l Provisions

Provisions are recognised if:
- there is a present legal or constructive obligation resulting from past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation;
- and the amount can be reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow of resources will be required in a settlement is determined by considering the class of obligations as a whole.

Provisions for which the timing of the outflow of resources is known are measured at the present value of the expenditures, if the outflow will not be earlier than in one year’s time. The increase in the present value of the obligation due to the passage of time is recognised as an interest expense. For the provisions for imminent losses from off-balance sheet items and for untaken vacation, the outflow of economic benefits is expected during the next one or two years.

Contingent liabilities, which mainly consist of certain guarantees and letters of credit issued for customers, are possible obligations that arise from past events. As their occurrence, or non-occurrence, depends on uncertain future events not wholly within the control of the group, they are not recognised in the financial statements but are disclosed in the notes to the financial statements (see Note 30).

Employee entitlements to annual leave are recognised when they are accrued to employees. A provision is made for the estimated annual leave as a result of services rendered by employees up to reporting date.

3 Summary of significant accounting policies (continued)

m Financial guarantee contracts

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the Statement of Profit or Loss the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the reporting date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of the Management.

o Employee benefits

Defined benefit plans

The group has an obligation to pay certain amounts to each employee who retires with the group in accordance with Art. 222, § 3 of the Labour Code ("LC"). According to the regulations in the LC, when a labour contract of a bank employee, who has acquired a pension right, is ended, the group is obliged to pay the employee compensation equivalent to two gross monthly salaries. In the event that the employee's length of service in the group is equal to or exceeds 10 years, as of the date of retirement, then the compensation shall amount to six gross monthly salary payments. As of reporting date, the Management of the group estimates the approximate amount of the potential expenditures for every employee based on a calculation performed by a qualified actuary using the projected unit credit method. The group recognises all actuarial gains and losses arising from defined benefit plans in personnel expenses for the period.

4 Risk management

a Business model and business strategy

ProCredit Bank aims at being a leading partner providing a complete range of financial services for small and medium enterprises in Bulgaria, since these businesses have vital significance for the economic development and the creation of new jobs. The group functions in a responsible and transparent way, focusing on building long-term relationships with its clients and providing an inclusive range of professional and flexible business solutions, both for the businesses and for their owners and staff. The main competitive advantages of ProCredit Bank are the personal approach to the individual needs of the clients and the high quality of the services provided.

By offering simple and accessible deposit facilities the group promotes a culture of savings, which contributes to greater security and stability of households. At the same time ProCredit Bank does not offer complex financial products or asset management services. ProCredit Bank takes an individual approach to its clients, aiming to know their needs in order to develop a strategy for serving them effectively. The group adheres to its concept of “Know your Customer”, which is based on the assumption that if clients and their businesses are accurately identified, the group will be able to provide them with the most suitable banking services. A strategic focus of the work with clients is on funding projects leading to improving energy efficiency and environmental protection as well as funding production companies and agricultural producers. To achieve more efficient, effective and better-quality service, the group provides 24-hour access to self-service as well as easily accessible Internet banking operations (ProBanking).

The ProCredit Bank business strategy has two main purposes – to have a positive effect on the development of the economic and social environment, and to earn a commercial profit. The business model is straightforward, with asset-side operations dominated by credit issued to clients, while the liabilities basically comprise attracted funds from clients.

The business strategy is based on a focused approach to staff development. The group carefully recruits and trains its staff to work responsibly and professionally with clients. ProCredit Bank is an institution based on professionalism, communication and trust and it aims at a high level of satisfaction both for the staff and the clients. To this effect, the group makes significant investments in training its personnel.

Since November 2015 the group operates a branch in Thessaloniki, Greece offering full range of banking services to the local businesses and providing professional service and advice. All locations in Thessaloniki are equipped with modern self-service areas, which are available to customers 24 hours and 7 days a week.

b Risk management strategy

ProCredit Bank is exposed to risks in the course of its business activities. An informed and transparent approach to risk management is a central component of our socially responsible business model. This is also reflected in our risk culture, resulting in decision-making processes that are well-balanced from a risk point of view. The overall risk profile of the group is appropriate and stable. This is based on an overall assessment of the individual risks, as presented in this risk report.

4 Risk management (continued)

b Risk management strategy (continued)

In accordance with our simple, transparent and sustainable business strategy, our risk strategy is a conservative one. By following a consistent group-wide approach to managing risks, the aim is to ensure that the liquidity and capital adequacy of the group continues to be appropriate at all times, as well as to achieve steady results. While the business strategy lists the objectives of the group for all material business activities and regions of operation and presents the measures to be taken to achieve them, the group's risk strategy addresses the material risks arising from the implementation of the business strategy and defines the objectives and measures of risk management. The risk strategy is broken down into strategies for all material risks in the group. The strategies are updated annually and are approved by the Management of ProCredit Bank following discussions with the group's Supervisory Board.

The principles of our business activity, as listed below, provide the foundation for our risk management. The consistent application of these principles significantly reduces the risks to which the group is exposed.

- **Focus on core business**

ProCredit Bank focuses on the provision of financial services to small and medium businesses as well as to private clients. Accordingly, income is generated primarily in the form of interest income on customer loans and fee income from account operations and payments. All of the group's other operations are performed mainly in support of the core business. ProCredit Bank assumes mainly credit risk, interest rate risk and liquidity risk in the course of its day-to-day operations. At the same time, ProCredit avoids or very strictly limits all other risks involved in banking operations.

- **High degree of transparency, simplicity and diversification**

ProCredit's focus on small and medium-sized businesses entails a very high degree of diversification in both customer loans and customer deposits. Geographically, this diversification spans the main business areas of Bulgaria and the Thessaloniki region in Greece. In terms of client groups, this diversification spans economic sectors, client groups (SMEs and private clients) and income groups. The diversification of the loan portfolio is a central pillar of the group's credit risk management policy. A further characteristic of our approach is that we seek to provide our clients with simple, easily understandable services. This leads to a high degree of transparency not only for the respective client, but also from a risk management point of view. Both the high degree of diversification and our simple, transparent services and processes result in a significant reduction of the group's risk profile.

- **Careful staff selection and intensive training**

Responsible banking is characterised by long-term relationships not only with clients, but also with staff. This is why we select our staff very carefully and have made significant investments in training our employees for many years. Our intensive training efforts not only produce a high level of professional competence, but also and above all, they promote an open and transparent communication culture. From a risk perspective, well-trained employees who are accustomed to voicing their opinions openly are an important factor for managing and reducing risk, specifically operational risk and fraud risk.

4 Risk management (continued)

b Risk management strategy (continued)

Key elements of risk management

Risk management comprises identifying, quantifying, managing, monitoring, controlling and reporting risks. In managing risks, the group takes account of the German supervisory "Minimum Requirements for Risk Management" (MaRisk), of relevant publications by national and international regulatory authorities and of our knowledge of the markets acquired over many years. The mechanisms designed to hedge and mitigate risks are monitored regularly to ensure their effectiveness, and the procedures and methods used to manage risks are subject to ongoing further development. The key elements of risk management in ProCredit are presented below.

- All ProCredit institutions apply a single common risk management framework, which defines group-wide minimum standards. The risk management policies and standards are approved by the Management of ProCredit Bank and are updated at least annually. These specify the responsibilities at bank and establish minimum requirements for managing, monitoring and reporting.
- All risks assumed are managed by ensuring at all times an adequate level of regulatory and internal capital of the group.
- The annually conducted risk inventory ensures that all material and non-material risks are identified and, if necessary, considered in the strategies and risk management processes.
- Monitoring and control of risks and possible risk concentrations is carried out using comprehensive analysis tools for all material risks.
- Early warning indicators (reporting triggers) and limits are set and monitored for all material risks.
- Regular stress tests are performed for all material risks; stress tests are carried out for each individual risk category as well as across all risk categories.
- Regular and ad-hoc reporting is carried out on the risk profile, including detailed descriptions and commentaries.
- The effectiveness of the chosen measures, limits and methods is continuously monitored and controlled.
- Suitable processes and procedures for an effective internal control system are in place. This is built around the principles of segregation of duties, dual control and, for all risk-relevant operations, the separation of front and back office up to the management level; this ensures that risk management and risk control are performed independently of front-office functions.
- All new or significantly changed products undergo a thorough analysis before being used for the first time (New Risk Approval process). This ensures that new risks are assessed and all necessary preparations and tests are completed prior to the introduction of a new or significantly changed product for the first time.

Organisation of the risk management function and risk reporting

The overall responsibility for risk management is assumed by the Management Board of the group, which regularly analyses the risk profile and decides on the measures to be taken. The risk controlling function required by MaRisk is headed by a member of the Management Board. Risk management is supported conceptually and implemented operationally by the Risk Management Department and various risk management and finance functions. Various committees support and advise the Management in the performance of the risk management function.

4 Risk management (continued)

b Risk management strategy (continued)

The rules regulating risk management at the group are part of the Internal Regulations and determine:

- The process and the purposes of risk management at the group.
- The structure, composition and powers of the competent internal bodies of the group, their activities and the measures they undertake.
- The employees' duties related to monitoring, reporting, management and analysis of various risks.
- The establishment and functioning of internal control systems and the competences of the relevant management levels and of the regular staff for taking part in risk management.

The group has an effective compliance management system supported by our Code of Conduct, which is binding for all staff, and by our approach to staff selection and training. The group's Compliance Officer bears responsibility for the implementation of a group-wide system to ensure fulfilment of all regulatory requirements. ProCredit Bank has a compliance function, which bears responsibility for adhering to national banking regulations and reports regularly and on an ad-hoc basis to the Management of the group and to ProCredit Holding. Any conduct, which is inconsistent with the established rules, can be reported anonymously both to an e-mail address established for the ProCredit group, or to an e-mail address on a local level.

Internal Audit is an independent functional area within ProCredit Bank. It provides support in determining what constitutes appropriate risk management and an appropriate internal control system within the institution. Additionally, the Internal Audit Department is supported and monitored by ProCredit Group Audit. Once per year, the Internal Audit Department carries out risk assessments of all of the group's activities in order to arrive at a risk-based annual audit plan. This comprises risk management and risk control processes, including the identification, assessment, control, monitoring and communication of material risks. The risk management system is reviewed accordingly. The Internal Audit Department reports to the Audit Committee of the group, which generally meets on a quarterly basis. The ProCredit Group Audit team monitors the quality of the audits conducted in ProCredit Bank and provides technical guidance.

The Management of the group bears responsibility for risk management within the institution. The General Risk Management Committee, Credit Risk Management Committee and Operational Risk Management Committee develop the framework for risk management decision taking bodies and monitor the risk profile of the bank and the individual risks. This includes the monitoring of individual risk positions and limit compliance. The Asset and Liability Committee (ALCO) is responsible for monitoring the liquidity reserve and liquidity management and the internal and regulatory capital adequacy of the bank, coordinating measures aimed at securing funding for ProCredit Bank.

Risk positions are analysed regularly, discussed intensively and documented in standardised reports. The Risk Management Department reports regularly to the different risk functions at ProCredit Holding, and the respective Supervisory Board is informed on at least a quarterly basis about all risk-relevant developments. Monitoring of the bank's risk situation is carried out through a review of these reports and of additional information generated. If necessary, additional ad-hoc reporting occurs for specific topics. The aim is to achieve transparency on the material risks and to be aware at an early stage if potential problems might be arising.

Regular regional and group-wide meetings and training events support the exchange of best practices and the development and enhancement of the risk management functions.

4 Risk management (continued)

b Risk management strategy (continued)

The management of material risks in the ProCredit group is described in greater detail in the following section. This includes: credit risk, foreign currency risk, interest rate risk, liquidity and funding risk, operational risk, business risk and model risk, and risks arising from money laundering, terrorist financing and other acts punishable by law.

c Credit risk

The group defines credit risk as the risk that losses will be incurred if the party to a transaction cannot fulfil its contractual obligations at all, not in full or not on time. Within overall credit risk we distinguish between customer credit risk, counterparty risk (including issuer risk) and country risk. Credit risk is the most significant risk facing ProCredit Bank, and customer credit exposures account for the largest share of that risk.

Maximum exposure to credit risk

Exposure types	31 Dec 2019	31 Dec 2018
Loans and advances to banks	**325,387**	**268,469**
Investment securities	**15,056**	**28,666**
Fixed interest rate securities	15,056	28,666
Loans and advances to customers	**1,810,082**	**1,598,077**
Loans and advances to customers	1,810,082	1,598,077
Contingent liabilities and commitments	**320,562**	**291,252**
Guarantees	39,890	35,801
Letters of credit	976	1,033
Credit commitments (revocable loan commitments)	279,696	254,418

Customer credit risk

The key objectives of credit risk management are to achieve high loan portfolio quality, low risk concentrations within the loan portfolio and appropriate coverage of credit risks with loan loss provisions. Thanks to the diversification of operations across and to the experience that ProCredit Bank has gained over the past years, the bank has extensive expertise with which to limit customer credit risk effectively.

ProCredit Banks serves a broad spectrum of clients, ranging from relatively small business clients with increasingly formalised structures to larger SMEs. For our lending operations, we apply the following principles, among others:

- Intensive analysis of the debt and payment capacity of our loan clients, including an assessment of future cash flows.
- Careful compliance with the standards on serving business clients combined with group-wide application of a uniform risk classification approach supports the systematic collection and analysis of risk-relevant data, thus enabling the identification of risks.
- Carefully documenting credit risk analyses and processes conducted during lending operations, ensuring that the analyses performed can be understood by knowledgeable third parties.
- Rigorously avoiding overindebtedness among our loan clients.

4 Risk management (continued)

c Credit risk (continued)

- Building a long-term relationship with the client, maintaining regular contact and documenting the development of the exposure within the regular monitoring reports.
- Strictly monitoring the repayment of credit exposures.
- Applying closely customer-oriented, intensified loan management in the event of arrears.
- Collecting collateral in the event of insolvency.

The framework for managing customer credit risk is presented in the relevant policies and standards. The policies specify, among other things, the responsibilities for managing credit risk, the principles for the organisation of the lending business, the principles involved in lending operations, and the framework for the valuation of collateral for credit exposures. The standards contain detailed explanations of the bank's lending operations with business clients and private clients and of the range of credit offered. They also set forth the rules governing restructuring, risk provisioning and write-offs. Thus, the policies and standards define risk-mitigating measures for the pre-disbursement phase (credit risk assessment) and the post-disbursement phase (e.g. regular monitoring of the financial situation, review of early warning indicators, and both intensified and problem loan management).

The group divides its credit exposures into three categories: small and medium-sized business credit exposures and credit exposures to private clients. Small exposures are between EUR 50k and EUR 500k. There are two sub-categories of Small credit exposures: Lower Small credit exposures up to EUR 250,000 and Upper Small credit exposures, which do not exceed EUR 500,000. Medium exposures are above EUR 500k. There are two sub-categories of Medium credit exposures: Lower Medium credit exposures are credit exposures that do not exceed EUR 1,500,000 and Upper Medium credit exposures are credit exposures over EUR 1,500,000. Depending on the client category to which the respective credit exposure is assigned, different credit risk assessment processes are applied. These processes differ from one another in terms of the following attributes: The degree of segregation of duties, type of information that provides the basis for the credit analysis, criteria for credit decisions, and collateral requirements. A strict separation of front and back office functions up to the management level is applied for exposures over EUR 250k.

The experience of the group has shown that a thorough creditworthiness assessment constitutes the most effective form of credit risk management. The credit decisions are therefore based predominantly on an analysis of the client's financial situation and creditworthiness. Regular on-site visits are performed for all clients to ensure an adequate consideration of their specific features and needs.

All credit decisions are taken by a credit committee. Its members have approval limits that reflect their expertise and experience. All decisions on small and medium credit exposures are taken by credit committees at the group's head offices. If the exposures are particularly significant on account of their size, the decision is confirmed by the Supervisory Board of the group, usually following a positive vote issued by the responsible Group Credit Risk Management team at ProCredit Holding.

The most important basis for decision-making within the credit committee is the proposal for the financing and collateral structure, which is tailored to the customer's needs and dependent on his risk profile. In this context, the main parameters that affect the security are the loan exposure, maturity of the loan, quality of the documentation, provided by the client, and risk classification.

4 Risk management (continued)

c Credit risk (continued)

The credit risk management policies limit the possibility for unsecured credit operations. Depending on the risk profile and the maturity of the exposure, loans may also be disbursed without being fully collateralised. As a general rule, credit exposures with a higher risk profile are covered with solid collateral, mostly through mortgages.

The valuation of immovable collateral is conducted on the basis of opinions prepared by external, independent experts. In order to ensure that a reduction in the value of the collateral is detected at an early stage and appropriate measures can be taken, plausibility checks of collateral value are a fixed component of the annual review process of our borrowers. The appraisals must be updated at regular intervals, with plausibility checks being carried out by specialised group's staff.

Based on our collateralisation requirements, securing loans with mortgages is among the most important instruments for limiting credit risk. The distribution of the loans and advances to customers by type of collateral is presented in the table below:

Collateral held	**31 Dec 2019**	**31 Dec 2018**
Mortgage	53%	53%
Guaranties from the EIF	24%	24%
Machines and vehicles	7%	7%
Cash collateral	5%	4%
Other types of collateral	6%	7%
Without collateral	5%	5%
Total	**100%**	**100%**

The group has disbursed loans to small and medium enterprises under the auspices of JEREMIE program (Joint European Resources for Micro to Medium Enterprises), which is a joint initiative launched by the European Commission and the European Investment Bank ("EIB") to improve access to finance for Micro, Small and Medium-sized Enterprises in the EU within the Structural Funds framework for the period 2007 – 2013. The loans are disbursed under more beneficial conditions in comparison to the standard group's terms and are partially guaranteed by the European Investment Fund ("the EIF"). Two new programs for financing of SMEs were launched in 2016 jointly with the EIF – InnovFin SME Guarantee Facility and SME Initiative Guarantee Facility providing partial guarantee for the subloans disbursed under both programs. The total customers loan portfolio outstanding under the programs, in which the group is a partner with the EIF, were BGN 440,191 thousand as of end 2019 (2018: BGN 388,957 thousand).

The early detection of increases in credit risk at the borrower level is incorporated into all lending-related processes, resulting in prompt identification and timely assessment of the financial difficulties faced by clients. Moreover, the group has developed and implemented indicators for the early identification of risks based on quantitative and qualitative risk features. These include, but are not limited to, declining account turnover or volume, high usage of granted credit lines and overdrafts over a longer period of time, and arrears. Regular recording and analysis of these early warning indicators helps to manage the performing portfolio, identify potential default risks at an early stage and take the required measures to avoid a significant increase in credit risk. Reports on the affected portfolio are regularly given to the branch manager, the group's head office and in aggregated form to ProCredit Holding. Additionally, on a quarterly basis, the Risk Management Department prepares a report examining the group's loan portfolio for concentration by economic sectors / sub-sectors and geographic regions as well as the portfolio quality trends in these economic sectors / sub-sectors. Also the group regularly monitors changes in the external environment to assess their potential impact on its loan portfolio.

4 Risk management (continued)

c Credit risk (continued)

Events which could have an impact on a significant part of the loan portfolio (common risk factors) are analysed and discussed at group and bank level. This can lead to the imposition of limits on risk exposures towards certain groups of clients, e.g. in specific sectors of the economy or geographical regions.

In addition, asset quality indicators are used, based on which the loan portfolio is divided into the categories: performing, underperforming and defaulted. Exposures are assigned to these categories based on a risk classification and other risk characteristics of the borrower. Of particular importance here are the risk classification, overdue contractual payments (especially those over 90 days overdue), initiation of bankruptcy proceedings or similar court procedures, restructurings, as well as other factors indicating a significant deterioration of the economic situation of the client. The indicators allow for a clear overview of the quality of the group's portfolio, and represent one of the most important tools for the credit risk management process. The categories are as follows:

- **The performing loan portfolio** shows no signs of a potential risk increase. Although some exposures show early warning signals, these may not necessarily result in a risk increase being determined.
- **The underperforming loan portfolio** comprises exposures showing increased credit risk. This can be caused by temporary payment difficulties (30-90 days), restructuring or other factors. Nevertheless, the group still assesses full repayment of the exposure to be possible, e.g. after restructuring.
- **The defaulted loan portfolio** comprises all exposures in default, most of which have shown lasting payment difficulties (over 90 days) or other negative factors, e.g. initiation of bankruptcy proceedings. Further details are provided below.

Once a higher risk of default is detected for a credit exposure, it is placed under intensified management. This centres on close communication with the client, identification of the source of higher credit default risk and close monitoring of their business activities. Decisions on measures to reduce the credit default risk are taken by the authorised decision-making bodies (e.g. Credit Committee on Restructuring). In addition, specialised recovery officers may be called in to support the intensified management of the credit exposure.

One of the first steps in managing such loans is to determine the economic and financial situation of the client, as this is the most important basis for decisions on whether or not the exposure can be restructured. The aim is to take such decisions at an early stage, while the chances of stabilisation are high and before the exposure enters an advanced phase of payment delay.

When a credit exposure is classified as defaulted, it is passed on to officers responsible for customer service. These officers are supported by specialists in settlement and liquidation (legal unit). Collateral is sold through liquidation to a third party at the highest possible price, typically via public auction. The majority of the collateral sold consists of tangible assets such as land or buildings.

4 Risk management (continued)

c Credit risk (continued)

Loss allowances

Loss allowances are established in line with the defined group standards, which are based on the IFRS 9 impairment model. The forward-looking expected credit loss (ECL) model is the central element of the approach to quantifying credit loss allowances for on- and off-balance sheet financial instruments. The model calculates loss allowances considering the credit losses expected over various default scenarios in the future. The calculated loss allowances represent the sum of probability-weighted outcomes; ECL estimates are unbiased and include supportable information about past events, current conditions, and forecasts of future economic conditions.

Three-stage approach

At each reporting date, all credit exposures to customers are allocated among the three stages listed below, based on changes in credit quality since initial recognition and with a distinct provisioning methodology applied to each stage. Exposures may move between stages during their lifetime.

- **Stage 1** comprises financial assets for which credit risk has not significantly increased since initial recognition as well as those showing low credit risk as of the reporting date or for which no triggers for Stage 2 or Stage 3 allocation apply. In general, assets are allocated to Stage 1 upon initial recognition, except for purchased or originated credit impaired (POCI) assets. For assets in Stage 1, the expected credit losses arising from possible default events within the 12 months following the reporting date (12-month ECL) are recognised in expenses. For exposures with a remaining maturity of less than 12 months, the probability of default (PD) applied reflects the remaining maturity.
- **Stage 2** comprises financial assets for which credit risk has significantly increased since initial recognition, but for which there is no objective indication of impairment. This assessment takes account for appropriate and plausible information. Loss allowances are established in an amount equivalent to the expected credit losses over the entire remaining maturity, i.e. lifetime expected losses (lifetime ECL not credit impaired).
- **Stage 3** includes all financial assets that are credit impaired as of the reporting date, i.e. there is both a significant increase in credit risk and objective indication of impairment. The respective calculation of loss allowances is performed based on the lifetime expected credit losses considering a 100% probability of default (lifetime ECL credit impaired).

Measurement of ECL

Expected credit losses are calculated using the following main parameters:

Exposure at default (EAD):

EAD is the exposure expected to be outstanding in the case of a credit default. It is derived from the current exposure to the client and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For exposures with regular repayment plans, the modelled EAD is adjusted considering the expectation of prepayments based on historical observations, scenarios with respect to the economic environment, and forward-looking forecasts. Using historical observations, an estimate is made of the potential future amounts which can be drawn under the contract for lending commitments such as credit lines and overdrafts. For financial guarantees, the EAD represents the amount of the guaranteed exposure, adjusted by a conversion factor based on an analysis of past performance and expert judgement.

4 Risk management (continued)

c Credit risk (continued)

Probability of default (PD):
PD represents the probability of a credit default within a specified period of time. It is derived from historical data on default events, such as date, type and amount of default, and from information about the risk characteristics of clients as used in the internal risk classification system. The parameters take into account country specifics and also differing risk levels of certain client segments within the bank. The group employs statistical models, developed by ProCredit Holding, to analyse the data histories and to generate forward-looking forecasts of the default probabilities based on scenarios with respect to the economic environment. In addition, PDs related to the remaining lifetime of exposures are derived that quantify how these are expected to change as a result of the passage of time.

Loss given default (LGD):
LGD represents the expected credit loss in the event of default, as based on historical data about recoveries from defaulted clients. LGDs are calculated on a discounted cash flow basis, include recovery costs, and consider differences between exposure sizes. The LGD estimates are adapted to be forward-looking forecasts based on scenarios with respect to the economic environment.

Input data for the assessment of credit risk parameters are based on multi-year data histories for all borrowers in the bank. Regression analysis is used to estimate the impact of client risk characteristics as well as macroeconomic factors for the considered parameters. Selection of relevant macroeconomic factors (GDP growth, inflation rate, unemployment rate) is based on their statistical significance and economic plausibility. Where deemed appropriate, a probability-weighted average is determined based on different scenarios of the macroeconomic factors for the year of the forecast.

Changes in these assumptions may lead to changes in loss allowances over time. The ProCredit group and ProCredit Bank recognise that considerable management judgement is exercised and estimation uncertainty exists in determining the amount of loss allowances for financial assets assessed collectively and on an individual basis. This judgement is based on the applicable definitions of default, the approach to determining a significant increase in credit risk, and the structure of forward-looking macroeconomic variables used.

Significant increase in credit risk
When determining whether or not a significant increase in credit risk (SICR) has occurred, both quantitative and qualitative information is used.

Quantitative testing for SICR is based on a comparison of the remaining lifetime PD of an exposure at each reporting date against its remaining lifetime PD at the date of origination. The loss parameters are based on the internal risk classification system for the rated exposures. A SICR is deemed to occur if the difference in PDs exceeds a pre-defined threshold and, consequently, the respective asset will be transferred from Stage 1 to Stage 2. Inversely, a transfer from Stage 2 to Stage 1 is possible when the associated credit risk decreases significantly.

In 2019 some refinements to the quantitative and qualitative information were made in determining whether SICR has occurred in the credit risk model.

Additionally, qualitative indicators are used when determining whether or not a significant increase in credit risk has occurred. A transfer from Stage 1 to Stage 2 occurs if one of the following criteria applies:

- Contractual payments are more than 30 days but less than 90 days past due.
- Classification of the exposure as restructured according to internal policy (adjustment of the originally agreed contractual conditions).
- The exposure is rated below standard within the internal risk classification system.

4 Risk management (continued)

c Credit risk (continued)

Credit impaired financial assets (Stage 3)

An exposure is considered as credit impaired and transferred to Stage 3 when the following or similar characteristics apply at the reporting date:

- Contractual payments on any material credit obligations more than 90 days past due
- Signs of significant financial difficulty of the borrower
- Repayment cannot be completed without the realisation of collateral
- Initiation of bankruptcy proceedings
- Court procedures threatening the existence of the client's business or repayment capacity
- Fraudulent exposures

Definition of default

ProCredit Bank has aligned the definition of credit impaired under IFRS 9 (Stage 3) with the definition of default for prudential purposes. This is also the definition used for internal risk management purposes and it applies to all financial assets which are part of the group's customer loan portfolio. The bank views an exposure as defaulted when one or more of the above items apply and the expected cash flows of a credit exposure are negatively impacted to the extent that it can be assumed the borrower will not be able to fulfil his credit obligations.

When determining provisions in Stage 3, a distinction is drawn between significant individually impaired and insignificant impaired credit exposures; the threshold is EUR 150,000. For significant exposures with indications of impairment, an individual assessment is performed to determine provisioning, taking account for the expected inflows, including collateral liquidation. The bank places strong emphasis on taking a careful approach to cost estimates and expected proceeds, as well as to the assumptions about the duration of collateral realisation. For insignificant exposures, the provisions are based on a collective assessment of the credit risk parameters.

The migration of an exposure from Stage 3 to an improved stage is possible if the client is able to settle debts in full without recourse to collateral realisation. Purchased or Originated Credit Impaired (POCI) assets are not eligible for migration between stages.

Purchased or Originated Credit Impaired (POCI) assets

As part of the impaired exposures, the bank has introduced special treatment of POCI exposures in accordance with IFRS 9 requirements concerning modified financial assets. Within our business model, the acquisition of such default-threatened assets is not permitted. Accordingly, POCI exposures can only arise in the course of a renegotiation or significant modification of the contractually agreed cash flows of an existing exposure. POCI assets do not carry an impairment allowance on initial recognition. In subsequent periods, any changes to the estimated lifetime ECL are recognised in the profit and loss statement. Favourable changes are recognised as an impairment gain, even if the lifetime ECL at the reporting date is lower than the estimated lifetime ECL at origination. Ultimately, only the changes in lifetime ECL since initial recognition of the asset are recognised as a loss allowance for these assets.

Modifications

Modifications to the original contractually agreed credit obligations can be granted to improve collection opportunities and if possible, avoid default, foreclosure or repossession of an asset. The bank uses both quantitative and qualitative factors to determine whether there has been a substantial modification. As a quantitative factor, modified loans are assessed using the Net Present Value Test (NPV Test). If results indicate a non-substantial modification, the modification gain or loss is recognised in the profit and loss statement. In contrast, if the NPV test results indicate a substantial modification, the original loan is derecognised and a new loan is recognised at its fair value at the modification date.

4 Risk management (continued)

c Credit risk (continued)

Write off

Exposures are only written off when there is no reasonable expectation of recovery. The direct and indirect costs of managing credit exposures that have not been written off must also be in proportion to the size of the outstanding exposure.

The bank performs an assessment for specific individual impairment for credit exposures of any size if there is no reasonable expectation of recovery. The group should carry out such an assessment at the latest when exposures reach 180 days past due for exposures up to EUR 10,000, and at the latest by 360 days for exposures above EUR 10,000, in particular if they are not collateralised. Depending on the assessment outcome, the bank may decide to write off or keep the credit exposure active to allow for an ongoing recovery.

Individual assessment

When determining loss allowances a distinction is drawn between individually significant and individually insignificant credit exposures; the threshold is EUR 150,000. For significant exposures with indications of impairment, an individual assessment is performed to determine allowances, taking account for the expected inflows, including collateral liquidation. Here, the group places great emphasis on a careful approach to estimating costs and expected earnings and also with respect to assumptions about the timeframe for liquidation. Regardless of the amount of loss allowance, a loan is classified as impaired as soon as the expected cash flows take account for liquidation of collateral.

The following table provides an overview of the respective gross and net exposure amounts and loss allowances for financial assets, broken down by stages:

	Stage1	Stage 2		Stage 3			POCI	Total
As of 31 Dec 2019	**12 month ECL**	**Lifetime ECL**		**Lifetime ECL**				
		0-30 days	31-90 days	0-30 days	31-90 days	over 90 days	0-30 days	
Gross outstanding amount	1,739,580	68,752	1,621	10,972	1,377	22,109	863	**1,845,274**
Loss allowances	(12,834)	(2,824)	(57)	(4,635)	(428)	(14,412)	(2)	**(35,192)**
Carrying amount	**1,726,746**	**65,928**	**1,564**	**6,337**	**949**	**7,697**	**861**	**1,810,082**

	Stage1	Stage 2		Stage 3			POCI	Total
As of 31 Dec 2018	**12 month ECL**	**Lifetime ECL**		**Lifetime ECL**				
		0-30 days	31-90 days	0-30 days	31-90 days	over 90 days	0-30 days	
Gross outstanding amount	1,557,546	30,777	1,145	18,543	2,184	25,943	940	**1,637,078**
Loss allowances	(7,394)	(4,493)	(175)	(7,253)	(955)	(18,668)	(63)	**(39,001)**
Carrying amount	**1,550,152**	**26,284**	**970**	**11,290**	**1,229**	**7,275**	**877**	**1,598,077**

4 Risk management (continued)

c Credit risk (continued)

The following table presents gross and net exposures, broken down according to economic sector and by stage.

As of December 31, 2019	Business loans					Private loans			Total
	Wholesale and retail trade	Agriculture, forestry and fishing	Production	Transpor-tation and storage	Other economic activities	Housing	Investment loans and OVDs	Other	
Stage 1									
Gross outstanding amount	353,469	370,330	359,800	112,690	352,576	168,674	17,279	4,762	**1,739,580**
Loss allowances	(2,397)	(2,373)	(2,436)	(680)	(2,837)	(1,874)	(201)	(36)	**(12,834)**
Carrying amount	**351,072**	**367,957**	**357,364**	**112,010**	**349,739**	**166,800**	**17,078**	**4,726**	1,726,746
Stage 2									
Gross outstanding amount	18,146	14,260	15,800	5,399	14,593	2,076	53	46	**70,373**
Loss allowances	(771)	(372)	(959)	(89)	(525)	(162)	(2)	(1)	**(2,881)**
Carrying amount	**17,375**	**13,888**	**14,841**	**5,310**	**14,068**	**1,914**	**51**	**45**	67,492
Stage 3									
Gross outstanding amount	8,086	3,670	5,586	2,494	11,741	2,426	118	337	**34,458**
Loss allowances	(4,307)	(1,705)	(3,533)	(1,477)	(6,870)	(1,330)	(79)	(174)	**(19,475)**
Carrying amount	**3,779**	**1,965**	**2,053**	**1,017**	**4,871**	**1,096**	**39**	**163**	14,983
POCI									
Gross outstanding amount	-	-	-	-	863	-	-	-	**863**
Loss allowances	-	-	-	-	(2)	-	-	-	**(2)**
Carrying amount	**-**	**-**	**-**	**-**	**861**	**-**	**-**	**-**	861

As of December 31, 2018	Business loans					Private loans			Total
	Wholesale and retail trade	Agriculture, forestry and fishing	Production	Transpor-tation and storage	Other economic activities	Housing	Investment loans and OVDs	Other	
Stage 1									
Gross outstanding amount	338,709	347,749	334,886	105,643	256,070	158,434	13,388	2,667	**1,557,546**
Loss allowances	(1,510)	(1,965)	(1,599)	(504)	(1,269)	(504)	(36)	(7)	**(7,394)**
Carrying amount	**337,199**	**345,784**	**333,287**	**105,139**	**254,801**	**157,930**	**13,352**	**2,660**	1,550,152
Stage 2									
Gross outstanding amount	7,121	9,106	4,775	1,082	6,649	2,809	295	85	**31,922**
Loss allowances	(954)	(965)	(892)	(85)	(1,047)	(679)	(41)	(5)	**(4,668)**
Carrying amount	**6,167**	**8,141**	**3,883**	**997**	**5,602**	**2,130**	**254**	**80**	27,254
Stage 3									
Gross outstanding amount	12,268	6,227	6,812	3,329	14,957	2,923	111	43	**46,670**
Loss allowances	(6,944)	(2,564)	(4,983)	(1,790)	(8,558)	(1,988)	(27)	(22)	**(26,876)**
Carrying amount	**5,324**	**3,663**	**1,829**	**1,539**	**6,399**	**935**	**84**	**21**	19,794
POCI									
Gross outstanding amount	-	-	-	-	940	-	-	-	**940**
Loss allowances	-	-	-	-	(63)	-	-	-	**(63)**
Carrying amount	**-**	**-**	**-**	**-**	**877**	**-**	**-**	**-**	877

Credit risk at the portfolio level is assessed on a quarterly basis and, if necessary, more frequently. This includes an analysis of portfolio structure and quality, restructured exposures, write offs, the coverage ratio (risk provisions in relation to past-due portfolio) and concentration risk.

Concentration risk in the customer loan portfolio is effectively limited by a high degree of diversification. This diversification is a consequence of lending to small and medium businesses in various economic sectors. Geographically, the loans and advances to customers are predominantly disbursed to clients, which are Bulgarian or Greek residents.

4 Risk management (continued)

c Credit risk (continued)

In addition, the ProCredit Bank limits the concentration risk of its portfolios by means of the following requirements: large credit exposures (those exceeding 10% of regulatory capital) require the coordination with the ProCredit Group Risk Management Committee and approval of the Supervisory Board of the group. No large credit exposure may exceed 25% of regulatory capital, and the sum of all large credit exposures may not exceed 150% of its regulatory capital. The largest credit exposure of the group was 7% of the regulatory capital as of end 2019 (2018: 5%).

As of 31 December 2019	<= 50,000 EUR	>50,000 <= 250,000 EUR	> 250,000 EUR	Total
Business loans	**105,787**	**566,841**	**976,875**	**1,649,503**
Wholesale and retail trade	22,873	138,062	218,766	379,701
Agriculture, forestry and fishing	41,747	194,133	152,380	388,260
Production	13,174	98,266	269,746	381,186
Transportation and storage	12,970	51,888	55,725	120,583
Other economic activities	15,023	84,492	280,258	379,773
Private loans	**68,375**	**115,836**	**11,560**	**195,771**
Housing	46,897	114,719	11,560	173,176
Investment loans and OVDs	16,736	714	-	17,450
Others	4,742	403	-	5,145
Customer loan portfolio (gross)	**174,162**	**682,677**	**988,435**	**1,845,274**

As of 31 December 2018	<= 50,000 EUR	>50,000 <= 250,000 EUR	> 250,000 EUR	Total
Business loans	**118,643**	**572,224**	**765,456**	**1,456,323**
Wholesale and retail trade	27,740	139,674	190,684	358,098
Agriculture, forestry and fishing	44,482	193,414	125,186	363,082
Production	14,404	103,582	228,487	346,473
Transportation and storage	14,061	54,346	41,647	110,054
Other economic activities	17,956	81,208	179,452	278,616
Private loans	**71,101**	**100,944**	**8,710**	**180,755**
Housing	55,194	100,262	8,710	164,166
Investment loans and OVDs	13,112	682	-	13,794
Others	2,795	-	-	2,795
Customer loan portfolio (gross)	**189,744**	**673,168**	**774,166**	**1,637,078**

Business loans include loans for business purposes (working capital or investments) disbursed to Small and Medium clients. Business loans include agricultural loans as well as business overdrafts and revolving loans. Loans to Private clients include consumer and housing loans as well as consumer overdrafts and credit card receivables.

Continuous training of the staff ensures that credit risk is properly evaluated whenever a loan is issued, and that credit exposures are closely observed throughout their lifetime and, if necessary, that appropriate measures are taken in a timely manner. That is why the quality of the ProCredit Bank’s loan portfolios is significantly higher than the sector average.

The group’s client credit risk is regularly quantified in the risk-bearing capacity calculation using a credit risk model. Relevant stress scenarios are also used to determine the economic capital needed by the group to cover client credit risk in extremely negative circumstances.

4 Risk management (continued)

c Credit risk (continued)

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, which represent irrevocable assurance that the group will make the payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans and guarantees. With respect to credit risk on commitments to extend credit, the group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total commitments since commitments to extend credit are contingent upon customers maintaining specific credit standards.

d Counterparty risk, including issuer risk

The group defines counterparty risk, including issuer risk, as the risk that a counterparty/issuer cannot fulfil its contractual obligations at all, not in full or not on time. Counterparty risk in the group mainly arises from keeping highly liquid assets for the purpose of managing liquidity. There are also structural exposures towards the BNB in the form of mandatory minimum reserves.

The framework for managing the counterparty risk is approved by the Management of the group and is specified in the respective policies and standards. These define counterparty risk, specify the responsibilities at bank level, and establish minimum requirements for managing, monitoring and reporting. Both the ALCO and the General Risk Assessment Committee are involved in decisions made with regard to counterparty risk.

Counterparty risk is managed according to the principle that our liquidity must be placed securely and, to the greatest extent possible, in a diversified manner. While the group tries to generate some income from these assets, the overriding objective is to ensure secure placement and timely availability, i.e. risk considerations predominate. For this reason, we only work with carefully selected reliable banks that have a high credit rating, typically place our money for short terms (up to three months, but typically shorter) and use only a very limited number of simple financial instruments.

Issuer risk is likewise managed according to these principles. The group is prohibited from engaging in speculative trading. As a matter of principle, only highly liquid securities are bought, typically with a maximum maturity of three years at fixed-interest rates. BGN liquidity is predominantly placed at the BNB or invested in Bulgarian sovereign bonds. EUR or USD, on the other hand, are generally invested in ProCredit Bank Germany or securities issued by multilaterals internationally rated at least AA-. The impact of market price changes on the group is limited. The reasons are that the volume of securities is rather low, their maturities are short and issuers are carefully selected based on conservative risk criteria.

Typically, our counterparties are the BNB, Bulgarian Governments and commercial banks. The main types of exposure are account balances, short-term TDAs, highly liquid securities, and, on a very limited scale, simple derivative instruments for liquidity management and hedging purposes (mostly foreign currency forwards and swaps). We effectively limit counterparty and issuer risk within through our conservative investment strategy. Due to mandatory minimum reserves, a concentration exists with regard to exposure towards the BNB.

4 Risk management (continued)

d Counterparty risk, including issuer risk (continued)

The group's exposure to counterparty and issuer risk increased in 2019 compared to the end of 2018 in line with the growth of the customer deposits and the corresponding increase of the liquid funds. The placements are concentrated towards central banks and ProCredit Bank Germany. The liquid assets other than physical cash of the bank were placed as follows:

Counterparty	31 Dec 2019	in %	31 Dec 2018	in %
Central banks	**248,490**	**42%**	**179,630**	**38%**
Mandatory reserves	188,896	32%	151,341	32%
Others	59,594	10%	28,289	6%
Banking groups	**325,387**	**56%**	**268,469**	**56%**
OECD banks	315,687	54%	268,469	56%
local banks	9,700	2%	-	-
Securities issued by Bulgarian Government	**15,056**	**2%**	**28,666**	**6%**
Total	**588,933**	**100%**	**476,765**	**100%**

The table below presents an analysis of debt securities and banks placements by rating agency designation, based on the credit assessments of nominated External Credit Assessment Institutions:

As of 31 Dec 2019

Rating	Debt instruments	Loans and advances to banks	Total
AA- to AA+	-	2	2
A- to A+	-	-	-
BBB- to BBB+	15,056	325,385	340,441
Total	**15,056**	**325,387**	**340,443**

As of 31 Dec 2018

Rating	Debt instruments	Loans and advances to banks	Total
AA- to AA+	-	2	2
A- to A+	-	-	-
BBB- to BBB+	28,666	268,467	297,133
Total	**28,666**	**268,469**	**297,135**

For counterparty risk, the same definitions for "past due" and "non-performing" apply in principle as for customer credit risk. Due to the careful selection of the counterparties, none of positions shown was past due nor showed any signs of impairment as of 31 December 2019. In accordance with IFRS 9 requirements, allowances were established for counterparty risk for the first time in the 2018 financial year.

The exposure towards counterparties and issuers is managed on the basis of a limit system, as is the case for customer credit risk. ProCredit Bank concludes transactions only with counterparties that have previously been carefully analysed and for which a limit has been approved. The total limit for banks or banking groups is also set, with a distinction being made between banks and banking groups based in an OECD country and those outside of the OECD. The typical maximum maturity of our term deposits is three months; longer maturities must be approved. In general, approval is required before any investments in securities. The group's counterparty risk is quantified and analysed regularly as part of the internal capital adequacy calculation. When calculating the risk- and term-adjusted exposure, all exposures towards counterparties are taken into account.

4 Risk management (continued)

e Market risk

Market risks comprise the risk of potential losses from shifts in market prices, such as exchange rates or other parameters which influence prices. Relevant market risks for the ProCredit group are foreign currency risk and interest rate risk in the banking book. The group manages market risks in such a way that their impact is as limited as possible from an overall risk perspective. In accordance with the group risk strategy, foreign currency risk and interest rate risk may not be incurred for speculative purposes. Foreign currency and interest rate derivatives are used exclusively for hedging or liquidity purposes. ProCredit Bank is non-trading book institution.

Foreign currency risk

We define foreign currency risk as the risk that the group incurs losses due to exchange rate fluctuations. Foreign currency risk can have adverse effects on income and can lead to a decline in regulatory capital ratios.

The framework for managing the foreign currency risk is approved by the Management of the group and is specified in the respective policies and standards. These define foreign currency risk, specify the responsibilities at bank level, and establish minimum requirements for managing, monitoring and reporting. Both the ALCO and the General Risk Assessment Committee are involved in decisions made with regard to currency risk.

Results are impacted negatively when the volume of the assets and liabilities denominated in foreign currencies do not match and the exchange rates move unfavourably. The key risk indicator that captures the balance sheet discrepancy for each currency is the open currency position (OCP). Limits for OCP are set at bank level. The total OCP is calculated as the sum of the absolute values of the individual currency positions and is limited to 10% of the group's capital, unless deviation from this limit has been approved by the ProCredit Group ALCO or ProCredit Group Risk Management Committee. A threshold of 7.5% of the ProCredit Bank's capital has been defined as an early warning indicator for the total OCP, and ±5% for each individual currency OCP.

ProCredit Bank operates in an environment, where the local currency is stable because of the currency board in Bulgaria. It guarantees that in a mid-term no fluctuations of the local currency to the EUR exchange rate are expected. As almost all of the assets and liabilities are denominated either in local currency or in EUR, the exposure of the group toward foreign currency risk is insignificant. In order to protect from the effects of a devaluation of the local currency to the EUR, the group maintains a long OCP in EUR close to 100% of the shareholder capital, which could offset the negative effect from eventual devaluation and protect the shareholder's equity.

Since ProCredit Bank is a non-trading book institution and has no commodity positions, foreign currency risk is the only risk of those classified as market price risks according to article 351 of Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on the prudential requirements for credit institutions and investment firms and amending EU regulation no 648/2012 (Regulation 575/2013) that is relevant for regulatory capital requirements.

The P&L effect arising from OCPs is also measured regularly when calculating the risk-bearing capacity of ProCredit bank. The calculation is based on a Value at Risk (VaR)-type analysis of the OCPs considering historically extreme exchange rate volatilities during the past seven years. In addition, regular stress tests are conducted for the risk arising from OCPs. The table below summarizes the group's exposure to foreign currency exchange rate risk.

4 Risk management (continued)

e Market risk (continued)

As of 31 December 2019	BGN	EUR	USD	Other	Total
Assets					
Cash and cash equivalents	258,758	23,179	961	58	282,956
Loans and advances to banks	9,700	260,084	44,266	11,337	325,387
Investment securities	5,965	10,080	5,452	-	21,497
Loans and advances to customers	892,080	916,497	1,505	-	1,810,082
Property, plant and equipment	45,198	-	-	-	45,198
Intangible assets	5,490	-	-	-	5,490
Deferred tax assets	313	-	-	-	313
Other assets	8,652	920	-	-	9,572
Total assets	**1,226,156**	**1,210,760**	**52,184**	**11,395**	**2,500,495**
Liabilities					
Liabilities to banks	239	27,394	1	-	27,634
Liabilities to customers	1,225,203	761,919	53,542	11,335	2,051,999
Liabilities to institutions	-	145,454	-	-	145,454
Lease liabilities	3,739	535	-	-	4,274
Other liabilities	3,679	1,483	24	1	5,187
Provisions	1,081	-	-	-	1,081
Current tax liabilities	522	-	-	-	522
Total liabilities	**1,234,463**	**936,785**	**53,567**	**11,336**	**2,236,151**
Net balance sheet position	**-8,307**	**273,975**	**-1,383**	**59**	**264,344**
Credit commitments (Note 30)	216,767	102,792	1,003	-	320,562
Open spot transactions	1,956	528	(2,349)	(138)	(3)

As of 31 December 2018	BGN	EUR	USD	Other	Total
Total assets	1,032,751	1,088,260	40,490	13,349	2,174,850
Total liabilities	1,036,898	838,791	43,170	13,475	1,932,334
Net balance sheet position	**(4,147)**	**249,469**	**(2,680)**	**(126)**	**242,516**
Credit commitments (Note 30)	204,140	85,598	1,514	-	291,252
Open spot transactions	1,956	528	(2,349)	(138)	(3)

Interest rate risk in the banking book

Interest rate risk is the risk of incurring losses due to changes in market interest rates and primarily arises from differences between the repricing maturities of assets and liabilities.

The framework for managing the interest rate risk is approved by the Management of the group and is specified in the respective policies and standards. These define interest rate risk, specify the responsibilities at bank level, and establish minimum requirements for managing, monitoring and reporting. General Risk Assessment Committee is responsible for all key decisions regarding interest rate risk management, and this committee analyses, at least quarterly, the interest rate risk profile of the group.

In order to manage interest rate risk, ProCredit Bank primarily issues variable-rate loans. In this way, the repricing maturities of assets can be better matched to the repricing maturity of liabilities, even when liabilities have shorter maturities than loans. In order to grant variable-rate loans in a transparent manner, the group uses a publicly available interest rate as a benchmark when adjusting the interest rates.

4 Risk management (continued)

e Market risk (continued)

The measuring, monitoring and limiting of interest rate risk is based on repricing gap analyses. The assets and liabilities are distributed across time buckets according to the terms of the underlying contracts. Sight deposits are included in the gap analyses as non-interest bearing whereas saving accounts are presented in the time bucket up to one month. Included in the table are the group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. Loans to customers that are non-interest bearing comprise exposures with worsened credit quality.

As of 31 December 2019	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and cash equivalents	38,450	-	-	-	-	244,506	282,956
Loans and advances to banks	279,477	41,072	-	-	-	4,838	325,387
Investment securities	7,960	5,070	-	2,025	-	6,442	21,497
Loans and advances to customers	74,524	130,308	575,296	717,057	312,897	-	1,810,082
Property, plant and equipment	-	-	-	-	-	45,198	45,198
Intangible assets	-	-	-	-	-	5,490	5,490
Deferred tax assets	-	-	-	-	-	313	313
Other assets	-	-	-	-	-	9,572	9,572
Total assets	**400,411**	**176,450**	**575,296**	**719,082**	**312,897**	**316,359**	**2,500,495**
Liabilities							
Liabilities to banks	16	9,780	17,419	-	-	419	27,634
Liabilities to customers	834,759	67,396	305,233	22,162	-	822,449	2,051,999
Liabilities to institutions	-	28,682	7,805	108,967	-	-	145,454
Lease liabilities	86	173	761	2,470	784	-	4,274
Other liabilities	-	-	-	-	-	5,187	5,187
Provisions	-	-	-	-	-	1,081	1,081
Current tax liabilities	-	-	-	-	-	522	522
Total liabilities	**834,861**	**106,031**	**331,218**	**133,599**	**784**	**829,658**	**2,236,151**
Interest sensitivity gap	**(434,450)**	**70,419**	**244,078**	**585,483**	**312,113**	**(513,299)**	**264,344**

As of 31 December 2018	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest bearing	Total
Total assets	325,295	180,291	526,903	626,600	257,211	258,550	2,174,850
Total liabilities	555,008	160,353	319,470	111,099	-	786,404	1,932,334
Interest sensitivity gap	**(229,713)**	**19,938**	**207,433**	**515,501**	**257,211**	**(527,854)**	**242,516**

In relation to the interest rate risk management, we assume a parallel shift of the interest rate curve. For EUR and USD the interest rate shock is ± 200 basis points, whereas for domestic currencies the magnitude of the shock is derived on the basis of a historical analysis, with a minimum interest rate shock set at ± 200 basis points. Saving accounts are included in the gap analyses according to their expected repricing maturities. These maturities are derived from a group-wide analysis of historical developments. Limits are set in relation to regulatory capital (non-netted in each case) for the economic value impact when simulating a simultaneous detrimental (upward or downward) interest rate shock across all currencies as well as for the P&L effect.

4 Risk management (continued)

e Market risk (continued)

The potential economic value impact when simulating a simultaneous detrimental (upward or downward) interest rate shock across all currencies must not exceed 15% of the group’s capital, unless approved by the ProCredit Group Risk Management Committee; the early warning indicator for each currency is set at 10%.

A second key indicator measures the potential impact of interest rate shocks on the expected earnings of the group (P&L effect) over a period of twelve months. This risk measure indicates how the income statement may be influenced by interest rate risk under a short-term perspective. An upper limit of 10% of the group’s CRR capital is set for the non-netted, total 12 months interest earnings impact and an early warning indicator is set above 5% of the group’s CRR capital. Whenever the early warning indictor is reached, the group's risk management department must analyse the situation and explain it to the group's ALCO or General Risk Committee. If deemed necessary, appropriate measures must be taken.

Currency	31 Dec 2019		31 Dec 2018	
	Economic value impact	**12 month P&L effect**	**Economic value impact**	**Economic value impact**
BGN	2,118	(529)	(4,578)	(145)
EUR	(335)	(5,078)	(4,359)	(3,927)
USD	(104)	(654)	92	(503)
Total absolute amount	**2,557**	**6,261**	**9,029**	**4,575**

The group exposure to interest rate risk is quantified and analysed quarterly in the context of the risk bearing capacity calculation.

f Liquidity and funding risk

Liquidity and funding risk addresses the ProCredit group’s short- and long-term ability to meet its financial obligations in a complete and timely manner, even in stress situations.

The framework for managing ProCredit Bank’s liquidity and funding risk is approved by the Management of the group and is specified in the respective policies and standards. These define liquidity risk, specify the responsibilities at bank level, and establish minimum requirements for managing, monitoring and reporting. The ALCO is responsible for all key operational decisions regarding liquidity management. Selected liquidity risk indicators are reported and presented each month in detail to the ProCredit Group Risk Management Committee.

We measure our short-term liquidity risk using a liquidity gap analysis, among other instruments, and monitor this risk based on a 30-day liquidity indicator (Sufficient Liquidity Indicator, SLI), as well as in accordance with the minimum liquidity ratio stipulated by CRR (Liquidity Coverage Ratio, LCR). The SLI measures whether the institutions has sufficient liquidity for the expected inflows and outflows of funds in the next 30 days. The calculation applies outflows derived from historical analyses of deposit movements in the group. LCR indicates whether the group has sufficient liquidity to cover the net outflows expected in the next 30 days, even in the event of a specified severe economic shock scenario.

Additional indicator was included within the liquidity risk management framework in 2018 – survival period above 90 days. The survival period is the time during which the group can meet all its payments due without needing to generate additional (i.e. still not contracted) funds, i.e. the period within which the group does not have negative liquidity gaps in any of the time-buckets. The survival period is estimated based on risk scenario assumptions. The defined minimum survival period limits is at least 90 days on total currency level. Early warning indicators are also defined and monitored

4 Risk management (continued)

f Liquidity and funding risk (continued)

Market-related, institution-specific, combined and longer-term stress tests are conducted monthly and ad hoc to make sure that the bank keeps sufficient liquid funds to meet its obligations, even in difficult times. As liquidity reserve, ProCredit Bank Bulgaria has a stand-by agreement with ProCredit Holding in case of need of urgent funding. Moreover, the group has a contingency plan. If unexpected circumstances arise and an individual bank from ProCredit Group proves not to have sufficient liquid funds, the ProCredit group has also developed a liquidity contingency plan and ProCredit Holding would step in as a “lender of last resort”. ProCredit Holding keeps an adequate liquidity reserve available for this purpose. The amount of the liquidity reserve is determined on the basis of group stress tests and monitored on a regular basis.

The liquidity of the group is managed on a daily basis by the respective responsible units (i.e. treasury), based on the ALCO-approved cash flow projections, and is monitored by risk management and ALCO.

The following tables show the cash flows of the financial assets and financial liabilities of the group according to their remaining contractual maturities. The remaining contractual maturity is defined as the period between the balance sheet date and the contractually agreed due date of the asset or liability, or the due date of a partial payment under the contract for an asset or liability.

Maturities of assets and liabilities

As of 31 December 2019	**Up to 1 month**	**1 – 3 months**	**3 – 12 months**	**1 – 5 years**	**Over 5 years**	**Total**
Assets						
Cash and cash equivalents	282,956	-	-	-	-	282,956
Loans and advances to banks	284,315	41,072	-	-	-	325,387
Investment securities	7,960	5,070	-	2,026	6,441	21,497
Loans and advances to customers	70,003	124,023	572,970	728,683	314,403	1,810,082
Property, plant and equipment	-	-	-	-	45,198	45,198
Intangible assets	-	-	-	-	5,490	5,490
Deferred income tax assets	-	-	313	-	-	313
Other assets	-	6,459	-	3,114	(1)	9,572
Total assets	**645,234**	**176,624**	**573,283**	**733,823**	**371,531**	**2,500,495**
Liabilities						
Liabilities to banks	481	9,870	10,174	7,109	-	27,634
Liabilities to customers	1,653,329	68,305	308,125	22,240	-	2,051,999
Liabilities to institutions	-	3,547	14,089	126,268	1,550	145,454
Lease liabilities	86	173	761	2,470	784	4,274
Other liabilities	-	5,187	-	-	-	5,187
Provisions	30	40	215	243	553	1,081
Current tax liabilities	-	522	-	-	-	522
Total liabilities	**1,653,926**	**87,644**	**333,364**	**158,330**	**2,887**	**2,236,151**
Net liquidity gap	**(1,008,692)**	**88,980**	**239,919**	**575,493**	**368,644**	**264,344**
As of 31 December 2018						
Total assets	**520,104**	**177,396**	**526,935**	**642,463**	**307,952**	**2,174,850**
Total liabilities	**1,310,255**	**131,437**	**343,245**	**137,095**	**10,302**	**1,932,334**
Net liquidity gap	**(790,151)**	**45,959**	**183,690**	**505,368**	**297,650**	**242,516**

4 Risk management (continued)

f Liquidity and funding risk (continued)

Liabilities to customers with maturity up to 1 month include all sight and saving deposits amounting to BGN 1,615,580 thousand (2018: BGN 1,267,046 thousand). The group's management expects that these funds will not be withdrawn at the same time or within the period in which they are reflected. Additionally, an analysis of depositors' behaviour revealed that 94% of term deposits at maturity date were not withdrawn but automatically renegotiated under the similar terms and conditions.

The following table shows the undiscounted cash flows of the financial assets and financial liabilities of the group according to their remaining contractual maturities.

Maturity analysis for financial assets and financial liabilities

As of 31 December 2019	**Up to 1 month**	**1 – 3 months**	**3 – 12 months**	**1 – 5 years**	**Over 5 years**	**Total**	**Total gross amount**
Cash and cash equivalents	283,064	-	-	-	-	283,064	283,064
Loans and advances to banks	284,295	41,041	-	-	-	325,336	325,388
Investment securities	7,971	5,085	29	2,055	6,441	21,581	21,497
Loans and advances to customers	69,367	133,237	611,244	815,785	350,310	1,979,943	1,845,274
Total financial assets	**644,697**	**179,363**	**611,273**	**817,840**	**356,751**	**2,609,924**	**2,475,223**
Liabilities to banks	892	9,947	10,297	7,472	-	28,608	27,634
Liabilities to customers	1,653,719	68,487	309,808	22,639	-	2,054,653	2,051,999
Other borrowed funds	-	3,623	14,504	128,425	1,550	148,102	145,454
Total financial liabilities	**1,654,611**	**82,057**	**334,609**	**158,536**	**1,550**	**2,231,363**	**2,225,087**

As of 31 December 2018	**Up to 1 month**	**1 – 3 months**	**3 – 12 months**	**1 – 5 years**	**Over 5 years**	**Total**	**Total gross amount**
Cash and cash equivalents	218,911	-	-	-	-	218,911	218,911
Loans and advances to banks	227,451	41,049	-	-	-	268,500	268,484
Investment securities	9,098	4,325	212	15,562	4,718	33,915	33,384
Loans and advances to customers	64,272	135,914	565,504	703,120	291,468	1,760,278	1,637,078
Total financial assets	**519,732**	**181,288**	**565,716**	**718,682**	**296,186**	**2,281,604**	**2,157,857**
Liabilities to banks	559	17,608	46,390	22,248	5,521	92,326	91,164
Liabilities to customers	1,309,338	96,608	232,861	18,956	-	1,657,763	1,656,287
Other borrowed funds	-	53,367	54,666	74,036	-	182,069	179,662
Total financial liabilities	**1,309,897**	**167,583**	**333,917**	**115,240**	**5,521**	**1,932,158**	**1,927,113**

Funding risk is the danger that additional funding cannot be obtained, or can only be obtained at higher costs. It therefore covers parts of the non-systemic effect of interest rate changes. This risk is mitigated by the fact that we finance our lending operations primarily through retail customer deposits; nonetheless, our deposit-taking operations focus on our target group of business clients and private clients/savers, with whom we establish strong relationships. These are supplemented by long-term credit lines from international financial institutions (IFIs). We make little use of the interbank market. In addition, we primarily issue instalment loans with monthly repayments. The funding of the group has proven to be resilient even in times of stress.

4 Risk management (continued)

f Liquidity and funding risk (continued)

The group manages, measures and limits funding risk through business planning, maturity gap analysis and several indicators. The funding needs of the group, identified in the business planning process, are monitored and regularly reviewed. ALCO monitors the progress of all individually significant transactions with external funding providers, especially international financial institutions. ProCredit Holding and the ProCredit Bank in Germany also offer bridge financing in the event that a funding project is delayed. A key indicator for limiting funding risk is the deposit concentration indicator which should not exceed 7% (it stood at 3.6% as of end 2018). Two more indicators additionally restrict the level of funding from the interbank market to a low level.

g Operational risk management

In line with CRR, we define operational risk as the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. This definition includes in particular fraud risk, IT risk, legal risk, reputational risk and outsourcing risk. The principles set forth in the group operational risk management policies are in compliance with the requirements for the standardised approach for operational risk pursuant to CRR.

The group has an assigned operational risk management role to ensure the effective implementation of the operational and fraud risk management framework within the institution. In addition, the Operational Risk Management Committee ("ORAC") serves as decision-making body for operational risk matters A centralised and decentralised reporting procedure ensures that the Management as well as other members of the ORAC receive regular comprehensive reports on operational risks to serve as a basis for their decisions.

The aim of operational risk management is to detect risks at an early stage and to avoid recurrence. The main tools utilised to manage operational risks are the group-wide Risk Event Database (RED), the Annual Risk Assessments and Scenario analysis, established Key Risk Indicators (KRI) and the analysis of all new services and processes in a structured procedure, the New Risk Approval (NRA) process.

The Risk Event Database was developed to ensure that all operational risk events identified in the group are documented, analysed and communicated effectively. All ProCredit banks and ProCredit Holding document risk events using the provided framework, which ensures that adequate attention is paid to the implementation of necessary corrective or preventive measures for reducing or avoiding operational and fraud risk.

In contrast to the ex-post analysis of risk events as recorded in the Risk Event Database, annual risk assessments are systematically performed in order to identify and evaluate key risks and assess the adequacy of the control processes. These two tools complement each other and provide an overall picture of the operational risk profile for the group.

Risk indicators are also used to identify elevated fraud risk in specific areas of banking operations. These indicators are analysed regularly and where needed preventive measures are agreed on.

To complete the management of operational risk, all new products need to be analysed to identify and manage potential risks before implementation (NRA process).

4 Risk management (continued)

g Operational risk management (continued)

In order to limit IT risks, the group has defined standards for IT infrastructure, business continuity and information security. Regular controls of information security and business continuity are part of existing processes and procedures. The group carries out a classification of the information assets and conduct an annual risk assessment on the critical information assets. The business continuity framework implemented in the group ensures that these risks are understood by all members of staff, that critical processes are identified and that resources are allocated to restore operations, in line with the prioritisation of processes.

A key element of the risk assessment is the evaluation of outsourcing. The bank maintains a register of all outsourced activities and conducts evaluation of risk on each outsourced process and well as on the insourcing company. Key performance indicators are tracked for the quality of services of the outsourced activities, and on annual basis is performed monitoring of all of them.

h Risks arising from money laundering, terrorist financing and other acts punishable by law

Ethical behaviour is an integral part of the values-oriented business model of all ProCredit banks. The prevention of money laundering, terrorist financing and fraud is a key component of our self-perception. The group does not tolerate any fraudulent activity or other questionable transactions, either by clients or employees.

The group is in full compliance with all regulatory requirements concerning the prevention of money laundering and terrorist financing. Moreover, the group has implemented the ProCredit group-wide guidelines on the prevention of money laundering and terrorist financing, which in many respects are stricter than the legal requirements prevailing in the individual countries of operation of the ProCredit group. As the ProCredit group is supervised by the German financial supervisory authorities, we implement the requirements stipulated by the German Money Laundering Act, as well as the requirements applicable at the European level.

Our ethical responsibility is documented in the form of our Code of Conduct and Exclusion List, which contain the core rules and regulations that all employees of ProCredit banks are obliged to observe. The group-wide guidelines on the prevention of money laundering, terrorist financing and fraudulent activities, together with their subordinate directives, specify how these basic rules are to be implemented in practice.

Besides identifying all contracting parties and clarifying the purpose of the business relationship, the collection of client data always also entails identifying the beneficial owner of all funds that are managed in customer accounts. Beneficial owners are natural persons who substantially profit from a business structure, even if they are not personally in evidence during our business relationship with a client. The group identifies and screens, without exception, all persons who could prove to be beneficial owners.

ProCredit Bank uses specialized software to identify payments that give cause for suspicion of money laundering, terrorist financing or fraud. Anti-money laundering officers work closely with the responsible law enforcement authorities and report regularly to the ProCredit Group Anti-Money Laundering (AML) Officer at ProCredit Holding, who in turn is the main contact for supervisory and law enforcement authorities in Germany and other countries.

4 Risk management (continued)

i Capital management

Capital management in the group is guided by the principle that the institution may at any time incur greater risks than they are able to bear. This principle is monitored using different indicators for which early warning indicators and limits have been established. The indicators include, in addition to regulatory standards in the country an internal capital adequacy assessment process (ICAAP).

The capital management framework of the group has the following objectives:
- compliance with regulatory capital requirements
- ensuring internal capital adequacy
- compliance with the internally defined capital requirements and creation of a sufficient capital buffer to ensure that the group is able to act
- support for the group in implementing the plans for continued growth

The capital management of ProCredit bank is governed by specific policies and monitored on a monthly basis by the Management.

Internal Capital Adequacy Assessment Process

Ensuring that the group has sufficient internal capital at all times is a key element the group's risk management and internal capital adequacy assessment process. In the context of the internal capital adequacy assessment, the capital needs arising from our specific risk profile are compared with the available capital resources to assure that the institution's capitalisation is at all times sufficient to match the risk profile. It is an ongoing process that raises awareness of our capital requirements and exposure to risks.

The methods we use to calculate the amount of economic capital required to cover the different risks the group is exposed to are based on statistical models, provided that appropriate models are available. The guiding principle for our internal capital adequacy assessment is that the group is able to withstand strong shock scenarios. In our view, the crisis years 2009 and 2010 underscored the necessity for a conservative approach to managing risks and capital, and the developments during that time proved the strength of the group in dealing with a difficult economic environment. Throughout this period, the group showed strong levels of capital. We are committed to being able to meet our non-subordinated obligations at all times in the event of unexpected losses in the gone-concern approach, both in normal and in stress scenarios. The internal capital adequacy of the group was sufficient at all times during 2019.

When calculating the economic capital required to cover risk exposures we apply a one-year risk assessment horizon. The included material risks and the limits set for each risk reflect the specific risk profile of the group and are based on the annually conducted risk inventory. The following risks are included in the internal capital adequacy calculation:

Material risk	Quantification/treatment
Credit risk, comprising: • customer credit risk • counterparty risk	Portfolio model based on a Monte Carlo simulation (VaR)
• Foreign currency risk	Monte Carlo simulation (VaR)
Interest rate risk	Historical simulation (VaR)
Operational risk	Quantitative model based on a Monte Carlo simulation

4 Risk management (continued)

i Capital management (continued)

The group's risk-taking potential (RTP) in the gone concern approach, defined as the consolidated equity (net of intangibles and deferred tax assets), amounted to BGN 258.5 million as of the end of December 2019. The resources available to cover risks (RAtCR) are calculated as 60% of the RTP. Only RAtCR are considered when setting the limits for each risk category. Thus, a buffer of 40% of the RTP is available to cover possible shortcomings of the applied models and unfavourable effects, which can be associated with risks which have not been explicitly included in the ICAAP calculation. The RAtCR is then, on the basis of the risk appetite, distributed among the individually quantifiable risks, and the economic capital required to cover the risks is compared with the available capital.

The table below shows the distribution of RAtCR among the different risks and the limit utilisation as of end-December 2019. In the standard scenario, ProCredit Bank needs 61% of its RAtCR and 36.9% of its RTP to cover its risk profile.

As of 31 Dec 2019

Material risks	Limit (% of the RTP)	Limit (amount)	Limit used (amount)	Limit used (%)
Credit risk	38.0%	98,246	82,714	32.0%
FX risk	2.0%	5,171	20	0.0%
Interest rate risk	10.0%	25,854	2,557	1.0%
Operational risk	10.0%	25,854	10,131	3.9%
Resources available to cover risks (RAtCR) (limited at 60% of RTP)	**60.0%**	**155,125**	**95,422**	**36.9%**
Risk-taking potential (RTP)	**-**	**258,543**	**-**	**-**

As of 31 Dec 2018

Material risks	Limit (% of the RTP)	Limit (amount)	Limit used (amount)	Limit used (%)
Credit risk	38.0%	90,028	70,865	29.9%
FX risk	2.0%	4,738	97	0.0%
Interest rate risk	10.0%	23,692	4,575	1.9%
Operational risk	10.0%	23,692	10,387	4.4%
Resources available to cover risks (RAtCR) (limited at 60% of RTP)	**60.0%**	**142,150**	**85,924**	**36.2%**
Risk-taking potential (RTP)	**-**	**236,915**	**-**	**-**

Regulatory capital adequacy

Since 1 January 2014, the Basel III requirements, implemented in Bulgaria through Capital Requirements Directive IV and Regulation 575/2013 CRR, have been binding for the group. As per Art. 92 of Regulation 575/2013, the minimum capital requirement for the overall capital adequacy ratio is 8% of the total risk exposure. Added to this requirement are the capital buffers, which the BNB demands that the groups maintain as per Regulation No. 8 on the capital buffers of banks. They are:

- Capital conservation buffer in the form of Common Equity Tier 1 equal to 2.5% of total risk exposure amount;
- Systemic risk buffer in the form of Common Equity Tier 1 capital equal to 3.0% of the total risk exposures in Bulgaria (requirement as of 31 Dec 2019);
- Countercyclical capital buffer in the form of Common Equity Tier 1 capital equal to 0.5% of the credit risk exposures in Bulgaria.

4 Risk management (continued)

i Capital management (continued)

After adding the capital buffers to the capital requirements, the minimum requirement amounts to 13.7%. The group's internal capital management policy sets a stricter limit for the total capital adequacy ratio with a reporting trigger of 15.0% and a limit of 14.5%.

During the reporting period, all regulatory capital requirements were met at all times.

When defining the capital requirements for the purposes of calculation of capital adequacy as per Regulation 575/2013, the group adheres to the following:

- capital requirements for credit risk and counterparty risk – Standardised approach as per Part Three, Section II, Chapter 2 of Regulation 575/2013 is used for exposure classes. Credit risk mitigation techniques are applied in the calculation of capital requirements for credit risk. Risk amounts arising from credit risk are reduced in part through the recognition of guarantees from the European Investment Fund (EIF), cash collaterals and mortgages on immovable property.
- capital requirements for operational risk – Standardized approach as per part Three, Section III, Chapter 3 of Regulation 575/2013. Compared to the regulatory capital requirements for operational risk, which amount to BGN 17.6 million, the average annual loss according to data recorded in the Risk Event Database in the last three years amounted to BGN 110 thousand.

As ProCredit Bank is a non-trading book institution, which moreover does not engage in transactions involving commodities, foreign currency risk is the only market risk to be considered. However, ProCredit Bank does not calculate a capital requirement for currency risk, as the overall net foreign currency position (excluding EUR) is virtually kept very close to 0% of the capital (as of 31.12.2019 the absolute value was 0.07%, which is less than minimum threshold of 2% according to Regulation 575/2013).

The regulatory capital ratios are calculated by dividing the capital by the amount of the risk-weighted assets; when calculating each ratio, only the respective capital components are considered (of the Common Equity Tier 1 capital, of the Tier 1 capital and of the overall capital adequacy). The group's regulatory capital ratios are presented below:

	2019	2018
Regulatory capital		
Common Equity Tier 1 capital	200,427	177,567
Total regulatory capital	**200,427**	**177,567**
Risk Weighted Assets		
Risk Weighted Assets for Credit Risk	1,116,328	967,480
Risk Weighted Assets for Operational Risk	126,635	129,837
Total Risk Weighted Assets	**1,242,963**	**1,097,317**
Capital ratios		
Common Equity Tier 1 capital	16.1%	16.2%
Tier 1 capital	16.1%	16.2%
Total capital	16.1%	16.2%

The capital ratios of the group decreased slightly in the 2019 financial year. This was due to growth of the customer loan portfolio. Nevertheless, it must be taken into account that ProCredit Bank increased its subscribed capital by BGN 19,558 thousand. The newly paid capital was registered in the Bulgarian Trade Register in December 2019 but was recognised as a Common Equity Tier 1 capital by the BNB in February 2020. If the amount was added to the regulatory capital of the group, the total capital ratio would be 17.7% as of December 2019. The level of capitalisation in the group is thus significantly higher than the current regulatory requirements.

4 Risk management (continued)

i Capital management (continued)

The Common Equity Tier 1 capital of the group is composed of subscribed capital and reserves. Deductions are made for intangible assets, additional valuation adjustments for balance sheet items recognised at market value, investment in non-financial subsidiary undertakings and other deductions related to credit risk corrections.

The total volume of risk-weighted assets in the group increased by BGN 146 million in 2019. This growth was driven from the increase of the customer loan portfolio.

With the implementation of CRR, an additional leverage ratio was introduced which is not risk-based. This is defined as the ratio of Tier 1 capital to unweighted on- and off-balance sheet risk exposures. A binding minimum requirement for the leverage ratio has yet to take effect; however, in future it will be 3%. As of year-end 2019 ProCredit Bank reported a very comfortable leverage ratio of 8.0%.

j Internal control system and risk management system in the financial reporting process

The internal control system and risk management system in ProCredit Bank’s financial reporting process comprises the principles, procedures and measures for the effective, cost-efficient and rule-compliant application of financial reporting requirements. The main risks in due and proper financial reporting are the improper representation of financial position and financial performance or delayed publication. The internal control system in the financial reporting process is subject to the general principles of our risk management approach and is thus an integral component of the risk management system.

Primary responsibility for the internal control system and risk management system in the financial reporting process, and thus for its effectiveness and monitoring, lies with the Management. The Management establishes the general principles and defines areas of responsibility. Finance function implements the requirements of the Management and defines the specific parameters within the framework provided. Operational Risk Management identifies and assesses risks on a regular basis. Risk assessment comprises an evaluation of operational and fraud risks as well as a review of the effectiveness of the respective controls. If necessary, appropriate measures are defined and implemented in order to limit the risks identified.

The financial reporting process aims to standardise, to the greatest extent possible, the application of the main international financial reporting standards and related processes. The Procredit group Accounting & Taxes function establishes the accounting manual, which applies throughout the group, and defines the material processes in the respective policies, taking account for the principle of dual control. The processes for report preparation are largely automated and the functionalities of the key IT applications have been defined on a centralised basis. IT permissions are defined and regularly monitored in accordance with the respective policies.

The financial reporting process is supported by a multi-step control system. This ensures compliance with legal requirements and the implementation of internal policies. The units in the group prepare information relevant for financial reporting with the support of IT applications which are uniform throughout the group. The information packages from units in the group are reviewed, taking account for the dual control principle, and then subject to standardised quality checks.

In addition, Internal Audit supports the Management and the Supervisory Board in their control functions through independent and objective risk-oriented audits. Regular audits are performed on the financial reporting processes to determine whether they are effective, orderly and cost efficient.

5 Fair values of financial assets and liabilities

The following table summarises the carrying amounts and fair values the financial assets and liabilities in the group's statement of financial position, distributed in the respective hierarchical levels in accordance to the methods used for determining of the fair value.

As of 31 December 2019				**Fair value hierarchy**		
Financial assets	**Category***	**Gross outstanding amount**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Cash	FV	34,574	34,574	34,574	-	-
Central bank balances	AC	248,490	248,490	-	248,490	-
Loans and advances to banks	AC	325,388	325,388	-	325,388	-
Investment securities (Bonds)	FVOCI	15,056	15,056	15,056	-	-
Investment securities (Shares)	FV	6,441	6,441	5,452	-	989
Loans and advances to customers	AC	1,845,274	1,873,169	-	-	1,873,169
Total		**2,475,223**	**2,503,118**	**55,082**	**573,878**	**1,874,158**

Financial liabilities	**Category***	**Gross outstanding amount**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Liabilities to banks	AC	27,634	27,656	-	434	27,222
Liabilities to customers	AC	2,051,999	2,051,877	-	1,633,072	418,805
Liabilities to institutions	AC	145,454	143,724	-	-	143,724
Total		**2,225,087**	**2,223,257**	**-**	**1,633,506**	**589,751**

As of 31 December 2018				**Fair value hierarchy**		
Financial assets	**Category***	**Gross outstanding amount**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Cash	FV	39,281	39,281	39,281	-	-
Central bank balances	AC	179,630	179,630	-	179,630	-
Loans and advances to banks	AC	268,484	268,484	-	268,484	-
Investment securities (Bonds)	FVOCI	28,666	28,666	28,666	-	-
Investment securities (Shares)	FV	4,718	4,718	3,729	-	989
Loans and advances to customers	AC	1,637,078	1,671,726	-	-	1,671,726
Total		**2,157,857**	**2,192,505**	**71,676**	**448,114**	**1,672,715**

Financial liabilities	**Category***	**Gross outstanding amount**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Liabilities to banks	AC	91,164	91,210	-	37,993	53,217
Liabilities to customers	AC	1,656,287	1,656,178	-	1,289,079	367,099
Liabilities to institutions	AC	179,662	179,274	-	-	179,274
Total		**1,927,113**	**1,926,662**	**-**	**1,327,072**	**599,590**

* categories: FV - At Fair value; LaR - Loans and Receivables, AC - Amortised cost; FVOCI - fair value through other comprehensive income

(i) Cash and cash equivalents

The item "cash and cash equivalents" includes cash at hand and balances at central banks including mandatory reserve disclosed under Note 15. The fair value of these assets matches their carrying amount.

(ii) Loans and advances to banks

Loans and advances to banks include inter-bank placements. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

5 Fair values of financial assets and liabilities (continued)

(iii) Investment securities

The group's portfolio of government securities is carried at fair value using the Level 1 inputs that are quoted market prices (unadjusted) in active markets for identical instruments. A small part of the investment securities includes equity securities where observable market prices are not available (SWIFT and Borika-Bankservice shares). These instruments are carried at cost.

(iv) Loans and advances to customers

Loans and advances are net of provision for impairment. The fair value of loans and advances represents the discounted amount of estimated future cash flows using the interest rates currently offered by the group for similar risk and maturity. Difference in fair values and carrying amounts represents the changes in the current market interest rates. Fair value incorporates expected future losses, while amortised cost and related impairment include only incurred losses at the statement of financial position date.

(v) Financial liabilities

The fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for similar risk and maturity.

If observable market rates are not available to determine the fair value of financial liabilities measured at amortised cost, ProCredit Group Treasury rates are used as an input for a discounted cash flow model. These are presented as level 3 input factors. ProCredit Group Treasury rates are determined taking into consideration the cost of capital depending on currencies and maturities plus a risk margin that depends on an internal risk rating for each institution within the ProCredit group (incl. ProCredit Bank (Bulgaria) EAD). Internal rates are regularly compared to those applied for third party transactions and are therefore in compliance with an orderly transaction between market participants at the measurement date under current market conditions.

Fair values of repossessed and investment properties (Note 21) are established on the basis of internal calculations. The group considers the following valuation techniques:

- Cost approach. It considers the current replacement costs of building the property, including the cost of transportation, installation and start-up.
- Income approach. It considers the present value of the net cash flows expected to be generated from the facility, taking into account the planned EBITDA growth rate and budgeted capital expenditure growth rate; the expected net cash flows are discounted using a risk-adjusted discount rate.
- Sales comparison approach. It considers direct comparison with the offered prices of similar properties.

6 Net interest income

	2019	2018
Interest and similar income		
Loans and advances to customers	65,238	62,451
Investment securities	(33)	124
Loans and advances to banks	(328)	(65)
Total interest and similar income	**64,877**	**62,510**
Interest and similar expenses		
Liabilities to customers	4,053	2,565
Liabilities to banks and international financial institutions	2,003	2,321
Other interest expenses	100	79
Total interest and similar expenses	**6,156**	**4,965**
Net interest income	**58,721**	**57,545**

Included in “Interest income from loans and advances to customers” for 2019 is BGN 1,660 thousand of accrued interest on impaired loans (2018: BGN 1,255 thousand).

7 Loss allowance/(reversal of loss allowance)

	2019	2018
Increase of impairment charge	18,386	18,801
Release of impairment charge	(18,487)	(16,469)
Recovery of written-off loans	(1,213)	(1,904)
Direct write-offs	423	589
Non-significant modification	427	639
Loss allowance/(reversal of loss allowance)	**(464)**	**1,656**

8 Net fee and commission income

	2018	2018
Fee and commission income		
Opening and account maintenance fees	11,114	12,006
Payment services	5,179	5,280
Debit/credit cards	3,700	3,223
Cash operations on machines	1,820	1,523
Insurance fees	945	944
Letters of credit and guarantees	531	497
Loan management	473	841
Others	265	352
Total fee and commission income	**24,027**	**24,666**
Fee and commission expense		
Guarantees for EIF programs	1,102	726
Debit/credit cards	1,075	924
Correspondent accounts	705	747
Others	92	10
Total fee and commission expense	**2,974**	**2,407**
Net fee and commission income	**21,053**	**22,259**

9 Result from foreign exchange transactions	2019	2018
Currency transactions	8,836	7,722
Net gains from revaluation	(13)	90
Total result from foreign exchange transactions	**8,823**	**7,812**

10 Result from investment securities	2019	2018
Losses from investment securities	-	(321)
Total result from investment securities	**-**	**(321)**

11 Net other operating income	2019	2018
Other operating income		
Income from non-financial services	743	486
Gain/(loss) from sale of own property	50	(112)
Dividends from investment securities	29	23
Income from sale of repossessed property	21	258
Fee for keeping of funds of closed inactive accounts	(382)	1,499
Net other operating income/(expenses)	101	2,239
Total other operating income	**562**	**4,393**
Other operating expenses		
Other expenses related to repossessed property	151	187
Result from derivative financial instruments	125	181
Impairment of repossessed property	(573)	1,170
Total other operating expenses	**(297)**	**1,538**
Net other operating income	**859**	**2,855**

"Dividends from investment securities" includes the dividend received by entities in which the group has non-controlling interest.

12 Personnel expenses	2019	2018
Salary expenses	15,906	14,135
Pension costs	1,139	981
Other social security costs	1,313	1,181
Other employee costs	71	67
Total personnel expenses	**18,429**	**16,364**

13 Administrative expenses

	2019	2018
Depreciation fixed and intangible assets (Note 19)	6,310	5,200
Payments to Deposit Insurance Fund and Bank Restructuring Fund	5,658	5,614
Non-profit tax	3,154	2,593
Communication and transport costs	3,069	2,906
Consultancy, legal and audit services	2,949	2,982
Other professional services	2,454	2,749
Training	1,928	1,662
Marketing, advertising and representation	1,552	681
IT expenses	1,224	1,132
Maintenance and utilities	912	900
Security services	777	885
Operating lease rentals	191	1,417
Other administrative expenses	900	955
Total administrative expenses	**31,078**	**29,676**

Total audit services provided by the external auditors were BGN 157 thousand (2018: BGN 157 thousand).

The administrative expenses related to lease liabilities can be analysed as follows:

	2019	2018
Depreciation charge for the right-of-use assets by class of assets		
Buildings	1,191	-
Total depreciation charge	**1,191**	**-**
Interest expense on lease liabilities (included in finance cost)	128	-
Expense relating to leases of low-value assets that are not short-term leases (included in other professional services)	214	-
Loss on termination of lease contract	57	
Operating lease expense (IAS17) (included in operating lease rentals expenses)	-	1,417
Total expenses related to leases	**399**	**1,417**

14 Income tax expense

	2019	2018
Current income tax	3,974	4,337
Deferred income tax (Note 20)	237	8
Total income tax expenses	**4,211**	**4,345**

The tax on the operating profit differs from the theoretical amount that would arise using the basic tax rate as follows:

	2019	2018
Profit before income tax	**40,413**	**42,454**
Theoretical tax at a tax rate of 10 % (2018: 10 %)	4,041	4,245
Tax effect from non-taxable income	(211)	(1,838)
Tax effect of expenses not deductible for tax purposes	381	1,938
Total income tax expense	**4,211**	**4,345**

The effective tax rate for 2019 is: 10.4% (2018: 10.2%).

15 Cash and cash equivalents

	2019	2018
Cash in hand	34,574	39,281
Central bank balances (excl. mandatory reserve)	59,594	28,289
Loss allowances for cash and central bank balances	(108)	(108)
Mandatory reserve deposits	188,896	151,341
Total cash and cash equivalents	**282,956**	**218,803**
Loans and advances to banks with a maturity up to 3 months	325,389	268,536
Minimum reserve with central bank, which does not qualify as cash for the statement of cash flows	(188,896)	(151,341)
Cash and cash equivalents for the statement of cash flows	**419,449**	**335,998**

The following table discloses the central bank balances by three stages for the purpose of expected credit losses measurement as of 31 December 2019.

Central bank balances

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount as at 1 Jan 2018	**147,312**	**-**	**-**	**-**	**147,312**
Derecognition	(990)	-	-	-	**(990)**
Increase in placements	33,308	-	-	-	**33,308**
Gross outstanding amount as at 31 Dec 2018	**179,630**	**-**	**-**	**-**	**179,630**
Derecognition	-	-	-	-	**-**
Increase in placements	68,860	-	-	-	**68,860**
As at 31 Dec 2019	**248,490**	**-**	**-**	**-**	**248,490**

Loss allowances for cash and central bank balances

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 Jan 2018	(224)	-	-	-	**(224)**
Release due to derecognition	124	-	-	-	**124**
Increase/Decrease in credit risk	(8)	-	-	-	**(8)**
Balance at 31 Dec 2018	**(108)**	**-**	**-**	**-**	**(108)**
Release due to derecognition	-	-	-	-	**-**
Increase/Decrease in credit risk	-	-	-	-	**-**
As at 31 Dec 2019	**(108)**	**-**	**-**	**-**	**(108)**

16 Loans and advances to banks

	2019	2018
Current accounts	250,142	202,981
Up to three months	75,246	65,503
Loss allowances for loans and advances to banks	(1)	(15)
Total loans and advances to banks	**325,387**	**268,469**

The following table discloses the loans and advances to banks balances by three stages for the purpose of expected credit losses measurement as of 31 December 2019.

16 Loans and advances to banks (continued)

Loans and advances to banks

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount as at 1 Jan 2018	**288,320**	**-**	**-**	**-**	**288,320**
Derecognition	(20,265)	-	-	-	**(20,265)**
Increase in placements	429	-	-	-	**429**
Gross outstanding amount as at 31 Dec 2018	**268,484**	**-**	**-**	**-**	**268,484**
New financial assets originated	9,700	-	-	-	**9,700**
Increase in placements	47,204	-	-	-	**47,204**
As at 31 Dec 2019	**325,388**	**-**	**-**	**-**	**325,388**

Loss allowances for loans and advances to banks

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 Jan 2018	**(20)**	**-**	**-**	**-**	**(20)**
Release due to derecognition	5	-	-	-	**5**
Balance at 31 Dec 2018	**(15)**	**-**	**-**	**-**	**(15)**
Release due to derecognition	14	-	-	-	**14**
As at 31 Dec 2019	**(1)**	**-**	**-**	**-**	**(1)**

17 Investment securities (FVOCI)

	2019	**2018**
Bulgarian Government debt securities	15,056	28,666
Shares	6,441	4,718
Total investment securities	**21,497**	**33,384**

The shares represent investments in local and foreign financial intermediary institutions.

The following table discloses the debt securities by three stages for the purpose of expected credit losses measurement as of 31 December 2019.

Investment securities

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount as at 1 Jan 2018	**28,729**	**-**	**-**	**-**	**28,729**
New financial assets originated	15,477	-	-	-	**15,477**
Derecognition	(15,540)	-	-	-	**(15,540)**
Gross outstanding amount as at 31 Dec 2018	**28,666**	**-**	**-**	**-**	**28,666**
Derecognition	(13,189)	-	-	-	**(13,189)**
Other movements	(421)	-	-	-	**(421)**
As at 31 Dec 2019	**15,056**	**-**	**-**	**-**	**15,056**

Loss allowances for investment securities

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 Jan 2018	**(19)**	**-**	**-**	**-**	**(19)**
New financial assets originated	(9)	-	-	-	**(9**
Release due to derecognition	9	-	-	-	**9**
Increase/Decrease in credit risk	3	-	-	-	**3**
Balance at 31 Dec 2018	**(16)**	**-**	**-**	**-**	**(16)**
New financial assets originated					
Release due to derecognition	7	-	-	-	**7**
Increase/Decrease in credit risk	7	-	-	-	**7**
As at 31 Dec 2019	**(2)**	**-**	**-**	**-**	**(2)**

17 Investment securities (FVOCI) (continued)

The movement of the shares are presented in the table below:

	2019	2018
Opening balance	**4,718**	**3,863**
Gains / (losses) from changes in FV	1,638	713
Foreign currency revaluation	85	142
Closing balance	**6,441**	**4,718**

18 Loans and advances to customers

	31.12.2019	31.12.2018
Total gross loans and advances	1,845,274	1,637,078
Less provision for impairment	(35,192)	(39,001)
Total net loans and advances	**1,810,082**	**1,598,077**

The following table discloses the changes in the gross carrying amount and credit loss allowance for loans and advances to customers carried at amortised cost between the beginning and the end of the reporting period.

Loans and advances to customers

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount as at 1 January 2018	**1,344,814**	**47,868**	**50,931**	**1,017**	**1,444,630**
New financial assets originated	687,648	4,061	2,049	-	**693,758**
Modification of contractual cash flows of financial assets	-	1,048	329	-	**1,377**
Derecognitions (including write-offs)	(273,357)	(13,605)	(10,781)	-	**(297,743)**
Changes in interest accrual	(431)	(24)	230	1	**(224)**
Changes in the principal and disbursement fee amount	(191,348)	(5,578)	(7,716)	(78)	**(204,720)**
Transfer from Stage 1 to Stage 2	(13,319)	13,319	-	-	**-**
Transfer from Stage 1 to Stage 3	(4,514)	-	4,514	-	**-**
Transfer from Stage 2 to Stage 1	7,344	(7,344)	-	-	**-**
Transfer from Stage 2 to Stage 3	-	(8,343)	8,343	-	**-**
Transfer from Stage 3 to Stage 2	-	520	(520)	-	**-**
Transfer from Stage 3 to Stage 1	709	-	(709)	-	**-**
Gross outstanding amount as at 31 Dec 2018	**1,557,546**	**31,922**	**46,670**	**940**	**1,637,078**
New financial assets originated	854,112	-	-	-	**854,112**
Modification of contractual cash flows of financial assets	394	(12)	44	-	**426**
Derecognitions	(323,648)	(14,886)	(7,188)	-	**(345,722)**
Write-offs	-	-	(2,559)	-	**(2,559)**
Changes in interest accrual	388	4	538	-	**930**
Changes in the principal and disbursement fee amount	(292,859)	(1,049)	(5,006)	(77)	**(298,991)**
Transfer from Stage 1 to Stage 2	(94,189)	94,189	-	-	**-**
Transfer from Stage 1 to Stage 3	(1,022)	-	1,022	-	**-**
Transfer from Stage 2 to Stage 1	37,532	(37,532)	-	-	**-**
Transfer from Stage 2 to Stage 3	-	(4,300)	4,300	-	**-**
Transfer from Stage 3 to Stage 2	-	2,037	(2,037)	-	**-**
Transfer from Stage 3 to Stage 1	1,326	-	(1,326)	-	**-**
Gross outstanding amount as at 31 Dec 2019	**1,739,580**	**70,373**	**34,458**	**863**	**1,845,274**

18 Loans and advances to customers (continued)

Loss allowances for loans and advances to customers	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2018	(7,002)	(8,021)	(25,717)	-	**(40,740)**
New financial assets originated	(3,240)	(441)	(828)	-	**(4,509)**
Release due to derecognition	1,571	1,091	1,823	-	**4,485**
Transfer from Stage 1 to Stage 2	72	(72)	-	-	**-**
Transfer from Stage 1 to Stage 3	25	-	(25)	-	**-**
Transfer from Stage 2 to Stage 1	(1,769)	1,769	-	-	**-**
Transfer from Stage 2 to Stage 3	-	1,450	(1,450)	-	**-**
Transfer from Stage 3 to Stage 2	-	(21)	21	-	**-**
Transfer from Stage 3 to Stage 1	(40)	-	40	-	**-**
Increase in credit risk	(314)	(1,573)	(8,931)	(69)	**(10,887)**
Decrease in credit risk	3,303	915	3,902	6	**8,126**
Usage of allowance	-	-	4,202	-	**4,202**
Increase due to restructuring	-	(482)	(767)	-	**(1,249)**
Decrease due to restructuring	-	717	12	-	**729**
Unwinding effects	-	-	842	-	**842**
Balance at 31 Dec 2018	**(7,394)**	**(4,668)**	**(26,876)**	**(63)**	**(39,001)**
New financial assets originated	(4,483)	-	-	-	**(4,483)**
Release due to derecognition	1,835	2,226	3,642	-	**7,703**
Transfer from Stage 1 to Stage 2	476	(476)	-	-	**-**
Transfer from Stage 1 to Stage 3	5	-	(4)	-	**1**
Transfer from Stage 2 to Stage 1	(280)	280	-	-	**-**
Transfer from Stage 2 to Stage 3	-	430	(430)	-	**-**
Transfer from Stage 3 to Stage 2	-	(231)	231	-	**-**
Transfer from Stage 3 to Stage 1	(31)	-	31	-	**-**
Increase in credit risk	(8,517)	(9,466)	(9,842)	(9)	**(27,834)**
Decrease in credit risk	5,555	9,024	10,111	70	**24,760**
Usage of allowance	-	-	3,662	-	**3,662**
Increase due to restructuring	-	-	-	-	**-**
Decrease due to restructuring	-	-	-	-	**-**
As at 31 Dec 2019	**(12,834)**	**(2,881)**	**(19,475)**	**(2)**	**(35,192)**

19 Property, plant and equipment and Intangible assets

	Land and buildings	Business and office equipment	ROU assets – buildings	Intangible assets	Total
Cost					
Balance as of 1 Jan 2018	35,918	30,994	-	12,806	79,718
Acquisitions	3,170	635	-	2,479	6,284
Disposals	(969)	(3,010)	-	(16)	(3,995)
Balance as of 31 Dec 2018	**38,119**	**28,619**	**-**	**15,269**	**82,007**
Depreciation					
Balance as of 1 Jan 2018	7,050	18,567	-	9,026	34,643
Depreciation for the period	1,074	2,934	-	1,192	5,200
Accumulated depreciation of disposal	(56)	(2,207)	-	(16)	(2,279)
Balance as of 31 Dec 2018	**8,068**	**19,294**	**-**	**10,202**	**37,564**
Carrying amounts					
Balance as of 1 Jan 2018	28,868	12,427	-	3,780	45,075
Balance as of 31 Dec 2018	30,051	9,325	-	5,067	44,443
Cost					
Balance as of 1 Jan 2019	38,119	28,619	6,612	15,269	88,619
Acquisitions	2,539	3,561	645	1,679	8,424
Disposals	(378)	(5,310)	(2,084)	(18)	(7,790)
Balance as of 31 Dec 2019	**40,280**	**26,870**	**5,173**	**16,930**	**89,253**
Depreciation					
Balance as of 1 Jan 2019	8,068	19,294	-	10,202	37,564
Depreciation for the period	1,095	2,768	1,191	1,256	6,310
Accumulated depreciation of disposal	(177)	(4,867)	(247)	(18)	(5,309)
Balance as of 31 Dec 2019	**8,986**	**17,195**	**944**	**11,440**	**38,565**
Carrying amounts					
Balance as of 1 Jan 2019	30,051	9,325	6,612	5,067	51,055
Balance as of 31 Dec 2019	31,294	9,675	4,229	5,490	50,688

20 Deferred tax assets

The deferred income taxes relate to the following temporary differences:

	2019	2018
Deferred tax assets		
Repossessed properties	722	987
Unused staff holiday time	71	66
Other temporary differences	48	48
Total deferred tax assets	**841**	**1,101**
Deferred tax liabilities		
Property, plant and equipment	482	505
Other temporary differences	46	46
Total deferred tax liabilities	**528**	**551**
Net deferred tax assets	**313**	**550**

The following table analyses the change in deferred taxes:

	2019	2018
Unused staff holiday time	5	7
Repossessed properties	(264)	(24)
Property, plant and equipment	22	6
Other temporary differences	-	3
Total change in deferred taxes (Note 14)	**(237)**	**(8)**

21 Other assets

	2019	2018
Accounts receivable	5,456	4,859
Repossessed properties	3,114	5,349
Prepayments	857	865
Tax receivables	178	80
Loss allowance for account receivables	(33)	(29)
Total other assets	**9,572**	**11,124**

Repossessed properties shown in the above table include real estates, agricultural and regulated land, etc. They are carried at the lower of the previous carrying amount of the written-off loan and the expected selling price less cost to sell. Reconciliation of the carrying amount of repossessed property is presented in the following table:

Repossessed property	**2019**	**2018**
Balance as of 1 January	**5,349**	**8,993**
Additions	251	1,108
Disposals (sales)	(3,080)	(3,582)
(Impairment)/reversal of impairment of repossessed property	594	(1,170)
Balance as of 31 December	**3,114**	**5,349**

21 Other assets (continued)

The following table discloses the other financial assets balances by three stages for the purpose of expected credit losses measurement as of 31 December 2019.

Other financial assets

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount as at 1 Jan 2018	**3,951**	**-**	**-**	**-**	**3,951**
New financial assets originated	5,634	-	-	-	**5,634**
Derecognition	(3,781)	-	-	-	**(3,781)**
Gross outstanding amount as at 31 Dec 2018	**5,804**	**-**	**-**	**-**	**5,804**
New financial assets originated	6,491	-	-	-	**6,491**
Derecognition	(5,804)	-	-	-	**(5,804)**
As at 31 Dec 2019	**6,491**	**-**	**-**	**-**	**6,491**

Loss allowances for other assets

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2018	**(35)**	**-**	**-**	**-**	**(35)**
New financial assets originated	(28)	-	-	-	**(28)**
Release due to derecognition	34	-	-	-	**34**
Balance at 31 Dec 2018	**(29)**	**-**	**-**	**-**	**(29)**
New financial assets originated	(4)	-	-	-	**(4)**
Release due to derecognition	-	-	-	-	**-**
As at 31 Dec 2019	**(33)**	**-**	**-**	**-**	**(33)**

22 Liabilities to banks

	2019	2018
Current accounts	434	493
Term deposits	-	37,500
Loans	27,200	53,171
Total liabilities to banks	**27,634**	**91,164**

The current accounts include liabilities to ProCredit Bank Germany and liabilities to other banks of the ProCredit Holding group in the amount of BGN 108 thousand (2018: BGN 109 thousand). Term deposits comprise money market liabilities to local banks with maturity less than 6 months. The loans include liabilities to ProCredit Bank Germany in the amount of BGN 27,194 thousand (2018: BGN 53,171 thousand) with maturity in 2020 and 2024.

23 Liabilities to customers

	2019	2018
Current accounts		
- private individuals	89,626	91,230
- legal entities	698,397	614,117
Total current accounts	**788,023**	**705,347**
Saving accounts		
- private individuals	157,910	142,498
- legal entities	675,489	425,065
Total saving accounts	**833,399**	**567,563**
Term deposit accounts		
- private individuals	124,110	111,905
- legal entities	294,817	255,302
Total term deposit accounts	**418,927**	**367,207**
Payments in transit	11,650	16,170
Total liabilities to customers	**2,051,999**	**1,656,287**

24 Liabilities to financial institutions

Institution	Final year of maturity	2019	2018
European Bank for Reconstruction and Development (EBRD)	2023	97,554	18,898
European Investment Fund (EIF)	2026	28,342	53,079
European Investment Bank (EIB)	2024	19,558	-
ProCredit Holding	2020	-	68,599
Black See Trade and Development Bank (BSTDB)	2019	-	39,086
Total liabilities to institutions		**145,454**	**179,662**

The loan agreement with the European Investment Fund is under the JEREMIE program aimed towards co-financing of small and medium enterprises. The group was in compliance with the covenants included in the respective loan agreements in 2019.

25 Lease liabilities

Lease liabilities can be analysed as follows:

	31 Dec 2019	31 Dec 2018
Total lease liabilities	4,274	-

	31 Dec 2019	1 Jan 2019
Short-term lease liabilities	1,020	1,338
Long-term lease liabilities	3,254	5,274
Total lease liabilities	**4,274**	**6,612**

Minimum lease payments	**31 Dec 2019**	**1 Jan 2019**
Up to 1 year	1,089	1,414
More than 5 years	2,818	4,514
Between 1 and 5 years	904	1,323
Total minimum lease payments	**4,811**	**7,251**
Reduced by the amounts representing finance costs	(537)	(639)
Present value of the minimum lease payments	**4,274**	**6,612**

26 Other liabilities

	2019	2018
Creditors	4,024	2,677
Non-income taxes payable	839	778
Derivative financial liabilities	305	181
Deferred income	1	2
Other due payments	18	109
Total other liabilities	**5,187**	**3,747**

Derivative financial liabilities represent the net position of accrued interest from interest rate SWAP with ProCredit Bank (Germany) with contractual amount BGN 10,270 thousand. The outstanding notional amount as of 31 December 2019 was BGN 8,791 thousand.

27 Provisions

	2019	2018
Provisions for losses from off-balance sheet items	626	553
Provisions for unused staff holiday time	281	280
Provisions for post-employment benefits (see below)	174	126
Total provisions	**1,081**	**959**

27 Provisions (continued)

Obligations for defined benefit retirement compensation

The estimated amount of the obligation as at each reporting date and the expenses for retirement compensation recognised are based on an actuarial report (see below information on actuarial assumptions). The defined benefit plan (obligation for compensation upon retirement) is an unfunded plan.

Movement in the present value of the defined benefit obligations

	2019	2018
Defined benefit obligations as of 1 January	**126**	**101**
Current service costs	23	17
Interest cost	1	1
Actuarial (gains) losses from changes in financial and demographic assumptions	24	7
Defined benefit obligations as of 31 December	**174**	**126**

Actuarial assumptions

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages).

	2019	2018
Discount rate as of 31 December	0.68%	1.25%
Future salary increases	5.00%	5.00%
Interest rate increase/decrease	5.00%	5.00%

28 Equity

Share capital and share premium

As of end 2019 the capital of the group consists of registered capital and share premium. In December 2019 the share capital of the Bank was increased with BGN 19,558 thousand. The increase was registered in the Trade Register and fully paid in cash. The registered capital of BGN 203,326 thousand is divided into 203,326 thousand shares (2018: 183,768 thousand shares) with a nominal value of BGN 1 each. All shares confer equal voting power and are fully paid. The sole owner of the group's capital is ProCredit Holding. The share premium is BGN 3,496 thousand (2018: BGN 3,496 thousand).

Retained earnings and reserves

Legal and other reserves – the reserves have been distributed from the net profit of the group in compliance with the Commercial Law, article 246. The funds in these reserves could only be used for covering of current loss and loss from previous years.

Revaluation reserve – comprise accumulated revaluation by fair value of financial assets at fair value through other comprehensive income.

Retained earnings – comprise the retained profits of the group. The group paid dividends for BGN 35,423 thousand in 2019 from its retained earnings from 2018.

29 Reconciliation of movements of liabilities to cash flows arising from financing activities

	Liabilities to					Equity			Total
	Banks	**Customers**	**Institutions**	**Lease liabilities**	**Other liabilities**	**Share capital**	**Reserves**	**Retained earnings**	
Balance at 1 Jan 2018	**83,858**	**1,466,145**	**200,815**	**-**	**8,247**	**167,706**	**13,947**	**34,458**	**1,975,176**
Proceeds from liabilities to	-	-	58,674	-	-	-	-	-	**58,674**
Repayment of liabilities to banks and institutions	-	-	(75,997)	-	-	-	-	-	**(75,997)**
Dividend paid	-	-	-	-	-	-	-	(32,023)	**(32,023)**
Total changes from financing cash flows	**-**	**-**	**(17,323)**	**-**	**-**	**-**	**-**	**(32,023)**	**(49,346)**
Other changes									
Liability-related									
Short term liabilities to banks and institutions	7,292	-	-	-	-	-	-	-	**7,292**
Income tax expense	-	-	-	-	4,404	-	-	-	**4,404**
Income tax paid	-	-	-	-	(4,260)	-	-	-	**(4,260)**
Liabilities to customers	-	190,351	-	-	-	-	-	-	**190,351**
Unrealised gains/ losses from currency revaluation	-	(90)	-	-	-	-	-	-	**(90)**
Increase in other liabilities	-	-	-	-	(3,170)	-	-	-	**(3,170)**
Interest expense	763	2,564	1,638	-	-	-	-	-	**4,965**
Interest paid	(749)	(2,683)	(5,468)	-	-	-	-	-	**(8,900)**
Total liability-related other changes	**7,306**	**190,142**	**(3,830)**	**-**	**(3,026)**	**-**	**-**	**-**	**190,592**
Equity-related									
Revaluation of investment securities, net of taxes	-	-	-	-	-	-	761	-	**761**
Capital increase	-	-	-	-	-	19,558	-	-	**19,558**
Profit for the year	-	-	-	-	-	-	-	38,109	**38,109**
Total equity-related other changes	**-**	**-**	**-**	**-**	**-**	**19,558**	**761**	**38,109**	**58,428**
Balance as at 31 Dec 2018	**91,164**	**1,656,287**	**179,662**	**-**	**5,221**	**187,264**	**14,708**	**40,544**	**2,174,850**
Proceeds from liabilities to	-	-	97,792	-	-	-	-	-	**97,792**
Repayment of liabilities to banks and institutions	(25,426)	-	(132,307)	(1,436)	-	-	-	-	**(159,169)**
Dividend paid	-	-	-	-	-	-	-	(35,423)	**(35,423)**
Total changes from financing cash flows	**(25,426)**	**-**	**(34,515)**	**(1,436)**	**-**	**-**	**-**	**(35,423)**	**(96,800)**
Other changes									
Liability-related									
Short term liabilities to banks and institutions	(37,557)	-	-	-	-	-	-	-	**(37,557)**
Income tax expense	-	-	-	-	3,827	-	-	-	**3,827**
Income tax paid	-	-	-	-	(3,820)	-	-	-	**(3,820)**
Liabilities to customers	-	395,692	-	-	-	-	-	-	**395,692**
Unrealised gains/ losses from currency revaluation	-	13	-	-	-	-	-	-	**13**
Increase in lease liabilities	-	-	-	5,838	-	-	-	-	**5,838**
Increase in other liabilities	-	-	-	-	1,562	-	-	-	**1,562**
Interest expense	1,011	4,053	1,092	-	-	-	-	-	**6,156**
Interest paid	(1,558)	(4,046)	(785)	(128)	-	-	-	-	**(6,517)**
Total liability-related other changes	**(38,104)**	**395,712**	**307**	**5,710**	**1,569**	**-**	**-**	**-**	**365,194**
Equity-related									
Revaluation of afs securities, net of taxes	-	-	-	-	-	-	1,491	-	**1,491**
Transfer	-	-	-	-	-	-	1,956	(1,956)	**-**
Capital increase	-	-	-	-	-	19,558	-	-	**19,558**
Profit for the year	-	-	-	-	-	-	-	36,202	**36,202**
Total equity-related other changes	**-**	**-**	**-**	**-**	**-**	**19,558**	**3,447**	**34,246**	**57,251**
Balance at 31 Dec 2019	**27,634**	**2,051,999**	**145,454**	**4,274**	**6,790**	**206,822**	**18,155**	**39,367**	**2,500,495**

30 Contingent liabilities and commitments

Off-balance sheet commitments

The following table indicates the contractual amounts of the group's off-balance sheet financial instruments that commit it to extend credit to customers:

	2019	**2018**
Commitments to extend credit	279,696	254,418
Letters of credit and letters of guarantee	40,866	36,834
Total contingencies and commitments	**320,562**	**291,252**

31 Related party transactions

ProCredit Holding is the sole shareholder, the ultimate parent and ultimate controlling party of the group. ProCredit Bank has stand-by line agreement with ProCredit Holding, directed towards liquidity management, which is not utilized at the end of 2019. The group has received loans from ProCredit Holding and ProCredit Bank Germany (fully owned subsidiary of ProCredit Holding) under loan agreements. Banks from ProCredit Holding group keep current accounts placements with the group, which are disclosed in Note 22.

The related party transactions were carried out on commercial terms and at market rates. The volumes of related party transactions outstanding at year end, and associated expenses and income for the year are as follows:

Transactions/balances with ProCredit Holding	**2019**	**2018**
Other income earned	198	61
Liabilities at the end of the period	108	68,599
Interest expense incurred	423	962
Other expenses incurred	2,146	2,266

Transactions/balances with other ProCredit group entities	**2019**	**2018**
Loans and advances at the end of the period	317,024	269,653
Interest income earned	(131)	88
Other income earned	270	62
Liabilities at the end of the period	27,617	53,444
Interest expense incurred	699	856
Other expenses incurred	2,900	2,249

In 2019 the total compensation of key management personnel was BGN 655 thousand (2018: BGN 839 thousand).

32 Subsequent events

Late in 2019 the news first emerged from China about the COVID-19 (Coronavirus). The situation at year end was that a limited number of cases of an unknown virus had been reported to the World Health Organization. In the first few months of 2020, the virus spread globally, and its negative impact gained momentum. Management considers this outbreak to be a non-adjusting post balance sheet event and is therefore not reflected in the recognition and measurement of the assets and liabilities in the financial statements as at 31 December 2019.

Management expects that the effects of the current situation on the economy of Bulgaria and the Group's operations would be visible mainly in terms of liquidity and quality of the Group's loan portfolio. The Group's liquidity may be affected by a moratorium on the repayment of loans and receivables, which is one, but not the main source of liquidity for the Group, from legal entities and individuals for at least 90 days, as well as by potential withdrawal of customer deposits.

32 Subsequent events (continued)

In terms of loan portfolio (mainly Business clients, as the Private clients of the group represent only 10.6% of the total portfolio) the impact cannot be reliably estimated as of now, but the group is very selective of its clients and is in constant contact with them. The Group does not have concentration of clients in the sectors directly and the most severely affected by the crisis. This is illustrated in the following table, where are presented the sectors that the group identified with high and medium risk.

Sector	Percentage of the total loan portfolio	Estimated level of risk
Transportation and storage	3.67%	High
Manufacturing	2.40%	Medium
Accommodation and food service activities	2.39%	High
Wholesale and retail trade; repair of motor vehicles and motorcycles	1.23%	Medium
Construction	0.56%	Medium
Other service activities	0.31%	High
Activities of households as employers; undifferentiated goods - and services-producing activities of households for own use	0.16%	Medium
Real estate activities	0.12%	Medium
Administrative and support service activities	0.05%	Medium
Arts, entertainment and recreation	0.02%	High
Human health and social work activities	0.01%	Medium
Professional, scientific and technical activities	0.01%	Medium
Total share of the most affected sectors	**10.93%**	

In terms of liquidity, Group's Liquidity coverage ratio is well above the limit of 100%. In addition, the group has the right to utilize already existing credit lines from European Investment Bank and ProCredit Holding.

As an initial response to the challenges emerging from the COVID-19 outbreak, the Group performed sensitivities analyses in relation to the estimated impact on certain areas of its financial position. The details of the analyses are provided below.

A change in the weight assigned to base forward-looking macroeconomic set of assumptions (GDP: -3%, Inflation: -1%; Property prices: -5%; Unemployment: 11%) towards the immediate downside level assumptions would result in an increase in ECL by BGN 8,190 thousand at 31 December 2019. A corresponding change towards the upside assumptions (GDP: 3%; Inflation: 3%; Property prices: 5%; Unemployment: 5%) would result in a decrease in ECL by BGN 1,608 thousand at 31 December 2019.

Having in mind the current dynamic situation related to COVID 19 it is hardly possible to have some reliable estimates regarding its impact over the PD and LGD.

The group performed a stress test of the revenues of the business clients in relation to the expected negative economic effects from the outbreak and its impact on certain industries. The analysis applied the following assumptions:

- The shock effect has been split into higher short term (3 months) and milder midterm (9 months).
- Business industries have been separated into three groups based on the estimated level of risk for each due to the impact – low, medium and high.
- The revenues (net sales) of the companies have been stressed (reduced) so that the impact on the loan service capacity is quantified.

32 Subsequent events (continued)

Based on the estimated impact on loan service capacity, the quality of certain loan exposures is affected leading to additional loss allowances expenses, lower than the Group's profit before tax for 2019.

The Group also performed analysis of the potential effect on its capital adequacy indicators from the loan portfolio quality worsening due to the expected negative economic effects from the outbreak on its loan clients. The analysis showed, in its worst-case scenario, an increase of the net loan exposures classified in Stage 3 as at 31.12.2019 of BGN 16 million. However, the negative financial impact due to potential increase of loss allowances expenses could be fully absorbed by Group's capital position and would not lead to worsening of the capital adequacy indicators of the group as at 31.12.2019.

Due to the Group's limited exposure to investment securities in available-for-sale portfolio, for which the market valuation adjustments are significant to their fair value, a reasonable change in the unobservable inputs would not be significant to the group.

Overall the Group is currently unable to assess the full impact of the COVID-19 outbreak on its future financial position and results of operations, however, depending on future developments, this impact is estimated to be negative. Management will continue to monitor the situation and seek additional measures if necessary.

Consolidated Annual Activity Report of the Management of ProCredit Bank (Bulgaria) EAD for 2019

Description of the activity

The group of ProCredit Bank (Bulgaria) EAD comprises ProCredit Bank (Bulgaria) EAD, ProCredit Properties EAD and ProCredit Education EAD (referred to collectively as “the group”).

ProCredit Bank (Bulgaria) EAD (“ProCredit Bank” or the “bank” was established on 6 June 2001 as a result of the founding meeting of shareholders — namely the European Bank for Reconstruction and Development (“EBRD”), the International Finance Corporation (“IFC”), ProCredit Holding AG & Co. KGaA (“ProCredit Holding”), Deutsche Investitions-und Entwicklungsgesellschaft (DEG) and Commerzbank AG. The bank was registered with the Sofia City Court as a Bulgarian joint-stock company on 28 September 2001. Since the beginning of 2013, the sole owner of the capital of the bank is ProCredit Holding.

ProCredit Holding is the parent company of the bank and supervises its activities.

The group is managed by a Supervisory Board comprising five members and a Management Board comprising four members elected for a period of three years.

ProCredit Bank supports development and provides a full range of banking services. The group provides excellent services to both businesses and individuals. In its activities, ProCredit Bank adheres to several basic principles: transparency in communication with clients; consumer lending is not encouraged; only services that are based on both an understanding of the client’s profile and an in-depth financial analysis are provided. This responsible approach to banking enables the establishment of long-term partnerships with clients based on mutual trust and cooperation.

In dealing with business clients, ProCredit Bank focuses on small and medium-sized enterprises, as it believes that they create jobs and make a vital contribution to the economies in which they operate. By offering understandable and affordable deposits and other banking services and investing heavily in financial education, ProCredit Bank strives to build a culture of savings and responsibility that contributes to greater stability and security in every household.

The group structures its clients according to their business potential, the groups being – business clients: small and medium-sized enterprises, and private individuals. Business clients, that receive services from ProCredit Bank, include commercial companies, agricultural producers and self-employed persons, while the focus on individuals is on regular income earners and business owners. The group strives to have a detailed knowledge of its clients in terms of business model and development and investment plans, as it aims at being able to apply to each client an individual approach, as well as a long-term strategy for the services it provides to the client. The group’s strategic focus is on manufacturing companies, agricultural producers, the financing of projects in the field of energy efficiency, environmental protection and renewable energy.

The group’s shareholder expects a sustainable return on investment over the long term, and short-term profit maximisation is not the goal. ProCredit Bank invests heavily in the training and development of its employees in order to create an open and productive working atmosphere and to provide professional and competent customer service.

As of the end of 2019, the group’s operations were carried out through its headquarters in Sofia, 6 branches in the country and 1 branch in Thessaloniki (Greece). The branch network covers the main business regions of the Republic of Bulgaria and thus the group offers a full range of banking services throughout the country.

Consolidated Annual Activity Report (continued)

Development and results from operations in 2019

In 2019, ProCredit Bank continued its efforts to improve efficiency in its operations while focusing on expanding the capacity for providing qualitative and competent service as well as on building long-term relationships with its clients. The group operates an adequate institutional structure in the form of specialised departments and close communication between them and the head office and the branch network. The changes in the processes in the group aim at increasing the efficiency and quality of work of the institution. The following main developments occurred in 2019:

- There was a substantial increase in the loan and deposit portfolio of the main target groups of clients – small and medium-sized enterprises and individuals; the growth in the total loan portfolio in 2019 was 13.3%, while the total deposit portfolio grew by 23.9% (this growth was ahead of the average for the grouping system for both portfolios). The results achieved with respect to the main business segments were based on the optimised process of attracting customers and approval of financing, on the development of individual strategies for dealing with individual companies and individuals, as well as on the focused efforts of the group to attract the entire banking business of its clients and to increase clients' activity regarding banking operations. At the same time, the quality of the loan portfolio improved and the share of loans classified in Stage 3 according to IFRS 9 fell to 1.9% as of 31 December 2019 (as of 31 December 2018: 2.9%).
- The concept of direct banking was further developed through the implementation of an IT solution for software customer identification that allowed remote identification, verification of biometric data and identity documents and signing documents online. This was a logical addition to the overall package of banking services, where, against payment of a fixed monthly fee, there is a possibility to perform entirely through electronic channels basic banking operations such as savings management; opening a deposit; payments; ATM and POS operations, etc.
- Investments were made in the development of new functionalities of the information systems and in the platform for performing electronic banking operations (the ProBanking internet banking system) with respect to utility bills and periodic payments; package payments; management of bank cards; integration with the card operator's PSD2 services; automation of customer orders and requests. As a result, by the end of 2019 virtually 100% of the group's services were electronic (via machines or ProBanking – payments, bank card transactions, cash withdrawals and deposits using machines).
- A number of environmental projects were implemented (for example: for offices to which this was applicable, we started purchasing electricity produced from renewable sources; certification of the building where the headquarters are located according to EDGE (Excellence in Design for Greater Efficiencies) – certificate of the building developed by the IFC); a photovoltaic electrical installation was installed on the roof top of the Plovdiv branch, etc.).

In addition to its clients, ProCredit Bank builds long-term relationships with its employees. This starts from the outset – with a serious and transparent selection process for future employees. The aim is to attract dedicated individuals who understand and support the way the group operates. The institution adheres to a responsible approach to staff that is applied by the entire ProCredit Group, respects its ethical values and does not tolerate discrimination. ProCredit Bank is convinced that this guarantees successful future cooperation with employees as well as an open and stimulating work environment. The group is strongly committed to providing opportunities for continuous training and development of staff at all levels. Along with internal career growth, these opportunities contribute to building a strong and motivated team. In order to meet the requirements for the responsibilities of management positions, all managers must attend courses at the ProCredit Group's academies. In 2019, the group invested BGN 1,928 thousand in the training of its employees (2018: BGN 1,662 thousand).

Consolidated Annual Activity Report (continued)

Development and results from operations in 2019 (continued)

All future employees of the group are subject to the same selection process. During the programme, participants acquire knowledge and skills in both banking and communication and analytical thinking disciplines. The course includes classes in theory and practical training in the branches and servicing offices of ProCredit Bank.

In 2019, ProCredit Bank reaffirmed its commitment to the development of the Bulgarian business and to the promotion of a savings culture and practice of accumulating family assets among households in the country. The group continued to actively provide new loans and to support the implementation of various business projects of its clients. The new business in the form of newly extended loans in 2019 amounted to BGN 880 million (2018: BGN 809 million) (including undrawn commitments), and the net loan portfolio recorded a 13.3% increase on the level at the end of 2018 (2019: BGN 1,810 million, 2018: BGN 1,598 million). As a result of the group’s deliberate efforts to develop a savings culture among its customers, as well as to attract their entire banking business, in 2019 customer deposits recorded a substantial increase compared to the previous year. The increase was 23.9% compared to the end of 2018, and as of 31 December 2019 the total deposit base amounted to BGN 2,052 million (2018: BGN 1,656 million). It is important to note the growth of BGN 344 million (or 26.7%) registered in current accounts and savings deposits. Total assets increased by 15.0% compared to the end of 2018 and reached BGN 2,500 million (2018: BGN 2,175 million). The active deposit clients, serviced by ProCredit Bank at the end of 2019, were 36,000.

ProCredit Bank has a strategic focus on providing services to manufacturing companies, as they have the opportunity for sustainable development and their operations have a significant effect on employment in individual regions. Nearly 300 such companies were financed in 2019; the total value of the loans granted amounted to over BGN 215 million.

The group retained the its leading position on the Bulgarian financial market in terms of servicing agricultural producers; it had 2,250 clients as of end 2019 who are farmers. In 2019, loans disbursed to agricultural producers amounted to BGN 203 million; the group is among the leading credit institutions in the country by this indicator.

Another focus of the group’s operations during the year in respect of business clients was the participation in joint programmes with the European Investment Fund (EIF) such as the JEREMIE initiative (Joint European Resources for Micro to Medium Enterprises) of the EIF, and with the Bulgarian government aimed at promoting the development of Bulgarian entrepreneurs within Operational Programme “Development of the Competitiveness of the Bulgarian Economy 2007–2013” of the European Union (“EU”). In 2016, the group concluded with the EIF two new agreements for granting of loans under relieved conditions. The first was under the InnovFin programme through Horizon 2020 financial instruments to support innovative small and medium-sized enterprises in Bulgaria, as well as mid-cap companies in Greece by providing investment and/or working capital to finance research, development and innovation. The second agreement was under Operational Programme “Initiative for small and medium-sized enterprises” and aimed at improving access to financing for small and medium-sized enterprises. Under these agreements, the group provides business loans with relaxed collateral terms and at a price below the rates set out in the interest rate bulletin in force. By the end of 2019, over 4,800 loans in the amount of EUR 500 million have been granted under joint programmes with the EIF. ProCredit Bank will continue to work with the EIF on SME financing programmes in 2020.

Consolidated Annual Activity Report (continued)

Development and results from operations in 2019 (continued)

An important aspect of the group’s operations is its commitment to activities aimed at protecting the environment and improving energy efficiency. All banks within the ProCredit Group set high standards in terms of the impact of their operations on the environment. ProCredit banks have a three-pronged approach to challenges, related to the protection of the environment:

First pillar: Internal environmental management system: an approach to better understand and improve the sustainable energy consumption and the group’s environmental impact has been introduced in the group’s internal organisation of work.

Second pillar: Environmental risk management in lending: an environmental protection system based on a continuous evaluation of the loan portfolio (including the rejection of loan applications submitted by enterprises engaged in activities that are considered environmentally risky) has been implemented.

Third pillar: Promoting “green finance”: ProCredit Bank aims to promote economic development that is as consistent as possible with the sustainable use of the environment. In practice, this means engaging in projects that are implemented in the following areas: (1) Improving energy efficiency; (2) Renewable energy production; (3) Measures having a favourable environmental impact. The group builds the necessary administrative and expert capacity to enable it to be even more active in supporting its clients for the implementation of such projects.

The group applies a specially developed internal methodology that allows it to analyse and evaluate clients’ investments in the field of energy efficiency and environmental protection. In 2019, ProCredit Bank financed the implementation of “green” projects by both business clients and individuals. The loans granted amounted to BGN 335 million as of 31 December 2019, and the group’s “green” portfolio realised a total growth of 35% in 2019 compared to the end of 2018. The financing of projects related to improving energy efficiency and environmental protection will continue to be in the focus of the group’s business in 2020.

Throughout the reporting year, ProCredit Bank continued to encourage its clients to enjoy full banking services from the institution, and the various opportunities for electronic and cashless transactions such as Internet banking, the use of bank cards and various devices available in the 24-hour service areas and communication with the Call Centre were key elements of the business strategy. This approach saves customers time while allowing employees to focus on quality of service and customer consultations.

Regarding the quality of the group’s assets, as a result of the organised and structured approach to dealing with non-performing loans the level of such exposures is significantly lower than the average for the grouping system. As of 31 December 2019, exposures overdue by more than 90 days amounted to 1.2% of the total loan portfolio, while the same indicator for the grouping system as of the same date, according to data published by the BNB, was 6.0%. The value of one of the main indicators that the group monitors in the process of credit risk management – the ratio of the amount of loans overdue by more than 30 days to the total loan portfolio – was 1.4% as of 31 December 2019 (2018: 1.8%).

Consolidated Annual Activity Report (continued)

Financial indicators

The financial indicators presented below are based on the annual financial statements prepared in accordance with the International Financial Reporting Standards (IFRS).

Statement of Profit and Loss

Net interest income

The amount of net interest income reported during the financial year 2019 was BGN 58,721 thousand (2018: BGN 57,545 thousand); the change compared to the previous year is an increase of 2.0%.

Interest income: interest income in the amount of BGN 64,877 thousand comprises, in fact, entirely interest income from loans granted. Compared to 2018 (BGN 62,510 thousand), the total interest income has increased by 3.8% as a result of an increase in the loan portfolio and a gradual decrease in the net interest margin in 2019.

Interest expenses: the total interest expenses in 2019 amounted to BGN 6,156 thousand (2018: BGN 4,965 thousand); the main portion of the interest expenses (65.8%) comprised interest on funds deposited by clients and amounted to BGN 4,053 thousand (2018: BGN 2,565 thousand). The remaining interest expenses constituted interest accrued on borrowings from banks and other financial institutions and amounted to BGN 2,103 thousand (34.2%) (2018: BGN 2,400 thousand). Compared to 2018, the total interest expenses have increased by 24.0%. This was a result of the higher average annual interest rates on savings and deposit products offered by the group to its clients within the framework of providing comprehensive services, as well as of the increased deposit portfolio.

Net fee and commission income

The reported net commission income amounted to a total of BGN 21,053 thousand (2018: BGN 22,259 thousand); the total decrease was 5.4%.

Commission income: the total amount of commission income was BGN 24,027 thousand and registered a slight decline of 2.6% compared to 2018 (BGN 24,666 thousand). The decline was mainly due to the reduction in the prices of major banking transactions (such as payments in BGN and in foreign currencies) which was also related to the entry into force of Regulation (EU) 2019/518 as regards certain charges on cross-border payments in the Union and currency conversion charges.

Commission expenses: the total amount of commission expenses was BGN 2,974 thousand. Compared to 2018 (BGN 2,407 thousand), the total amount of charges paid increased by 23.6%; this was mainly due to an increase in commissions paid in connection with card operations and commission under the EIF guarantee programmes.

Result from foreign exchange transactions

The net trading income in 2019 totalled BGN 8,823 thousand (2018: BGN 7,812 thousand); the increase of 12.9% was due to the increased volume of transactions. The total net trading income includes gains from foreign exchange transactions and currency revaluations.

Consolidated Annual Activity Report (continued)

Financial indicators (continued)

Result from investment securities

In 2019 the group did not realise income/loss from investment securities (2018: loss of BGN 321 thousand). The total net income from investment securities is equal to the profit or loss from transactions involving securities.

Other operating income/expenses

Main item under this position is the income or expenses related to impairment and administration of acquired assets which were collateral for problematic exposures. In 2019, the group realised a profit of BGN 422 thousand compared to expenses in the amount of BGN 1,357 thousand in 2018.

Expenses according to the Statement of Profit and Loss

Loss allowance of financial assets: in 2019 the group accrued income from reversal of loss allowance in the amount of BGN 464 thousand (2018: allowance expenses in the amount of BGN 1,656 thousand). The 2019 result is related to the better quality of the customer loan portfolio.

Operating expenses: the operating expenses of the group in 2019 totalled BGN 49,507 thousand; this is a 7.5% increase on the 2018 amount (BGN 46,040 thousand). During the year, a high priority was given to the optimisation and automation of a number of processes relating to the back office functions of the group such as processing of payments, pattern documents automation, fees and collateral valuation. Activities not related to the group's core business were outsourced. This allowed to optimise the amount of expenses; their increase during the year was mainly due to an increase in personnel costs and to expenses related to the development of the group's business strategy.

The breakdown of expenses by line items in the Statement of Profit and Loss for 2019 is as follows:
- personnel expenses: BGN 18,429 thousand (2018: BGN 16,364 thousand).
- payments to Deposit Insurance Fund and Bank Restructuring Fund: BGN 5,658 thousand (2018: BGN 5,614 thousand).
- depreciation of assets: BGN 6,310 thousand (2018: BGN 5,200 thousand).
- other operating expenses: BGN 19,110 thousand (2018: BGN 18,862 thousand).

Financial result

The financial result of the group before tax amounted to BGN 40,413 thousand (2018: BGN 42,454 thousand), and after tax: BGN 36,202 thousand (2018: BGN 38,109 thousand). The group reported a 5.0% decrease in the net profit, with the increase in net interest income was offset by a decrease in the net commission income. The increase in administrative expenses also contributed to the lower profit. The return on equity in 2019 was 14.3% (2018: 16.6%). By this indicator ProCredit Bank was above the average for the grouping system in 2019.

Statement of Financial Position

ASSETS

As of 31 December 2019, the assets of ProCredit Bank at carrying amount had a value of BGN 2,500,495 thousand (2018: BGN 2,174,850 thousand); a 15.0% growth on the previous year was reported.

Consolidated Annual Activity Report (continued)

Financial indicators (continued)

Cash and cash equivalents

The cash and cash equivalents on 31 December 2019 amounted to BGN 282,956 thousand (2018: BGN 218,803 thousand). The change compared to the previous year is a 29.3% increase.

Loans and advances to banks

Loans and advances to other banks as of 31 December 2019 amounted to BGN 325,387 thousand (2018: BGN 268,469 thousand). The change compared to the previous year is a 21.2% increase. The loans and advances at the end of 2019 comprised cash in current accounts and bank deposits, and the increase was due to higher balances in the accounts with ProCredit Bank Germany than in the previous year.

Investment securities

The value of investment securities as of 31 December 2019 was BGN 21,497 thousand (31 December 2018: BGN 33,384 thousand). They include two main groups of assets: (1) investments in government securities that are treated as a liquidity buffer (2019: BGN 15,056 thousand and 2018: BGN 28,666 thousand) and (2) shareholdings in companies performing financial intermediation activities (2019: BGN 6,441 thousand and 2018: BGN 4,718 thousand). The group does not invest in financial instruments for the purpose of generating speculative profits and this is stipulated in its risk management policies.

At the end of 2019 the group's liquid assets (cash and balances on accounts with central banks, loans and advances to other banks with remaining maturity of up to 7 days and investments in government securities) totalled BGN 557,879 thousand (2018: BGN 450,433 thousand). This was a 23.9% increase compared to 2018. This corresponds to a high level of the total liquid assets to customer deposits ratio which was 27.2% as at 31 December 2019 (31 December 2018: 27.2%). The stable level of liquidity at the end of 2019 was the result of the substantial growth in funds deposited by clients. In 2020 we expect the loan portfolio growth to be mainly financed by increase of the customer deposit portfolio, thus allowing to maintain the liquidity levels.

Loans to customers

The loans granted to customers have a major share in the group's assets and as at 31 December 2019 the carrying amount of these assets was BGN 1,810,082 thousand, or 72.4% (2018: 73.5%) of the total assets. Compared to 2018 (BGN 1,598,077 thousand), the value of the loan portfolio increased by 13.3%. The growth achieved can be attributed to the active targeting and the strong strategic focus for providing services and financing to small and medium-sized enterprises with a formalised structure, high-quality management and a sustainable business model.

The group's focus is on providing complete banking servicing to small and medium-sized enterprises. Therefore, the loan portfolio of these clients has a dominant share in the total portfolio of ProCredit Bank – as of 31 December 2019 its value amounted to BGN 1,618,170 thousand, or 89.4% from the total loan portfolio. During the year, there was a growth of 13.9% compared to the end of 2018 (BGN 1,425,080 thousand). The housing loans to private individuals were another major focus. Their amount as of 31 December 2019 was BGN 169,810 thousand or 9.4%, and this portfolio realised a growth of 5.5% in 2019 (2018: BGN 160,995 thousand).

Consolidated Annual Activity Report (continued)

Financial indicators (continued)

Fixed assets

The carrying amount of fixed tangible and intangible assets as of 31 December 2019 was BGN 50,688 thousand, or a 14.1% increase compared to the previous year (BGN 44,443 thousand). The increase was mainly related to the effect of the entry into force of the requirements for accounting for leases under IFRS 16.

Other assets

As of 31 December 2019, the other assets of the group amounted to BGN 9,572 thousand (2018: BGN 11,124 thousand). The change is a 14.0% decrease. Assets acquired as a result of default of loan agreements accounted for significant share in this item. They amounted to BGN 3,114 thousand or 32.5% of the total amount of other assets and have decreased compared to the end of 2018 (BGN 5,349 thousand). Active measures, related to the presence of marketing promotion and a plan for their realization, are in place for the sale of these assets.

LIABILITIES

Liabilities to banks and institutions

As of 31 December 2019 the total value of borrowings from banks and institutions was BGN 173,088 thousand. This amount included BGN 27,634 thousand in payables to banks and BGN 145,454 thousand in borrowings from international financial institutions. Compared to 2018 (BGN 270,826 thousand), the total amount of financing from these counterparties decreased by 36.1% as a result of the regular repayment of loans received from international financial institutions and the prepayment of loans received from ProCredit Bank Germany in connection with liquidity management.

Liabilities to customers

As of 31 December 2019 the funds deposited by customers of the group amounted to BGN 2,051,999 thousand (2018: BGN 1,656,287 thousand). Compared to the previous year, the funds deposited by customers registered a substantial growth of 23.9%. In structural terms, the relative share of sight deposits and savings accounts (FlexSave product) in the total amount of deposits continued to increase, reaching 79.6% at the end of 2019 (2018: 77.8%). The change was related to attracting business clients and individuals and their entire banking business, as well as to the opportunities for active management and use of the funds available in current and savings accounts.

Equity

The group's equity includes share capital and premium reserve in the amount of BGN 206,822 thousand (2018: BGN 187,264 thousand) and retained earnings and reserves in the amount of BGN 57,522 thousand (2018: BGN 55,252 thousand). In 2019 the group paid dividends in the amount of BGN 35,423 thousand from the profit realised in 2018. During the year, ProCredit Bank increased its fixed capital by issuing ordinary shares with a value of BGN 19,558 thousand.

The share capital of BGN 203,326 thousand is distributed in 203,326 thousand shares with a nominal value of BGN 1 each. Each share gives one voting right to its holder. The share capital of the group is as follows:

Consolidated Annual Activity Report (continued)

Financial indicators (continued)

	2019		2018	
Shareholder	Number of shares (thousands of shares)	Share (%)	Shareholder	Number of shares (thousands of shares)
ProCredit Holding	203,326	100.0%	183,768	100.0%
Total shares	203,326	100.0%	183,768	100.0%

Research and Development Activities

The group does not carry out activities in the field of research and development.

Information about acquisition of own shares, required pursuant to Article 187e of the Commerce Act

The group has not acquired its own shares.

Information pursuant to Article 247 of the Commerce Act

In 2019, the total remuneration of the members of the group's Management Board amounted to BGN 655 thousand (2018: BGN 839 thousand). The members of the Supervisory Board do not receive remuneration from the group.

The members of the Management Board and the Supervisory Board do not hold and have not carried out acquisition or transfer of shares or bonds of the group in 2019.

The members of the Management Board and the Supervisory Board have the following participation in other companies (in accordance with the provisions of Article 247(2)(4) of the Commerce Act):

Members of the Supervisory Board

Petar Slavov
- ProCredit Holding AG & Co. KGaA – member of the Supervisory Board
- ProCredit General Partner AG – member of the Supervisory Board
- ProCredit Properties EAD – member of the Supervisory Board
- ProCredit Razvitie Bulgaria AD – member of the Board of Directors
- ProCredit Education AD – member of the Supervisory Board
- Progled OOD – partner and Managing Director

Claus-Peter Zeitinger
- ProCredit Holding AG & Co. KGaA – Chairperson of the Supervisory Board
- ProCredit General Partner AG – Chairperson of the Supervisory Board
- ProCredit Bank Ukraine – Chairperson of the Supervisory Board

Gian Marco Felice
- ProCredit Bank Bosnia – member of the Supervisory Board
- ProCredit Bank Germany – member of the Supervisory Board
- ProCredit Bank Romania – member of the Supervisory Board
- ProCredit Bank Serbia – member of the Supervisory Board
- ProCredit Bank Ukraine – Chairperson of the Supervisory Board
- Quipu GmbH – member of the Management Board
- ProCredit Holding AG & Co. KGaA – procurator

Consolidated Annual Activity Report (continued)

Christian Krämer
- ProCredit Holding AG & Co. KGaA – member of the Supervisory Board
- ProCredit General Partner AG – member of the Supervisory Board

Christian Kistner
- ProCredit Bank Germany – member of the Management Board
- ProCredit Bank Macedonia – member of the Supervisory Board

Members of the Management Board

Reni Peicheva
- ProCredit Razvitie Bulgaria AD – member of the Board of Directors

Rumyana Todorova
- ProCredit Properties EAD – member of the Management Board

Ivan Dachev
- ProCredit Razvitie Bulgaria AD – Executive Director and member of the Board of Directors

Kamelia Mineva
- ProCredit Education AD – member of the Management Board

In 2019 the members of the Supervisory Board and of the Management Board of the group did not enter into contracts with the group outside its normal course of business or contracts that substantially deviated from market conditions though being part of its normal course of business.

Significant events that occurred after the date of the annual financial statements

The existence of a new coronavirus (Covid-19) was confirmed in early 2020. The virus spread to mainland China and abroad and disrupted business and economic activity.

The group considers this to be a non-adjusting event that occurred after the balance sheet date. The management believes that the effects of the current situation on the Bulgarian economy and the business of the group will be considered mainly in terms of liquidity and quality of the loan portfolio.

The liquidity of the group is mainly affected by the moratorium on repayment of loans and other receivables from legal entities and individuals and may be influenced by the continuing health and social situation due to the possible withdrawal of customer deposits. Although it is not possible to determine the reduced cash flows accurately, the management takes into account the significant size of the buffer of highly liquid assets that can be used to support liquidity needs, as well as the potential to seek additional funds from the ProCredit Group.

The group analyses the quality of its loan portfolio and in particular its exposure to the industries that will be most likely to be affected. Although it is impossible to quantify the impact of the situation on the quality of the portfolio, the management considers the capital buffer available.

As the situation is rapidly changing, the management is unable to provide a quantitative assessment of the potential impact of the epidemic outbreak on the group.

Consolidated Annual Activity Report (continued)

Structure of the group

As of 31 December 2019 the group operated with 6 branches on the territory of Bulgaria and 1 branch abroad. The headquarters of the group and its administration are located at Sofia, 26 Todor Aleksandrov Blvd. The group's staff as of 31 December 2019 consisted of 363 employees (excluding employees on maternity leave and employees involved in ancillary activities).

Financial instruments and management of financial risks

The financial instruments used by the group, the policies for their measurement and presentation, as well as the group's exposure to credit, market and liquidity risk are described in Note 4 of the annual financial statements.

Expected development of ProCredit Bank (Bulgaria) EAD and goals for 2020

The evolving pandemic of the new coronavirus (Covid-19) poses very serious challenges for the upcoming economic and social development in 2020. Disruptions of economic activity and imposed measures restricting movement are part of the effects directly affecting economic activity which is expected to be negatively affected in terms of aggregate demand and consumption. As the current development of the Bulgarian economy depends on the development of the external partners from the EU as well as on the optimal utilisation of the EU structural funds and since the EU countries are among the main centres of infection, this would result in an additional negative impact on the Bulgarian economy.

Notwithstanding the above, banks started 2020 with high levels of liquidity and capitalisation and this largely implies stability for their clients. Considering the market situation, ProCredit Bank will take a prudent approach to lending to small and medium-sized enterprises, aiming to strengthen their stability, improve efficiency and accelerate their development and growth. The group applies a case-by-case and pragmatic approach to assessing the financial position of its clients in order to be able to offer the most optimal financing solution in terms of maintaining and improving creditworthiness.

The group will maintain long-term relationships with its current clients by expanding and deepening its business relationships with them, thus aiming to be the only bank providing services to its clients. Proactively attracting new customers will continue to be a major focus in the business strategy of ProCredit Bank. At the same time, in 2020 the group will continue its efforts to maintain the high quality of the loan portfolio. ProCredit Bank will remain a profitable institution as a result of its high efficiency and the expanding business relationships with its clients.

The challenge will be to maintain the level of operating income in the context of a simultaneous reduction of the interest margin and limited financing of investments by enterprises. At the same time, the high quality of the assets and the optimised structure of the group will result in optimised impairment costs and administrative expenses. Liquidity and capital adequacy levels will be maintained with sufficient buffers in the long run.

Consolidated Annual Activity Report (continued)

Expected development of ProCredit Bank (Bulgaria) EAD and goals for 2020

The group's development strategy for 2020 is in line with its business philosophy: ProCredit Bank believes that open and active communication with customers, a responsible approach to day-to-day banking and the very good quality of the services provided make it one of the first choice banks for the client. ProCredit Bank also aims to become a reliable and main partner of companies and citizens in the implementation of projects in the field of "green finance" by applying a comprehensive methodology and expert potential for environmental financing as part of the group's integrated approach to the environment.

Management responsibilities

The annual financial statements for 2019 were prepared in accordance with the International Financial Reporting Standards and reflect fairly the property and financial position of the group and its financial results for the reporting period. The annual financial statements were prepared on the going concern basis and the accounting policies of the group were consistently applied, and all estimates and assumptions were made in accordance with the precautionary principle in the preparation of the financial statements for 2019.

The management is responsible for the correct keeping of accounting records, for the appropriate management of the assets and for taking necessary steps to prevent and detect potential fraud and other irregularities.

The consolidated annual activity report was approved by the Management Board and signed on its behalf by:

Reni Peicheva
Executive Director and
Member of the Management Board
14 April 2020

Ivan Dachev
Executive Director and
Member of the Management Board

Consolidated Corporate Governance Declaration

Documents of corporate management

ProCredit Bank (Bulgaria) EAD ("ProCredit Bank" or the "Bank") complies with the following documents with respect to its corporate governance:

1. **Articles of association (By-laws) of ProCredit Bank:** a fundamental document regulating the establishment and competences of the group's main management bodies. The Articles of association are available for review by interested parties in the file of ProCredit Bank in the Commercial Register (https://public.brra.bg/CheckUps/Default.ra). The Articles of association were adopted by the General Meeting of Shareholders. As of 31 December 2019, the Articles of association can be amended only at the meetings of the Sole owner of the capital of the group.
2. **Code of Conduct of ProCredit Group**. Corporate values form the foundation of the business ethics of the group as part of ProCredit Group. The following principles guide the activities of ProCredit institutions: Transparency; Culture of open communication; Social responsibility and tolerance; High professional standards; Integrity and personal commitment. These principles are the backbone of ProCredit's corporate culture and are actively applied in the day-to-day work of the institution. They are described in the Code of Conduct of ProCredit (accessible at http://www.procreditbank.bg/uploads/AboutUsImages/Code_of_Conduct.pdf) which translates the group's ethical principles into practical guidelines for the entire team of the group.

In the past year 2019, ProCredit Bank complied without exception with the requirements of the documents listed above in relation to its corporate governance. The group also complies with the National Corporate Governance Code, as appropriate (http://www.bse-sofia.bg/?page=CodeGovernance).

Information regarding the requirements set out in Article 10(1) of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004:

- Point (c) is not applicable to the group because it does not have significant direct and indirect shareholdings (including indirect shareholdings through pyramid structures and cross-shareholdings) within the meaning of Article 85 of Directive 2001/34/EC.
- Point (d) is not applicable to the group because it does not hold securities with special control rights.
- Point (f) is not applicable to the group because it does not hold significant investments in other companies and there is no information regarding restrictions on voting rights.
- Point (h). The rules governing the appointment and replacement of members of the Management Board and the Supervisory Board and the amendment of the articles of association are set out in the Articles of association of the group; the members of the Management Board are appointed by the Supervisory Board for a term of 3 years. The members of the Supervisory Board are appointed by the Sole owner of the capital for a term of 3 years. Decisions to amend the articles of association are taken by the Sole owner of the capital of the group.
- Point (i). The powers of the members of the Management Board and the Supervisory Board, and in particular the power to issue or buy back shares, are set out in the Articles of association of the group. Decisions to issue or buy back shares are taken by the Sole owner of the capital of the group.

Consolidated Corporate Governance Declaration (continued)

Management bodies

The management bodies of the group are as follows:

- Management Board
- Supervisory Board.

ProCredit Bank has a two-tier management system.

Management Board

The group is managed by Management Board which operates under the control of Supervisory Board. The Management Board comprises four members who are elected by the Supervisory Board for a term of three years. The relationships between the group and each member of the Management Board are arranged by a management contract. The Management Board, upon the prior approval of the Supervisory Board, assigns to two or more of its members (Executive Directors) the day-to-day management and representation of the group. The Executive Directors may authorise third parties to perform specific actions. A person who is a member of the Supervisory Board of the group may not be a member of the Management Board. The Management Board has the following competencies:

1. arranges for the preparation of the annual financial statement and the report on the activity of the group;
2. prepares the convening of the session of the Sole owner of the capital and prepare a proposal for the taking of decisions by the Sole owner of the capital;
3. prepares the periodic reports to the Supervisory Board;
4. enacts rules for the organisation of its activity and takes decisions regarding amendments to such rules (any decision under this point requires the prior consent of the Supervisory Board);
5. adopts an annual budget and an annual business plan relating to the activity of the group (any decision under this point requires the prior consent of the Supervisory Board);
6. determines the structure and positions in the group (any decision under this point requires the prior consent of the Supervisory Board);
7. decides on other issues, raised by the Chairperson or by another member of the Management Board;
8. makes decisions for opening and closing of branches and representations of the group (any decision under this point requires the prior consent of the Supervisory Board);
9. takes decisions for the transfer or supplying for use of the whole commercial enterprise (any decision under this point requires the prior consent of the Supervisory Board);
10. makes decisions for disposing of assets whose total value for the current year exceeds half of the value of the group’s assets according to the latest audited annual financial statements (any decision under this point requires the prior consent of the Supervisory Board);
11. makes decisions for taking liabilities or providing collateral to one person or related persons, whose amount for the current year exceeds half of the value of the group’s assets according to the latest audited annual financial statements (any decision under this point requires the prior consent of the Supervisory Board);
12. approves the internal normative acts of the group;
13. take decisions for the granting of credits in the cases of Article 45 of the Law on Credit Institutions;
14. takes decisions that lead to the formation of big exposures;
15. determines the business activity of the group in accordance with the main policy guidelines adopted by the Sole owner of the capital and manages the daily operational activity of the group in accordance therewith;
16. prepares proposals to the Sole owner of the capital for amendments to the By-laws or the main lines of the activity of the group;
17. appoints and dismisses the officers of the group and determines their remuneration;
18. decides on any other matter with respect to which, pursuant to the law or the by-laws, the Sole owner of the capital and the Supervisory Board do not have exclusive power to decide, and performs all other functions, entrusted to it by the Sole owner of the capital or the Supervisory Board.

Consolidated Corporate Governance Declaration (continued)

Management bodies (continued)

The Management Board is convened at meetings at the request of any of its members or of the members of the Supervisory Board.

The Management Board takes its decisions by a simple majority of the members present and represented, except in the following cases: the decisions set out in points 8 to 11 and 13 above, as well as the decisions set out in point 14 in cases where the exposure exceeds 15 per cent of the group's equity shall be taken unanimously by all members of the Management Board.

The decisions of the Management Board concerning the conclusion of transactions whose value exceeds 10% of the registered capital of the group also require the prior consent of the Supervisory Board.

The management board reports to the Supervisory Board on its activities at least once every 3 months.

Supervisory Board
The Supervisory Board consists of five members, each with a term of three years. The relations between the group and each member of the Supervisory Board are regulated by a contract. The members of the Supervisory Board are selected and dismissed by the Sole owner of the capital. The Supervisory Board elects a chairperson and a vice chairperson from among its members. The Supervisory Board does not participate in the management of the group. It represents the group only in its relationship with the Management Board. The Supervisory Board may, at any time, require that the Management Board submits information or a report on any matter concerning the group. The Supervisory Board may also carry out any necessary investigations in performance of its duties, its members can have access to all the necessary information and documents, and it may use the services of experts

Some decisions of the Management Board require the prior consent of the Supervisory Board. This is indicated in the section regarding the competences of the Management Board. The Supervisory Board examines the annual financial statements, the annual activity report of the group and the proposal on the distribution of earnings and, after approving them, adopts a decision to convene a regular meeting of the Sole owner of the capital.

The Supervisory Board is required to hold meetings at least once every three (3) months. Members of the Management Board can participate in these meetings in an advisory capacity. The Supervisory Board makes decisions by a simple majority of the members represented at the meeting.

Avoiding conflict of interest
The procedures for avoiding and detecting conflicts of interest in relation to the members of the management bodies of ProCredit Bank are laid down in the Articles of association of the group. The members of the Management Board and the Supervisory Board are obliged to put the interests of the group and its clients above their own. They are required to declare and/or disclose information about their participation in commercial companies, as well as about any material commercial, financial or other business interest that they or their family members have in the entering into any commercial transaction with the group.

Audit and internal control
The overall internal control of the group is carried out by the Supervisory Board and the Management Board. The Supervisory Board controls the activities of the Management Board. The Management Board controls the activities of the individual structural units. The group's activities are carried out on the basis of internal rules and procedures, as well as of the applicable legislation.

Consolidated Corporate Governance Declaration (continued)

ProCredit Bank ensures functional independence between risk-taking departments and departments that perform risk assessment. According to the structure of the group, the business processes are segregated by the units that assess the level of risk up to the level of members of the Management Board. In addition, the level of risk and the risk management decisions are assessed in the committees responsible for managing and assessing the individual types of risks; this involves objective control and monitoring of the group's exposure to each risk.

An Internal Audit Department operates in the group and reports directly to the Sole owner of the capital (ProCredit Holding). Internal audit inspects all aspects of the group's operations by performing process checks as well as checks for compliance of the activities performed with the statutory instruments, the articles of association and the internal regulations of the group. The head of the Internal Audit Department informs the Management Board of the group and the members of the Audit Committee of the group of the results of the audits performed. At least three times a year, meetings of the Audit Committee are held at which the Internal Audit Department reports on its activity. The Audit Committee was established at the beginning of 2009 and its members are independent of the group's Management Board.

The specialised audit firms that perform an independent financial audit of the group's financial statements are approved by the Sole owner of the capital following the submission of a reasoned request and as a result of a tender organised by the Management Board. The Audit Committee supervises internal audit activities and oversees the overall relationship with the external auditor, including the nature of non-audit services provided by specialised audit firms.

Main features of the internal control system and of the risk management system in connection with the financial reporting process

Control environment

The institution's business model and ethical values are a prerequisite for the existence of an adequate internal control environment within the group. The business model has a clear focus on providing comprehensive banking services to small and medium-sized enterprises and individuals through the provision of high-quality services. The focus on business clients with a clear vision and sustainable development means that ProCredit Bank builds with such clients long-term relationships based on understanding their needs and offering appropriate solutions while ensuring that there is no over-indebtedness.

As stated in the Code of Conduct of ProCredit Group, the development concept and the approach to clients is linked with a great responsibility to the society in which the group operates. Self-imposed ethical principles are also applied. These principles can only exist if they are effectively communicated, understood and accepted by all employees, and this is reflected in the careful selection and development of the group's employees.

Risk management

ProCredit Bank understands that risk taking is an integral part of its business. Therefore, there are mechanisms in place to identify the various risks and assess their potential impact on the financial position and the achievement of the group's business objectives. The awareness of both management and employees of the risks, the inherent conservative approach to risk management and the consistent implementation of diversification are an integral part of the business and risk strategy of the institution. In addition, the basic principles of the risk strategy (focus on core business; high level of transparency, simplicity and diversification; careful selection and intensive training of staff) contribute significantly to the effective management of the risks to which the group is exposed.

Consolidated Corporate Governance Declaration (continued)

Main features of the internal control system and of the risk management system in connection with the financial reporting process (continued)

Control activities
The control activities within the risk management strategy are documented in specially approved group policies, group standards and other documents that cover all material risks to which the group is exposed and that support the carrying out the various operations in a secure manner, and the transactions are reflected in accordance with the requirements set out in the manual. Control activities are implemented at all levels and in all processes within the institution based on the four-eye and the segregation of duties principles. The basic organisational principle is the segregation, up to the level of the Management Board, of risk and business units, thus ensuring functional independence between the business departments that take the risk and the departments responsible for risk assessment.

Information and communication flows
Effective communication channels are in place to ensure the exchange of information within the horizontal and vertical organisational structure of the institution. Mechanisms have also been put in place to receive and share information from external sources (such as regulators, shareholders and clients), as well as for subsequent communication with these persons. The Management Board receives regular (daily, monthly and quarterly) reports on risk management. If new risk events, failure to comply with approved internal limits and increased likelihood of loss are identified, mechanisms for escalation and extraordinary reporting are applied.

Monitoring
Mechanisms for ongoing monitoring of the various activities as well as of the internal control systems have been developed and put in place in the group. Monitoring is carried out both by the management and by the relevant responsible employees. The Internal Audit Department also conducts an independent evaluation of internal control systems in accordance with a plan approved by the Sole owner of the capital. Gaps identified in the internal control system are escalated and can be reported to the Management Board, the Supervisory Board or the Audit Committee.

Bodies responsible for preventive and ongoing risk management. Existing committees in the structure of the group

An adequate risk identification, management and control system has been established in the group. The committees responsible for managing the individual types of risks are at the core of this system and their main function is to create and maintain an adequate control environment based on the principles and mechanisms for identifying, defining, assessing, monitoring and controlling/mitigation of the individual types of risks. These committees are the main bodies that make corrective or preventative decisions aimed at minimising exposure to particular types of risk. The work of the committees is assisted by the Risk Management Department and the Management Information System Department that prepare risk indicators and provide analyses of relevant indicators and additional analyses to support management decisions in the area of risk control and management. The decisions made by the individual committees are approved by the Management Board.

The main committees that monitor, analyse and control the different types of risk include representatives of both the risk management and the business lines, as well as of the lines that perform administrative functions. This allows both a synergic effect of presenting different viewpoints on issues related to risk management and covering the different areas of activity and their impact on risk exposures. The main committees are as follows:

Consolidated Corporate Governance Declaration (continued)

Bodies responsible for preventive and ongoing risk management. Existing committees in the structure of the group (continued)

Assets and Liabilities Committee
The objective of the Assets and Liabilities Committee (ALCO) at ProCredit Bank is to identify, assess, discuss and manage financial risks which include liquidity risk; market risk (including currency and interest rate risk); counterparty risk; capital adequacy. ALCO monitors the status and impact of the asset/liability management strategies implemented and develops new ones.

The committee comprises the members of the Management Board, as well as managers and experts from the Management Information System Department and the Risk Management Department. Regular meetings of ALCO are held at least once a month. The committee is elected and managed by the Management Board.

General Risk Assessment Committee
Regular meetings of the committee are held once every three months in order to analyse the overall risk exposure of the group (excluding operational risk) and to discuss and adopt strategic issues. The Risk Management Department prepares a quarterly report on the overall risk for the committee meetings; said report includes the main and secondary indicators of the types of risk, as well as their analysis.

The committee comprises the members of the Management Board, managers from the Management Information System Department, the Risk Management Department and the Business Department – Small and Medium Clients. The committee is elected and managed by the Management Board.

Operational Risk Assessment Committee
The Operational Risk Assessment Committee is a body within the structure of the group that is elected and managed by the Management Board. The committee provides an opportunity for adequate management of operational risks and for taking decisions in this regard. The following two subcommittees are also integrated into the Operational Risk Assessment Committee: Committee on Compliance with External Regulations and Committee on Safety at Work.

The committee comprises the members of the Management Board in charge of Risk and Finance, as well as the heads of the Business Department – Small and Medium Clients, the Business Department – Private Individuals, the Risk Management Department, the Accounting Department and the Information Technologies Department. Regular meetings of the committee are held once every three months to discuss the operational risk report and to review events that have led to a loss for the group as a result of operational events.

Credit Risk Management Committee
The Credit Risk Management Committee is a body within the structure of the group that is elected and managed by the Management Board. The functions of the committee are related to the monitoring, analysis and discussion of issues and topics related to credit risk and its manifestation in the group. The committee is also involved in the process of determining the cost of impairment losses on individually measured credit exposures.

The committee comprises the member of the Management Board in charge of Risk, as well as the heads of the Risk Management Department and the Credit Risk Department. Regular meetings of the committee are held at least once every three months in order to assess the impact of the relevant factors related to credit risk management.

Consolidated Corporate Governance Declaration (continued)

<u>Bodies responsible for preventive and ongoing risk management. Existing committees in the structure of the group (continued)</u>

Credit Committee on Restructuring
The Credit Committee on Restructuring monitors and assesses the group's risk exposures by deciding on their restructuring and classification. Restructuring occurs when credit exposure conditions change as a result of the conclusion of an agreement between the group and the customer that changes the repayment terms of the loan due to an increased risk of default on the exposure related to the borrower. The members of the Credit Committee on Restructuring are employees from the Problematic Receivables Unit of the group's Risk Management Department, and meetings are held every week or as necessary.

Court Receivables Committee
The purpose of the Court Receivables Committee is to set, discuss and decide on the strategy for recovery of court claims with a value of more than EUR 100,000, to set deadlines and designate officials responsible for the actions to be taken, and to monitor the implementation of the actions. The members of the committee are determined by the Management Board. The committee comprises a member of the Management Board and the head of the Problematic Receivables Unit. Meetings of the committee are held at least once a month.

Environment Committee
This committee discusses and decides on issues related to environmental standards and the overall policy and strategy of ProCredit Bank regarding the environmental impact management system. The committee comprises the members of the Management Board and the heads of the Environmental Department, the Business Department – Small and Medium Clients, the Credit Risk Department and the Administration Department. The meetings are held at least once every quarter.

Crisis Management Committee
The task of the Crisis Management Committee is to define and manage the measures to be taken by the group when dealing with a crisis arising from a materialised threat. It has a permanent composition and comprises the members of the Management Board and the heads of core business processes. A member of the Management Board or another person designated by the Management Board is a chairperson of the committee. The Crisis Management Committee is authorised to provide and allocate the resources (human and material) needed to deal with the crisis, as well as to control and reporting on the costs. The Crisis Management Committee manages and dynamically allocates responsibilities to the Failure Assessment Team, the IT Crisis Management Committee and the business continuity coordinators across departments and offices.

Human Resources Committee
This committee monitors changes in the labour market situation in the country, the pay levels inside and outside the group, reviews salaries and decides on topics affecting current or potential employees of the group. It comprises the Chairperson of the Supervisory Board, the members of the Management Board and a manager of a business unit. The meetings are held each month.

Committee for the selection of candidates for members of the Management Board
The committee meets as necessary. It consists of the Chairperson of the Supervisory Board and another member of the Supervisory Board.

Consolidated Corporate Governance Declaration (continued)

Diversity policy applied to administrative, management and supervisory bodies

The ProCredit Group appreciates diversity in terms of the personal qualities and experience of its employees. In this context, the process of selecting the members of the Management Board and the Supervisory Board aims at ensuring an adequate level of diversity in the management bodies. As a result, both bodies include individuals who have different profiles in terms of education, nationality, professional experience and age. Of the nine members of ProCredit Bank's management bodies, three are women.

The consolidated corporate governance declaration was approved by the Management Board and signed on its behalf by:

Reni Peicheva
Executive Director and
Member of the Management Board
14 April 2019

PROCREDIT BANK (BULGARIA) EAD
SOFIA

Ivan Dachev
Executive Director and
Member of the Management Board

ProCredit Bank

Part of the ProCredit Group

www.procreditbank.bg